



UNIVERSITY OF CALICUT

SCHOOL OF DISTANCE EDUCATION

M.Com

II SEMESTER

INTERNATIONAL BUSINESS

2025

CSS - 2015 Admission

AMERICAN

RECORD

OF THE

UNITED STATES OF AMERICA

1877-1878

STUDY MATERIALS

M.Com

(II SEMESTER)

INTERNATIONAL BUSINESS

(CSS -2015 admn.)



UNIVERSITY OF CALICUT

SCHOOL OF DISTANCE EDUCATION

Calicut University, P.O. Malappuram, Kerala, India-673 635

2025

UNIVERSITY OF CALICUT

SCHOOL OF DISTANCE EDUCATION

STUDY MATERIAL

INTERNATIONAL BUSINESS

M.Com

II Semester

Prepared by:

Dr. Satheesh.E.K

Professor,

Department of Commerce and Management Studies,
University of Calicut

scrutinized by:

Dr. Yakoob. C,

Reader and Research Guide,

S S College, Areacode

Layout & Settings: Computer Section, SDE

© Reserved

Module	Content	Page No
Module: 1	International Business: Meaning and Scope – Theories of International trade: classical and modern theories – protectionism vs. free trade – Trade barriers - Tariff and Non-tariff barriers – Terms of trade – Balance of payment – disequilibrium and corrective measures.	
Module: 2	International Business Analysis: Internal and External environment analysis Modes of Entry - exporting – Licensing – franchising – contract manufacturing – Management contracts, turnkey projects – Foreign Direct Investments: Greenfield Investments – Mergers & Acquisitions – joint ventures FDIs in emerging markets: recent trends	
Module: 3	Stages of Internationalization: International, Multinational, Global and Transnational corporations strategic orientations – Growth of MNCs - contributing factors – merits and demerits of MNC transfer of technology – regulation of MNCs – MNCs in India.	
Module: 4	International Traded Agreements: Bilateral, Plurilateral and Multilateral agreements GATT and WTO – WTO agreements - TRIPs, TRIMs, GATS and AoA Trade Facilitation Issues – Environmental issues India and WTO	
Module: 5	Regional Economic Integrations: Meaning and rationale Forms of integrations – EU, NAFTA, ASEAN, SAFTA, APEC and other groupings International Financial Institutions - IMF, World Bank and ADB – functions and role in economic development.	

CONTENTS

PAGES

Module - I 05 - 24

Module - II 25 - 54

Module – III 55-89

Module –IV 90 -129

Module - V 130-159

MODULE - I

INTERNATIONAL BUSINESS

Contents

- Meaning and Scope
- Theories of International Trade: Classical and Modern Theories
- Protectionism Vs Free Trade
- Trade barrier-Tariff and Non Tariff barriers
- Terms of Trade-Balance of Payment-Disequilibrium & Corrective Measures

UNIT-I

1.1 INTRODUCTION

One of the most dramatic and significant world trends in the past two decades has been the rapid, sustained growth of international business. Markets have become truly global for most goods, many services, and especially for financial instruments of all types. World product trade has expanded by more than 6 percent a year since 1950, which is more than 50 percent faster than growth of output the most dramatic increase in globalization, has occurred in financial markets. In the global fore markets, billions of dollars are transacted each day, of which more than 90 percent represent financial transactions unrelated to trade or investment. Much of this activity takes place in the so-called Euromarkets, markets outside the country whose currency is used.

This pervasive growth in market interpenetration makes it increasingly difficult for any country to avoid substantial external impacts on its economy. In particular massive capital flows can push exchange rates away from levels that accurately reflect competitive relationships among nations if national economic policies or performances diverse in short run. The rapid dissemination rate of new technologies speeds the pace at which countries must adjust to external events. Smaller, more open countries, long ago gave up illusion of domestic policy autonomy. But even the largest and most apparently self-contained economies, including the US, are now significantly affected by the global economy. Global integration in trade, investment, and factor flows, technology, and communication has been tying economies together.

Why then are these changes coming about, and what exactly are they? It is in practice, easier to identify the former than interpret the latter. The reason is that during the past few decades, the emergence of corporate empires in the world economy, based on the contemporary scientific and technological developments, has

led to globalization of production. As a result of international production, co-operation among global productive units, the large-scale capital exports, "the export of production" or "production abroad" has come into prominence as against commodity export in world economy in recent years. Global corporations consider the whole of the world their production place, as well as their market and move factors of production to wherever they can optimally be combined. They avail fully of the revolution that has brought about instant worldwide communication, and near instant-transformation. Their ownership is transnational; their management is transnational. Their freely mobile management, technology and capital, the modern agent for stepped-up economic growth, transcend individual national boundaries. They are domestic in every place, foreign in none-a true corporate citizen of the world. The greater interdependence among nations has already reduced economic insularity of the peoples of the world, as well as their social and political insularity.

1.2 DEFINITION OF INTERNATIONAL BUSINESS:

International business includes any type of business activity that crosses national borders. Though a number of definitions in the business literature can be found but no simple or universally accepted definition exists for the term international business. At one end of the definitional spectrum, international business is defined as organization that buys and/or sells goods and services across two or more national boundaries, even if management is located in a single country. At the other end of the spectrum, international business is equated only with those big enterprises, which have operating units outside their own country. In the middle are institutional arrangements that provide for some managerial direction of economic activity taking place abroad but stop short of controlling ownership of the business carrying on the activity, for example joint ventures with locally owned business or with foreign governments.

In its traditional form of international trade and finance as well as its newest form of multination business operations, international business has become massive in scale and has come to exercise a major influence over political, economic and social from many types of comparative business studies and from knowledge of many aspects of foreign business operations. In fact, sometimes the foreign operations and the comparative business are used as synonymous for international business. Foreign business refers to domestic operations within a foreign country. Comparative business focuses on similarities and differences among countries and business systems for focuses on similarities and differences among countries and business operations and

comparative business as fields of enquiry do not have as their major point of interest the special problems that arise when business activities cross national boundaries. For example, the vital question of potential conflicts between the nation-state and the multinational firm, which receives major attention is international business, is not like to be centered or even peripheral in foreign operations and comparative business.

1.3 SCOPE OF INTERNATIONAL BUSINESS ACTIVITIES

The study of international business focus on the particular problems and opportunities that emerge because a firm is operating in more than one country. In a very real sense, international business involves the broadest and most generalized study of the field of business, adapted to a fairly unique across the border environment. Many of the parameters and environmental variables that are very important in international business (such as foreign legal systems, foreign exchange markets, cultural differences, and different rates of inflation) are either largely irrelevant to domestic business or are so reduced in range and complexity as to be of greatly diminished significance. Thus, it might be said that domestic business is a special limited case of international business.

The distinguishing feature of international business is that international firms operate in environments that are highly uncertain and where the rules of the game are often ambiguous, contradictory, and subject to rapid change, as compared to the domestic environment. In fact, conducting international business is really not like playing a whole new ball game, however, it is like playing in a different ballpark, where international managers have to learn the factors unique to the playing field. Managers who are astute in identifying new ways of doing business that satisfy the changing priorities of foreign governments have an obvious and major competitive advantage over their competitors who cannot or will not adapt to these changing priorities.

The guiding principles of firm engaged in (or commencing) international business activities should incorporate a global perspective. A firm's guiding principles can be defined in terms of three broad categories products offered/market served, capabilities, and results. However, their perspective of the international business is critical to understand the full meaning of international business. That is, the firm's senior management should explicitly define the firm's guiding principles in terms of an international mandate rather than allow the firm's guiding principles in terms as an incidental adjunct to its domestic activities. Incorporating an international outlook into the firm's basic statement of purpose will help focus the attention of managers (at all

levels of the organization) on the opportunities (and hazards) outside the domestic economy.

It must be stressed that the impacts of the dynamic factors unique to the playing field for international business are felt in all relevant stages of evolving and implementing business plans. The first broad stage of the process is to formulate corporate guiding principles. As outlined below the first step in formulating and implementing a set of business plans is to define the firm's guiding principles in the market place. The guiding principles should, among other things, provide a long-term view of what the firm is striving to become and provide direction to divisional and subsidiary manager's vehicle, some firms use "the decision circle" which is simply an interrelated set of strategic choices forced upon any firm faced with the internationalization of its markets. These choices have to do with marketing, sourcing, labor, management, ownership, finance, law, control, and public affairs. Here the first two marketing and sourcing-constitute the basic strategies that encompass a firm's initial considerations. Essentially, management is answering two questions: to whom are we going to sell what, and from where and how will we supply that market? We then have a series of input strategies-labor, management, ownership, and financial. They are in their efforts to develop their own business plans. As an obligation addressed essentially to the query, with what resources are we going to implement the basic strategies? That is, where will we find the right people, willingness to carry the risk, and the necessary funds? A third set of strategies - legal and control-respond to the problem of how the firm is to structure itself of implement the basic strategies, given the resources it can muster, A final strategic area, public affairs, is shown as a basic strategy simply because it places a restraint on all other strategy choices.

Each strategy area contains a number of subsidiary strategy options. The decision process that normally starts in the marketing strategy area is an iterative one. As the decision maker proceeds around the decision circle, previous selected strategies must be readjusted. Only a portion of the possible feedback adjustment loops is shown here.

Although these strategy areas are shown separately but they obviously do not stand-alone. There must be constant reiteration as one move around the decision circle. The sourcing obviously influences marketing strategy, as well as the reverse. The target market may enjoy certain preferential relationships with other markets. That is, everything influences everything else. Inasmuch as the number of options a firm faces is

multiplied as it moves into international market, decision-making becomes increasingly complex the deeper the firm becomes involved internationally. One is dealing with multiple currency, legal, marketing, economic, political and cultural systems. Geographic and demographic factors differ widely. In fact, as one moves geographically, virtually everything becomes a variable: there are few fixed factors.

For our purposes here, a strategy is defined as an element in a consciously devised overall plan of corporate development that, once made and implemented, is difficult (i.e. costly) to change in the short run. By way of contrast, an operational or tactical decision is one that sets up little or no institutionalized resistance to making a different decision in the near future. Some theorists have differentiated among strategic, tactical, and operational, with the first being defined as those decisions, that imply multi-year commitments; a tactical decision, one that can be shifted in roughly a year's time; an operational decision, one subject to change in less than a year. In the international context, we suggest that the tactical decision, as the phrase is used here, is elevated to the strategic level because of the rigidities in the international environment not present in the purely domestic-for example, work force planning and overall distribution decisions. Changes may be implemented domestically in a few months, but if one is operating internationally, law, contract, and custom may intervene to render change difficult unless implemented over several years.

1.3 SPECIAL DIFFICULTIES IN INTERNATIONAL BUSINESS

What make international business strategy different from the domestic are the differences in the marketing environment. The importance special problems in international marketing are given below:

1. POLITICAL AND LEGAL DIFFERENCES

The political and legal environment of foreign markets is different from that of the domestic. The complexity generally increases as the number of countries in which a company does business increases. It should also be noted that the political and legal environment is not the same in all provinces of many home markets. For example, the political and legal environment is not exactly the same in all the states of India.

2. CULTURAL DIFFERENCES

The cultural differences, is one of the most difficult problems in international marketing. Many domestic markets, however, are also not free from cultural diversity.

3. ECONOMIC DIFFERENCES

The economic environment may vary from country to country

4. DIFFERENCES IN THE CURRENCY UNIT

The currency unit varies from nation to nation. This may sometimes cause problems of currency convertibility, besides the problems of exchange rate fluctuations. The monetary system and regulations may also vary.

5. DIFFERENCES IN THE LANGUAGE

An international marketer often encounters problems arising out of the differences in the language. Even when the same language is used in different countries, the same words or terms may have different meanings. The language problem, however, is not something peculiar to the international marketing. For example: the multiplicity of languages in India.

6. DIFFERENCES IN THE MARKETING INFRASTRUCTURE

The availability and nature of the marketing facilities available in different countries may vary widely. For example, an advertising medium very effective in one market may not be available or may be underdeveloped in another market.

7. TRADE RESTRICTIONS

A trade restriction, particularly import controls, is a very important problem, which an international market faces.

8. HIGH COSTS OF DISTANCE

When the markets are far removed by distance, the transport cost becomes high and the time required for affecting the delivery tends to become longer. Distance tends to increase certain other costs also.

9. DIFFERENCES IN TRADE PRACTICES

Trade practices and customs may differ between two countries.

BENEFITS OF INTERNATIONAL BUSINESS

SURVIVAL

Because most of the countries are not as fortunate as the United States in terms of market size, resources, and opportunities, they must trade with others to survive; Hong Kong, has historically underscored this point well, for without food and water from China proper, the British colony would not have survived along. The countries of Europe have had similar experience, since most European nations are relatively small in size. Without foreign markets, European firms would not have sufficient economies of scale to allow them to be competitive with US firms. Nestle mentions in one of its advertisements that its own country, Switzerland, lacks natural resources, forcing it to depend on trade and adopt the geocentric perspective. International competition may not be matter of choice when survival is at stake. However, only firms with previously substantial market share and international experience could expand successfully.

UNIT-II

1.4 THEORIES OF INTERNATIONAL TRADE

Theories of international trade provide a conceptual understanding of the fundamental principles international trade and its behaviour. Trade theories gives an insight into the different products are bought and sold internationally as well as the pattern in which international trade takes place. This enables the learner of international business how a country emerges as a supplier of certain products as well as the user of certain other products. The regulatory framework prevailing in each country has a greater say in determining and defining its position in international business.

The major Theories are

1. Theory of Mercantilism
 2. Theory of Absolute advantage
 3. Theory of Comparative advantage
 4. Factor Endowment (Heckscher-Ohlin) Theory
 5. Country Similarity Theory
 6. The New Trade Theory
 7. International Product Life-Cycle Theory
 8. Theory of Competitive Advantage
1. Theory of Mercantilism:- The theory emerged in mid of 16th Century in England. The theory states that gold and silver are the wealth of nations. Gold and Silver are essential for business of the country. Gold and Silver were medium for exchange of goods for about 2 centuries. By exporting goods a country received gold and by importing goods it was out of gold and silver. The countries which consisted of kingdoms started giving importance to collecting gold and silver was considered a sign of wealth and prestige of the kingdom and its people. Even today the theory of mercantilism is followed by many nations. Governments of many countries push exports by giving direct and indirect incentives. Discourage imports by levying high customs duties i.e a duty to be paid at entry point in a country. Indirect barriers for imports are also levied to restrict imports.
 2. Theory of Absolute Advantage:- Adam Smith the well known economist stated the theory in his book "Principles of Political Economy" in 1817. The theory is that nation should produce goods in which it has greatest relative advantage. For Adam Smith the important point in International business is one of absolute cost

advantage. Trade can happen between two countries if one country is able to produce at absolute low price and offer to the second and second country similarly produce another commodity at absolute low price and offer to first country. In other words, each country will import goods from the cheapest overseas source. Similarly, it exports goods that have cost advantage or where it can produce cheap. It is also called classical trade theory.

ABSOLUTE COST ADVANTAGE IN MAN HOURS PER UNIT OF OUTPUT

Country	Rice	Electronic Chip Boards
Taiwan	60	30
India	18	71

The example above shows two countries Taiwan and India in two goods rice and electronic chip boards. In case of rice, India produces cheaper as compared to Taiwan. In case of rice India has an absolute advantage. Similarly in case of Electronic Chip Boards Taiwan enjoys an absolute cost advantage. Hence, India will produce more rice than its local consumption. This will help India to export its surplus rice to Taiwan. Similarly Taiwan will produce more and more electronic chip boards in excess of its domestic demand for export to India.

3. Theory of Comparative Cost Advantage

David Ricardo developed the theory of comparative advantage or comparative cost is the basis of international trade. In this theory Adam Smith noted that either natural or technical advantage is necessary to give each country at least one low cost product. It could market that low cost product to other countries and develop trade. In few developing countries there may not be any product of low cost or having cost advantage. International relations are not only on costs.

COMPARATIVE COST ADVANTAGE MAN HOURS PER UNIT OF OUTPUT

Country	Man hours per unit output	
	Cloth	Wine
Portugal	9	8
England	10	12

It may be seen that Portugal has absolute cost advantage in both cloth and wine and England is in disadvantage position. Hence as per Adam Smith's absolute cost advantage no trade should take place under above conditions. England has nothing to sell to Portugal and Portugal cannot get anything cheap for England.

4. Factor Endowment (Heckscher-Ohlin) Theory

Two Swedish Economists Eli Heckscher (in 1919) and Bertili Ohlin in (1993) gave different theory of comparative advantage. Here the comparative advantage comes from difference in national factor endowments. The factor endowment means the assets or resources of the country like land, labour, capital. Each nation has its own factor endowments or assets.

The more the factor endowments the lower will be the cost of produce of the country. The theory of two Swedish economists states that the countries would use locally available resources (or endowments) intensely and export goods. These countries will import goods wherein the resources are scarce.

Heckscher- Ohlin theory has plus points in comparison to Ricardo's theory. These are

1. International business is beneficial to all trading countries and companies.
2. Pattern of international business is based on difference in factor endowments and not on productivity.

Example: China exporting manufactured goods due to cheap and disciplined labour and India exporting BPO services due to availability of highly skilled labour.

5. Country Similarity Theory

The country similarity theory was given by Prof. Staffan B Linder a Swedish Economist. It is also called income preference similarity theory from international trade in recent years. It is seen that rich countries trade with rich countries. It is also fact that above 70 per cent of international business goes on between developed countries. It is also interesting to see how large portion of international trade takes place Inter MNC and Intra MNC.

The country similarity theory negates the Heckscher-Ohlin factor endowment theory. The Heckscher-Ohlin theory base is that the incentives to international trade are largest among nations of radically different factor endowments. Linder takes a different view. He divides international trade in two categories (a) Primary that is natural resources like minerals and (b) Manufactured goods. Linder explains that factor endowments are applicable in natural or primary products. The manufactured mostly are consumed within the country and hence, driven by internal demand patterns. Manufactured goods are traded globally to

developed nations. The trade growth to similar nations is attributable to the following.

- Similar demand preferences between the two countries. This increases trade.
- Consumers in the two countries like similar quality, features and sophistication.
- High income group countries like to purchase sophisticated capital goods or luxury goods.
- Developing or low per capita income countries purchase 'necessary goods' such as food, clothing or bicycles.
- The poor countries with identical demands trade in poor countries.

Even in international trade it is seen that 'birds of the same feather flock together'. This is country similarity theory simplified.

6. New Trade Theory:

Countries do not necessarily trade only to benefit from their differences but they also trade so as to increase their returns, which in turn enable them to benefit from specialisation. International trade enables a firm to increase its output due to its specialisation by providing a much larger market that result in enhancing its efficiency. The theory helps explain the trade patterns when markets are not perfectly competitive or when the economies of scale are achieved by the production of specific products. Decrease in the unit cost of a product of a product resulting from large scale production is termed as economies of scale. Since fixed costs are shared over an increased output, the economies of scale enable a firm to reduce its per unit average cost of production and enhance its price competitiveness. The new trade theory emphasizes on the two types of economies of scale discussed here.

- a. **Internal Economies of Scale:-**Companies benefit by the economies of scale when the cost per unit of output depends upon their size. The larger the size, the higher are the economies of scale. Firms that enhance their internal economies of scale can decrease their price and monopolize the industry, creating imperfect market competition. This in turn results in the lowering of market prices due to the imperfect market competition. Internal economies of scale may lead a firm to specialize in a narrow product line to produce the volume. Necessary to achieve cost benefits from scale economies. Industries requiring massive investment in R & D and creating manufacturing facilities,

such as branded software by Microsoft, microprocessors by Intel or AMD, and aircrafts by Boeing or Airbus, need to have a global market base so as to achieve internal economies of scale and compete effectively.

- b. External Economies of Scale:- If the cost per unit of output depends upon the size of the industry, not upon the size of an individual firm, it is referred to as external economies of scale. This enables the industry in a country to produce at a lower rate when the industry size is large compared to the same industry in another country with a relatively smaller industry size. The dominance of a particular country in the world market in a specific products sector with higher external economies of scale is attributed to the large size of a country's industry that has several small firms, which interact to create a large, competitive critical mass rather than a large sized individual firm. However, external economies of scale do not necessarily lead to imperfect markets but may enable the country's industry to achieve global competitiveness.

7. Product Life Cycle Theory

Vernom gave the theory of international product life cycle model. The theory he addresses the stages of production of a product and 'know-how' (knowledge how to make). A product is found by its Research and Development activities by a parent company. The product is then pushed for production to its subsidiary company overseas. The product is then pushed for production to its subsidiary company overseas. Thereafter, the product is marketed to anywhere in the world to produce and market. The product and manufacturing know how goes where it's cost of production is lowest.

International product life cycle has 4 stages:

- a. New Product Development
- b. Maturing Stage
- c. Standardised Product
- d. Declining Stage.

New product initially will have high premium and sell to those who are willing to pay. As production exceed exports start. In mature stage of product life cycle increasing export takes place. In standardised stage the technology is known to many. Production shifts to low cost countries. The original manufacturer tries to differentiate the product or bad the product to retain his market.

8. Theory of Competitive Advantage

Michael Porter of Harvard Business School conducted a research project in 1990 regarding success of few countries in International business and failure of few countries. The reasons of failure or success were governments and the private industries in those countries. The factors can help or unhelpful trade conditions and thereby competitiveness. Porter theory note four attributes.

1. Factor Endowments. Include inputs in production such as skilled labour, infrastructure, raw materials for the industry.
2. Demand conditions:- The customer demands for quality product in home country. If domestic buyers demand quality then only quality products will be made.
3. Related supporting industries:- How the organisation is supported by its vendors makes a company effective in quality and delivery schedules. The supporting industries can provide cost effective inputs and provide developed products.
4. Strategy of the firm structure and rivalry:- How the organisation plans its strategies. How it meets its marketing challenges and how the competition is met depend on culture, risk taking by the organisation.

Porter stated the above four attributes and proposed a diamond matrix to show interrelationships. Porter also stressed importance of government policies and actions in international business.

UNIT-III

1.3 PROTECTIONISM VS FREE TRADE

In economics, **protectionism** is the economic policy of restraining trade between states (countries) through methods such as tariffs on imported goods, restrictive quotas, and a variety of other government regulations designed to allow (according to proponents) fair competition between imports and goods and services produced domestically. According to their proponents, protectionist policies protect the businesses and workers within a country by restricting or regulating trade with foreign nations.^[1] In recent years, protectionism has manifested itself through popular anti-globalization and anti-immigration movements.

The doctrine of protectionism contrasts with the doctrine of free trade, where governments reduce as much as possible the barriers to trade. There is a broad consensus among economists that the impact of protectionism on economic growth (and on economic welfare in general) is largely negative, although researchers have pointed out that the magnitude of this impact varies considerably across countries and crucially depends on the macroeconomic and policy environment.

A variety of policies have been used to achieve protectionist goals. These include:

- Tariffs: Typically, tariffs (or taxes) are imposed on imported goods. Tariff rates usually vary according to the type of goods imported. Import tariffs will increase the cost to importers, and increase the price of imported goods in the local markets, thus lowering the quantity of goods imported, to favour local producers. Tariffs may also be imposed on exports, and in an economy with floating exchange rates, export tariffs have similar effects as import tariffs. However, since export tariffs are often perceived as 'hurting' local industries, while import tariffs are perceived as 'helping' local industries, export tariffs are seldom implemented.
- Import quotas: To reduce the quantity and therefore increase the market price of imported goods. The economic effects of an import quota is similar to that of a tariff, except that the tax revenue gain from a tariff will instead be distributed to those who receive import licenses. Economists often suggest that import licenses be auctioned to the highest bidder, or that import quotas be replaced by an equivalent tariff.
- Administrative barriers: Countries are sometimes accused of using their various administrative rules (e.g. regarding food safety, environmental standards, electrical safety, etc.) as a way to introduce barriers to imports.
- Anti-dumping legislation: Supporters of anti-dumping laws argue that they prevent "dumping" of cheaper foreign goods that would cause local firms to close down. However, in practice, anti-dumping laws are usually used to impose trade tariffs on foreign exporters.
- Direct subsidies: Government subsidies (in the form of lump-sum payments or cheap loans) are sometimes given to local firms that cannot compete well against imports. These subsidies are purported to "protect" local jobs, and to help local firms adjust to the world markets.
- Export subsidies: Export subsidies are often used by governments to increase exports. Export subsidies have the opposite effect of export tariffs because exporters get payment, which is a percentage or proportion of the value of exported. Export subsidies increase the amount of trade, and in a country with floating exchange rates, have effects similar to import subsidies.
- Exchange rate manipulation: A government may intervene in the foreign exchange market to lower the value of its currency by selling its currency in the foreign exchange market. Doing so will raise the cost of imports and lower the cost of exports, leading to an improvement in its trade balance. However, such a policy is only effective in the short run, as it will most likely lead to inflation in the country, which will in turn raise the cost of exports, and reduce the relative price of import.
- International patent systems: There is an argument for viewing national patent systems as a cloak for protectionist trade policies at a national level. Two strands of this argument exist: one when patents held by one country form part of a system of exploitable relative advantage in trade negotiations against another, and a second where adhering to a worldwide system of patents confers "good citizenship" status despite 'de facto' protectionism'. Peter Drahos explains that "States realized that patent systems could be

used to cloak protectionist strategies. There were also reputational advantages for states to be seen to be sticking to intellectual property systems. One could attend the various revisions of the Paris and Berne conventions, participate in the cosmopolitan moral dialogue about the need to protect the fruits of authorial labor and inventive genius...knowing all the while that one's domestic intellectual property system was a handy protectionist weapon."^[9]

- Employment-based immigration restrictions, such as labor certification requirements or numerical caps on work visas.
- Political campaigns advocating domestic consumption (e.g. the "Buy American" campaign in the United States, which could be seen as an extra-legal promotion of protectionism.)
- Preferential governmental spending, such as the Buy American Act, federal legislation which called upon the United States government to prefer U.S.-made products in its purchases.

In the modern trade arena many other initiatives besides tariffs have been called protectionist. For example, some commentators, such as Jagdish Bhagwati, see developed countries efforts in imposing their own labor or environmental standards as protectionism. Also, the imposition of restrictive certification procedures on imports are seen in this light.

Further, others point out that free trade agreements often have protectionist provisions such as intellectual property, copyright, and patent restrictions that benefit large corporations. These provisions restrict trade in music, movies, pharmaceuticals, software, and other manufactured items to high cost producers with quotas from low cost producers set to zero.

History

Historically, protectionism was associated with economic theories such as mercantilism (that believed that it is beneficial to maintain a positive trade balance), and import substitution. During that time, Adam Smith famously warned against the "interested sophistry" of industry, seeking to gain advantage at the cost of the consumers.^[6] Friedrich List saw Adam Smith's views on free trade as disingenuous and really in support of a long-term British program for economic domination:

Any nation which by means of **protective** duties and restrictions on navigation has raised her manufacturing power and her navigation to such a degree of development that no other nation can sustain free competition with her, can do nothing wiser than to throw away these ladders of her greatness, to preach to other nations the benefits of free trade, and to declare in penitent tones that she has hitherto wandered in the paths of error, and has now for the first time succeeded in discovering the truth.¹

According to Michael Lind, protectionism was the policy of the United States from the passage of the Tariff of 1816 to WWII, "switching to free trade only in 1945, when most of its industrial competitors had been wiped out" by the war.^[8] In the late 19th Century, Germany, too, used protectionist measures to grow its industry.^[9] After WWII, Japan followed that model.^[10] It has

also been argued that Deng Xiaoping's post-Mao policies were inspired by ^[11] as well as recent policies in India.

Arguments for protectionism

Although neoliberal economists are generally against the policy of trade restrictions, protectionists believe that there is a legitimate need for government restrictions on free trade in order to protect their country's economy and its people's standard of living, for example Pres. William McKinley in 1892:

"Under free trade the trader is the master and the producer the slave. Protection is but the law of nature, the law of self-preservation, of self-development, of securing the highest and best destiny of the race of man. [It is said] that protection is immoral.... Why, if protection builds up and elevates 63,000,000 [the U.S. population] of people, the influence of those 63,000,000 of people elevates the rest of the world. We cannot take a step in the pathway of progress without benefiting mankind everywhere. Well, they say, 'Buy where you can buy the cheapest'.... Of course, that applies to labor as to everything else. Let me give you a maxim that is a thousand times better than that, and it is the protection maxim: 'Buy where you can pay the easiest.' And that spot of earth is where labor wins its highest rewards.

Infant industry argument

Protectionists believe that infant industries must be protected in order to allow them to grow to a point where they can fairly compete with the larger mature industries established in foreign countries. They believe that without this protection, infant industries will die before they reach a size and age where economies of scale, industrial infrastructure, and skill in manufacturing have progressed sufficiently to allow the industry to compete in the global market.

Arguments against protectionism

Protectionism is frequently criticized by economists as harming the people it is meant to help. Mainstream economists instead support free trade.^{[6][15]} The principle of comparative advantage shows that the gains from free trade outweigh any losses as free trade creates more jobs than it destroys because it allows countries to specialize in the production of goods and services in which they have a comparative advantage.^[16] Protectionism results in deadweight loss; this loss to overall welfare gives no-one any benefit, unlike in a free market, where there is no such total loss. According to economist Stephen P. Magee, the benefits of free trade outweigh the losses by as much as 100 to 1.

Economists, including Nobel prize winners Milton Friedman and Paul Krugman, believe that free trade helps workers in developing countries, even though they are not subject to the stringent health and labour standards of developed countries. This is because "the growth of manufacturing — and of the myriad other jobs that the new export sector creates — has a ripple effect throughout the economy" that creates competition among producers, lifting wages and living conditions.^[18] Economists^[who?] have suggested that those who support protectionism

ostensibly to further the interests of workers in least developed countries are in fact being disingenuous, seeking only to protect jobs in developed countries.^[19] Additionally, workers in the least developed countries only accept jobs if they are the best on offer, as all mutually consensual exchanges must be of benefit to both sides, or else they wouldn't be entered into freely. That they accept low-paying jobs from companies in developed countries shows that their other employment prospects are worse. A letter reprinted in the May 2010 edition of *Econ Journal Watch* identifies a similar sentiment against protectionism from sixteen British economists at the beginning of the 20th century.

Alan Greenspan, former chair of the American Federal Reserve, has criticized protectionist proposals as leading "to an atrophy of our competitive ability. ... If the protectionist route is followed, newer, more efficient industries will have less scope to expand, and overall output and economic welfare will suffer.

Protectionism has also been accused of being one of the major causes of war. Proponents of this theory point to the constant warfare in the 17th and 18th centuries among European countries whose governments were predominantly mercantilist and protectionist, the American Revolution, which came about ostensibly due to British tariffs and taxes, as well as the protective policies preceding both World War I and World War II. According to a slogan of Frédéric Bastiat (1801–1850), "When goods cannot cross borders, armies will.

Free trade promotes equal access to domestic resources (human, natural, capital, etc.) for domestic participants and foreign participants alike. Some thinkers extend that under free trade, citizens of participating countries deserve equal access to resources and social welfare (labor laws, education, etc.). Visa entrance policies tend to discourage free reallocation between many countries, and encourage it with others. High freedom and mobility has been shown to lead to far greater development than aid programs in many cases, for example eastern European countries in the European Union. In other words, visa entrance requirements are a form of local protectionism.

Since the end of World War II, it has been the stated policy of most First World countries to eliminate protectionism through free trade policies enforced by international treaties and organizations such as the World Trade Organization^[24] Certain policies of First World governments have been criticized as protectionist, however, such as the Common Agricultural Policy^[25] in the European Union, longstanding agricultural subsidies and proposed "Buy American" provisions^[26] in economic recovery packages in the United States .

Heads of the G20 meeting in London on 2 April 2009 pledged "We will not repeat the historic mistakes of protectionism of previous eras". Adherence to this pledge is monitored by the Global Trade Alert, providing up-to-date information and informed commentary to help ensure that the G20 pledge is met by maintaining confidence in the world trading system, deterring beggar-thy-neighbor acts, and preserving the contribution that exports could play in the future recovery of the world economy. Although they were reiterating what they had already committed to, last November in Washington, 17 of these 20 countries were reported by the World Bank as having imposed trade restrictive measures since then. In its report, the World Bank says most of the

world's major economies are resorting to protectionist measures as the global economic slowdown begins to bite. Economists who have examined the impact of new trade-restrictive measures using detailed bilaterally monthly trade statistics estimated that new measures taken through late 2009 were distorting global merchandise trade by 0.25% to 0.5% (about \$50 billion a year)

Free Trade

Meaning:- Free policy refers to a trade policy without any tariffs, quantitative restrictions and other devices obstructing the movement of goods between countries. A world of free trade would be one with no tariffs and no restrictions of any kind on importing or exporting. In such a world, a country would import all those commodities that it could buy from abroad at a delivered price lower than the cost of producing them at home.

Arguments in favour of free trade

1. Maximisation of output
2. Optimum utilisation of Resources
3. Optimisation of consumption
4. High Factor incomes
5. Educative value
6. Wide markets
7. Prevents monopolies
8. Encourages inventions
9. Develops transport and communications
10. Promote International co-operation
11. Best policy for economic development

Arguments against free trade

1. Laissez faire and perfect competition do not exist
2. One sided development
3. Production of Inferior and harmful goods
4. Cut through competition and dumping
5. Emergence of multinational corporations and monopolies
6. Exploitation and colonisation of countries
7. Economic dependence
8. Trade cycles

PROTECTION

Meaning

The term protection refers to a policy whereby domestic industries are to be protected from foreign competition. The aim is to impose restrictions on the imports of low priced production in order to encourage domestic industries, may be protected by imposing import duties which raise the price of foreign goods by more than the price of domestic goods. Or, they may be protected

by quotas or other non-tariff restrictions which make imports of cheap foreign goods difficult or impossible. Or, the domestic industries may be paid subsidies, or bounties to enable them to compete with cheap foreign goods.

Arguments for Protection

A. Economic Arguments

1. Terms of Trade agreements
2. Bargaining or Retaliation Arguments
3. Anti- Dumping arguments
4. Diversification argument
5. Infant industry argument
6. Sunset Industries argument
7. Socially Important or Key industries argument
8. Employment Argument
9. Balance of Payment arguments
10. Factor Income Redistribution Argument
11. Revenue Argument
12. Domestic Distortions Argument
13. Strategic Trade Policy Argument
14. Conservation of National Resources Argument
15. Pauper Labour Argument
16. Keeping Money at Home Argument
17. Expanding home market argument
18. Scientific Tariff or equalising costs of production argument

B. Non Economic Arguments

1. Defence Argument
2. Preservation Argument
3. Patriotism or Nationalism Argument

NEED FOR PROTECTION IN LESS DEVELOPED COUNTRIES

Various arguments have been put forth in support of the policy of protection in LDCs. They are detailed below.

1. Capital formation
2. Foreign investment
3. Revenue
4. Infant Industries
5. Terms of Trade
6. External economies
7. Factor redistribution
8. Balance of Payments
9. Planned Economic Development
10. Diversification and Self- sufficiency

Exercises

1. State the case for and against free trade
2. Give arguments in support of the policy of protection
3. Examine critically the infant industry argument for protection in the context of a developing country
4. Discuss the need for protection in an underdeveloped country.

UNIT-IV

1.4. TRADE BARRIER-TARIFF AND NON TARIFF BARRIER

A tariff is a tax or duty levied on goods when they enter and leave the national frontier or boundary. In this sense, a tariff refers to import duties and export duties. But for practical purposes, a tariff is synonymous with import duties or customs duties.

TYPES OF TARIFFS

Tariffs are classified in a number of ways.

On the Basis of Purpose:- Tariffs are used for two different purposes-for revenue and for protection.

1. Revenue Tariff
2. Protective Tariff

The following types of tariff duties are levied: ad valorem, specific, compound and sliding scale duties

1. Ad Valorem Duty. The most common type of duty is the ad valorem duty. It is levied as a percentage of the total value of the imported commodity. It may be 25 per cent, 50 per cent and so on.
2. Specific Duty. Specific duties are levied per physical unit of the imported commodity, as Rs X per TV, as cloth per metre, as oil per litre, as fertilizers per tonne, etc
3. Compound Duty. Often, governments levy compound duties which are a combination of the ad valorem and the specific duties. In this case, units of an imported commodity are levied a percentage ad valorem duty plus a specific duty on each unit of the commodity. For instance, a country may impose an import duty on a car at the fixed rate of Rs 1 lakh + 10% on the price of car.
4. Sliding Scale Duty. Sometimes governments levy import duties which vary with the prices commodities imported. Such duties are known as sliding scale duties which may be either ad valorem or specific. Normally, sliding scale duties are imposed on specific basis.

On the basis of Country wise discrimination- The following types of tariffs are levied on the basis of country-wise discrimination.

1. Single column tariff- When a uniform rate of duty imposed on all similar commodities irrespective of the country from which they are imported, it is called single column tariff. It is non discriminatory tariff which is very simple and easy to design and administer. But it is not elastic and adequate. Revenue may not be collected by this system.
2. Double column tariffs- Under this system, two different rates of duty exist for all or some of the commodities. The government of the country declares both the

rates at the beginning or one at the beginning and another after settling the rates under trade agreements. They can be classified as follows.

- i. General and Conventional Tariffs
- ii. Maximum and Minimum Tariffs
- iii. Multiple or Triple column Tariffs

On the basis of Retaliation. There are two ways to levy import duties on the basis of retaliation:

1. Retaliatory Tariffs. A retaliatory tariff duty is levied by one country on the imports of another country in order to punish the latter for its trade policy which harms its exports or balance of payment position.
2. Countervailing Duty. It is an additional duty which is imposed on a commodity whose export price is reduced by the other country through an export subsidy. The additional duty is levied to raise its price in order to protect producers of the same commodity in the importing country from the cheap foreign commodity.

UNIT-V

1.5 TERMS OF TRADE: BALANCE OF PAYMENT-DISEQUILIBRIUM AND CORRECTIVE MEASURES

Meaning: The balance of payment of a country is a systematic record of all its economic transactions with the outside world in a given year. It is a statistical record of the character and dimensions of the country's economic relationships with the rest of the world. According to Bo Sonderster, "The balance of payments is merely a way of listing receipts and payments in international transactions for a country" B.J Cohen says "it shows the country's trading position, changes in its net position as foreign lender or borrower, and changes in its official reserve holding"

Structure of Balance of Payments Account

The balance of payment accounts of a country is constructed on the principle of double entry book keeping. Each transaction is entered in the credit and debit side of the balance sheet. But balance of payment accounting differs from business accounting in one aspect. In business accounting, debit (-) are shown on the left side and credits (+) on the right side of the balance sheet. But in balance of payments accounting, the practice is to show credits on the left side and debits on the right side of the balance sheet.

When payment is received from a foreign country, it is a credit transaction while payment to a foreign country is a debit transaction. The principal items shown on the credit side are exports of goods and services, unrequited (or transfer) receipts in the form of gifts, grants etc. from foreigners, borrowings from abroad, investments by foreigners in the country, and official sale of reserve assets including gold to foreign countries and international agencies. The principal items of Debit side include imports of goods and service, transfer (or unrequited) payments to foreigners as gifts, grants etc. lending to foreign countries, investments by residents to foreign countries, and official purchase of reserve assets or gold from foreign countries and international agencies.

MODULE II:

INTERNATIONAL BUSINESS

Contents

International Business Analysis: Internal and External environment analysis

Modes of Entry - exporting – Licensing – franchising – contract manufacturing – Management contracts, turnkey projects- Mergers & Acquisitions – joint ventures

Foreign Direct Investments: Greenfield Investments

FDIs in emerging markets: recent trends

UNIT-I

Introduction

2.1 GROWTH OF OVERSEAS MARKETS

Developing countries, in spite of economic and marketing problems, are excellent markets. According to a report prepared for the U.S. CONGRESS by the U.S. trade representative, Latin America and Asia/Pacific are experiencing the strongest economic growth. American markets cannot ignore the vast potential of international markets. The world is more than four times larger than the U.S. market. In the case of Amway corps., a privately held U.S. manufacturer of cosmetics, soaps and vitamins, Japan represents a larger market than the United States.

SALES AND PROFIT

Foreign markets constitute a larger share of the total business of many firms that have wisely cultivated markets abroad. Many large U.S. companies have done well because of their overseas customers. IBM and Compaq, for ex, sell more computers abroad than at home. According to the US dept of commerce, foreign profits of American firms rose at a compound annual rate of 10% between 1982 and 1991, almost twice as fast as domestic profits of the same companies.

DIVERSIFICATION

Demand for most products is affected by such cyclical factors as recession and such seasonal factors as climate. The unfortunate consequence of these variables is sales fluctuation, which can frequently be substantial enough to cause layoffs of personnel. One way to diversify a companies' risk is to consider foreign markets as a solution for variable demand. Such markets, even out fluctuations by providing outlets

for excess production capacity. Cold weather, for instance may depress soft drink consumption. Yet not all countries enter the winter season at the same time, and some countries are relatively warm year round. Bird, USA, inc., a Nebraska manufacturer of go carts, and mini cars, for promotional purposes has found that global selling has enabled the company to have year round production. It may be winter in Nebraska but its summer in the southern hemisphere-somewhere there is a demand and that stabilizes the business.

INFLATION AND PRICE MODERATION

The benefits of export are readily self-evident. Imports can also be highly beneficial to a country because they constitute reserve capacity for the local economy. Without imports, there is no incentive for domestic firms to moderate their prices. The lack of imported product alternatives forces consumers to pay more, resulting in inflation and excessive profits for local firms. This development usually acts as prelude to workers demand for higher wages, further exacerbating the problem of inflation.

Import quotas imposed on Japanese automobiles in the 1980's saved 46200 U.S. production jobs but at a cost of \$160,000 per job per year. This cost was a result of the addition of \$400 to the prices of US cars, and \$1000 to the prices of Japanese imports. This windfall for Detroit resulted in record high profits for U.S. automakers. Not only do trade restrictions depress price competition in the short run, but they also can adversely affect demand for year to come.

EMPLOYMENT

Trade restrictions, such as high tariffs caused by the 1930's Smoot-Hawley bill, which forced the average tariff rates across the board to climb above 60%, contributed significantly to the great depression and have the potential to cause wide spread unemployment again. Unrestricted trade on the other had improves the world's GNP and enhances employment generally for all nations.

Importing products and foreign ownership can provide benefits to a nation. According to the institute for international Economics-a private, non-profit research institute - the growth of foreign ownership has not resulted in a loss of jobs for Americans; and foreign firms have paid their American workers the same, as have domestic firms.

STANDARDS OF LIVING

Trade affords countries and their citizen's higher standards of living than other wise possible. Without trade, product shortages force people to pay more for less, products taken for granted, such as coffee and bananas may become unavailable overnight. Life in most countries would be much more difficult were it not for the many strategic metals that must be imported. Trade also makes it easier for industries to specialize and gain access to raw materials, while at the same time fostering competition and efficiency. A diffusion of innovation across national boundaries is useful by-products of international trade. A lack of such trade would inhibit the flow innovative ideas.

FRAMEWORK FOR ANALYSING INTERNATIONAL BUSINESS ENVIRONMENT

Environmental analysis is defined as "the process by which strategists monitor the economic, governmental/legal, market/competitive, supplier/technological, geographic and social setting to determine opportunities and threats to their firms".

"Environmental diagnosis consists of managerial decisions made by analyzing the significance of the data (opportunities and threats) of the environmental analysis".

The definition of environmental analysis given above has been made in the context of the strategic management process for an existing firm. It is, however, quite obvious that environmental analysis is the cornerstone of new business opportunity analysis too.

Indeed, today a much greater emphasis is given than in the past to the fact that environmental analysis is an essential prerequisite for strategic management decision-making. For instance, in his recent editions of Marketing Management, Philip Kotler, the world-renowned professor and author, describes Marketing Environment Audit as the first component of a Marketing Audit, whereas in the earlier editions of this book, the definition of Marketing Audit does not have any reference to the environment.

It is now unquestionably accepted that the prospects of a business depend not only on its resources but also on the environment. An analysis of the strengths, weaknesses, opportunities and threats (SWOT) is very much essential for the business policy formulation.

Just as the life and success of an individual depend on his innate capability, including physiological factors, traits and skills, to cope with the environment, the survival and success of a business firm depend on its innate strength - the resources as

its command, including physical resources, financial resources, skill and organization - and its adaptability to the environment.

Every business enterprise, thus, consists of a set of internal factors and is confronted with a set of external factors.

The internal factors are generally regarded as controllable factors because the company has control over these factors; it can alter or modify such factors as its personnel, physical facilities, organization and functional means, such as the marketing mix, to suit the environment.

The external factors, on the other hand, are by and large, beyond the control of a company. The external or environmental factors such as the economic factors, socio-cultural factors, government and legal factors, demographic factors, geophysical factors etc. are, therefore, generally regarded as uncontrollable factors. As the environmental factors are beyond the control of a firm, its success will depend to a very large extent on its adaptability to the environment, i.e. its ability to properly design and adjust the internal (the controllable) variables to take advantage of the opportunities and to combat the threats in the environment.

The business environment comprises a microenvironment and a macro environment.

MICRO ENVIRONMENT

"The micro environment consists of the actors in the company's immediate environment" that effect the performance of the company. These include the suppliers, marketing intermediaries, competitors, customers, and publics. "The macro environment consists of the larger societal forces that affect all the actors in the company's micro environment namely, the demographic, economic, natural, technological, political and cultural forces".

It is quite obvious that the micro environmental factors are more intimately linked with the company than the macro factors. The micro forces need not necessarily affect all the firms in a particular industry in the same way. Some of the micro factors may be particular to a firm. For example, a firm, which depends on a supplier, may have a supplier environment, which is entirely different from that of a firm whose supply source is different. When competing firms in an industry have the same microelements, the relative success of the firms depends on their relative effectiveness in dealing with these elements.

Suppliers

An important force in the microenvironment of a company is the supplier, i.e., those who supply the inputs like raw materials and components to the company. The importance of reliable source'/sources of supply to the smooth functioning of the business is obvious. Uncertainty regarding the supply or other supply constraints often compels companies to maintain high inventories causing cost increases. It has been pointed out that factories in India maintain indigenous stocks of 3-4 months and

imported stocks of 9 months as against an average of a few hours to two weeks in Japan.

Because of the sensitivity of the supply, many companies give high importance to vendor development. Vertical integration, where feasible, helps solve the supply problem.

It is very risky to depend on a single because a strike, lock out or any other production problem with that supplier may seriously affect the company. Similarly, a change in the attitude or behavior of the supplier may also affect the company. Hence, multiple sources of supply often help reduce such risks.

The supply management assumes more importance in a scarcity environment. "Company purchasing agents are learning how to "wine and dine" supplier to obtain favorable treatment during periods of shortages. In other words, the purchasing department might have to "market" itself to suppliers".

CUSTOMERS

As it is often, exhorted, the major task of a business is to create and sustain customers. A business exists only because of its customers. Monitoring the customer sensitivity is, therefore, a prerequisite for the business success.

A company may have different categories of consumers like individuals, households, industries and other commercial establishments, and government and other institutions. For example, the customers of a tyre company may include individual automobile owners, automobile manufacturers, public sector transport undertakings and other transport operators.

Depending on a single customer is often too risky because it may place the company in a poor bargaining position, apart from the risks of losing business consequent to the winding up of business by the customer or due to the customer's switching over the competitors of the company.

The choice of the customer segments should be made by considering a number of factors including the relative profitability, dependability, stability of demand, growth prospects and the extent of competition.

COMPETITORS

A firm's competitors include not only the other firms, which market the same or similar products, but also all those who compete for the discretionary income of the consumers. For example, the competition for a company's televisions may come not only from other T.V. manufacturers but also from two-wheelers, refrigerators, cooking ranges, stereo sets and so on and from firms offering savings and investment schemes like banks, Unit Trust of India, companies accepting public deposits or issuing shares or debentures etc. This competition among these products may be described as desire competition as the primary task here is to influence the basic desire of the consumer. Such desire competition is generally very high in countries characterized by limited

disposable incomes and many unsatisfied desires (and, of course, with many alternatives for spending/investing the disposable income).

If the consumer decides to spend his discretionary income on recreation (or recreation cum education) he will still be confronted with a number of alternatives to choose from like T.V., stereo, two-in-one, three-in-one etc. The competition among such alternatives, which satisfy a particular category of desire, is called generic competition.

An implication of these different demands is that a marketer should strive to create primary and selective demand for his products.

MARKETING INTERMEDIARIES

The immediate environment of a company may consist of a number of marketing intermediaries which are "firms that aid the company in promoting, selling and distributing its goods to final buyers".

The marketing intermediaries include middlemen such as agents and merchants who "help the company find customers or close sales with them", physical distribution firms which "assist the company in stocking and moving goods from their origin to their destination" such as warehouses and transportation firms; marketing service agencies which "assist the company in targeting and promoting its products to the right markets" such as advertising agencies, marketing research firms, media firms and consulting firms; and financial intermediaries which finance marketing activities and insure business risks. Marketing intermediaries are vital links between the company and the final consumers. A dislocation or disturbance of this link, or a wrong choice of the link, may cost the company very heavily. Retail chemists and druggists in India once decided to boycott the products of a leading company on some issue such as poor retail margin. This move for collective boycott was, however, objected to by the MRTP commission; but for this company would, perhaps, have been in trouble.

DEMOCRATIC

A company may encounter certain publics in its environment. "A public is any group that has an actual or potential interest in or impact on an organization's ability to achieve its interests. Media publics, citizens action publics and local publics are some examples.

For example, one of the leading companies in India was frequently under attack by the media public, particularly by a leading daily, which was allegedly bent on bringing down the share prices of the company by tarnishing its image. Such exposures or campaigns by the media might even influence the government decisions affecting the company. The local public also affects many companies. Environmental pollution is an issue often taken up by a number of local publics. Actions by local publics on the issue have caused some companies to suspend operations and/or take pollution abatement measures.

GROWTH OF CONSUMER PUBLIC IS AN IMPORTANT DEVELOPMENT AFFECTING BUSINESS

It is wrong to think that all publics are threats to business. Some of the actions of the public's may cause problems for companies. However, some publics are an opportunity for the business. Some businessmen, for example, regard consumerism as an opportunity for the business. The media public may be used to disseminate useful information. Similarly, fruitful cooperation between a company and the local publics may be established for the mutual benefit of the company and the local community.

MACRO ENVIRONMENT

As stated earlier, a company and the forces in its microenvironment operate in a larger macro environment of forces that shape opportunities and pose threats to the company. The macro forces are, generally, more uncontrollable than the micro forces. A sketch picture of the important macro-environmental forces is given below.

ECONOMIC ENVIRONMENT

Economic conditions, economic policies and the economic system are the important external factors that constitute the economic resources, the level of income, the distribution of income and assets, etc. are among the very important determinants of business strategies.

In a developing country, the low income may be the reason for the very low demand for a product. The sale of a product for which the demand is income-elastic naturally increases with an increase in income. But a firm is unable to increase the purchasing power of the people to generate a higher demand for its product. Hence, it may have to reduce the price of the product to increase the sales. the reduction in the cost of production may have to be effected to facilitate price reduction. It may even be necessary to invent or develop a new low-cost product to suit the low-income market. Thus Colgate designed a simple, hand-driven, inexpensive (\$10) washing machine for low-income buyers in less developed countries. Similarly, the National Cash Register Company took an innovative step backward by developing a crank-operated cash register that would sell at half the cost of a modern cash register and this was well received in a number of developing countries.

In countries where investment and income are steadily and rapidly rising, business prospects are generally bright, and further investments are encouraged. There are a number of economists and businessmen who feel that the developed countries are no longer worthwhile propositions for investment because these economies have reached more or less saturation levels in certain respects.

In developed economies, replacement demand accounts for a considerable part of the total demand for many consumer durables whereas the replacement demand is negligible in the developing economies.

The economic policy of the government, needless to say, has a very great impact on business. Some types or categories of business are favorably affected by

government policy, some adversely affected, while it is neutral in respect of others. For example, a restrictive import policy, or a policy of protecting the home industries, may greatly help the import-competing industries.

Similarly, an industry that falls within the priority sector in terms of the government policy may get a number of incentives and other positive support from the government, whereas those industries which are regarded as inessential may have the odds against them.

In India, the government's concern about the concentration of economic power restricted the role of the large industrial houses and foreign concerns to the core sector, the heavy investment sector, the export sector and backward regions.

The monetary and fiscal policies, by the incentives and disincentives they offer and by their neutrality, also affect the business in different ways.

An industrial undertaking may be able to take advantage of external economies by locating itself in a large city; but the Government of India's policy was to discourage industrial location in such places and constrain or persuade industries undertaking, a backward area location may have many disadvantages. However, the incentives available for units located in these backward areas may compensate them for these disadvantages, at least to some extent.

According to the industrial policy of the Government of India until July 1991, the developments of 17 of the most important industries were reserved for the state. In the development of another 12 major industries, the state was to play a dominant role. In the remaining industries, co-operative enterprises, joint sector enterprises and small scale units were to get preferential treatment over large entrepreneurs in the private sector. The government policy, thus limited the scope of private business. However, the new policy ushered in since July 1991 has wide opened many of the industries for the private sector.

The scope of international business depends, to a large extent, on the economic system. At one end, there are the free market economies or capitalist economies, and at the other end are the centrally planned economies or communist countries. In between these two are the mixed economies. Within the mixed economic system itself, there are wide variations.

The freedom of private enterprise is the greatest in the free market economy, which is characterized by the following assumptions:

- (i) The factors of production (labor, land, capital) are privately owned, and production occurs at the initiative of the private enterprise.
- (ii) Income is received in monetary form by the sale of services of the factors of production and from the profits of the private enterprise.
- (iii) Members of the free market economy have freedom of choice in so far as consumption, occupation, savings and investment are concerned.

- (iv) The free market economy is not planned controlled or regulated by the government. The government satisfies community or collective wants, but does not compete with private firms, nor does it tell the people where to work or what to produce.

The completely free market economy, however, is an abstract system rather than a real one. Today, even the so-called market economies are subject to a number of government regulations. Countries like the United States, Japan, Australia, Canada and member countries of the EEC are regarded as market economies. The communist countries have, by and large, a centrally planned economic system. Under the rule of a communist or authoritarian socialist government, the state owns all the means of production and controls the economy according to a central master plan. There is hardly any consumer sovereignty in a centrally planned economy, unlike in the free market economy. The consumption pattern in a centrally planned economy is dictated by the state.

China, East Germany Soviet Union, Czechoslovakia, Hungary, Poland, etc., had centrally planned economies. However, recently several of these countries have discarded communist system and have moved towards the market economy. In between the capitalist system and the centrally planned system falls the system of the mixed economy, under which both the public and private sectors co-exist, as in India. The extent of state participation varies widely between the mixed economies. However, in many mixed economies, the strategic and other nationally very important industries are fully owned or dominated by the state. The economic system, thus is a very important determinant of the scope of private business. The economic system and policy are, therefore, very important external constraints on business.

POLITICAL AND LEGAL ENVIRONMENT

Political and government environment has close relationship with the economic system and economic policy. For example, the communist countries had a centrally planned economic system. In most countries apart from those laws that control investment and related matters, there are a number of laws that regulate the conduct of the business. These laws cover such matters as standards of products, packaging, promotion etc.

Some governments specific certain standards for the products (including packaging) to be marketed in the country; some even prohibit the marketing of certain products. In most nations, promotional activities are subject to various types of controls. Media advertising is not permitted in Libya. Several European countries restrain the use of children in commercial advertisements. In a number of countries, including India, the advertisement of alcoholic liquor is prohibited. Advertisements, including packaging, of cigarettes must carry the statutory warning that "cigarette smoking is injurious to health". Similarly, advertisements of baby food must necessarily inform the potential buyer that breast-feeding is the best. In countries like Germany, product comparison advertisements and the use of superlatives like 'best' or 'excellent'

in advertisements is not allowed in the United States, the Federal Trade Commission is empowered to require a company to provide the quality, performance or comparative prices of its products.

"What is being asked of the drug industry and of American business in general is a fuller disclosure of the relevant facts about products. For drugs, food additives, some cosmetic preparations, and so forth, a full disclosure requires more knowledge of the long-range side effects of materials ingested into the complex human body. For American industry as a whole, greater candour has been called for under such legislation as Truth in Lending and Fair Packaging Act, under administrative decrees such as the warning requirement on cigarette packages and advertising, under the threats of private damage suits using the common-law concepts of warranty, and under voluntary programmes such as unit pricing and listing nutritional content of foods. The increasing complexity of products and the variety of product choices suggest further moves away from 'caveat emptor' or 'let the buyer beware' doctrines, moves which on the whole should prove a welcome although sometimes inconvenient challenge for business".

There are a host of statutory controls on business in India. If the MRTP companies wanted to expand their business substantially, they had to convince the government that such expansion was in the public interest. Indeed, the "Government in India has an all-pervasive and predominantly restrictive influence over various aspects of business, e.g. industrial licensing which decides location, capacity and process; import licensing for machinery and materials; size and price of capital issue; loan finance; pricing; managerial remuneration; expansion plans; distribution restrictions and a host of other enactments. Therefore, a considerable part of attention of a Chief Executive and his senior colleagues has to be devoted to a continuous dialogue with various government agencies to ensure growth and profitability within the framework of controls and restraints".

Many countries today have laws to regulate competition in the public interest. Elimination of unfair competition and dilution of monopoly power are the important objectives of these regulations. In India, the monopolistic undertakings, dominant undertakings and large industrial houses are subject to a number of regulations which prevent the concentration of economic power to the common detriment. The MRTP Act also controls monopolistic, restrictive and unfair trade practices which are prejudicial to public interest. Such regulations brighten the prospects of small and new firms. They also increase the scope of some of the existing firms to venture into new areas of business. The special privileges available to the small scale sector have also contributed to the phenomenal success of the Nirma.

Certain changes in government policies such as the industrial policy, fiscal policy, tariff policy etc. may have profound impact on business. Some policy developments create opportunities as well as threats. In other words, developments which brighten the prospects of some enterprises may pose a threat to some others. For example, the industrial policy liberalizations in India, particularly around the mid-eighties have

opened up new opportunities and threats. They have provided a lot of opportunities to a large number of enterprises to diversify and to make their product mix better. But they have also given rise to serious threat to many existing products by way of increased competitions; many seller's markets have given way to buyer's markets. Even products which were seldom advertised have come to be promoted very heavily. This battle for the market has provided a splendid opportunity for the advertising industry. Advertising billing has been increasing substantially.

That an estimated cost savings of about Rs. 200 crores per year have accrued to the Reliance Industries as a result of the change in duties on some of the material inputs used by them is just an indication of the tremendous impact the fiscal and tariff policies can have on the business.

SOCIO-CULTURAL ENVIRONMENT

The socio-cultural fabric is an important environmental factor that should be analysed while formulating business strategies. The cost of ignoring the customs, traditions, taboos, tastes and preferences, etc., of people could be very high.

The buying and consumption habits of the people, their language, beliefs and values, customs and traditions, tastes and preferences, education are all factors that affect business.

For a business to be successful, its strategy should be the one that is appropriate in the socio-cultural environment. The marketing mix will have to be so designed as best to suit the environmental characteristics of the market. In Thailand, Helene Curtis switched to black shampoo because Thai women felt that it made their hair look glossier. Nestle, a Swiss multinational company, today brews more than forty varieties of instant coffee to satisfy different national tastes.

Even when people of different cultures use the same basic product, the mode of consumption, conditions of use, purpose of use or the perceptions of the product attributes may vary so much so that the product attributes method of presentation, positioning, or method of promoting the product may have to be varied to suit the characteristics of different markets. For example, the two most important foreign markets for Indian shrimp are the U.S. and Japan. The product attributes for the success of the product in these two markets differ. In the U.S. market, correct weight and bacteriological factors are more important rather than eye appeal, colour, and uniformity of size and arrangement of the shrimp which are very important in Japan. Similarly, the mode of consumption of tuna, another seafood export from India, differs between the U.S. and European countries. Tuna fish sandwiches, an American favourite which accounts for about 80 per cent of American tuna consumption, have little appeal in high tuna consumption European countries where people eat it right from the can. A very interesting example is that of the Vicks Vaporub, the popular pain balm, which is used as a mosquito repellent in some of the tropical areas.

The differences in languages sometimes pose serious problems, even necessitating a change in the brand name. Preett was, perhaps, a good brand name in India, but it did not suit in the overseas market; and hence it was appropriate to adopt 'Prestige' for the overseas markets. Chevrolet's brand name 'Nova' in Spanish means "it doesn't go". In Japanese, General Motors' "Body by Fisher" translates as corpse by Fisher". In Japanese, again, 3M's slogan "sticks like crazy" translates as "sticks foolishly". In some languages, Pepsi-Cola's slogan "come alive" translates as "come out of the grave".

The values and beliefs associated with colour vary significantly between different cultures. Blue, considered feminine and warm in Holland, is regarded as masculine and cold in Sweden. Green is a favourite colour in the Muslim world; but in Malaysia, it is associated with illness. White indicates death and mourning in China and Korea; but in some countries, it expresses happiness and is the colour of the wedding dress of the bride. Red is a popular colour in the communist countries; but many African countries have a national distaste for red colour.

Social inertia and associated factors come in the way of the promotion of certain products, services or ideas. We come across such social stigmas in the marketing of family planning ideas, use of bio-gas for cooking, etc. In such circumstances, the success of marketing depends, to a very large extent, on the success in changing social attitudes or value systems.

There are also a number of demographic factors, such as the age, and sex composition of population, family size, habitat, religion, etc., which influence the business.

While dealing with the social environment, we must also consider the social environment of the business which encompasses its social responsibility and the alertness or vigilance of the consumers and of society at large.

The social environment has assumed great importance in recent years. As Barker observes, business "traditionally has been held responsible for quantities of the supply of goods and jobs, for costs, prices, wages, hours of works, and for standards of living. Today, however, business is being asked to take a responsibility for the quality of life in our society. The expectation is that business-in addition to its traditional accountability for economic performance and results - will concern itself with the health of the society, that it will come up with the cures for the ills that currently beset us and, indeed, will find ways of anticipating and preventing future problems in these areas."

As stern succinctly points out, the "more educated the society becomes, the more interdependent it becomes, and the more discretionary the use of its resources, the more marketing will become enmeshed in social issues. Marketing personnel are at interface between company and society. In this position, they have the responsibility not merely for designing a competitive marketing strategy, but for sensitizing business to the social, as well as the product demand of society."

DEMOGRAPHIC ENVIRONMENT

Demographic factors like the size, growth rate, age composition, sex composition, etc. of the population, family size, economic stratification of the population, educational levels, languages, caste, religion etc. Are all factors that are relevant to business?

Demographic factors such as size of the population, populations growth rate, age composition, life expectancy, family size, spatial spatial dispersal, occupational status, employment pattern etc, affect the demand for goods and services. Markets with growing population and income are growth markets. But the decline in the birth rates in countries like the United States have affected the demand for baby products. Johnson and Jonson have overcome this problem by repositioning their products like baby shampoo and baby soap, promoting them also to the adult segment, particularly to the females.

A rapidly increasing population indicates a growing demand for many products. High population growth rate also indicates an enormous increase in labour supply. When the Western countries experienced the industrial revolution, they had the problem of labour supply, for the population growth rate was comparatively low. Labour shortage and rising wages encouraged the growth of labour-saving technologies and automation. But most developing countries of today are experiencing a population explosion and a situation of labour surplus. The governments of developing countries, therefore, encourage labour intensive methods of production. Capital intensive methods, automation and even rationalization are apposed by labour and many sociologists, politicians and economists in these countries. The population growth rate, thus, is an important environmental factor which affects business. Cheap labour and a growing market have encouraged many multinational corporations to invest in developing countries.

The occupational and spatial mobilities of population have implications for business. If labour is easily mobile between different occupations and regions, its supply will be relatively smooth, and this will affect the wage rate.

If labour is highly heterogeneous in respect of language, caste and religion, ethnicity, etc., personnel management is likely to become a more complex task. The heterogeneous population with its varied tastes, preferences, beliefs, temperaments, etc. gives rise to differing demand patterns and calls for different marketing strategies.

References to a number of demographic factors that have business implications have already been made under 'socio-cultural environment'.

NATURAL ENVIRONMENT

Geographical and ecological factors, such as natural resource endowments, weather and climatic conditions, topographical factors, locational aspects in the global context, port facilities, etc., are all relevant to business.

Difference in geographical conditions between markets may sometimes call for changes in the marketing mix. Geographical and ecological factors also influence the

location of certain industries. For example, industries with high material index tend to be located near the raw material sources. Climatic and weather conditions affect the location of certain industries like the cotton textile industry. Topographical factors may, affect the demand pattern. For example, in hilly areas with a difficult terrain, jeeps may be in greater demand than cars.

Ecological factors have recently assumed great importance. The depletion of natural resources, environmental pollution and the disturbance of the ecological balance has caused great concern. Government policies aimed at the preservation of environmental purity and ecological balance, conservation of non-replenishable resources, etc., have resulted in additional responsibilities and problems for business, and some of these have the effect of increasing the cost of production and marketing. Externalities have become an important problem the business has to confront with.

PHYSICAL AND TECHNOLOGICAL ENVIRONMENT

Physical Factors, such as geographical factors, weather and climatic conditions may call for modifications in the product, etc.... to suit the environment because these environmental factors are uncontrollable. For example, Esso adapted its gasoline formulations to suit the weather conditions prevailing in different markets.

Business prospects depend also on the availability of certain physical facilities. Some products, like many consumer durables, have certain use facility characteristics. The sale of television sets, for example, is limited by the extent of the coverage of the telecasting. Similarly, the demand for refrigerators and other electrical appliances is affected by the extent of electrification and the reliability of power supply. The demand for LPG gas stoves is affected by the rate of growth of gas connections.

Technological factors sometimes pose problems. A firm, which is unable to cope with the technological changes, may not survive. Further, the differing technological environment of different markets or countries may call for product modifications. For example, many appliances and instruments in the U.S.A. are designed for 110 volts but this needs to be converted into 240 volts in countries which have that power system. Technological developments may increase the demand for some existing products. For example, voltage stabilizers help increase the sale of electrical appliances in markets characterized by frequent voltage fluctuations | power supply. However, the introduction of TV's, Fridges etc, within built voltage stabilizer adversely affects the demand for voltage stabilizers.

Advances in the technologies of food processing and preservation, packaging etc., have facilitated product improvements and introduction of new products and have considerably improved the marketability of products.

The television has added a new dimension to product promotion. The advent of TV and VCP/VCR has, however, adversely affected the cinema theatres.

The fast changes and products obsolete quickly. Product-market-technology matrix generally has a much shorter life today than in the past. It is particularly so in the

international marketing context. It may be interesting to note that almost half of Hindustan Lever's 1980 export business did not exist in 1987. In fact, as much as a third of the company's 1987 turnover was from products and markets, which were under three years of age.

INTERNATIONAL ENVIRONMENT

The international environment is very important from the point of view of certain categories of business. It is particularly important for industries directly depending on imports or exports and import-competing industries. For example, a recession in foreign markets, or the adoption of protectionist policies by foreign nations, may create difficulties for industries depending on exports. On the other hand, a boom in the export market or a relaxation of the protectionist policies may help some industries which use imported items, but may adversely affect import-competing industries.

It has been observed that major international developments have their spread effects on domestic business. The Great Depression in the United States sent its shock waves to a number of other countries. Oil price hikes have seriously affected a number of economies. These hikes have increased the cost of production and the prices of certain products, such as fertilizers, synthetic fibers, etc. The high oil price has led to an increase in the demand for automobile models that economize energy consumption. The demand for natural fibers increase because of the oil crisis.

The oil crisis also prompted some companies to resort to demarketing. "Demarketing refers to the process of cutting consumer demand for a product back to level that can be supplied by the firm". Some oil companies-the Indian Oil Corporation, for example-have publicized tips on how to cut oil consumption. When the fertilizer price shot up following the oil crisis, some fertilizer companies appealed to the farmers to use fertilizers only for important and remunerative crops. The importance of natural manure like compost as a substitute for chemical fertilizers was also emphasized.

The oil crisis led to a reorientation of the Government of India's energy policy. Such developments affect the demand, consumption and investment pattern. A good export market enables a firm to develop a more profitable product mix and to consolidate its position in the domestic market. Many companies now plan production capacities and investment taking into account also the foreign markets. Export marketing facilitates the attainment of optimum capacity utilization; a company may be able to mitigate the effects of domestic recession by exporting. However, a company which depends on the export market to a considerable extent has also to face the impact of adverse developments in foreign markets.

Business has fascinated man down the centuries, starting from barter system to the global business. Business plays a pivotal role in the growth of the economy of any nation. Because of the explosion of knowledge and invention of Internet, time and distance are shrinking globally and the world has become a global village.

In developing countries like India the traditional business are affected by MNC's and many Indian firms are forced to compete with the global firms, and it's the game of *the survival of the fittest*, and many local companies are forced to merge with global firms Eg. Vishya bank has merged with ING forming ING Vishya Bank, ICICI bank has merged with Prudential forming ICICI Prudential Life insurance etc.

As part of their expansion in international markets Indian firms like M.T.R, Ranbaxy, Dabur, L.I.C, S.B.I etc are on their toes to globalize their operations. In simple terms, the products which we use, in our day-to-day life are either imported from other countries are produced in India in collaboration with companies in other countries so international business is the process of exchanging goods and services internationally for value.

Nature of International Business Environment

The business operations performed without any barriers, with the implementation of L.P.G (Liberalization, Privatization, Globalization) there is boom in the global business and the trade barriers have been liberalized. This has given rise to

- Attracted F.D.I Foreign direct investment
- Encouraged flexible import and export policies
- Import of jobs in the field of I.T enabled services (B.P.O)
- Increase in foreign currency reserves
- Improved standard of living
- Increase in purchasing power
- Improved quality of goods and services

Today, and company which is going globally need to assess different environmental factors like economic, technological, political, culture, legal and design their operations.

To understand the international business environment we divide the terms

International

Integration and interrelation of different nations.

Business

Systematic effort of an organization to meet the needs of customers with goods and services for profit.

Environment

Environment is surroundings which we live in, the external forces acting upon the business is business environment.

The environment includes the factors outside the firm, which can lead to opportunities for or threats to the firm. These factors can be economic, technological, political, cultural etc.

Thus international business environment is the business operations in different countries with different external forces acting upon them.

Environment is further classified as domestic environment, foreign environment, and international environment.

Domestic Environment

Forces within a country, which are very familiar and which are controllable or uncontrollable.

International Environment

Forces acting on business from different nations which are not familiar and which are controllable or uncontrollable.

The Forces

Forces acting upon business are classified as follows

International Environmental Forces

Forces within the organization, which are controllable, like production, finance, marketing, human resources research and development etc.

External Micro Environmental Forces

Forces outside the organization, which are controllable, like competitors, suppliers, creditors, consumers, financial institutions etc.

External Macro Environmental Forces

Forces outside the organization, which are uncontrollable, like political environment, legal environment, technological, environment, economic environment, cultural environment etc.

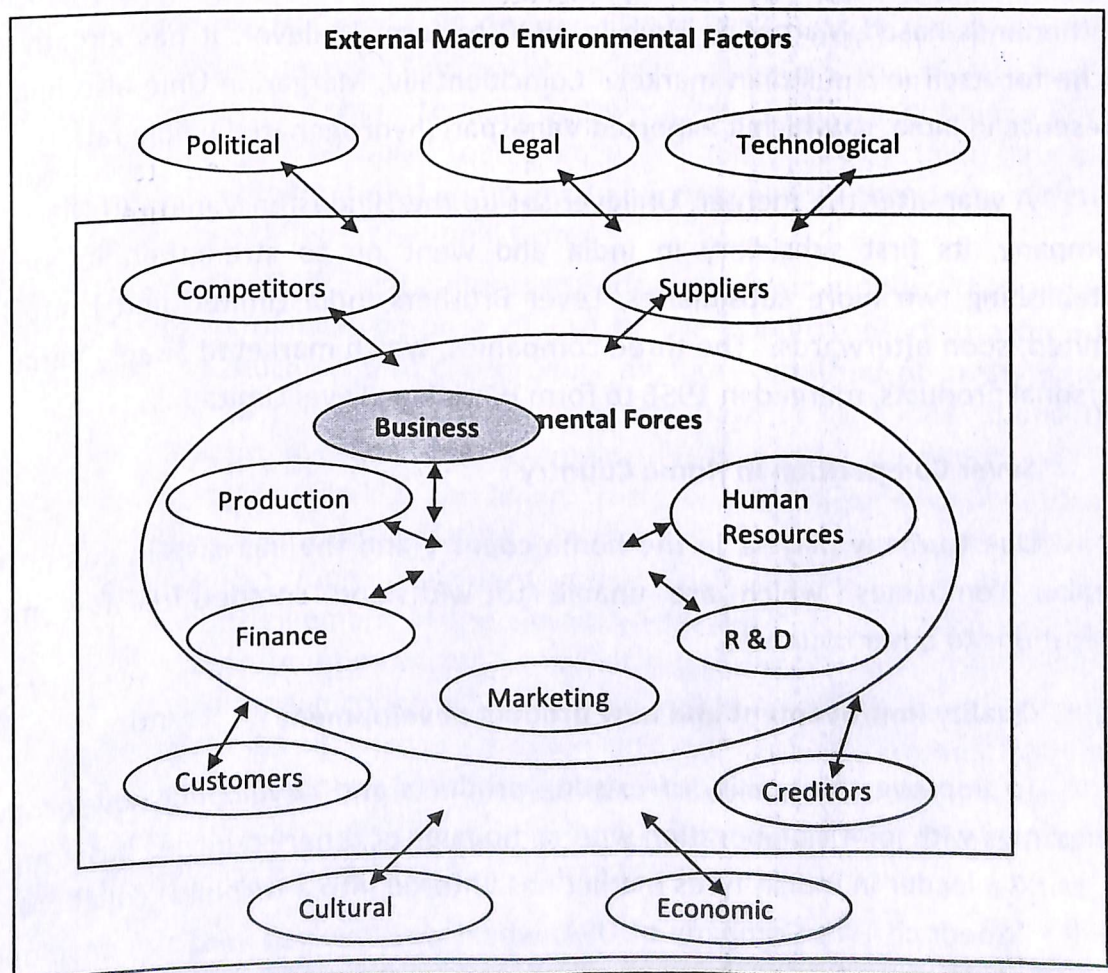


Fig 4.1 Environmental Forces acting on Business

4.1.2 Basis for going global

a) **Arability of Highly Skilled & Cheap Labour**

India is a country with the potential of highly skilled human resources with comparatively cheaper labour, which has attracted many M.N.C's from U.S.A and U.K to outsource these resources from India which will cut short their heavy expenditure on wage and salary. Eg. T.I enabled services outsourced from India, business process outsourcing (B.P.O), knowledge process outsourcing (K.P.O), recently legal process outsourcing (L.P.O).

b) **Bigger Pie in Market Share**

To increase the market share of the firm many companies are going global eg. In 1888, less than four years after William Hesketh Lever launched Sunlight Soap in England, his newly-founded company, Lever Brothers, started exporting the revolutionary laundry soap to India. By the time the company merged with the Netherlands-based Margarine Unie in 1920 to form Unilever, it has already carved a niche for itself in the Indian market. Coincidentally, Margarine Unie also had a strong presence in India, to which it exported Vanaspati (hydrogenated edible fat).

A year after the merger, Unilever set up the Hindustan Vanaspati Manufacturing Company, its first subsidiary in India and went on to strengthen its position by establishing two more subsidiaries, Lever Brothers India Limited and United Traders Limited, soon afterwards. The three companies, which marketed Soaps, Vanaspati and Personal products, merged in 1956 to form Hindustan Level Limited.

e) **Sever Competition in Home Country**

Due to many players in the home country and the increase in competition the weaker companies, which are unable to withstand competition has moved its operations to other countries.

d) **Quality Improvement and new product development**

To improve the quality of existing products and developing new products the companies with joint collaboration with companies of other countries has gone globally eg. M.r.F a leader in Indian tyres market has entered into a technical collaboration with the B.F. Goodrich Tyre Company of USA, which was involved with the development of

tyres for the N.A.S.A space-shuttle. With this began a significant exercise in quality improvement and new product development.

e) To Reach Higher Profits Level

To reach higher levels of profits the companies has expanded globally. eg. The roots of Nokia go back to the year 1865 with the establishment of a forest industry enterprise in South-Western Finland by mining engineer Fredrik Idestam. Elsewhere, the year 1898 witnessed the foundation of Finnish Rubber Works Ltd, and in 1912 Finnish Cable Works began operations. Gradually, the ownership of these two companies and Nokia began to shift into hands of just a few owners. Finally in 1967 the three companies were merged to form Nokia Corporation. Today we find Nokia in every part of the globe.

Free Trade Policies

The North American Free Trade Agreement (NAFTA) has lifted all the trade barriers among U.S.A, Canada and Mexico which has enabled companied to expand their operations among those countries eg. General Motors has 284 operations in 35 states and 158 cities in the United States. In addition GM of Canada operates 21 locations, GM de Mexico operates 5 locations, and GM has assembly, manufacturing, distribution or warehousing operations in 49 other countries, including equity interests in associated companies.

g) Availability of Abundant Raw Materials

India is rich in natural resources like coal, iron etc which is attracting many foreign companies to establish their facility. Eg. Volkswagan and Nokia are planning to establish their facility in India.

h) Government Regulations

Business firms prefer to enter the countries where there are flexible government policies, which will not change because of political instability. Countries like U.S.A. has stable government policies which will attract business firms to enter into their country eg. All the U.S automobile industry is flooded by Japanese automobile companies like Toyosta because of stable government regulations.

i) Availability of Technology

To keep abreast of world technology and to protect its competitive edge, Asian paints has from time to time entered into technology alliances with world leaders in the paint industry. It has a 50:50 joint venture with Pittsburg Paints & Glass Industries (PPG) of USA, the world leader in Automotive coatings, to meet the increasing demand of the Indian automotive industry.

j) Limited Home Market

Toyota motors of Japan has extended its base of U.S. and Indian because of limited home market and U.S and India has got a greater demand for Japanese automobiles

The Frame work for analyzing International Business Environment

a) Methods

There are three ways of scanning the International business environment:

Ad-hoc scanning – short term, infrequent examinations usually initiated by a crisis

Regular scanning – Studies done on a regular schedule (say, once a year)

Continuous scanning – (also called continuous learning) – continuous structured data collection and processing on a broad range of environmental factors.

Most commentators feel that in today's turbulent business environment the best scanning method available is continuous scanning. This allows the firm to act quickly, take advantage of opportunities before competitors do, and respond to environmental threats before significant damage is done.

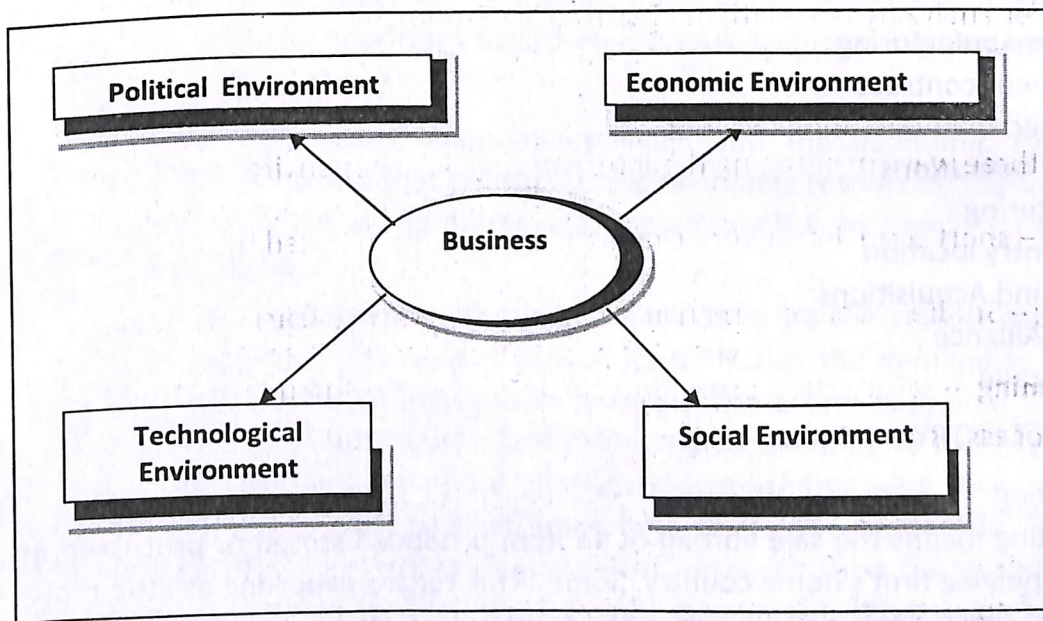
b) PEST analysis

PEST analysis stands for "Political, Economic, Social, and Technological analysis" and describes a framework of macro environmental factors used in environmental scanning. It is also referred to as the STEP, STEEP or PESTLE analysis (Political, Economic, Socio-cultural, Technological, Legal, (Environmental). Recently it was even further extended to STEEPLED, including ethics and demographics.

It is a part of the external analysis when doing market research and gives a certain overview of the different macro environmental factors that the company has to take into consideration. Political *factors* include areas such as tax policy, employment laws, environmental regulations, trade restrictions and tariffs and political stability. The

economic factors are the economic growth, interest rates, exchange rates and inflation rate. Social factors often look at the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. The technological factors also include ecological and environmental aspects and can determine the barriers to entry, minimum efficient production level and influence outsourcing decisions. It looks at elements such as R & D activity, automation, technology incentives and the rate of technological change.

The PEST factors combined with external micro environmental factors can be classified as opportunities and threats in a SWOT analysis.



QUESTIONS

1. What is meant by international business environment? Discuss briefly the importance of understanding the international business environment.
2. Discuss the concepts of micro and macro environment
3. Explain the framework for analyzing the international business environment in detail.
4. Companies cannot bypass the knowledge of operations of businesses internationally - Comment.

UNIT-II

2.2 MODES OF ENTRY

Businesses can enter foreign markets via exporting, use of agents and/ or distributors, licensing and franchising, joint ventures, management contracts, contract manufacturing or direct foreign investment. Also the firm might wish to establish branches in various nations. Exporting, joint ventures and the operation of branches are dealt with in this chapter: other forms of market entry are covered elsewhere. The expansion activity requires the home company to adapt one or more of the following strategies to enter host countries

1. Exporting
2. Licensing
3. Franchising
4. Contract manufacturing
5. Management contract
6. Fully owned manufacturing facilities
7. Assembly operations
8. Joint venturing
9. Third country location
10. Mergers and Acquisitions
11. Strategic Alliance
12. Counter trade

TYPES OF MARKET ENTRY

I. Exporting

Exporting means the sale abroad of an item produced stored or processed in the supplying firm's home country. Some firms regard exporting as little more than a convenient way of increasing total sales; others see it as a crucial element of overall corporate strategy. 'Passive' exporting occurs when a firm receives orders from abroad without having canvassed them. 'Active' exporting, conversely, results from a strategic decision to establish proper systems for organizing the export function and for procuring foreign sales. Exporting may be direct or indirect. With direct exporting the exporter assumes full responsibility for the transfer of goods to foreign customers, for customs clearance, local advertising and final sale of the goods. Indirect exporting uses intermediaries. Export merchants for example, reside in the exporter's country acting as principals in export transactions (ie buying and selling on their own accounts). They are wholesalers who operate in foreign markets through their own salespeople, stockists and perhaps, retail outlets. Exporters are relieved of administrative problems, documentation, shipping, internal transport and so on, and do not carry the risks of market failure.

However, they lose control over the presentation of their products, and foreign sales may fall because of poor foreign retailing.

Advantages and Disadvantages of exporting

Exporting is cheap and convenient to administer and carries no risk of failure of direct foreign investments. The revenues from foreign sales accrue entirely to the exporting company (rather than it having to repatriate profits from foreign subsidiaries), and the firm builds up a network of contacts with foreign agents, distributors, retail outlets, etc. Direct exporting provides total control over the selling process avoids the need to share know how with foreign partners and cut out expensive intermediaries. Exporting can be highly profitable, although the development of an export facility can place a severe strain on the business's resources.

- Cost of financing long periods between obtaining export orders, delivering the goods to distant destinations and getting paid.
- Problem of acquiring and retaining staff competent to undertake the extensive paperwork associated with international marketing (except for EU firms selling within the Union) and who possess the linguistic and specialist foreign trade skills necessary for selling abroad.
- Managerial resources necessary to have people visit foreign markets regularly, monitor and control agents and distributors, meet important customers, attend foreign exhibitions, etc
- Costs and inconvenience of finding foreign agents and distributors and of investigating the market characteristics and trading rules of various foreign countries
- Difficulty of forecasting sales in foreign countries rather than in the firm's home base. Changes in the political, legal, social and economic superstructures of other nations are hard to predict, as are the behaviours of actual and potential competing companies
- Higher degree of risk typically involved in selling abroad rather than in the home country.

II. Licensing

Licensing is giving permission to use important business aspects like (a) Brand name (b) Trade mark (c) Patent, (d) Technology (e) Processing and methods to a manufacturer/trader in a foreign country. The license could be for one or more of such aspects which help the licensee to boost his sale. In return the licensee pays royalty (on sales) or contract amount to the licensor. This is equivalent to transfer of intellectual property rights.

Licensing is a very popular method of entering foreign countries. This helps to boost the licensor to increase his business and trade name in foreign countries without investments. Without much direct involvement the licensor

starts earning royalty from the licensee. However this kind of advantage is possible for well established and popular brands like Coca-Cola, Pepsi, Bata, Nike etc. Only popular brands sell easily with lesser investments on promotion activities. Hence payment of royalty is justified. There are certain risks involved in this business. The licensee may avoid or delay paying the royalty, can try to replace the product with his own imitation make or join with competitors. Hence the licensor need to keep a close watch on the attitude and activities of the licensee.

III. Franchising

Franchising is a form of licensing in which parent company (franchiser) grants a foreign company (franchisee) the right to do business in a prescribed manner. The nature of right could be selling the franchisers product, using its name, product and marketing techniques or general business approach. One of the methods of franchising is to provide an important component or ingredient. The business relation between a automobile manufacturer and its dealer is an example of franchising.

The franchiser keeps conditions on raw materials and quality. The service quality and standardization is critical in franchising and its progress in the business. Here franchiser can increase his business and global fame without investments. The risks of franchiser are little. The system has advantages of global branding and local issues like accommodating local culture, local labour and marketing is taken care by the host country businessman who is a franchisee. Franchiser helps in making products and packing to suit local tastes of customers. There are large MNCs who have grown by franchising route. Some of these companies are Coca Cola, Mc Donald and Domino Pizza.

IV. MERGERS AND ACQUISITIONS

Mergers and Acquisitions within the country and cross border are on the increase due to globalization and consolidation process. Merger and acquisition takes place by foreign direct investment in new projects or in the existing local company in the host country. TNCs grow by mergers and acquisitions. There are three types of mergers and acquisitions.

1. Horizontal: The competing companies in the same industry go in for mergers and acquisitions. Takeover of Novelis Canada Company by Birla Group.
2. Vertical: When a company with buyer seller relationship companies have a merger and acquisition.
3. Conglomerate: Companies in different activities go for merger and acquisitions.

Advantages of Mergers

1. Access to resources
2. Near to market
3. Search of new markets
4. Efficiency through mergers
5. Global size
6. Financial gains

Advantages of Acquisitions

1. Buying an established business is always advantageous. If it is already profitable the entrepreneur needs to keep up the continuity.
2. Familiarity with line of activity, region, market will make it easier to take advantage of acquisition.
3. Existing distributors, dealers, traders can be made most use of due to additional quantum output on account of acquisition.
4. The method of expansion costs lower than other methods
5. The knowledge , skill and expertise of existing employees will prove to be very beneficial to the company.

Disadvantages of Acquisitions

1. Many companies on sale are poor performers having outdated technology and low morale employees.
2. The location, equipments and layout factors can not be changed and hence may be problematic.
3. Often when owners change, some of the key employees leave the job thus creating void. This could be mere problematic in high-tech areas.
4. Companies sell their old firms at inflated rates more due to land values than due to high technology capabilities and pending orders.

V. STRATEGIC ALLIANCES

Strategic alliance between two companies is mutual cooperation in research and development efforts, joint use of production or marketing facilities. The strategic alliance can be with equity or non equity. The teaming is for win-win situation for all strategic alliance partners for development of new products

the strategic alliance is used. Alliance may give competitive advantage to partners. GM and Toyota are collaborating for development of small cars. Alumax an aluminium company has strategic alliance with auto manufacturer for aluminium car body.

VI. CONTRACT MANUFACTURING

Many large size companies and MNCs organize their production requirements by contract manufacturing. This can be used partly or fully. For example the automobiles manufacturers get most of their components from outside sources and do mainly assembly and testing work. Bata shoes and foot wear gets the products done from Asian countries (due to cheap labour) and sell them worldwide. Many big firms of USA and Europe gets the garments stitched in India and sell in their country with their trade marks. In this way the rich businessmen exploit the small scale manufacturers by money and reputation power.

VII. JOINT VENTURES

Joint Ventures are collaborative arrangements between unrelated parties which exchange or combine various resources while remaining separate and independent legal entities. There are two types of JV: Equity and Contractual. The former involves each partner taking an equity stake in the venture (eg through setting up a joint subsidiary with its own share capital), the latter rely on contractual agreements between the partners. Joint ventures are an example of the wider concept of the strategic alliance which embraces knowledge sharing arrangements, mutual licensing, measures to control and utilize excess capacity etc. Usually JVs are formed to undertake a specific project that has to be completed within a set period. JVs are a flexible forms of business arrangement, can be quickly entered into and shut down, enable the sharing of costs yet are frequently just as effective a means for entering markets are more direct forms of foreign investment. Often they are used to establish bridgeheads in a foreign market prior to more substantial operations within the market by individual participants.

Advantages to joint ventures include the following

- Firms can expand into several foreign markets simultaneously for low capital cost.
- Shared cost of administration

- Partners can avoid the need to purchase local premises and hire new employees.
- Shared risk of failures
- JVs may be available in countries where outright takeovers of local firms by foreigners are not allowed.
- Less costly than acquisitions.
- Higher returns than with licensing/franchising
- Firms can gain instant access to local expertise and to partners' distribution systems.
- Possibly better relations with national governments in consequence of having local partner.

Difficulties in Joint Ventures

- Partners may become locked into long term investments from which it is difficult to withdraw.
- Possible arguments over which partner is responsible for budget over spends and how these should be financed.
- Problems of co-ordination
- Profits have to be shared with partners
- Possible differences in management culture among participating firms
- Completion of a JV project might overburden a company's staff
- Need to share intellectual property.
- Difficulties associated with the integration of a JV into an overall corporate strategy.
- Partners are not free to act independently
- The corporate objectives of partners may conflict
- Transfer pricing problems may arise as goods pass between partners.
- The importance of the venture to each partner might change over time.

VIII. TURNKEY PROJECTS

A company may expand internationally by making use of its core competitiveness in designing and executing infrastructure, plants, or manufacturing facilities overseas. Conceptually, 'turnkey' means handing over

a project to the client, when it is complete in all respect and is ready to use on turning the key. International turnkey projects include conceptualizing, designing, constructing, installing and carrying out preliminary testing of manufacturing facilities or engineering projects at overseas locations for a client organization. It often includes providing training to the client's personnel to operate the plant.

The major types of turnkey project include the following.

Build and Transfer (BT)

Build, Operate and Transfer (BOT)

Build, Operate and Own (BOO)

Build, Operate, Lease and Transfer (BOLT)

UNIT-IV

2.3. FOREIGN DIRECT INVESTMENTS: GREENFIELD INVESTMENTS – FDIS IN EMERGING MARKETS: RECENT TRENDS

Capital is an important factor of production. The capital input is essential to go in for new production factories or expansion or modernisation of existing factories. The capital can come from sources within the country or outside. The developing country generates less savings and hence low capital for nation. Naturally the poor countries look for external sources for capital. Investments across the political borders have grown in the emerging developments in global economy. The mismatches in resources in different countries can be bridged by flow of capital. Some countries have capital but no raw materials or skilled labour. Few countries have abundant raw materials but no capital. Such countries or business in these countries can team up and stand to gain. With movement of capital, as seen the particular cases, the resources are used optimally and develop economies. Capital which is vital factor of production should freely move where it can be used efficiently.

The foreign investment includes any ownership of short-term or long term assets in one country individuals or organisations from another country. Example, investment by US BPO companies in Indian BPO Company makes both countries gain from resources. US has abundance of capital and less skilled labour where as India has trained engineers and less capital. In reality there is no free movement of capital or labour or other production resources. The resources have political issues, fears, historical backgrounds, identities and national boundaries.

UNIT-V

Definition of FDI

The long term capital investments defined as FDI. FDI does not create debt. The word 'Direct' show that it can give direct control to the investor across nation borders. Depending on the type of investment the investor could get direct control to the investing company. Outside control is the fear of host country. On the other hand FPI by nature is short term and mostly speculative in nature. FPI may be removed suddenly. FPI may be removed suddenly. FPI may be risky to national economies. Hence it may be seen that FDI could bring 'loss of control' to the host country whereas FPI is risky and speculative.

FDI is more expensive and has risk factors as compared to licensing, franchising or exporting. FDI flows from any country to a host country in three ways.

- a. Capital investment in a company in a host country from a company or an individual from outside the host country.
- b. Profits of a MNC retained in the host country. The profits are ploughed back as reinvestment.
- c. Borrowings between MNC and its subsidiaries as a short term or long term measure.

WHY NATIONS NEED FDI?

In two important criteria of growth of an economy are gross domestic product, its rate of growth and its international trade and its rate of growth. To achieve better results the nations desire to acquire more resources. As noted earlier capital is a vital resources which can help quickly growth of industries production of goods and services. With the resources within the developing nations the process may be long. In the globalisation the countries are making special schemes and provision to attract FDI. Example, countries like Malaysia, Korea and Taiwan built up their exportable surplus and built up strong economies. India followed a policy of closed economy and discouraged FDI till 1990, lack of capital and smaller production units as compared to global size reduced the progress of Indian economy for four decades during the plan period. Now developing nations including India are encouraging FDI. The global economy is moving towards mobility of global resources for reducing costs of products.

BENEFITS OF FDI

1. Gives ready capital
2. Help in larger enterprise and global size
3. Nucleus of Growth

4. Generate Healthy completion
5. Pushes domestic investment
6. Boosts Economy
7. Greenfield investments
8. FDI for mergers and acquisitions
9. Growth of markets
10. Productivity gains.
11. Gains in technology
12. Generates enhanced employment
13. Improve culture and systems
14. Boosts export of the host country

ARGUMENTS AGAINST FDI

1. May reduce competition due to consolidation of industries
2. FDI may help protected markets
3. Productivity may not increase
4. FDI flows may not be real investment
5. FDI may not be long term

MODULE III

INTERNATIONAL BUSINESS

Contents

Stages of Internationalization: International, Multinational, Global and Transnational Corporations.

Strategic orientations – Growth of MNCs - contributing factors – merits and demerits of MNC Regulation of MNCs

MNCs in India.

Transfer of technology.

UNIT-I

Multinational Corporation

The multinational company (MNC) is a company involved in producing and marketing its outputs in several countries. The outputs may be goods, services, or various combinations of both. To develop the capacity to produce and market multinationally, a firm must acquire managerial control over operating entities in a number of countries; in other words, it must establish subsidiary companies in all host economies and endow each with the necessary operating assets, such as factories, mines, department stores, hotels, banks or whatever is required in the particular company's mines, field of activity.

The capacity to act simultaneously in numbers of countries of countries sets the MNC clearly apart from the domestic or unemotional company (UNC). The UNC has all its operating assets and organizational subunits (departments, divisions, subsidiaries) in its home country. It may on occasion engage in exporting or importing by transacting with foreign firms, but its own capacity to function is limited to the domestic market. Some MNCs are motivated by profits, some by raw material, and some by markets, some by diversification, some by the stability that diversification of markets and operating environments may offer. Many pursue several or all of these objectives. Furthermore, the objectives vary with time, with place, and with circumstances. From the market perspective, some MNCs cater to individual consumers, some to government procurement, some to the industrial sector, and some to the military. Some MNCs operate in a competitive marketing atmosphere, other in oligopolistic rivalry, and some in monopolistic autonomy. Neither in structure not in behaviour are all the MNCs alike.

Rather, they are very highly differentiated and each variegated economic entities, each ranking as a complex organization and each possessing characteristics of its own.

Organizations that engage in international business vary considerably in size and the extent to which their business activities cross national boundaries. One special type of organization engaged in global business is the multinational corporation (MNC). An MNC is an organization that engages in production or service activities through its own affiliates in several countries, maintains control over the policies of those affiliates, and manages from a global perspective. With a global perspective, top managers allocate resources and coordinate activities to take the best possible advantage of favourable business conditions throughout the world.

Some other expressions are also coined to name enterprises engaged in global business.

What 'S in a name?

There is a debate about what to call a company, whose business ranges across national borders, tying together home and host countries through corporate policies and practices. Here are some of the terms used to describe these companies.

Transnational Corporation (TNC)

Because companies "transcend" or operate across national borders, some experts prefer the term transnational corporation, or TNC. The United Nations favours these terms and has created a research centre for the study of Transnational Corporations.

Multinational Corporation (MNC)

The fact that companies operate in multiple countries has led some experts to adopt the term Multinational Corporation, or MNC. This term is very popular in the business press and in text books. It seems to be the most generic name to describe corporations operating around the world.

Multinational Enterprise (MNE)

Because some of the international giants are state-owned enterprise, rather than corporations, the term multinational enterprise, or MNE, has entered the vocabulary of international trade.

Global Corporation

This term became very popular in the 1990s. The term seems to have first been used to describe a small number of companies whose business was conducted in dozens of perhaps more than 100 nations. Hence, Nestle has long been described as truly global because the scope of its operations extends to more than 150 nations around his globe. The term is often applied to companies doing business in several areas of the world (e.g., Europe, Latin America, Asia-Pacific and North America).

Colossal is the right word to describe the pre-eminent position of MNCs in the world of business. There are about 35,000 MNCs around the world today, controlling over 170,000 foreign affiliates. It is estimated that roughly half of all cross-border corporate assets are accounted for just by the top 100 MNCs.

ABB is a typical MNC. ABB is federation of national companies with a global coordination culture. It is a Swiss company having headquarters in Zurich, but only 100 professionals work at the headquarters. Only two of the eight board members are Swedes. Financial dates are reported in U.S dollars and English is ABB's official language.

It is argued that the MNC's reign as the pre-eminent vehicle of international trade is nearing its end. It is slowly being displaced by firms that represent a new type of international enterprise, which is called the global corporation, on the other hand, operates as if the entire world were a single entity. Global corporations essentially sell the same things in the same way everywhere. Thus, a global corporation such as Sony, sells a standardized product - 'walkman' - throughout the world, components of which may be made or designed in different countries.

Although multinational companies tend to be rather large engage in a substantial amount of cross-border transactions, an increasing number of medium and small business enterprises are also involved in international business. More than 75 per cent of India's total export earnings, for instance, come from small-scale units.

UNIT-II

Indian MNCs (List of Indian Acquires of firms abroad)

Tata motors to takeover Daewoo in South Korea for \$118 million

Ambanis to takeover flag international for \$211 million

Ranbaxy to takeover RPG Aventis a France based firm

Wockhardt acquired CP pharmaceutical and Wallis Laboratories -both of Britain

Hindalco took over mount garden and Nifty- copper mines in Australia

Sundaram Fasteners has acquired Dana spicer Europe, the British arm of an MNC

Amtek Auto has acquired the GWK group in the UK

Kirloskar Brothers took over SPP pumps, UK

Types of MNCs

Equity-based MNCs

Many older MNCs obtained their multinational capacities through direct foreign investments. They either built from ground up or bought the equity of the desired capital assets, such as assembly plants, pharmaceutical laboratories, department stores, banks, flour mill, or whatever operating facilities they use. Either way, they became owners of these operating entities.

Equity ownership provides the basis for managerial control over the foreign based entities and opens the way for their affiliation or integration with one another internationally by the headquarters firm. The fact that all the older MNCs and many new ones have followed the equity ownership route has created the impression that direct foreign investment is the only way for a firm to multinationalise. This is not true. Direct foreign investments are synonymous with MNCs are no longer synonymous with direct investments.

The MNCs in which the managerial control derives from equity ownership of affiliated enterprises in different host economies fall into four main types:

1. **Resource-based companies:** The main mission of these companies is to produce raw materials, such as metallic ores, oil, rubber, and tropical plantation crops

(bananas, coffee, dates). Many of these are among the very oldest MNCs, with roots in the colonial era.

2. **Public Utility companies:** These companies, which include military arsenals, differ from other economic sectors in that they are either natural monopolies or they serve a monopolistic (single buyer) market such as the national airline of the host nation.
3. **Manufacturing companies:** These were the largest growth sector of multinational business from the 1950s to the 1970s. In many instances the host countries were instrumental in attracting the manufacturing MNCs. Foreign investment incentive programs have been the common device for luring inbound industrial incentive. Intricate schemes of tax privilege protection against import competition, relaxation of foreign exchange restriction, and government loan guarantees are parts of such arrangements.
4. **Service industry MNCs:** The largest components of this category are banks, carriers, retail stores (F.W. Woolworth, Sears, Takashimaya), and firms that sell similar management services have followed the multinationalization of industrial companies.

Technology-Based MNCs

A new generation of MNCs has started to emerge in which the source of multinational managerial control is technology, including management expertise, instead of ownership of operating assets. These are known as no equity MNCs. The hotel, mining, and construction industries have pioneered this new generation of MNCs. They offer an increasingly viable alternative to the older, equity-based model.

Management Contracts

The main vehicles of the no equity MNC are long-term contracts with owners of suitable operating facilities, such as hotels or mining properties. Often the contracts are either formally or informally sanctioned by the host government. Under such a contract the owners will let the MNC take over possession and management of the business and the MNC will obligate itself to share profits with the owners by some agree-upon formula.

The management contract model of the hotel industry has become the basis for a number of variations that are rapidly gaining status not only in other service industries

but also in the manufacturing and high-technology sectors, where they the potential for even greater importance.

Production Sharing Arrangements

In mining, crude oil production, and other resource-based businesses, profit sharing may be replaced by output sharing. These arrangements provide that the MNC not only may produce in an extractive sector (iron ore, coal, petroleum), but also must meet specific obligations for the development of indigenous supplier industries, nor training engineers and managers and for keeping pace with developments in the industry concerned. This formula rests on an agreed sharing of the output of the venture. For instance, if the contract provides of 40: 60 output sharing of a mining property, the MNC will retain 40 percent of the tonnage and turn over to the owners or, what is more typical, market on the owners' behalf the remaining 60 percent.

Industrial Lease Agreements

These are contracts under which an owner, sometimes a government corporation, leases a complete industrial facility, such as a factor or chemical laboratory, to an MNC. The rent consists normally of a fixed annual sum plus a scale of payments based on the output of the plant. Such lease arrangements are as yet limited to manufacturing activities in which there have been rapid technological advances or in which complex specialized facilities are required.

UNIT-III

Technology Transfer Agreements

In the high technology industries (electronics, aircraft, computers, biochemical's) where the host government places the highest priority on indigenous production capability, the new mode is a joint venture between the MNC, whose responsibility it is to provide the technology, and one or several indigenous companies, which are responsible for financing, often with government assistance.

The communist countries (U.S.S.R., Poland, Rumania, and others) have spearheaded negotiations to obtain from Western firms technologies for high volume, low-cost products that are internationally competitive in quality. The agreements completed so far cover not only the transfer of hard technology (patent and trademark rights) but also efficient adaptation of a product to suit the strategic objectives of the host enterprise; effective development of actual production capacity by long-term enterprise-to-enterprise cooperation after the plant starts production, and marketing of the output outside the host country.

Though still modest in total business volume compared to equity-based MNCs, the industrial leases and technology transfer agreements signify the entrance of the technology-based MNC into the manufacturing sector, which the equity based model has held as an exclusive domain in the past.

UNIT-IV

THE STRUCTURE OF MNCs

Regardless of which of these alternatives the contract provides, the organizational effect is the same. It transfers the management of the operation to the MNC and motivates the latter to maximize its productivity. This calls for the application of the most efficient alternatives in technology and management know-how available to the MNC.

Objectives to foreign ownership of major business firms have risen in many countries. Simultaneously, the national goals and economic development plans of host countries are placing greater priority on technology imports and modernization of management practices. These trends are favouring the new no equity model at the expense of the old ownership model for multinational growth.

The equity-based and technology-based models do not present an either/or proposition. The two basic alternatives can be used separately or in combination with each other. In either case, the final outcome is the same; a cluster of production and marketing entities distributed multinationally but subject to managerial control and coordination by the head quarters company.

NINE-COUNTRY COMPLEX

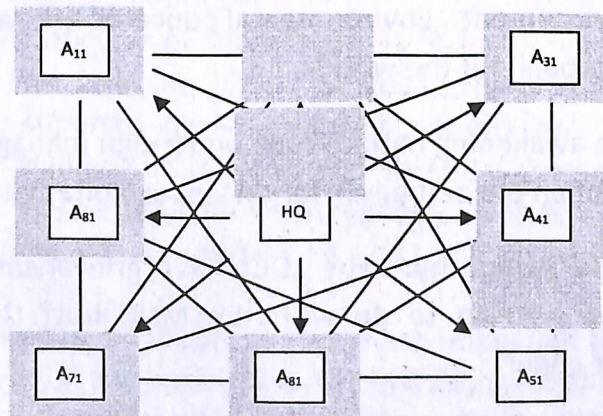


Fig: 1 Spatial Model of Multinational Enterprises

MNCs Critics and Defenders

Because of their visibility across the globe, international businesses have invited criticisms. They have defenders too. Let us examine MNCs as they are perceived by

critics. They critics are activist groups that attack MNCs on environmental and rights issues.

1. **Challenge to Nation-state Sovereignty:** The developing countries want control of their economies and want to achieve their economic, political, and social objectives. The power of the MNCs can influence each of these objectives and in doing so may be obliged to give up some power and independence in exchange for the wealth an MNC may bring.
2. **Inequities:** One of the most enduring and persistent complaints about alleged inequities by LDCs is that prices of raw materials extracted from their countries, while prices of imported manufactured goods from industrialized countries are rising. This they say creates a growing inequity. Other perceived inequities include avoidance of taxes and giving the best management jobs to MNC home country citizens.
3. **Interference with Economic Objectives:** interference can occur in many ways. For example, an MNC may wish to locate a plant in an area of prosperity when the host country would prefer its location in an underdeveloped region. MNC demands of local support can add to host-country expenditures for infrastructure. Since MNCs typically do their research and development at home, host countries become technologically dependent on the MNCs for innovation. The MNCs have the strength to attract bank loans that otherwise might be available for local businesses.
4. **Social Disruption:** The introduction of different mores, habits, behaviours, and ethical values, new products, management styles, distribution systems, more money, and technology, do affect local ways of thinking and doing things.
5. **Environmental Degradation:** Many nations are becoming more concerned about the impact of MNCs on their environment. Environmental concerns are rapidly moving higher in the chain of priorities throughout the world.
6. **Imperialism:** Many of the awakening nations look on foreign managers with fear and distrust as the embodiment of an old, not easily forgotten, exploitative colonialism.
7. **Symbol of Frustration and Antipathy:** The LDCs have grievances about their position in the world that have nothing to do with the MNC but the MNC is a convenient visible target for their anger.
8. **MNCs and Technology:** The technology brought in by MNCs is hardly suitable to less developed countries. Such technology is highly capita intensive but developing countries need a labour intensive one. In addition, technology brought in by MNCs is highly expensive. The MNCs charge exorbitantly in the form of fee and royalty, which put a severe strain on the foreign exchange resources of a developing country. There are also instances of "technology is dumping", which implies that MNCs use obsolete

technology with the help of turnkey projects shipped down from the principals of other counties. MNCs tend to make industries in developing countries permanently dependent on foreign expertise and technology.

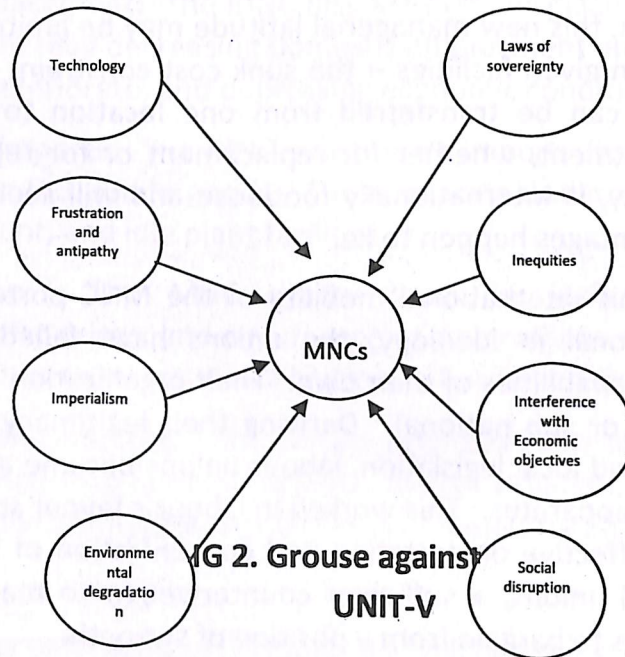


FIG 2. Grouse against MNCs
UNIT-V

MNCS AND HOME SOCIETIES

Public attitude toward MNCs are biased by a nation's position as a home or host country. Historically, home countries have perceived MNC activities as desirable extensions of their domestic business systems. Conversely host countries have viewed MNCs as agents of foreign influenced and exploitation. This historic dichotomy is now shot through with conflicting perceptions of the MNCs. Different segments of society, such as labour, investors, consumers, traders, and farmers, see their interests affected in different ways. As a result, a multisided controversy about the societal merits and demerits of MNCs has grown in both host and home countries.

Home country conflicts

The most aggressive challenge to the traditionally supportive home country policies towards MNCs has come from organized labour.

Labour Conflict

Multinationalization has created for management new mobility and flexibility that have greatly enhanced its bargaining power vis-a-vis labour. Since the sourcing base of the multinational firm knows no national boundaries – it can draw anywhere in the world the capital, technology, raw materials, ideas, and labour that it needs – management is not dependent on any one country's labour supply or labour union's policies, but can choose from among a number of potential hosts for any particular operation. In the short run, this new managerial latitude may be limited by the relative immobility of investment in given facilities – the sunk cost constraint – but in the long run nearly all operations can be transferred from one location to another. More significantly, all new investment, whether for replacement or for replacement or for expansion of plant capacity, is internationally footloose and will seek domicile where ever the comparative advantages happen to lie.

To labour unions this international mobility of the MNC portends an ominous doom. Though international in ideology, the unions have failed to acquire any international operational capabilities of their own. Their organization and policies have remained strictly national or sub national. Deriving their legitimacy and enforceable powers through national and local legislation, labour unions became an integral part of the nation state's internal apparatus. This worked in labour's favour so long as business consisted on MNCs. By effective organization and concentration of labour influences into large, well disciplined unions, a sufficient counterweight to management power was created to allow unions to bargain from a position of strength.

Having focused its efforts on countervailing the powers of the domestic firm, labour scored impressively by achieving equivalence, if not dominance, at the bargaining table. But its narrow focus missed the broader scene. As the international expansion of business started converting UNCs into MNCs at an accelerating rate, labour's domestic entrenchment provided no possibility to match the expansion of managerial powers. Thus a disparity gap was opened. Given the continuation of the multinationalization of business, this gap is certain to widen as long as labour unions remain uninational in scope and capacity.

This shift in the balance of power in management's favour signals to labour leaders a retreat to subservience and subordination that the movement can neither accept nor endure. To labour, therefore, the MNC is not a villain or culprit of the normal management sort, but an antagonist of an entirely new and mortally menacing variety. Against it, a total struggle seems to be American labour's resolute response. The unions attack MNCs as inherently inimical to the domestic economy and seek legislative remedies that would severely restrict multinational corporate operations. Labour's lobbying campaign charges the MNC with the following detrimental effects:

Investment depression: The MNC foreign investments deplete capital resources needed for domestic investment, thus undermining economic growth and new job creation in the United States.

2. **Technology drain:** The MNC exports U.S. technology in order to exploit low cost foreign labour, depriving the U.S. worker of his or her rightful opportunity to share in the utilization and rewards of this technology. Though technology transfers and foreign investments the MNC replaces U.S. workers with foreign investments the MNC replaces U.S. workers with foreign workers; that is, it exports jobs.
3. **Export displacement:** The MNC displaces U.S. exports with foreign produced goods, thereby decreasing domestic employment and payrolls, causing the US trade balance to deteriorate, and depressing economic conditions at home.
4. **Low wage imports:** The MNC substitutes imports from its U.S. affiliates in low wage countries for U.S. made goods. These imports undermine U.S. wage standards, cause unemployment, and idle plant facilities.
5. **Tax evasion:** The MNC evades taxes by deferring profit repatriation, manipulating transfer prices, and circumventing government regulations. The revenues lost to the national treasury result in a higher tax burden on the general public.
6. **Payments disbalancing:** The MNC's activities have afflicted the United States with chronic balance of payments deficits, fuelled inflation, debased the dollar as a stable currency, and contributed to international monetary disorders.

Offshore Plants

The recent proliferation of offshore manufacturing has become the focal point of the labour union's concern. Since the offshore plants represent clear-cut transfers of production rates to low wage countries, unions depict them as inherently symptomatic of all multinationalization projects of business. What the unions leave unsaid is that manufacturers "have transferred offshore production processes in which they have lost their international competitive advantage. It has been a relatively successful way for threatened firms to retain competitiveness and for developing countries to exploit their own comparative advantage.

For the MNCs the movement offshore is essentially a reactive strategy to low cost competition which, from management's perspective, can best be met by international restructuring of production: locating capital intensive, high technology facilities in industrial countries and labour intensive, low-skill plants in less developed areas.

To remedy the situation, organized labour has lobbied for legislation to regulate MNC operation. It has called for (a) the creation of a federal investments commission to license and supervise transnational capital transactions; (b) restriction of outward transfers of technology, by subjecting parents to export licensing and prohibiting foreign production of a patented product; and (c) by eliminating the foreign production of a patented product; and (c) by eliminating the foreign tax credit and the deferred tax status of the affiliates profits.

Ideological Dilemma

International solidarity has long been an ideal of the labour movement. Workers' organizations everywhere confronted the same problems and strove for the same goals. Devoted to collective action as counterforce to exploitation, labour unions from the start aspired to cooperation and communication with their brothers, regardless of country.

Labour unions in countries hosting the affiliates of MNCs find the present protectionist offensive aimed more against them than against the MNCs. This confrontation between the home country and the host country unions remains an unpredictable source of conflict in multinational business relations.

MNC EFFECTS ON HOME COUNTRY TRADE AND PAYMENTS

The mounting criticism of MNCs has produced a flurry of research projects aimed at determining how the creation of foreign affiliates affects the domestic economy. Several of these studies have been conducted to support some group's special interest or ideological assertions; however, sometimes the truth is better reflected by what the researchers failed to find than by what they did find.

MNCs AND HOST SOCIETIES

The presence of MNC affiliates is a profoundly significant reality in much of the world. Most host countries have wooed MNCs through investment incentives many other means. To push back the tyranny of material wants, low productivity, and aversion to change, various countries have sought the cooperation and capabilities of MNCs. Even the Soviet Union and other communist countries have started to seek ways to entice MNCs to cross their previously ironclad borders. Thus, the push toward the propagation and growth of the MNCs has been global in scope.

Increasingly, however, the MNC has become a source of controversy, at times acute resentment, in many countries. Canada, France, India, Iran and some African States are widely publicized sites of recent dramatic clashes between governments and MNCs. Similar conflicts have surfaced elsewhere throughout the world.

ADAPTABILITY OF MNCs TO HOST ENVIRONMENTS

All MNCs are not equally likely to cause friction and tension in their host economies. Some adapt with relative ease and become closely integrated with their host environment, both economically and socio-culturally; others remain isolated and insulated, often forming alien enclaves in the host society. There appears to be a causal relationship between the MNC's organizational structure that is, its organizational design as well as its underlying objectives and strategies – and its capacity for social adaptation to host country conditions.

Their purposes, behaviour, values, and operational incentives all derive from their own multinational structure, not from home country or host country policies or patriotisms.

The substantive essence of such companies lies in international specialization and managerial integration, a process often called internationalisation. These MNCs specialize production according to the principle of comparative advantage: acquiring inputs from countries with lowest relative costs, that is locating production facilities for each component in the country best endowed with the necessary resources, and distributing outputs in the markets where the rewards are greatest. Thus, they possess a competitive advantage, a productive superiority, over domestic or unimultinational firms in both developed and developing countries. This productive superiority derives from the wider range of strategic choices; they are always able to choose the least costly production alternative and to combine it with the most profitable marketing alternative.

Because of their greater productive efficiency and profitability, the globally integrated MNCs represent the fastest growing segment of international business. The growth is propelled in part by the adoption of the globally integrated model by other companies. The process of conversion from other structure forms of international business to the globally integrated mode is only beginning. Much further growth is certain to take place in the next several years. Only a return to ultra protectionist trade barriers could thwart this trend. Consequently, the integrated MNC is the most likely to demand attention in any search for solutions to the problems of social responsibility of multinational firms.

Conflicts between the globally integrated MNCs and host nations arise from the fundamental fact that the inner logic of such transnational enterprises is violated if identification of corporate interest with the national interest of any particular host state is imposed. The violation is interference with the international optimization process of the company, which tends to destroy its productive superiority, not to mention profitability.

AREAS OF CONFLICT

Although the MNC has no power over the host government, it may have considerable power under that government. By being able to influence certain factors, the MNC has the opportunity to help or harm national economic; in this sense, it may be said to have power against host governments. Critics of the MNC perceive these powers as potential perils to host societies.

The strategic aspects of a host country's national policy that are subject to the influence of the MNC include:

1. Planning and direction of industrial growth.
2. National control of key industries.

3. Financial policy
4. Export-import policy
5. Pricing policy
6. Research and development
7. Human resource policy

(1) Planning and Direction of Industrial Growth

Host nations have viewed with concern the tendencies of many MNCs to centralize strategic decisions in their headquarters. For the host governments this signifies loss of control over industrial strategy to the foreign – based MNC. The MNCs' allegiances are geocentric; their overall objectives require efficiency in the functional areas of management – production, marketing, finance, and so on. Many MNCs have sought greater efficiency through centralization, with headquarters domination of affiliates as the unavoidable result.

Risks of Excessive Centralization: Empirical evidence indicates that a high degree of centralization tends to lead to inflexibility of parent company policies, decisions are made in headquarters regarding the product mix for each affiliate, extent of inter affiliate sales of semi finished and finished products, export pricing, inter affiliate sales, input procurement, packaging, long-range planning, research and development, and particularly, financial management. When the authority over these vital business decisions is located beyond their jurisdictions, local authorities counter with restrictions on affiliate activities. Clearly, centralization extracts a price from the MNC. A satisfactory method of calculating it is yet to be devised. When things are sorted out the price of centralization many well turn out to be far greater for many firms than the operational simplifications gained by it.

Government Goals: Governments of all nations, particularly those of the less developed countries, are assuming more responsibility for the achievement of economic growth and social than formerly. To be successful they need a fairly high degree of certainty in the business sector. The presence of affiliates managed from foreign- based headquarters introduces uncontrollable factors that interfere with the government's planning and policies of economic development. With substantial segments of industry owned and directed from abroad and with home country governments bent on perceiving the affiliates as foreign extremities of their economies, the host governments see a serious challenge to their ability to affect the desired goals.

The more responsibility for economic growth and stability the government accepts, the greater it's direct involvement in business regulation and direction, and the greater the possibility that the MNC will be perceived as a potential agitator of the national plants.

(2) National Control of Key Sectors

The MNCs' technological power and their tendency to cluster in key industrial sectors have given rise to another fear in the host countries. By permitting foreign investors to control key industries, nations are in the precarious position of losing control over strategic sectors. The fear of industrial domination is no chauvinistic fiction but in many instances an obvious truth.

Technology Gap: The ability of the headquarters company to determine whether, when and how the newest techniques are employed by affiliates has aroused fears in host nations of an increasing dependence on the MNC for technological progress. It has been argued that this dependence is attributed to a technology gap between the United States and other countries. A lesser commitment of European and other non-U.S. – based companies to research and development is given as the cause of the gap. Researches who have attempted to go beyond the expenditure figures discredit the technology gap theory by showing that technological inventions and innovations have come no less frequently from Europe than from the United States. Furthermore, the European inventions have tended to be major breakthroughs. The issue is by no means clear as far as Europe or Japan is concerned; however, there is no room for argument on this point in reference to the developing nations.

The necessity of relying on the home country's technology, in turn, leads to the fear of foreign control and ownership of industry. As a given industry sector becomes dominated by MNCs, the host country becomes dependent on the technological in-transfers of the foreign-headquartered MNC for its growth and product development. Once achieved, the dominant position the affiliate with resources to help perpetuate its role as the major innovator.

National policies aimed at greater independence in technology are a mixture of the desire for local research and development facilities and their ownership as well as the desire for technically advanced items produced locally. However, it appears that many countries have no feasible alternative to relying on foreign technology. They need MNCs in order to avoid stagnation of the economy and bring about indigenous development.

Foreign Takeovers: The strategy of some MNCs has been to place their direct investments in the host country this strategy conjures visions of takeover by foreigners. In smaller or less industrialized countries the point is quickly reached when no nationally owned companies may be left in a particular industry. Thus, a foreign monopoly control is created. Larger nations too are sensitive to foreign takeovers.

A number of nations are reacted to such fears by restricting acquisitions to prevent the elimination of local competitors and by channelling foreign investments into the establishment of new firms that make a larger real contribution to the host

economy and avoid the disturbance in the market that major acquisitions typically cause.

The possibility of the MNC eliminating indigenous competitors is real. With its superiority in resources (financial, managerial, and technical), the MNC is often at an obvious competitive advantage compared to the domestic firm. Oftentimes the MNC enters a host country in which it already possesses a strong market position built on imports. This makes it a much more formidable threat to local competitors.

(3) Financial Policy

As a matter of financial policy the MNC can choose to invest its profits either in the host country or elsewhere. The host country government naturally prefers domestic investment, but the power lies with the MNC to determine where the profits will be allocated.

Balance of Payments: The MNC may help relieve a deficit in the host country balance of payments. No conflict arises in these situations. The firm may also contribute to the worsening of the host country balance of payments.

The MNC has been indicted for causing capital flows to fluctuate and even reverse. In addition, increased investment in the host economy very likely increases the market share held by the affiliate, which can conflict with host country interests. This makes the allocation of profits a very sensitive area. If they aren't decided to transfer the profits outside the border of the host country, the latter gains no benefits from the investment potential of the firm. If the dividends to the parent company fluctuate from year to year, the payments position of the host country may be destabilized.

Borrowing Power: The source of borrowed funds can also create conflict. This enables the MNC to import much larger sums than a unination company could. The potential threat to the balance of payments position of the host country is similarly greater.

Also, host government domestic monetary policy may be easily undermined by the countering efforts of the MNC. A typical example involves the MNC's extension of credit to a foreign subsidiary at a time when the host nation is attempting to dampen domestic purchasing power through import restrictions and exchange controls. Thus, the foreign-owned affiliate has the power, cash, and credit to avoid efforts by the state to constrain credit and investment.

Even though the magnitudes involved are not large in comparison to major elements in the balance of payments, and many countries have substantial earnings from overseas investments, these points are overlooked when attitudes toward foreign investment are formed within the host country. The exact impact of an inward foreign investment on a country's balance of payments is usually too complex to be easily explained.

(4) Export-Import Policy

The export-import activities of the MNC can also affect the host country balance of payments. Exports from affiliates may be subject to decisions made in the head office that seek to fit the affiliate's trade into the international marketing scheme of the MNC as a whole. This means the affiliate's exports could go to the parent or other affiliates instead of to customers desired by the host government.

Another host country criticism of the MNC is that it may allocate export markets among its affiliates, thereby preventing them from exporting as they might otherwise and damaging the prospects for expansion of exports of the host country.

Importing policies may be similarly dictated by the home office. Affiliates may be directed to import from the parent itself or from other affiliates instead of using resources from the host country, thus further contributing to a trade deficit on the part of the host.

However much the MNC may contribute to economic growth and stability in the host country, the fact that the parent has the ability to alter the activities of the affiliates increase the uncertainty facing the host government. The fact that the MNC's decision centre is outside the jurisdiction of the host government further compounds the uncertainty.

(5) Pricing Policy

The controversial aspects of MNC pricing relate in part to intracompany pricing or transfer pricing and in part to pricing policies for customers outside the company itself.

Leakages through Transfer Pricing: Transfer prices can be calculated so as to shift assets among the entities of the MNC through intracompany (interaffiliate) sales, royalties, technical assistance fees, and the allocation of headquarters expenses. The potential significance of these flows to the host country balance of payments is indicated by the fact that remittances by foreign affiliates to the headquarters of MNCs have been consistently far greater than the flow of funds from headquarters to the affiliates.

Transfer pricing is capable of serving various other objectives unless it is prevented from doing so by effective government regulations. If the host countries employ foreign exchange restrictions, the transfer price may be designed to circumvent the restrictions. If a particular host country has high profit taxes, the transfer price may be used to reallocate the profits to a low tax country. When economic or political instability plagues a host country, transfer prices can be used to keep to a minimum the company's cash reserves in that country. Transfer prices can also be used to strengthen the competitive position of a company or to neutralize the competitive advantage of others. If used for these or similar purposes the transfer price becomes an obviously objectionable device.

Power to Undercut Local Competitors: In market pricing, local industry often fears the ability of the MNC affiliate to cut prices to any level necessary to achieve either a foothold or to increase its market share. It is possible for a large MNC to absorb sizable per unit losses on its sales in a small host country without sacrificing its overall profitability. Thus, there is reason for the local people in such countries to be on guard.

Some MNCs have established a global single price policy; that is, the same price applies all over the world. By doing so the MNC denies itself the ability to respond to the demands of individual country markets or to utilize to its maximum advantage the oligopolistic market structure of most host countries. The problems becomes further complicated when trade barriers and government regulations create inducements for differentiating prices among host country markets.

(6) Research and Development

Research and development can cause a conflict of interests between the MNC and the host country in several ways. The first is the location of the research and development facilities. Most host countries urge MNCs to establish local research and development capacity. Having creative work going on helps to accelerate efforts in other areas of scientific research and innovation in the host society. MNCs, however, tend to concentrate research efforts in the home country. Of host countries the most advanced nations are preferred because of their educational institutions and scientific talent. Whatever the scope of the affiliate's research and development program, growth of such a department is dependent on the home office. And whatever the pattern of relationships concerning research within the firm, it is not one that eliminates the dependence of the host economy on the parent company's technological priorities.

Even if research is done by the affiliate in the host country, the issue of ownership rights over the findings can cause conflict. Should the company decide to use the results of the research in some other country, the benefit to the local economy is minimized.

In sum, the MNC usually helps the host country reach a higher level of technology, but not as fast as the nation wants, nor is the technology necessarily the type that the host government deems appropriate for its needs. Furthermore, there is the problem of who controls the results of the research. So long as domestic ownership and control over key sectors and key technology have not been achieved, national governments feel threatened. The conflict over ownership of technology is taken on new dimensions as MNCs expand their research bases to host countries and as more and more host countries assume the dual role of both host and home country.

(7) Human Resources Policies

In the early stages of international growth, a firm tends to staff its foreign-based affiliates with headquarters country managers, that is, home country expatriates. The advantages here are twofold: first, simplicity of selection, appointment, and promotion, all of which can be done in a unilateralist frame of reference without disturbing the

established practices and routines of the firm, and second, the relative uniformity of backgrounds of all managerial cadres throughout the multinational structure-everybody is the product of the same national and corporate cultures and has reached his or her position by playing by the same rules.

Third Country Expatriates: Another source of executive talent is the third country expatriate, who may be defined as a manager who is a citizen of country A and works in Country B for a company headquarter in country C. Most of these are multilingual Europeans or Orientals with a European education. Many are refugees from communist countries. Third country nationals are reported to be more adept at integrating themselves into new situations and making friends in a foreign social setting than the unilingual US expatriates.

A number of US companies have expressed a definite preference for third country expatriates in overseas management positions. The versatility of third country executives may indicate high mobility toward top management positions. For example, one establishment MNC, Nestle of Switzerland, has long used non-Swiss in top corporate posts. Of the top eleven members of Nestlé's present board of directors, six are non-Swiss.

All expatriates are a potential source of host country conflict. The local society generally views them with mixed reactions. The upper classes may resist the expatriate because he or she is an influential outsider who threatens the local power and prestige structures. At the same time, they realize the expatriate brings new technologies and behaviour patterns that benefit their country and themselves. The lower classes present the presence of expatriates because they are foreigners and because they hold prestigious high paying positions. Racial or religious biases tend to compound the resentments further. The MNC must learn to sense and be guided by the strength of these nationalistic and xenophobic feelings. Host society reactions will range from slowing of permits and documents in government offices to acts of terrorism and destruction of property.

Host Country Nationals: Established MNCs have come to rely heavily on host country nationals as the source of executive personnel. The reasons for this switch have been the following: the need for understanding the local environment, the rapid growth of overseas operations requiring speedy expansion of the management group, the increased ability to utilize individuals with different national backgrounds successfully in the corporate structure, and direct or subtle pressures by host country authorities to replace expatriate managers with indigenous employees.

While all those government appears to favor their people strongly in executive assignments, they nonetheless can violently object to the salary policy of the MNC. In this area the MNC can be criticized if it holds fast to local salary standards, for underpaying local salary standards, for underpaying local nationals in comparison with headquarters executives, and criticized if it exceeds the local standards for under mining local firms and pirating their best people. This is a real dilemma.

Personnel Practices: In the arena of employment policies, there are several potential conflicts. One is the attempt to impose the home country's methods, mannerisms, and behavior patterns on the host society through the operations of the affiliate. For example, an Italian affiliate of one MNC scheduled two hours for lunch and a half day of work on Saturday, as is customary in Italy. Taking for granted that shifting the working hours and workdays of the week would lead to greater productivity, the head office ordered the affiliate to drop the Saturday shift and to shorten the lunch time to 45 minutes. This change met such strong resistance from the Italian workers that productivity plummeted.

The hiring and firing policies of affiliate of most U.S. based MNCs parallel those of the parent company; that is, firms shift management personnel, lay off redundant employees, and regroup and retain labor to meet new tasks. These dynamic and sometimes harsh policies are contrary to the social values of many foreign countries, where customarily both managers and labor receive more stable treatment by the firm and are tied to the firm for extended periods of time. In the area of worker recruitment and training the MNC encounters several problems. In less-developed countries, the most common problem is the scarcity of skilled people-workers, managerial personnel, research and development scientists, and technicians. If the firm imports the needed skills, the host country must forego both the training and the jobs for its own nations; for the MNC to undertake the required training programs locally is often financially prohibitive.

In certain host countries manual work cannot be included in any training programs for supervisory personnel because of the strong social stigma attached to it. The same may be true sales. There are difficulties in interesting educated nationals in sales positions in certain countries because in those countries sales work is low in social esteem.

Conflicts may arise also from the promotion policies of the MNC. Some countries have rigid social stratification in which on-the-job achievement and economic performance are not recognized. Merit-based promotion of the most competent or deserving personnel to management or supervisory positions, thus, flies in the face of expectations and notions of social propriety. Perhaps the best example of this problem would be the promotion of a member of a lower caste to a position of supervision over a member of a relatively higher caste in India. While less obvious, the same conflict is encountered in many other, particularly developing, countries in a more subtle context.

Tran border Data Flow

Recent advances in both computer and telecommunication technologies have led to their convergence into a new activity, telemetric. Modern telecommunication facilities have overcome time and distance as major obstacles to the access of sophisticated computer services for the processing, storage, and retrieval of machine-readable information.

Data did, of course, move across national boundaries before the advent of telemetric. But traditional media (such as postal, telephone, and telex services) are increasingly being replaced by the electronic transmission of data. The fusion of advanced electronic processing capabilities with modern telecommunications facilities and the speed, accessibility, and interactive capabilities through which time and distance are overcome as obstacles to large-scale information mobility, give transborder data flow its potency.

MNCs play a central role in establishing the required telecommunications infrastructure; they produce the necessary computer hardware, software, and peripheral equipment; and they offer a growing range of data-processing services as well as access to an expanding amount of machine-readable data.

This situation poses a dilemma to all LCDs. On one hand they recognize the great significance of telemetric for obtaining accurate economic and political information both in their domestic and international spheres; on the other hand they feel vulnerable because of their inability to match the MNC's capacity with their own facilities of telemetric and transborder data transmission. The competitiveness of their domestic companies is thus threatened by the MNCs' growing superiority in identifying alternatives and reducing uncertainties, facilitating implementations, and effectively pursuing profitable business ventures. Beyond the activities of the MNCs, the host governments perceive the increasing role of telemetric and transboundary data flows as negatively affecting all aspects of relations between the poor and the rich countries; to the extent that their ability to collect, store, process, and access information is inferior – and the lag has been increasing – they fear their ability to negotiate persuasively and interact effectively with other nations will be eroded.

Because of these concerns, less-developed host countries have started to promulgate regulatory measures requiring MNCs to share their telemetric equipment and software technology with various indigenous installations for the production, processing, transmission, and dissemination of a wide variety of data: economic, scientific, political, social, and legal. It is highly doubtful that MNCs will be able to accommodate all these demands. The telemetric issue is too new to allow any informed predictions as to the compromises that will be ultimately struck between the host governments and MNCs to resolve it.

NATIONAL SOVEREIGNTY OF THE HOST COUNTRY

Erosion of national sovereignty appears to be the pervasive fear resulting from the expansion of the MNC. This loss may be the consequence of dependence on foreign technology, foreign industrial dominance, or the MNC's ability to effect its own desired results. Losing its sovereignty, the nation loses its power, and without power the existence of nationhood, even its identity, becomes problematic.

By increasing the international influences, the MNC may reduce choices open to the host government regarding the most appropriate means of guiding the domestic

economy. The policies and activities of MNCs do affect the balance of payments, economic planning, competitive climate, development of technology, and many other aspects of host economics. Intensified by sensitized nationalistic sentiments, these effects reinforce the perception of peril to the host society. To alleviate those country fears, MNCs must learn to adjust their activities to the indigenous needs and socio cultural attitudes of host societies.

Technology is a new variable in the equation of economic relations. Traditional theory assumes that all nations have equal access to technology and, therefore, that there is no need to transfer technology from one country to another. Recent research findings have invalidated this assumption. In addition, they point to technology differences as primary cause of international inequalities in economic achievements. To reduce the inequalities, technology capabilities of the backward nations must be strengthened. The quickest way to do so is to transfer technology from the developed to the developing nations.

Definition

Technology is any device or process used for productive purposes. In its broadest sense, it is the sum of the ways in which a given group provides itself with good and services, the group being a nation, an industry, or a single firm.

There is a fundamental characteristic of technology that demands clear recognition. Unlike commodities and capital, technology is not depleted or its supply diminished when it is transferred or used. It is usable but not consumable. Once created, technology is inexhaustible until it becomes obsolete. Therefore; export of technology need not cause the source country to reduce its use of the technology. Indirectly, a decline may result if the recipient country creates an industry large to change the global supply and demand equilibrium of the goods produced by the technology involved. For most technology sought by the developing nations this is not the case.

Contrary to the classical assumption, technology is not a free good but a valuable property, nor is it evenly distributed around the globe. The supply schedules differ widely from country to country. To obtain new technology, a nation has three alternatives:

1. Produce the technology capability at home
2. Import it from abroad
3. Import goods containing the desired technology

For most LDCs, home production of technology is often uneconomic. Since much of what they are seeking already exists in the industrially advanced areas, they can fill their needs by importation. Normally, the importation can be effected at savings over the domestic cost of research and development (R&D). R&D expenditures devoted to projects duplicating existing know-how are obviously wasteful. Thus, economic

rationale requires that LDCs concentrate their home production of new technology on any unusual requirements that cannot be met from important sources.

The access to technology depends on its ownership. Non proprietary technology belongs to the public. It is there for the taking, but it is not free. The taker must have the ability to gather it from libraries, public research institutions, or where ever it may be found. To locate the sources and to sort out what is usable and unsuitably from any given application may involve considerable cost, which might be called the assembling and packaging of technology. Consulting firms specialize in this type of service. They very sources and consumers of technology but instead act as intermediaries between the sources and consumers of technology.

Proprietary technology is privately owned. It consists, trademarks, and secret processes. The most efficient and profitable technology, often also the newest, belong in this category. Access to proprietary technology is at the owner's discretion. It may or may not be for sale. If the sale creates potential competitors, the owners' interest is served by not selling it unless the expected loss from new competition is less than the price for which the technology can be sold.

Much proprietary technology is not for sale. It can move only with investments of owner firm. This is embodied technology, as distinguished from disembodied technology, which can be transferred without the original owner's investments. All non proprietary technology is disembodied.

At the macro and micro levels, nations people, and organizations increasingly depend on technology for prosperity and quality of life. The competitive edge of an individual firm vastly depends on technology. One of the means of acquiring technology is through its transfer.

Technology transfer coves various activities, including the internal transfer of technology from the R&D or engineering department to the manufacturing department of a firm based in a country. It also includes the same transfer of technology from a laboratory or operations of MNCs in one country to its laboratory or operations in another country. Finally, it includes the transfer of technology from a research consortium supported by many firms to one of the members. Simply told, technology transfer is a process that permits the flow of technology from of technology from a source to a receiver. The source is the owner or the holder of the knowledge and it can be individual, a company, or a country. The source is the owner or the or holder of the knowledge and it can be individual, a company or a country. The receiver is the beneficiary of the transfer technology. Technology is transferred through published material (such as journals, books): purchase and sale of machinery, equipment and intermediate goods, transfer of data and personal and interpersonal communication.

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.

Modes of Transfer

Since technology defies delineation as a discrete variable, the analysis of its transfer is encumbered by such other factors as capital investments, economic organization, labor resources, entrepreneurship, and even socio cultural systems. Lacking disaggregated data, different analysts have used different composites as proxies for data on technology flows. Many economists treat direct foreign investments and licensing agreements as synonymous with international technology transfers. Others tabulate scientific and professional conferences, technical assistance programs, exchanges of educators and students, plus many other kinds of information flows. Obviously, all of these have some technology content, but few are pure technology.

Importing Non proprietary Technology

Non proprietary can be transferred from one country to another in any number of ways. Technology in pure form can be imported if the transferee possesses the capacities to collect and employ it. LDCs many rely on indigenous enterprises or on foreign firms to do the importing. Since LDCs often lack indigenous firms who can affect the transfer, they rely heavily on foreign consultants.

Another way for an LDC to obtain non proprietary is by importing the hardware required and then either implementing a training program for its use or dispatching managerial personnel to study how to use the hardware. Experience tends to favor home-based training programs, initially with expatriate instructors from developed countries and later with indigenous instructors, over the alternative of sending people from LDCs to learn abroad. The advantage is twofold:

1. The home-based program ensures better adaptation of the technology to local conditions.

2. Fallout from the program is minimized by reducing the risk of "brain drain", which has ravaged many foreign-based programs.

Importing technology intensive goods is the third method of obtaining new technology.

Importing Proprietary Technology

An LDC's access to proprietary technology is far more complicated. To acquire embodied technology it must attract direct investments by the desired industry. The direct cost of such acquisition is any special incentives that the country is required to offer to interest the potential investor, who may have more profitable investment alternatives elsewhere. If the incentives offered exceed the investor's opportunity cost of forgoing its other alternative, parties, the LDC and the multinational corporation (MNC), benefit. The LDC has no concrete way of assessing data and the MNC's opportunity cost: it lack both the necessary data and the expertise. The gives the MNC a strategic bargaining advantage and wide latitude for its demands for incentives.

Proprietary technology that are readily for sale can be transferred by exporting turnkey projects, licensing patents or trademarks, selling formulas or blueprints, organizing training programs, Orr dispatching experts. The choice depends again on the seller's preference-which serves the MNC's objectives best. Owner willingness to sell proprietary technologies various widely. Some technologies, such as that of the latest IBM computers or coca-cola syrup, are absolutely nonnegotiable. At the other extreme are the so-called shelved technologies, for which their owners are anxious to find any takers at all.

The shelved technologies are mainly by-products of corporate R & D activities. For example, in the process of seeking improvements in aircraft and spacecraft technologies, Bowing researchers have discovered numerous patent-able techniques and compounds for which the company has no anticipated use.

The Market Model

LDCs' comparative technology deficiencies require access to technologies that belong to private firms. The governments of developed nations can facilitate the international transactional transfer process. But they cannot force the transfer to take place without expropriating private property. LDCs' requests for treaty obligations or other official commitments by industrial national to guarantee an expeditious and an expeditious and inexpensive transfer of technology is, therefore, largely a misdirected rhetoric.

Right and Wrong Technology

Any manufacturing process can usually set up using alternative configurations of equipment. In selecting the optimal equipment configuration, we must look beyond the general goals of low cost and high productivity and consider each configuration's demands for labor skills and attitudes, supervision, industrial engineering for tools and manufacturing techniques, materials and supplies, maintenance, product scheduling,

inventory controls, and quality control procedures. Each of these ingredients directly affected by the environment. The economic environment affects costs and availability of workers; the political environment establishes what is acceptable for a plant to make and how. Thus, it is imperative that a technical strategy be derived in part from a realistic assessment of the total environment in which it is to operate.

Nationalism

The technology supply of LDCs is powerfully influenced by the policies of public authorities. Some groups in developing countries oppose technology imports and insist on indigenous production of new technology. They argue that since technology and growth are closely linked, those nations who are behind in the production of technology are destined to perpetual backwardness. This is false reasoning.

As high technology applications – automation, computerization, and robotics – are replacing many traditional factory systems in industrial countries, much old equipment is surpluses as economically obsolete, though physically intact. Many LDCs' needs for industrial systems can be met by utilizing this technological slack. Indeed, a number of multinationals have already affected transfers of entire factories to their affiliates in LDCs. Automobiles, trucks, refrigerators, shoes, pharmaceuticals, and metal fabrication head the list, but there are more and more others. Such they benefit the multinationals by extending the productive life of their capital assets.

PARTIES IN THE TRANSFER PROCESS

International technology transfer has both horizontal and a vertical dimension, each with its own elements. From the horizontal perspective, the three basic elements in technology transfer are the home country, the host country and the transaction. The vertical dimension of technology transfer refers to the issues specific to the nation state, or to the industries or firms within the home and host countries. In general, the various elements may be categorized as (i) home country, (ii) host country, and (iii) the transaction.

Home Country's Reactions to Technology Transfers

Home countries express apprehensions about the export of their technology they have reasons to oppose the export of technology. They argue that the established of production facilitates by MNCs in subsidiaries abroad decreases their export potential. Additionally, they claim, because some of the MNCs imports stem from their subsidiaries, volume of imports of the home country tends to increase. Given the decrease in exports and increase in imports, the balance of trade tends to be adverse to be adverse to the home country. Besides technology transfer tends to affect adversely comparative advantages of the country. Labour unions in the home country too oppose technology transfer on the ground that the jobs generated from the new technology will benefit the country citizens.

Host Country's Reactions to technology Transfers

More serious are the reactions of the host country to transfer. The subject of technology transfers is highly sensitive, often evoking strong reservations against it from the country citizens. The criticisms against technology transfer are based on economic and social factors.

Economic Implications: Economic implications include payment of fee, royalty, dividends, interest and salaries to technicians and tax concessions resulting in loss to the national exchequer. All these are payable to the transferring country and might prove very expensive to the host country. In addition to the payments just stated, the technology supplier often succeeds in extracting payments through various other techniques like over-pricing and buying intermediates at high prices. There are malpractices too, for example, tie-up purchase, and restriction on exports, and charging excessive prices.

Many times, the type of technology transferred by international business is not appropriate to developing countries. The technology that is developed is inevitably the one most suitable for industrial countries which are appropriate to resources endowment of developed nations. Such technologies are not in the interest of developing countries.

Social Implications: The social and cultural implications of technology transfer are more serious than the economic significance. Along with the transfer for technology, there is the transmission of culture from the exporting countries. The Indians who work in firms using such imported technology get influenced and accustomed to the skills, concepts, policies, practices, thoughts, and beliefs. Then there are social problems like pollution, urbanisation, congestion, depleted natural resources, and similar other evils.

Transaction

This element focuses on the nitty-gritty of the transfer. The issues here relate to the terms and conditions of technology transfer.

International Technology issues

The more important International technology issues are ways of technology acquisition, choice of technology, terms of technology transfer, and creating local capability.

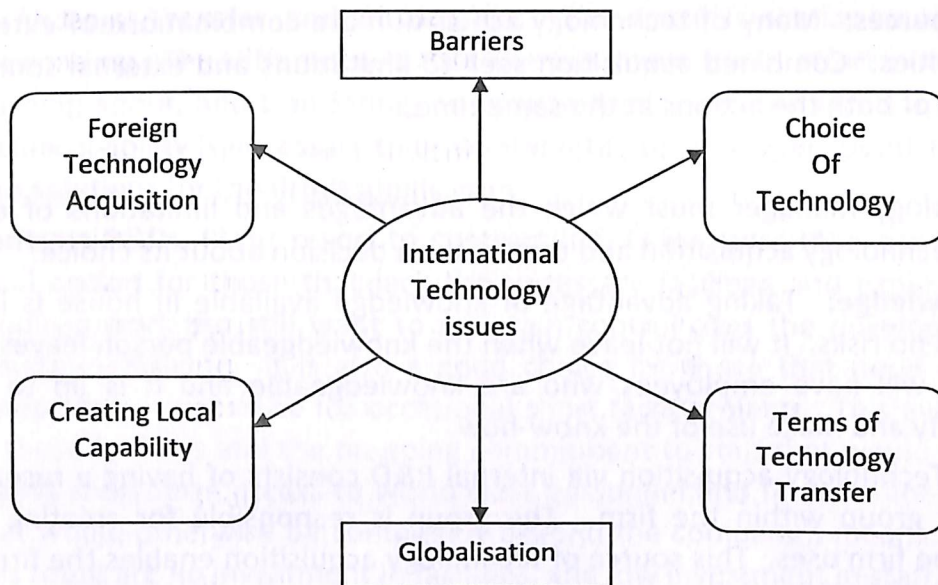


Fig. 3 Technology issues

Foreign Technology Acquisition

One of the major issues in technology relates to the mode of acquisition. Developing new technology may conjure up visions of scientists and product developers working in R&D laboratories. In reality, new technology comes from many different sources, including suppliers, manufacturers, users, other industries, universities, government, and MNCs. While every source needs to be explored, each firm has specific sources for most of the new technologies. For example, because of the limited size of most farming operations, innovations in farming mainly come from manufactures, suppliers, and government agencies. In many industries, however, the primary sources of new technologies are the organizations that use the technology. Broadly the acquisition routes are three: (i) internal, (ii) external and (iii) combination.

(i) Internal Technology Acquisition: This is result of technology development efforts that are initiated and controlled by the firm itself. Internal acquisition requires the existence of a technology capability in the company. This capability could vary from one expert who understands the technology application well enough to manage a project conducted by an outside research and development (R&D) group to full blow R&D department. Internal technology acquisition options have the advantages that any innovation becomes the exclusive property of the firm.

(ii) External Acquisition: External technology acquisition is the process of acquiring developed by others for use in the company. External technology acquisition generally has the advantage of reduced cost and time implement and lower and risks. However,

technology available from outside sources was generally developed for different applications.

(iii) Combined Sources: Many of technology acquisition are combinations of external and internet activities. Combined acquisition seek to limitations and external sources, taking advantages of both the actions at the same time.

Making Decision

The technology manager must weigh the advantages and limitations of each specific route of technology acquisition and then make a decision about its choice.

Seizing Tacit Knowledge: Taking advantage of knowledge available in house is least expensive and has no risks. It will not leave when the knowledgeable person leaves the firm. Every firm will have employees who are knowledgeable and it is up to the company to identify and make use of the know-how.

Internal R & D: Technology acquisition via internal R&D consists of having a research and development group within the firm. The group is responsible for creating the technology that the firm uses. This source of technology acquisition enables the firm to become stronger, has the advantage to exclusivity, and may entail tax or other government incentives. Long time required, high cost and risk of failure are the demerits of this internal route of technology acquisition.

Internal R&D with Networking: Internal R&D networking has all the same advantages and disadvantages discussed under internal R&D. The main difference is the fact that the R&D staff makes fairly concerted efforts to keep abreast of the state of development of the technologies affecting their products. They network with technology creators at conferences and trade shows.

Reverse Engineering: Reverse Engineering is the determining of the technology embedded in a product through rigorous study of its attributes. It entails the acquisition of a product that the firm believes would be an asset, disassembling it, and subjecting its components to a series of tests and engineering analysis to ascertain how it works and studying the engineering design criteria used in the product's creations.

Reverse Brain Drain: This involves attracting expatriate entrepreneurs and experts who have gained adequate experience abroad to set up or develop enterprises in their countries of origin. Taiwan and China are known for this type of technology transfer.

Covert Acquisition with Internal R&D: It entails finding out the technology developments being conducted by a competitor that are not open to the public. Most businesses do this to some extent by questioning suppliers about components being sold to the competitors or by socializing with the competitor's employees. The less scrupulous firms even become involved in industrial espionage using cameras, binoculars, and break-and-enter techniques to learn about the happening inside the competitor's plant.

Covert Acquisition: This without internal R&D, guarantees that the product will be a copy (generally a poor one) of the competitor's product. The firm can introduce it at a

lower price because there are no development costs to recover. However, with the exception of the price, the product will have no other competitive advantage.

Technology Transfer and Absorption: This route is similar to internal R & D with networking. The difference is that there is much more effort put into searching for, learning about, and translating, no-cost technology to the firm's applications. Internal technical ability is necessary to understand the technologies found and to develop them into solutions for the firm's application.

Contract R&D: Firms resort to contract R & D for more than one reason. This is the ideal option for those that lack the necessary facilities and expertise to conduct the required work but still want to maintain control over the development and own the results exclusively. It is also a good choice for those that need a specialized set of equipment or expertise for occasional short term projects. This avoids the investment in these facilities and the on-going commitment to staff that would be underutilized. It allows short-term access to world class personnel and facilities for specialized projects that would otherwise be completely beyond the company's means. The advantages of this route are no investment in facilities, and low investment in staff. The disadvantages are: no hands – on-knowledge in house and difficulty in keeping information confidential.

R & D Strategic Partnership: R & D strategic partnerships are almost the same as contracting R & D. They generally consist of a group of companies with a common need that collectively contract a research institution to conduct the work for them. This allows the firms to share the risk and costs. It also creates a situation where they can learn from each other as well as from the experts conducting the research.

The advantages of this route of technology acquisition are: shared risks, reduced cost, and possibility to learning from others. Need to share knowledge with others and the necessity of adopting research results to own applications are the drawbacks of this route.

Licensing: Another route of technology acquisition is licensing. Its major benefit is a significant reduction in time to market relative to other forms of technology acquisition that require development. It also enables the acquiring firm to share the financial risks of acquiring the technology with the provider because the bulk of the payments are generally in the form of royalty-a percentage of sales of product made using the new technology.

The circumstances under which licensing may be a preferred strategy are the following:

Where host countries restrict imports and/or direct investment.

Where a specific foreign market is small.

Where prospects of technology feedback are high

Where licensing is a way of testing and developing markets that can be later exploited by direct investment.

Where the pace of technology change is sufficiently rapid that the seller can remain technologically superior.

Where opportunities exist for licensing auxiliary processes without having a license of basic product technologies.

Where small companies have limited resources and expertise for direct foreign expansion.

Among the advantages of licensing technologies are costs and risks are less than internal R & D and time required to commercialise is less. The disadvantages are: exclusivity may be lost and internal capacity may not be developed.

Purchasing: A common and effective external technology acquisition method is purchasing. This is normally done in the form of buying a piece of production machinery with embedded technology. This is the quickest form of technology transfer because the technology is already packaged and is ready for use. It is low risk because the equipment has been proved to be technically competent and there are already users to evidence the machine's capability.

Joint Venture: Entering into a joint venture agreement with a technology provider is another form of external acquisition that can be very effective. Typically, this is a partnership between two firms, one with a technology and another with market access. It can take the form of the creation of a new firm with each of the partners owning shares in the new firm in proportion to the value of their contribution to the new firm. In this case production facilities are installed in the new firm with the partners bringing technology and market know-how along with capital investment into the new firm. The distribution and marketing of the product may use the system that the firm with market access has in place, or that firm's know-how may be used to create a dedicated system for the new firm. The advantages are the technology can be implemented immediately, as it is already proven. Risk involved is less and there are possibilities of learning from the provider of technology. The disadvantages are market risks are high and there are no chances of developing technical strengths.

Acquisition of Technology Rich Firm: The final form of external technology acquisition is the acquisition of a firm that has the knowhow which the acquiring firm desires. This can happen when one firm has a technological innovation that is impacting another company's innovation the second company negotiates to purchase the entire company. This can result from a defensive action or it can be deliberate strategy to acquire technology.

The outright purchase has advantages and disadvantages. On the positive side are: short time to market, low risk, and probability of buying good image. The problems are: possibility of acquiring negative baggage and merger problems.

Choice of Technology

The second major issue relating to technology transfer is its choice. It is argued that it, is the industrialized countries that develop technology, and the know-how thus

developed will be mainly useful to them. This means that the rich countries become monopolists in developing, using and managing technology. This also means that the technologies tend to be designed for the production of high quality sophisticated goods on a large scale, using as much as possible capital and higher-level professional skills in place of sheer labour, and replacing natural resources by synthetics.

Terms and Conditions of Technology Transfer

The issue relating to terms and conditions of technology transfer and the question of the suitability of the transferred technology are related to each other, some of the restrictive conditions, for example, make technology less suitable than it would otherwise be. This clearly applies to such restrictions as prohibitions on the adaptation of the imported technology, preventing the use of imported technology as a basis for local R&D development, and clauses stipulating that the results of local technological research and development based on the imported technology must be transferred to the owner or supplier of the technology.

Creating Local Capability

Creating local technological capability is essential to absorb imported technology. This stems from several reasons. Technology, it may be stated, is not simply a matter of blueprints, which can be transferred without any local effort, to any part of the world, each time some technology is installed, some local adoption is required, which demands local technological capability. The greater the capacity, the more efficient the resulting operations. The need for local adaptation arises from the fact that the environment in which any technology operates is unique in any situation when it is installed and may even differ radically from the environment for which the know-how was developed in the first place. This is especially true when technology is transferred from MNCs to developing countries.

Globalisation

The world economy is passing through structural changes. These changes are driven by globalization business as well as by the revolution in information, communication, and transportation technology, none now have powerful technology in their hands, fundamentally transforming the way in which business is conducted around the globe.

The World Trade Organization (WTO) is contributing to globalization by removing trade barriers between countries and evolving mechanisms to manage technology better. The main provisions of the WTO that influence technology transfer are included under the following sections:

- Trade Related Aspects of Intellectual Property Rights (TRIPs)
- Trade Related Investment Measures (TRIMs)
- Subsidies and Countervailing Measures (SCMs)
- The Information Technology Agreements

Barriers to Technology Transfers

The final international technology issue relates to barriers. 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.

SUMMARY

MNCs have their business activities in cross national boundaries. MNCs have its own critics as well as the defenders too. Mainly the transfer of technology plays a vital role in MNCs and the nation's development. Since their inception the affiliates of MNCs have been a source of controversy in host countries. In the last few years the controversies have been complicated by the fact that an increasing number of host countries have started to acquire a dual status as some of their own firms multinationalize.

The most troubles MNCs are the home dominated ones, while the host dominated MNCs enjoy the greatest political tranquility. Neither can complete, however, with the internationally integrated MNC when it comes to productive efficiency and market power. Through international integration, MNCs locate their production facilities in the least cost countries and market their outputs in the most profitable countries.

Conflicts between MNCs and host nations often arise from differences between the internal structure of MNCs and the government of host nations. Other conflicts can be traced to the specific policies of MNCs, especially in highly centralized firms. Takeovers of local enterprises, financial policies, pricing, and export-import activities are typical areas of MNC government confrontations.

The employment of expatriate managers and technicians has met with increasing hostility in host nations. This has led to hiring and training of local nationals for management roles in affiliates. The compensation and promotion of local nationals in light of pay scales and opportunities elsewhere remain controversial issues.

QUESTIONS

1. Define MNCs and explain the type of MNCs
2. List the MNC critics and defenders
3. Centralization may decrease not only costs but also earnings of an MNC. Comment.
4. A number of MNC-host national conflicts derive from central economic planning. Why?
5. Some MNCs expand by building new facilities; others by buying up existing firms. Which is preferable? Under what conditions?
6. Identify and analyze conflicts that arise from MNC financial policies and practices.
7. Explain international Technology issues.
8. Describe the advantages and limitations in technology acquisition
9. Analyse the scope and mode of technology transfer
10. Enlist the barriers to technology transfer.

MODULE-IV

INTERNATIONAL BUSINESS

Contents

International Traded Agreements: Bilateral, Plurilateral and Multilateral agreements

GATT and WTO – WTO agreements

TRIPs, TRIMs, GATS and AoA

Trade Facilitation Issues – Environmental issues

India and WTO

UNIT-I

1. Introduction

The economic environment has the most profound influence on the business. The globalization of economy has brought the nations together. We are moving towards a closely knot economy, from the era of protectionism and self-sufficiency. Therefore, there is a need to study the current economic environment and the variables that shape the same.

2. Objective

The objective of this unit is to acquaint the students with the economic environment and its various constituents that influence the international business environment. The impact of global trade and business institutions is also explained.

3. Presentation of Contents

3.1 International Economic Environment

The most radical changes have happened on the economic front in the last two decades, which have changed the entire mathematics of international business environment. The political events such as the disintegration of USSR have made the world a multi-polar entity. At the same time, the technological advances, particularly those in the field of information technology have made the world a smaller place. The strengthening of the global economic institutions, particularly WTO has led to a major integration of the nations. However, the main driving force behind these developments remains the economic environment. Irrespective of the nature and size of business, no business entity is left insulated from the global changes. The competition is right on the door of every business. Therefore, anyone aspiring to excel in business, no business entity is left insulated from the global changes. The competition is right on the door of every business. Therefore, anyone aspiring to excel in business needs to understand these economic environmental variables and master, with dexterity, the techniques to

gain maximum advantage out of them. The most profound of the changes is the dislocation of local competition. Some of major changes in the past decades are:

- Capital movement rather than trade have become the driving force of the world economy.
- Production has become disassociated from employment.
- Primary products have lost their traditional association from the industrial economy.
- The economics seems to have a greater influence on the politics, than vice versa.
- The ideology of nation controlling the economy is primarily rejected. There is a realization of the benefits of free market economy.

The established principles of economics have been redefined and we understand the economics of interdependence and cooperation instead of protectionism. The old rules of competition are also undergoing a change. From a direct head on confrontation, the businesses are developing the niches where each of the players grows and excels.

Macroeconomic Trends

This unit focuses only on the most recent economic situation, particularly the status in the last five years. The students are advised to refer to standard text books on the subject to have an overview of the economic situation of the yesteryears. Focusing on the years gone by shall divert the focus of this unit.

The present status of the world economy can best be defined as beginning on a strong note. As a number of major developed economies managed to rebound from the notable's slowdown in late 2005, many developing countries maintained the momentum of broad and solid growth. A measurable moderation is expected, however, in the second half of 2006, with the annual growth of world gross product (WGP) for 2006 as a whole at about 3.6 per cent the same pace as in 2005 and marginally. The global projections are based on the weighted average of projected individual-country growth rates using the gross domestic product (GDP) valued in 2000 dollar prices for each country. Other global projections tend to use GDP valued in purchasing power parity (PPP) dollars. When using those weights, the United Nations global forecast for world economic growth would be 4.8 per cent for 2006.

Table 1.

Growth of world output, 2001-2006.

Year	2001	2002	2003	2004	2005	2006	2006
World output	1.6	1.9	2.8	4.1	3.6	3.6	3.3
Developed economies	1.2	1.3	2.0	3.2	2.7	2.7	2.5
Northern America	0.8	1.7	2.7	4.2	3.5	3.1	3.1
Western Europe	1.9	1.2	1.2	2.4	1.6	2.3	2.1
Asia and Oceania	0.7	0.4	2.0	2.3	2.7	2.8	1.9
Economies in transition	5.7	5.0	7.0	7.6	6.3	6.0	5.9
Southern and Eastern Europe	4.8	4.8	4.6	6.6	4.6	4.8	4.4
Commonwealth of Independent States	6.0	5.1	7.6	7.8	6.8	6.3	6.2
Developing economies	2.7	3.9	5.2	6.9	6.1	6.2	5.6
Africa	3.6	3.3	4.7	5.0	5.3	5.9	5.5
East Asia	4.5	6.9	6.8	7.9	7.3	7.3	6.5
South Asia	4.1	5.6	7.0	7.0	6.7	6.3	6.4
Western Asia	0.3	3.0	4.7	6.5	5.1	5.2	5.1
Latin America and the Caribbean	0.3	-0.8	2.0	5.8	4.5	4.6	3.9
Landlocked countries	5.6	4.5	4.6	6.1	7.2	6.8	-
Least developed countries	6.5	6.3	6.7	6.7	6.9	7.3	6.6
Small island developing States	0.5	3.4	2.8	5.7	5.9	5.5	-
Sub-Saharan Africa	4.8	3.9	3.4	5.7	5.5	6.6	5.3

Source: Department of Economic and Social Affairs of the United Nations Secretariat.

World Economic Situation and Prospects as of mid-2006 higher than what was projected at the beginning of the year in *World Economic Situation and Prospects 2006*. A number of downside risks have heightened most recently and they will weigh on the

world economy in the near to medium future. The large global imbalances remain the primary source of uncertainty for the stability of the world economy, but there are other sources of uncertainties that are not negligible, such as the persistence of higher oil prices, the cooling o. in the housing sector in a number of economies, the risk of avian influenza's turning into a pandemic, and the rising interest rates worldwide, as well as some geopolitical uncertainties. One salient feature of the global economic expansion of the past two years has been the improvement in the breadth of growth performance among developing countries: a large number of developing countries have registered solid growth. During 2004-2005 about half of the 07 developing countries for which data were available had managed to register GDP per capita growth above 3 per cent, which by a rule of thumb is considered to be the threshold of the growth needed in order for a developing country to reduce poverty meaningfully.

Meanwhile, only about a dozen developing countries experienced a decline in per capita GDP during 2004-2005, the smallest number in decades. Such a trend is expected to continue in 2006. The employment situation worldwide is improving, but is far from satisfactory. Employment creation has lagged behind output growth in the global recovery of the past few years. Despite some noticeable improvement, most recently in 2006, unemployment rates in a large number of countries are still higher than their levels prior to the global downturn of 2000-2001. Many developing countries are also facing high levels of structural unemployment and underemployment, limiting the e. activeness of growth in reducing poverty. A gradual recovery in employment continues in most developed countries. In the United States of America, the average monthly increase in wage employment has strengthened in 2006, with the unemployment rate dropping below 5 per cent. In Eastern Europe, unemployment rates are still about 1 percentage point above their low levels of 2001, but a gradual improvement is discernible. The unemployment rate in Japan has been declining steadily, and labour markets in Australia, Canada and New Zealand are exceptionally strong.

The employment situation in developing countries and economies in transition is more pressing, in both cyclical and structural terms. Official unemployment data, which often cover only urban areas, in general, underestimate by a large margin the severity of unemployment and, particularly, then underemployment situation is most developing countries. Nonetheless, even by this measure, only a small number of countries in Asia, in Latin America and in the group of economies in transition registered a notable reduction in unemployment rates in 2005.

Unemployment rates for most Asian economies are still above their levels prior to the Asian - financial crisis of the late 1990s. In China and many Asian economies, where people in rural areas still account for a large share of the population, surplus labour and high rates of underemployment in the rural areas remain a long-term policy concern. In South Asia, for example, the formal sector is unable to absorb a rapidly growing workforce and unemployment is highest among the young - which is also the case for many other developing countries. Despite some improvement, unemployment rates in most Latin American countries and economies in transition are still high - near 10 per cent. Structure unemployment and underemployment problems are particularly acute in Africa despite its recent growth recovery. Official rates of unemployment are at 10 per cent or higher in some of these economies.

UNIT-II

3.2 WTO

Introduction

The World War II, which lasted from 1939 to 1945, left many countries in Europe and Asia totally ravaged. Their economies were shattered; there was tremendous stain on political and social systems resulting in wide spread annihilation and migration of people. Intentional peace was ruffled. Something has to be done to put these war-ravaged economies back in shape. Simultaneously, the various colonies in Asia and Africa were acquiring political freedom. And there was urgent pressure on them for rapid economic development and political stabilization. In this background the United Nations Organization (UNO) was born on the collective wisdom of the world. Progressively, the UNO came to encompass the concern for development in economic, commercial, scientific, social and cultural sphere of the member nations. It formed various forums and agencies. One such forum under the UNO was the General Agreement on Tariffs and Trade (GATT) which was established in 1947.

GATT emerged from the "ashes of the Havana Charter". In International Conference on Trade and Employment in Havana in the winter of 1947-48, fifty-three nations drew up and signed a charter for establishing an International Trade Organization (ITO). But the US Congress did not ratify the Havana Charter with the result that the ITO never came into existence.

Simultaneously, twenty-three nations agreed to continue extensive tariff negotiations for trade concessions at Geneva, which were incorporated in a General

Agreement of Tariffs and Trade. This was signed on 30th October 1947 and came into force from 1st January 1948 when other nations had also signed it.

The critical juncture was reached during the Uruguay Round of multilateral trade negotiations, which may be called the final act. It was signed by 12 countries in which India was signatory. Popularly known as Dunkel agreement, it finally emerged as the World Trade Organization (WTO) on 1st January, 1995.

What is GATT

The General Agreement on Tariffs and Trade (GATT) is neither an organization nor a court of justice. It is simply a multinational treaty which now covers eighty per cent of the world trade. It is a decision making body with a code of rules for the conduct of international trade and a mechanism for trade liberalization. It is a forum where the contracting parties meet from time to time to discuss and solve their trade problems, and also negotiate to enlarge their trade. The GATT rules provide for the settlement of trade disputes, call for consultations, waive trade obligations, and even authorize retaliatory measures.

The GATT has been a permanent international organization having a permanent Council of Representative with headquarters at Geneva. 25 Governments have signed it. Its function is to call International conferences to decide on trade liberalizations on a multilateral basis.

GATT 'Rounds' of Global Trade Negotiations

The brief particulars of the various GATT 'Rounds' (conferences) for global trade negotiations are discussed below:

1. **First Round:-** The earlier rounds of GATT have achieved a limited measure of success. In the first round of talk held in Havana in 1947, 23 countries, which had formed GATT, exchanged tariff concessions on 45,000 products worth 10 billion US dollars of trade per annum.
2. **Second Round:-** Ten more countries had jointed GATT when its second round was held in Annecy (France) in 1949. In this round, customs and tariffs on 5000 additional items of international trade were reduced.

3. **Third Round:-** The Third round was organized in Torquay (England) in 1950-51). 38 member countries of GATT participated in it and they adopted tariff reduction on 8700 items.
4. **Fourth Round:-** The fourth round of world trade negotiations were held in Geneva in 1955-56. In this round countries decided to further cut duties on goods entering international trade. The value of merchandise trade subjected to tariff cut was estimated at \$2.5b.
5. **Fifth Round:-** The fifth round took place during 1960-62 at Geneva. In this round the negotiations covered the approval of common external tariff (CET) of the European countries and cut in custom duties amounting to US \$ 5 billion on 4400 items. Twenty-six countries participated in this round.
6. **Sixth Round or the Kennedy Round:-** With the formation EEC, the US had been put at a disadvantage. As a reaction to this, the US Congress passed the Trade Expansion Act in October 1962 which authorized the Kennedy administration to make 50 per cent tariff reduction in all commodities. This paved the way for the opening of the Kennedy round of trade negotiations at Geneva in May 1964, which were to be completed by 30 June 1967.

This round had the participation of 62 countries and negotiated tariff reductions of approximately \$ 40 billion, covering about four-fifth of the world trade. The major industrial countries in this group applied substantial cuts on their dutiable imports, e.g as much as 64 per cent cuts in the case of the United States, 3 per cent in case of Britain, 30 per cent in case of Japan, 24 per cent in case of Canada. They left the US and European tariff on the manufactured goods in the range of 5 to 15 per cent.

However, with regard to agricultural products, the negotiations had lesser success. They agreed on an average duty reduction of 25 per cent on agricultural items. Non-tariff obstacles, too remained untouched and scant attention was paid to the problems of developing countries.

An IMF study revealed that weighted average tariff for all industrial products has been reduced to 7.7 per cent, 9.8 per cent on finished manufactured products, 8 per cent on semi-finished products and 2 per cent on raw materials, Thus trade in industrial products after the completion of Kennedy Round was substantially free of restrictions.

7. **Seventh Round or Tokyo Round:** - The Seventh Round of Multilateral Trade Negotiations (MTN) was launched in September 1973 under the auspices of GATT. its objectives were laid down in the Tokyo Declaration. The Declaration set out a far-reaching programme for the negotiations in six areas. These are (i) tariff reduction; (ii) reduction of elimination of non-tariff barriers; (iii) coordinated reduction of all trade barriers in selected sectors; (iv) discussion on the multilateral safeguard system; (v) trade liberalisation in the agricultural sector taking into account the special characteristics and (vi) special treatment of tropical products. It also emphasized that MTN must take into account the special, interest and problems of developing countries.
8. **Eight Round or the Uruguay Round:-** The Eighth Round of GATT negotiations which began at Punta Del Esta in Uruguay in September 1986 ought to have been concluded by the end of the 1990. But at the ministerial areas of agriculture and the talks broke down.

The talks were restarted in February 1991 and continued till August 1991. On 20th December 1991. Aurthur Dunkel, the then Director-General of GATT tabled a Draft Final Act of the Uruguay Round, known as the Dunkel Draft Text. This was a "take-it-or-leave-it" document which was hotly discussed at various for a in the member countries through 1992 till July 1993 when the then Director General, Sutherland relaunched the negotiations in Geneva. On 31st August 1993, the Trade Negotiations Committee (TNC) passed a resolution to conclude the Uruguay Round by 15 December. On 15 December 1993 at the final session, Chairman Sutherland declared that seven years of Uruguay Round negotiations had come to an end. Finally, on 15th April 1994, 123 Ministers of member countries ratified the results of the Uruguay Round at Marrakesh (Morocco) and the GATT disappeared and passed into history and it was absorbed by the World Trade Organization (WTO) on 1st January 1995.

The Uruguay Round of trade negotiations undertaken by the GATT since its establishment in 1947 had a wide agenda. The GATT originally covered international trade rules in the goods sector only. Domestic policies were outside the GATT purview and it operated only at international border. In the Uruguay Round, the GATT extended to three new areas, viz. Intellectual property right services and investment. It also covered agriculture and textiles, which were outside the GATT jurisdiction.

The final year embodying the results of the Uruguay Round of Multilateral Trade Negotiations comprises 28 Agreements. It had two components: the WTO Agreement

and the Ministerial decisions and declarations. The WTO Agreement covers the formation of the organization and the rules governing its working. Its Annexure contain the Agreements covering trade in goods, services, intellectual property rights, plurilateral trade, GATT Rules 1994, dispute settlement rules and trade policy review.

The Uruguay Round was concerned with two aspects of trade in goods and services. The first related to increasing market access by reducing or eliminating trade barriers. Reductions in tariffs, reductions in non-tariff support in agriculture, the elimination of bilateral quantitative restrictions, and reductions in barriers to trade in services met this. The second related to increasing the legal security of the new levels of market access by strengthening and expanding rules and procedures and institutions.

WORLD TRADE ORGANIZATION (WTO)

The WTO was established on January 1, 1995. It is the embodiment of the Uruguay Round results and the successor to GATT. 76 Governments became members of WTO on its first day. It has now 146 members, India being one of the founder members. It has a legal status and enjoys privileges and immunities on the same footing as the IMF and the World Bank. It is composed of the Ministerial Conference and the General Council. The Ministerial Conference (MC) is the highest body. It is composed of the representatives of all the Members. The Ministerial Conference is the executive of the WTO and responsible for carrying out the functions of the WTO. The MC meets at least once every two years.

The General Council (GC) is an executive forum composed of representatives of all the Members. The GC discharges the functions of MC during the intervals between meetings of MC. The GC has three functional councils working under its guidance and supervision namely:

- a) Council for Trade in Goods.
- b) Council for Trade in Services.
- c) Council for Trade Related Aspects of Intellectual Property Rights (TRIPs).

Director-General heads the secretariat of WTO. He is responsible for preparing budgets and financial statements of the WTO. WTO has now become the third pillar of United Nations Organization (UNO) after World Bank and International Monetary Fund.

Objectives of WTO

In its preamble, the Agreement establishing the WTO lays down the following objectives of the WTO.

1. Its relation in the field of trade and economic endeavor shall be conducted with a view to raising standards of living, ensuring full employment and large and steadily growing volume of real income and effective demand, and expanding the production and trade in goods and services.
2. To allow for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both (a) to protect and preserve the environment, and (b) to enhance the means for doing so in a manner consistent with respective needs and concerns at different levels of economic development.
3. To make positive efforts designed to ensure that developing countries especially the least developed among them, secure a share in the growth in international trade commensurate with the needs of their economic development.
4. To achieve these objectives by entering into reciprocal and mutually advantageous arrangements directed towards substantial reduction of tariffs and other barriers to trade and the elimination of discriminatory treatment in international trade relations.
5. To develop an integrated more viable and durable multilateral trading system encompassing the GATT, the results of past trade liberalization efforts, and all the results of the Uruguay Round of multilateral trade negotiations.
6. To ensure linkages between trade policies, environment policies and sustainable development.

Functions of WTO

The following are the functions of the WTO:

1. It facilitates the implementation, administration and operation of the objectives of the Agreement and of the Multilateral Trade Agreements.

2. It provides the framework for the implementation, administration and operation of the Plurilateral Trade Agreements relating to trade in civil aircraft, government procurement, trade in dairy products and bovine meat.
3. It provides the forum for negotiations among its members concerning their multilateral trade relations in matters relating to the agreements and a framework for the implementation of the result of such negotiations, as decided by the Ministerial Conference.
4. It administers the Understanding on Rules and Procedures governing the Settlement of Disputes of the Agreement.
5. It cooperates with the IMF and the World Bank and its affiliated agencies with a view to achieving greater coherence in global economic policy -making.

Differences Between GATT and WTO

The WTO is not an extension of the GATT but succession to the GATT. It completely replace GATT and has a very different character. The major differences between the two are:

1. The GATT had no status whereas the WTO has a legal status. It has been created a by international treaty ratified by governments and legislatures of member states.
2. The GATT was a set of rules and procedures relating to multilateral agreements of selective nature. There were separate agreements on separate issues, which were not binding on members. Any member could stay out of the agreement. The agreements, which form part of the WTO, are permanent and binding on all members.
3. The GATT dispute settlement system was dilatory and not binding on the parties to the dispute. The WTO dispute settlement mechanism is faster and binding on all parties.
4. GATT was a forum where the member countries met once in a decade to discuss and solve world trade problems. The WTO, on the other hand, is a properly established rule based World Trade Organization where decisions on agreement are time bound.

5. The GATT rules applied to trade in goods. Trade in services was included in the Uruguay Round but no agreement was arrived at. The WTO covers both trade in goods and trade in services.
6. The GATT had a small secretariat managed by a Director General. But the WTO has a large secretariat and a huge organizational setup.

Implications for India

After the Uruguay Round, India was one of the first 76 Governments that became member of the WTO on its first day. Different views have been expressed in support and against our country becoming a member of the WTO.

Favourable factors

1. Benefits from reduction of tariffs on exports.
2. Improved prospects for agricultural exports because the prices of agricultural products in the world market will increase due to reduction in domestic subsidies and barriers to trade.
3. Likely increase in the exports of textiles and clothing due to the phasing out of MFA by 2005.
4. Advantages from greater security and predictability of the international trading system.
5. Compulsions imposed on India to be competitive in the world market.

Unfavourable Factors

1. Tariff reductions on goods of export interest to India are very small.
2. Less prospects of increase in agricultural exports due to the limited extent of agricultural liberalization.
3. There will be hardly any liberalization of our textile exports during the next 10 years.
4. India will be under pressure to liberalize the services industries.
5. There will be only marginal liberalization to the movement of labour services in which it is competitive.

6. Increased outflows of foreign exchange due to commitments undertaken in the fields of TRIPS, TRIMS and services.
7. Technological dependence on foreign firms will increase as the R & D required to take advantages of Uruguay Round agreement may not be undertaken on adequate scale due to paucity of funds.
8. Only a few large firms or transnational corporations may benefit and smaller firms may disappear.
9. Increasing intrusion in our domestic space in TRIPs, TRIMs and services and agriculture.
10. The Uruguay Round has paved way for similar other institutions in future through linkage between trade, environment, labour standard and treatment of foreign capital.
11. Trend towards neo-protectionism in developed countries against our exports.

To conclude, we may say that WTO membership is going to be beneficial to India in terms of global market thrown open to its goods and services. We must know how to take advantage of this situation. We should try to strengthen our position to sell our products abroad. For that we have to improve the quality of goods and services, cut down costs and wastage and improve our competitive strength.

Evaluation of WTO

WTO has been in action for about nine years now. During this period of time, the WTO has proved that it is very different from its predecessor, GATT, in the following ways:

- (a) GATT did not have any powers, whereas WTO with its dispute settlement mechanism has been an outstanding success. WTO has brought to book even USA in several cases.
- (b) GATT negotiating rounds took place once in a decade or so. What used to take decades to complete has been done in a few years by the WTO.

Following are the achievements of WTO in the short period it has been in existence:

1. WTO has helped in making greater market orientations a general rule.

2. Tariff based protection has become the rule.
3. Restrictive measure, which were being used for balance of payments purposes, have declined markedly.
4. WTO has brought services trade into the multilateral system. Many countries are opening their markets for trade and investment either unilaterally or through regional or multilateral negotiations.
5. Many underdeveloped countries have promoted economic growth in their countries. They have undergone radical trade, exchange and domestic reforms, which have improved the efficiency of resource use and opened new investment opportunities.
6. Bilateralism has been, to a great extent, placed under control by the extension of WTO provisions to services, TRIPS and TRIMS and by the unified dispute settlement mechanism, in which the possibility of unilaterally blocking the adoption of panel decisions no longer exists.
7. The Trade Policy Review Mechanism has created a process of continuous monitoring of trade policy developments, which by promoting greater transparency has assisted in the process of liberalization and reform.

The WTO, however, has still to make progress on the following issues:

1. The trade reform process is incomplete in many countries, some tariff peaks remain, and negotiations are still proceedings in various areas, notably in basic telecommunications and financial services.
2. There have been at least some reversals in the overall liberalization process in some developing countries. Examples may be increasing of antidumping measures, selective tariff increases and investment related measures.
3. The combination of globalization and technological change creates a premium on high skill as against low skill. Concerns have been raised that this will amount to growing social divisions.
4. The major share of the benefits of the WTO has gone to the countries of the North. WTO has been much more beneficial to the developed counties where the benefits of free trade accrue primarily to the underdeveloped countries

- where the benefits of free trade accrue primarily to the underdeveloped countries, the progress has been much slower.
5. The WTO has not done much for the development of non-tariff barriers to imports from the underdeveloped countries such as anti dumping duties.
6. "One size fits all" approach is increasingly getting embedded in the WTO rules and disciplines. The policies and rules appropriate or advantages to the industrialized world are getting established as common rules to be obeyed by the developing countries as well. As a result, the multilateral trade rules are increasingly becoming codification of the policies, perceptions, laws and regulations of the industrialized countries.
7. As a result of pressure resulting from WTO, the interests of international trade, which are primarily the interests of transnational corporations, take precedence over local concerns and policies even if such a course exposes the local population to serious health and security risks.
8. All the WTO members are not equally integrated in the multilateral system.
9. As brought out in the last Ministerial Meeting at Mexico in September 2003, the implementation related issues are becoming a source of serious concern.

The implementation issues cover a whole range of demands. The issues requiring WTO attention relate to:

- (i) TRIPS
- (ii) TRIMS
- (i) Anti-dumping
- (ii) Movement of natural persons
- (iii) Agriculture
- (iv) Textiles
- (v) Industrial tariffs including peak tariffs
- (vi) Services
- (vii) Rules to protect investments
- (viii) Competition policy
- (ix) Transparency in government procurement
- (x) Trade facilitation.

WTO has now become a forum for perpetual negotiations on newer and newer subjects and for using trade rules to establish standards and enforce compliance even in non-trade areas. Everything now seems to require the hand of WTO, be it foreign investment, environmental or labour standards, child labour, good governance or human rights.

However, efforts should be made to see that WTO is not expanded into a sort of world government covering every economic subject under the sun and then using the threat of trade sanctions to bring about a new World Order.

Trade Related Intellectual Property Rights

The Trade Related Intellectual Property Rights (TRIPs) Agreement covers the following seven categories of intellectual property:

1. **Copyright and Related Rights:-** The members are required to comply with the Berne Convention for the protection of literary and artistic works. Computer Programmes are included in literary works. Authors of computer programmes and broadcasting organizations are to be given the right to authorize or prohibit the commercial rental of their works to public. This protection is extended for 50 years.
2. **Trademarks:-** The owner of a registered trademark has the inclusive right to prevent all third parties not having the owner's consent from using in the course of trade identical or similar signs for goods or services. Registration and renewal of a trademark is for a period of not less than seven years.
3. **Geographical Indications:-** Members are required to provide the legal means for interested parties to prevent the use of any indication which misleads the consumer as to the origin of goods and any use which would constitute an act of unfair competition. Additional protection is applied for geographical indications for wines and spirits.
4. **Industrial Designs:-** Industrial designs are protected for a period of 10 years. Owners of protected designs would be able to prevent the manufactures, sales or importation of articles bearing or embodying a design, which is a copy of the protected design for commercial purposes.
5. **Patents:-** Patents shall be available for any inventions, whether products or processes, in all fields of technology, provided they are new, involve an inventive

step and are capable of industrial application. Patent owner shall have the right to assign or transfer by succession, the patent and to conclude licensing contracts. The Agreement requires 20 years protection. The Agreement requires both process and product patent. It provides for 20 years product patent and a successive 20 years process patent.

6. Integrated Circuits:- The TRIPs Agreement provides protection to the layout designs (topographies) of integrated circuits for a period of 10 years. But the protection shall lapse after 15 of the creation of the layout design.

7. Trade Secrets: Trade secrets and know-how having commercial value shall be protected against breach of confidence and other acts. Test data submitted to governments in order to obtain marketing approval for pharmaceuticals or agricultural chemicals shall be protected against unfair commercial use.

This Agreement refers to the control of anti-competitive practices in contractual licenses pertaining to intellectual property rights. It provides for consultations between governments in order to protect intellectual property right from being abused.

The Agreement requires a one-year transition period for developed countries to bring their legislation and practices into conformity with TRIPs. Developing countries will have 5 year transition period whereas the least developed countries will have a 11 year transition period. Those developing countries which do not provide product patent protection have been given 10 years.

Trade Related Investment Measures

This agreement calls for the removal of all trade related investment measures within a period of five years. These measures are confined to quantitative restrictions and national treatment. In particular, they relate to such measures as investment in identified areas, level of foreign investments for treating foreign companies at par with the national companies, export obligation, and use of local raw materials. It prevents the imposition of any performance clauses on foreign investors in respect of earnings of foreign exchange, foreign equity participation, and transfer of technology. It requires foreign investment companies to be treated at par with national companies. It requires free import of raw material, components and intermediates.

The Agreement recognizes that certain investment measures restrict and distort trade. It, therefore, requires mandatory notification of all non-conforming Trade

Related Investment measures and their removal within seven years for developed countries, within five years for developing countries and within seven years for the least developed countries. It establishes a committee on Trade Related Investment Measures which will monitor the implementation of these commitments and report to the Council of Trade in Goods annually.

Agreement on Trade in Services

This Agreement covers all internationally traded services. Foreign services and service suppliers would be treated on equal footings with domestic and service suppliers. However, governments may indicate Most Favoured Nation (MFN) exemptions, which will be reviewed after 5 years, with a normal limit of 10 years.

It requires transparency, which includes the publication of all-relevant laws and regulations relating to services trade. International payments and transfers relating to trade in services shall not be restricted, except in the even of balance of payments difficulties where such restrictions will be temporary limited and subjected to conditions. Any liberalization of trade in services would be progressive in character. It would be through negotiations at five-year intervals in order to reduce or remove the adverse effects of measures on trade in services and to increase the general level of specific commitments by the governments.

WTO 6th Ministerial Conferences - Hong Kong (13-18 December, 2005)

Ministers from the WTO's 149 member governments approved a declaration that many described as significant progress both since the July 2004 "package" and after six days of intensive negotiations in Hong Kong which the chairperson described as "working like a dog."

Despite the long hours and hard work, "it was worth it," WTO Director-General Pascal Lamy told a press conference late in the evening of the final day. "We have managed to put the Round back on track after a period of hibernation". Hong Kong's Commerce, Industry and Technology Secretary John Tsang, who chaired the conference, outlined the achievements in the declaration:

- "We have secured an end date for all export subsidies in agriculture, even if it is not in a form to everybody's liking.
- "We have an agreement on cotton.

- "We have a very solid duty-free, quota-free, access for the 32 least-developed country members.
- "In agriculture and NAMA (non-agricultural market access), we have fleshed out a significant framework for full modalities,
- "And in services, we now have an agreed text that points positively to the way forward."

The declaration was agreed after several days of meetings late into the night, the last two continuing to the morning. "It's been a hard day's night. And I've been working like a dog," Secretary Tsang said, quoting John Lennon and Paul McCartney.

With the 44-page document now agreed, members face intense pressure in the new year to complete "full modalities" in agriculture and non-agricultural market access by the new deadline they have set themselves, 30 April 2006.

Compared to the draft forwarded to Hong Kong from Geneva, a number of issues have been settled or partly settled. The most straightforward is the agreement to end export subsidies in agriculture by 2013, but this was only agreed at the last minute, and members paid tribute to the European Union which had the greatest difficulty on this issue. The declaration makes clear that the agreed date is conditional. Loopholes have to be plugged to avoid hidden export subsidies in credit, food aid and the sales of exporting state enterprises. For cotton the elimination is accelerated to the end of 2006. In addition, cotton exports from least-developed countries will be allowed into developed countries without duty or quotas from the start of the period for implementing the new agriculture agreement. Ministers have also agreed to aim to cut trade-distorting domestic subsidies on cotton by more than would normally apply under the new agreement, and to do so more quickly.

The two sides negotiating this difficult subject paid tribute to each other for what they described as the spirit of compromise: United States and the four countries pushing for an agreement on cotton (Benin, Burkina Faso, Chad and Mali).

A number of other details have been agreed in agriculture, non-agricultural market access and services.

UNIT-III

3.3 UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Introduction

The International trade is considered to be the engine of economic growth. There has been continuous and rapid growth in world trade due to liberalization of tariffs, quotas and other restrictions. The share of manufacturers in world trade has increased from about 50 per cent to 70 per cent over the last few decades. The developed countries dominate the world trade though the share of developing countries has increased over the years. World trade in services has been increasing fast. World trade has become increasingly multilateral due to the efforts of various international trading blocks, which exercise a significant influence on world trade.

The United Nations Conference on Trade and Development (UNCTAD) was established by U.N. General Assembly in 1964 in order to provide a forum where the developing countries could discuss the problems relating to their economic development. It was set up essentially because it was felt that the then existing institutions like IMF and GATT were not properly organized to handle the peculiar problems related to the developing countries. These institutions favored the developed countries and failed to tackle the special trade and development problems of less developed countries. With more than 170 members, UNCTAD presently is the only body where developed as well as erstwhile centrally planned countries are its members.

Since 1964, eleven rounds or conferences of UNCTAD have taken place, i.e. UNCTAD I held at Geneva in 1964, UNCTAD II at New Delhi in 1968, UNCTAD III at Santiago in 1972, UNCTAD IV at Nairobi in 1976, UNCTAD V at Manila in 1979, UNCTAD VI at Belgrade in 1983, UNCTAD VII at Geneva in 1987, UNCTAD VIII at Cartagena (Columbia) in 1992, UNCTAD IX at Midland (South Africa) in 1996, UNCTAD X at Bangkok in 2000, and UNCTAD XI at Sao Paulo (Brazil) in 2004.

Organization of UNCTAD

The UNCTAD was established as a permanent organ of General Assembly of the United Nations. However, it has its own subsidiary bodies and also a full time secretariat to serve it. It has permanent organ called Trade and Development Board as the main executive body. The Board functions between the plenary sessions of the

conference. It meets twice annually. It is composed of 55 members on the basis of equitable geographical distribution.

The Trade and Development Board have four subsidiary organs to assist it in its functions. These are:

1. The Committee on Commodities.
2. The Committee on Manufacturers.
3. The Committee on Shipping.
4. The Committee on Invisible Items and Financing related to Trade.

Generally, these committees meet annually, However, they may be called in special session to consider urgent matters.

Functions of UNCTAD

The UNCTAD was instituted mainly to reduce and eventually eliminate the gap between the developing countries and to accelerate the economic growth of the developing world. Its main functions are as follows:

1. To promote international trade between the developed and the developing countries with special emphasis on the development of underdeveloped countries.
2. To formulate principles and policies of international trade and related problems of economic development.
3. To make proposals for putting the said principles and policies into effect and to take such steps which may be relevant towards this end?
4. To negotiate multilateral trade agreements to review and facilitate the coordination of activities of other institutions within the fold of United Nations related to international trade and related problems of economic development.
5. To be available as a center for harmonious trade related development policies of governments, and regional economic groupings in pursuance of Article 7 of the charter of the United Nations.

Major Activities of UNCTAD

The major activities of UNCTAD as follows:

1. Research and support in connection with the negotiation of commodity agreements.
2. Technical elaboration of new trade schemes, such as a new import preference system.
3. Various promotional activates designed to assist developing countries in the area of trade and capital flows.

Basic Principles of UNCTAD

UNCTAD action programme and priorities have been laid down in the various recommendations adopted by the first conference in 1964. These recommendations are based on the following basic principles.

- (a) Every country has the sovereign right to freely dispose its natural resources in the interest of the economic development and well being of its own people and freely to trade with other countries.
- (b) Economic relations between countries, including trade relations. shall be based on respect for the principles of sovereign equality of states, self-determination of people, and non-interference in the internal affairs of other countries, and
- (c) There shall be no discrimination of the basis of differences in soio-economic systems, and the adoption of various methods and trading policies shall be consistent with this principle.

UNCTAD and GATT

The UNCTAD may be distinguished from the GATT as follows:

1. The UNCTAD is a formal, reflecting, deliberating, constructing and conciliating body while the GATT is a negotiating, committing and controlling organization.
2. The UNCTAD in essence is a dynamic, initiating body dedicated to economic growth and equity while the GATT poses a somewhat static view of commercial policy relations.

Appraisal of Recommendations of UNCTAD

UNCTAD-I

UNCTAD's action programme and priorities have been laid down in the various recommendations adopted by the first conference in 1964. It was realized that the prime responsibility for the economic advancement of developing countries lay on their shoulders only. The main purpose of the recommendations made by the conference was to adopt a new international division of labour and make the external sector conducive to the developing countries. As such, the conference made standstill recommendations to the developed nations, not to erect further tariff walls and other barriers to the import of products of export interest to developing nations. Further, the developed nations were recommended to progressively reduce the exports from the developed nations were recommended to progressively reduce the exports from the developing nations without insisting on reciprocity of concessions. It also recommended to the developing countries some positive measures of export promotion. Particularly, the conference suggested the recognition of international commodity agreements as an integral part of international trade policies, which aimed at securing remunerative, equitable and stable prices for the developing nations.

The conference further realized that the developing nations must progressively diversify their economies (from primary producing to industrial) and develop new lines of manufactured exports. Appreciating the difficulties of developing countries in this respect, the conference adopted certain guidelines for the elimination of tariffs and such other barriers in respect of manufactured exports from these countries.

The conference also recommended that each developed nation should transfer annually at least 1 per cent of its income to developing countries by way of foreign aid. The conference also put forward a number of recommendations to improve the invisible trade of developing countries through development of shipping, tourism etc.

Out of these laudable recommendations of UNCTAD, nothing was, however, substantially translated into practice. Though there has been some progress in the matter of international trade arrangements and a notion is created among the rich nations for giving tariff preference to the poor countries in the western markets, no action for the same has been taken so far. There has been a lot of disagreement prevailing among the rich countries in giving generalized preferences to the poor nations. In short, the first UNCTAD conference programmes made very slow progress in terms of concrete action.

UNCTAD-II

UNCTAD was formed as a plenary body of the U.N. members, which were to meet normally at intervals of not more than three years. However, the second meeting of UNCTAD took place four years after the first conference in Geneva. UNCTAD II was held in New Delhi from February 1st to March 28th, 1968. This session and an ambitious agenda to confront the problems of the less developed countries and other major issues relating world trade and develop merit. The broad objectives of this conference were as follows:-

1. To reappraise the economic situation and its implications in implementing the recommendations of the UNCTAD-I.
2. To achieve specific results by initiating appropriate negotiations which ensure real progress in international co-operation for development, and
3. To explore and investigate matters requiring thorough study before fruitful agreements can be envisaged.

With these objectives in view, the various items on the agenda of the conference were grouped into the following major categories:-

1. Trends and problems in world trade and development.
2. Commodity problems and policies of different nations.
3. Problems of growth, development finance and aid to developing nations and synchronization of national and international policies in this regard.
4. Specific problems of developing nation regarding:
 - (a) Expansion and diversification of exports of finished (manufactured) and semi-finished goods.
 - (b) Invisible, including shipping.
5. Problems and measures of economic integration and trade development among developing nations.
6. Special measures for economic and social upliftment of the least developed among the developing nations.
7. General review of the work and functions of UNCTAD.

During the New Delhi round of UNCTAD, several aspects of trade preferences and concessions were discussed. The conference re-assumed that for prosperity as a whole, a generalized, non-discriminatory system of preferences in favor of the less developed countries should be implemented as soon as possible which would assist them in increasing their export earnings and thus contribute to the acceleration of their rate of economic growth. It has been realized by the developed countries that if export earnings of developing countries decline, their external purchasing power is reduced. As consequences, their importing capacity also declines and as a result, the exports of developed nations to these countries may fall and the world trade may experience a down turn. To avoid such a situation, it is imperative that export earnings of the developing nations should be augmented through a deliberate liberalization policy adopted by the developed nations. Tariff and non-tariff barriers should be removed and free-trade should be encouraged by the developed nations. Further, to enhance and maintain world prosperity, developed nations should also give necessary technological and financial assistance to developing countries for their rapid economic expansion.

The final resolution of the conference, therefore, stressed that a mutually acceptable system of generalized, non-reciprocal and non-discriminatory preferences beneficial to developing countries should be immediately established. It is popularly known as Generalized Scheme of Preferences (GSP).

The objectives of such a system of preferences has been:-

1. To increase export earnings of the less developed nations.
2. To promote their industrializations, and
3. To accelerate their rates of economic growth.

To meet this end, the conference established a special committee on preferences as a subsidiary organ of the Trade & Development Board, which was to pay special attentions to this matter. Further, during the conference, the developed nations reaffirmed their desire to transfer at least 1 per cent of their GNP resources to the developing countries through their aid programmes. The developed countries also agreed to provide concessional terms of official lending and to liberalize the terms of international lending and finance. The conference adopted a charter of development, which offers permanent protection against economic deterioration of developed nations and increased opportunities of developments for the developing nations, With regard to commodity agreements, it was decided that the conference should be

reconvened before June 1968 to evolve an international agreement on cocoa. Similarly, it was laid down that Sugar Agreement should come into operation before January 1969.

The less developed nation's conference, however, urged at the conference that the advanced countries should remove all trade barriers in their markets to the entry of poor nation's commodities in primary, processed or semi-processed forms. But due attention was not paid to this plea.

The conference did not deal with the possibilities of agreed solutions to the problems of prices, trade liberalization and increased access to the markets of advanced countries for the products exported by the less developed nations. The conference, however, urged that the socialist countries should expand and diversify their trade with developing countries by according special preferences to the products of these countries. The permanent machinery of UNCTAD was entrusted with the responsibility of promoting trade relations between socialist and developing nations. The conference also stressed the need for trade expansions and economic integration among the developing countries. Thus, under the skeleton of UNCTAD, the 'declaration of intent' by the poor nation was matched by the 'declaration of support' by the rich nations.

It may, however, be said that the New Delhi session of UNCTAD could not make any significant achievements and concluded with disillusionment writ large all over. Most of the problems remained unsolved, as there was no consensus on them. In short, UNCTAD-II, though hopeful, had remained unsuccessful in achieving the goal.

UNCTAD-III

UNCTAD-III meeting was held at Santiago in Chile from 13th April to 17th May 1972. 120 member nations participated in the meeting of which 96 were developing countries, forming the so-called "G-77" or "Group of 77". At this meeting, these underdeveloped nations vehemently attacked the developed world for their unsympathetic attitude towards helping the poorer nations through trade. Attention was drawn to the fact while the world trade had grown considerably during the last decade, the trade of the developing countries rose at a slower rate than that of the developed countries. The developed countries exports amounted to 67 per cent of the world exports in 1960, which further increased to 71 per cent in 1970, whereas, during the same period, the export share of the developing countries declined from 21 per cent

to 18 per cent - that too mainly consisting of primary products. At the Santiago session, many important issues were discussed. Some of them are:-

1. Continuance of foreign aid,
2. Low-rated unconditional loans,
3. Some relief's in debt burden,
4. Shipping freights problem,
5. A link between the SDR's and development finance.

As such, the resolution of UNCTAD-III finally incorporated key issues like:

1. Transfer of technology,
2. International monetary reforms,
3. General preferences,
4. Reform of the UNCTAD machinery,
5. An international code of conduct of liner conference.

From the point of view of developed countries, UNCTAD-III was a successful event because on a number of key issues, developing countries could reach a compromise. From the view point of developing countries, however, UNCTAD-III was a big failure. Due to indifference of the developed nations, the G-77 did not succeed in establishing institution links between UNCTAD, on the one hand, and the IMF and GATT, on the other, yet, there was some hope for monetary reform as a result of this meeting. A major issue, which was raised at the Santiago conference, was that of the problem of changes in shipping freights. It was estimated that 1/3 of total deficit in the balance of payment of LDC's was due to high shipping freights. Further, at present the rich nations own 92 per cent of the world's merchant marine, when nearly 2/3 of weight originates from the developing countries. This definitely imposes a drain on their foreign exchange resources and puts up their cost of imports and exports. There has been a positive gain on the subject of shipping at the Sabtiago Session in so far on its greatest achievement has been the agreement reached on an international code of conduct. The two fundamental objects of code of conduct were:

1. Promotion of World trade, and
2. A new structure of world shipping in which the merchant marine of the developing countries would play an increasing and substantial role.

It was also stressed that the conference practices should not involve any discrimination against the trade and shipping interests of the developing countries. The developed countries, however, favored the Principle of self discipline and self-regulation, but the developing countries emphasized enactment of legislation in support of the code of conduct. Ultimately, it was resolved that a preparatory committee should be set up to study and recommend on the points of disagreement and evolve a code of conduct for submission to the General Assembly of UNCTAD. Further, it was decided in the resolution, that by 1980, the developing nations should at least own 10 per cent of the total world dead weight tonnage. The conference also specified that there should be a minimum interval of two years between freight liked and that freight rates should be at as a low level as commercially feasible.

In short, it can be said that the urgent demands of the developing countries had been denied there was some hope of getting some benefits as an outcome of UNCTAD.III.

UNCTAD- IV

In May 1976, the UNCTAD-IV meeting was held at Nairobi. In this conference, the widening gap between developed and developing nations was pinpointed and it was deserted that the developed nations should be more generous in helping the poor nations. It was also suggested that some kind of taxes may be imposed by the advanced nations to raise funds for helping and assisting the developmental process of the countries belonging to the third world. Further, a common fund of 6 thousand billion dollars may be created for the purpose of stabilizing the prices of 10 primary products exported by the less developed countries. This fund was meant to make provisions to finance buffer stocks of such products for this purpose. The representatives of developing nations advocated the expansion of Generalized System of Preferences (GSP) by the indexation of export items.

The representatives of the developing countries did agree to give debt relief and set re-scheduling in favour of the poor countries. However, with respect to the integrated commodity programme, the participants of the conference failed to come to any settlement, so the matter was kept pending for the future conference.

UNCTAD – V

From May 7, 1979 a meeting of UNCTAD-V was held in Manila for nearly a month, 150 member countries participated in this conference. But on the core issues no

concrete resolutions were passed. One major achievement has been the contribution by several countries to the creation of the commodity development facility, which aims at the development of product adaptation processing and marketing skills and infrastructure in the developing countries. However, some agreements were unanimously made on the issues like transfer of resources to developing countries, protectionism etc. Some ideas about monetary reforms were referred for future consideration. It also recommended all members to refrain from exploiting resources until the adoption of an international regime by the U.N. conference.

UNCTAD –VI

In July 1983, the sixth session of the UNCTAD was held at Belgrade, its focus was on the attainment of a new international economic order. It reiterated its full support to earlier programmes approved in previous UNCTAD Sessions. Monetary issues such as SDR allocation, adequacy of fund resources, conditionality etc. were discussed. Question of improvement in the quality of aid was examined. Improvements in institutional arrangements were suggested. Developed countries in this session insisted on liberalization of trade policies by the developing nations.

UNCTAD – VII

UNCTAD VII took place in Geneva during 1987. The UNCTAD VII also could not achieve any substantial progress. I only emphasized that external financing from official and private sources be increased on appropriate terms and conditions to facilitate growth in the developing countries. It recommended that a judicious combination of measures be worked out to reduce the debt burden, such as debt-equity swaps and other non-debt-creating flows. The Conference urged the developed countries to convert their official loans into grants. It also asked for concerted efforts to achieve the internationally agreed target of 0.7 per cent of GNP being given as official development assistance by the developed to the developing countries.

UNCTAD VIII

UNCTAD VIII took place in Cartagena De Indios, Colombia, during February 1992. The major issue at UNCTAD VIII was the role of UNCTAD itself. 170 members agreed on broad features of revitalizing UNCTAD and to make it more effective in dealing with development related issues. UNCTAD VIII agreed on a new structure. It was agreed to create Trade and Development Board (TDB) which would meet twice a year in regular session, and in special session as required. An Executive Committee of the permanent

representative to UNCTAD in Geneva was formed and was to meet periodically to guide UNCTAD work programme. Other decisions related to the creation of new standing committee on poverty alleviation, economic co-operation among developing countries and services, establishment of five adhoc working groups to support the committees and the TDB. The adhoc working groups were to deal with the areas on investment and financial flow, non-debt creating finance for development, new mechanics for creating or increasing investments and financial flow, non-debt creating finance flow development, trade efficiency, comparative experiences with privatization expansion of trading opportunities for developing countries, interrelationship between investment and technology transfers. With new structures and sincere efforts, it was hoped UNCTAD may render some useful services in improving the conditions of developing nations in the progressive global economy soon marching towards the 21st century.

UNCTAD – IX

The UNCTAD-IX held at Midrand, South Africa in May 1996 urged its members to provide more resources for sustainable development and debt relief to developing countries and to carry on the issues relating to technology, services and commodities in the light of the W.T.O. agreement of 1994 and the General Agreement on Tariffs and Trade.

To ensure that all countries benefit from a mutually beneficial multilateral trading system through Partnership for Development, the member-States agreed upon the establishment of following common objectives and development of joint action:

- a) Strengthening inter-governmental cooperation between developed and developing countries.
- b) Enhanced cooperation between developing countries with special attention to LDCs;
- c) More effective coordination and complementarity of multilateral institutions;
- d) The mobilization of human and material resources towards development through dialogue and common action between Government and civil society;
- e) Partnership between the public and private sectors to achieve higher growth rates and greater development.

In order to achieve the slated objectives of UNCTAD IX, the Conference will strengthen its cooperation with WTO and other multilateral institutions to ensure that the developing countries participate in the global economy on a more equitable basis with regard to trade, investment, technology, services and development. It was also agreed that UNCTAD should identify and analyze the implications for development of issues relevant to a possible multilateral framework on investment.

The major problem with the UNCTAD has been trying to tackle too many problems at the same time. Partly it is due to the widely divergent interests of the developing country members of the UNCTAD. As a result due to the lack of any specific focus, it has not been able to achieve any tangible results. Experience shows that whenever UNCTAD discussed specific issues, it has been able to achieve significant success.

UNCTAD -X

The tenth session of UNCTAD was held in 2000 at Bangkok, Thailand. This conference was held against global recessionary conditions as well as fears on the part of many developing countries as to the adverse impact of globalization. The Bangkok Conference emphasized the need for increased policy coherence at the national and international levels. There should be complementarity between macroeconomic and Sectoral policies at the national level and between policies at the national and international levels. There is also a need for more effective cooperation and coordination among multilateral institutions.

Many countries have difficulty in coping with the increased competition and lack the capacity to take advantage of the opportunities brought about by globalization. This requires a decisive effort in favour of those at the risk of marginalization.

UNCTAD endorsed its commitment to a multilateral trading system that is fair, equitable and rules-based operates in a non-discriminatory and transparent manner and provides benefits to all countries, specially developing countries. This will involve, among other things, improving market access for goods and services of particular interest to developing countries, resolving issues relating to the implementation of World Trade Organization (WTO) agreements, fully implementing special and differential treatment, facilitating accession to the WTO and providing technical assistance. A new round of multilateral track negotiations should take account of the development dimension.

Specially, the Bangkok conference prepared a detailed Plan of Action which included inter alia, the following:

- Reducing tariff and non-tariff barriers in export sectors of interest to developing countries, particularly in developed country markets:
- Maintaining and further improving the level of tariff-free or reduced tariff access to markets through national GSP schemes for all beneficiaries.
- Maximizing market access benefits for the least developed countries, for example, developed countries granting duty-free and quota-free treatment for essentially all products originating in these countries.
- Impact of anti-dumping and countervailing duties actions:

UNCTAD should help developing countries in identifying:

- The Priority sectors where early trade liberalization should take place;
- The main trade barriers that developing countries face in sectors which limit developing country ability to export their services;
- The preconditions, at the domestic level, which are necessary for developing countries to benefit from trade liberalization in the service sector in general.

UNCTAD -XI

Held at Paulo (Brazil) in 2004, it agreed on the following:

- (a) There was need to focus on the ability of international trade to contribute to poverty alleviation, and instability in world commodity prices.
- (b) All countries at the international level should facilitate internal adjustments and remove external constraints to put the developing world on a firm and sustainable path to development.
- (c) Policy instruments and measures were adopted to eradicate poverty and hunger.
- (d) To generate and better utilize additional international resources, market access and technical assistance for the LDCs be established, so as to form a solid base for their development.

- (e) Attention be devoted to improve international capital flows for developments as well as deal with the volatility of international capital markets.

Achievements of UNCTAD

Despite the disagreements over the years, UNCTAD has played a key role various sphere. The more important of these are as follows:

1. **Trade in Primary Commodities:-** The UNCTAD has been active in the International Commodity Agreement since its inception, LDC's (Last Developed Countries) wanted to expand their market for their traditional exports of primary commodities. Developed countries placed restrictions of the exports of the latter in such form as licensing, quotas, tariffs etc. and provided subsidies to domestic producers. Such trade restrictions tend to be higher for processed products than for unprocessed ones. Besides, exports from LDC's have been subject to wide fluctuation. Thus, there has been a continual deterioration in the terms of trade of primary products of the LDC's in relation to the export of manufactured products from the developed countries. Since UNCTAD-II, the LDC's have been insisting on International Commodity Agreements to stabilize the prices and markets for their exports of primary products. At UNCTAD IV in 1976, it was proposed to have an Integrated Program for Commodities (IPC) and to create common fund for buffer stock financing. This fund was meant to provide a considerable benefit to the exporters and importers of developing countries. Exporters of primary products would be able to realize higher prices for primary products also would not be subjected to the uncertainties of price fluctuations which sometimes are the results of speculative activity.
2. **Trade in Manufactured Goods:** LDC's have strongly urged the developed countries to give them tariff preferences on their manufactured and semi-manufactured goods. At UNCTAD-1, the G-77 urged the developed countries to grant generalized system of preferences (GSP) to the exports of such goods to the developed countries. It was at UNCTAD-II that all members unanimously agreed for the early establishment of a mutually acceptable system of generalized, non-reciprocal and non-discriminatory preferences. Under GSP, most manufactured and semi-manufactured goods from LDC's to developed countries enjoy tariff reduction or exemptions from custom duties. A majority of developed countries grant duty free treatment for all or most products eligible for GSP. But there are certain limitations to the scheme of GSP:-

- (a) Despite efforts made to expand the coverage of GSP, there are items like textiles, clothing, steel, footwear etc., which are excluded by a number of developed countries.
- (b) May developed countries have devolved their own schemes which subject the preferences to variety of restrictions.
- (c) There is no long term guarantee in the case of GSP concessions which scan be altered or withdrawn at short notice.
- (d) Among the LDC's the benefit of GSP have been consistently concentrated among a few more advanced developing countries.

Thus, the scope for the extension of GSP is quite limited, as producers in the LDC's have to face a tough competitive position in the world market.

3. **Development Finance:** UNCTAD is also endeavoring to reduce the debt burden of the developing countries. These countries have taken large amount of loans from bilateral and multilateral sources. As a result, the servicing of the accumulated debts, i.e. the interest payments and repayments, now account for a very substantial proportion from exports.

In fact, for some of the developing countries the outgo of foreign exchange on account of debt servicing is more than the current inflows of loans and credits. UNCTAD is trying to persuade the developed countries, to write off a part of the accumulated debts. Some of the developed countries, mostly Scandinavian group, have accepted the proposal.

4. **Technology Transfer:** In UNCTAD, measures were adopted to strengthen technology capability of LDC's. It was pointed out that better research facilities, training programmes and establishment of local and regional centers for technology transfer world serve the purpose. Thus, the UNCTAD –VI held at Belgrade in June 1983 emphasized the need for transfer of technology to LDC's on the lines of the policy paper approved at UNCTAD –VI. The UNCTAD has simply laid down the broad principles for transfer of publicity funded technologies at the intergovernmental level. It may facilitate the process of technology transfer by freer access to sources of information, cutting down barriers to free flow of technology etc.

5. **Economic Co-operation:** UNCTAD-II held at Delhi in 1968 emphasized for the first time the need for promoting international co-operation and self-reliance among the LDCs. UNCTAD – VI again emphasized the need for co-operative efforts among the LDCs through widening the scope of preferential trading arrangements, harmonizing industrial development programmes through infrastructural facilities particularly in respect of shipping services and simple payment mechanism under common clearing system. GSTP is major initiative of developing countries to expand mutual trade through grant of tariff and non-tariff concessions and other measures such as long term contracts under UNCTAD.

Problems of UNCTAD

The following are the problems of UNCTAD:

1. UNCTAD has had problems from its inception, which have kept the organization from being fully effective in achieving its objectives. It has been dominated by two organizations: The U.N. type and G-77. The interest of each of the major political-economic classifications create so much friction that the rule-by-consensus method of negotiating issues results in few concrete accomplishments.
2. UNCTAD has failed to adopt or implement a trade policy for development.
3. UNCTAD seems to be an international organization which, rather than to do a proper job with short-meetings and clear focus on its objectives and international realities, appears to be among those institutions which huff and puff for weeks while revealing their own importance.

UNIT-III

INTERNATIONAL COMMODITY AGREEMENTS (ICA)

International commodity agreements are inter-governmental arrangements concerning the production and trade of certain primary products. Many developing countries which have embarked upon ambitious development programmes are in need of large foreign exchange resources to finance some of their development requirements like capital goods imports. But they have been facing the important problem of wide-fluctuations in the export prices of the primary goods i.e. agricultural products and minerals, which form a major part of their total exports. Apart from making the export

earnings unstable, it has also been causing deterioration in their terms of trade. Hence, there has been a growing demand for adopting stabilization measures to protect especially the interests of developing countries. International commodity agreements, it is believed, can help stabilize prices of the respective commodities.

Objectives ICA

The main objectives of the international commodity agreements are:

1. **Price Stabilization:** Price stabilization is a very important purpose of which commodity agreements have been entered into.
2. **The Promotion of Health and Morals:** The outstanding example of international agreements for the purpose of promoting health and morals is the international regulation of trade in opium and narcotics.
3. **Security Objectives:** Inter governmental commodity agreements may also be useful as a preventive of war by preventing scramble for scarce strategic materials for national stock-piling or other security purposes.
4. **The Conservation of Resources:** The conservation of natural resources is a direct or indirect objective of nearly all international raw material schemes.
5. **The management of Surplus:** Commodity agreements are sometimes entered into to manage the surplus during times of bumper crops, there may arise a problem of surplus. Such should be properly handled to avoid serious adverse effects on price and also to hold stock for the lean period.

UNIT-IV

Forms of Commodity Agreements

Commodity Agreements may take any of the four forms, namely, quotas, buffer stock, bilateral contract, and multilateral contract.

1. **Quota Agreements:** International quota agreements seek to prevent fall in commodity price by regulating their supply under the quota agreement. Export quotas are determined and allocated to participating countries according to some mutually agreeable formula and they undertake to restrict the export or production by a certain percentage of the basis quota as decided by the central committee or council. For

instance, the coffee agreement among the major producers of Latin America and Africa limits the amount that can be exported by each country.

Quota agreements have already been tried in case of coffee and sugar, and commodities like tea and bananas have been suggested as prospective candidates for new agreements.

II. Buffer Stock Agreements: International Buffer Stock Agreements seek to stabilize the commodity prices by maintaining the demand-supply balance.

Buffer stock agreements stabilize the price by increasing the market supply by selling the commodity when the price tends to rise and by absorbing the excess supply to prevent a fall in the price. The buffer stock plan, thus, requires an international agency to set a range of prices and to buy the commodity at the minimum and sell at the maximum. The buffer pool method has already been tried in case of Tin, and sugar, and commodities like Rubber, Tea and Copper have been suggested as prospective candidates for new agreements. The buffer stock arrangement, however, has certain limitations. It can be affected only in case of those products, which can be stored at relatively low cost without the danger of deterioration. Further, large financial resources and stock of the commodity are required to launch the programme successfully.

III. Bilateral/Multilateral Contracts: Bilateral contract to purchase and sell certain quantities of a commodity at agreed prices may be entered into between the major importer and exporter of the commodity. In such an agreement, an upper price and a lower price are specified. If the market price throughout the period of the agreement remains within these specified limits, the agreement becomes operative. But, if the market price rises above the upper limit specified, the exporting country is obliged to sell to the importing country a certain specified quantity of the commodity at the upper prices fixed by the agreement. On the other hand, if the market price falls below the lower limit specified, the importer is obliged to purchase the contracted quantity at the specified lower price. Such international sale and purchase contracts may also be entered into by two or more exporters and importers. The bilateral/multilateral agreements are usually concluded between the major suppliers and major importers of the commodities. The best example of this type of agreement is the International Wheat Agreement.

The contract has disadvantage of creating a two price system. It requires domestic controls of some sort and buffer stock to implement it. And it is quite apt to put the participating governments into the commodities business. In an extreme case, it

may become nothing but a payment by the government of one country to that of another without even touching the producer or consumer.

The experience of the post-war market stabilization schemes indicates that a combination of different control techniques is likely to be more effective than reliance on a single technique alone.

ENVIRONMENTAL ISSUES

Mankind is consuming natural resources faster than ever in the history. The natural resources consumed in last one century far exceed what the mankind consumed for 3000 years. The rate of consumption is giving rise to degradation, removal of green cover from the earth. It is happening on two counts one is increasing population and second is the wants of mankind have grown. International business is growing. New products, new services are multiplying to meet the consumer demands. With modern communication and logistics the goods are made available across the globe within a week. The growth of international business will have impact on ecology and environment. The debate is going on since last three decades how to balance international business growth with environment protection.

The studies and scientific data show that the environments are real threat to mankind irrespective developed or underdeveloped countries. The problem calls for attention and positive actions from all concerned in business like manufacturers, governments, planners and the public. It will be a shared responsibility of all concerned in the chain.

Environmental concerns are voiced by non governmental organisations (NGOs), employees, general public, the consumer, local communities and the media. The concerns are voiced and with demonstrations near the projects or the concerned authorities. The protestors are emphasising the urgency of the moral and regulatory controls and have turned drivers of environmental responsibility. The corporate and the MNCs stakeholders, the public, and the United Nations.

Environment protection is referred to in different terms as Environment damage, ecology issues, bio degradation, climate change, global warming, eco friendly, environment sustainability, loss of bio diversity and the like. It means we keep our mother earth as it was so that humans could live better, healthy. Man has not created natural environment, he has no business to spoil and hand it over to next generation. In other words the desire to grow economical has to be tempered and balanced by environmental concerns. One should not gain the former at the cost of latter.

FDI AND ENVIRONMENT

FDI has large implications on environment in under developed countries. Pollution intensive industries, old technologies, equipments and second hand plants are pushed by advanced countries to developing countries as part of FDI. Some host

countries are willing to lower environment standards to attract FDI. The countries are swayed by the importance and urgency of economic development at the cost of environment damages.

A challenging risk of protection of environment is taken up by corporate in following ways.

1. Adhere to legal boundaries, if there are laws exist governing in the host countries.
2. Take as moral responsibility
3. Take into confidence all the stake holders like employees, consumer groups, local population and share holders regarding the environment plans and actions. Conduct visits and demonstrations.
4. Make products environment friendly.
5. Production process to be designed to be environment friendly so that the surrounding air, and ecosystem remain unchanged.
6. Produce and market green markets
7. Educate sub contractors, material suppliers and constituents in supply chain management to follow eco friendly process and practices.
8. Balance between profit motive and public interest in protecting environment
9. Include environment issues in entire life cycle of the product from design to production and usage.

ENVIRONMENT ACTIVITIES OF TNCs

TNCs have a bigger role in environment protection. TNCs go to many countries in search of environment resources and put into production use. Use of minerals is an example. It brings cross border environment management s by norms in managing eco issues wherever they enter into business. Some of the steps that are taken by TNCs to achieve the objectives are:

1. Adhere to host countries laws and regulations
2. Install the latest technology in all the activities, Remove the absolute equipment and processes.
3. Prevent environment damage at the outset so that further clean up is avoided.
4. Follow uniform clean technologies in all countries. Establish uniform standards in entire TNC. That adapts centralised strategies for all units.
5. TNC are afraid of threats of environment litigation liabilities. The cost of adapting clean technologies may be cheaper. In addition, the TNC may be put to public embarrassment, short closure of the project, threat of consumer boycotts tells on the image and reputation.

6. TNCs would like boost their marketing efforts by introducing 'Green' products. Here TNCs use energy efficiently, increase productivity to maintain costs, use recycle materials, less wastage and proper treatment of the waste generated.
7. The supplier is trained in environment issues. TNCs help their suppliers to qualify for eco labeling.
8. The old companies locked in old technologies will have challenging task of up gradation and make eco friendly.
9. TNC actions are directly mentioned in eco issues in agenda 21 calling for actions from United Nations conference in environment and development 1992.
10. All TNCs are certified ISO 14000, a certificate that the organization is environment friendly.
11. Management systems are in place in the organization
12. TNCs upgrade their environment management practices and standards. Example may be given of introduction of automobiles of 'Euro II' standard, where there are fewer emissions in the exhaust.
13. In service sector, the cost of environment protection may be higher. For example disposal of hospital or hotel waste. Eco tourism calls of eco friendly hotels.
14. Environmental sensitivity projects are put to environment impact assessment studies and environment audits. Now environment clearance from host country has become mandatory. These are expert agencies how handle assessment and audit of this nature.
15. Waste to energy projects are also made along with main project.
16. Regular measurement and monitoring of environment aspects like water, air, water bodies, soil, stratosphere and biological spaces are conducted.
17. Upgrade management practices and technology to be environment friendly and keep up the treasures of nature.

QUESTIONS

1. What do you understand by GATT? Discuss its main objectives and principles.
2. Explain the main achievements and shortcomings of GATT.
3. What is WTO? Discuss its functions and objectives.
4. Bring out the arguments for against India's membership of WTO.
5. Discuss the achievements and failure of WTO.
6. Write a detailed note on Doha Ministerial Conference, 2001.
7. Discuss the functions of UCTAD. Explain its basic principles.
8. What are the achievements of UCTAD? Also explain the problems of UNCTAD.
9. Explain the objectives of International Commodity Agreements (ICA). Discuss the various forms of commodity agreements.

MODULE V

INTERNATIONAL BUSINESS

Contents

Regional Economic Integrations: Meaning and rationale

Forms of integrations – EU, NAFTA, ASEAN, SAFTA, APEC and other groupings

International Financial Institutions - IMF, World Bank and ADB – functions and role in economic development.

UNIT-I

INTERNATIONAL ECONOMIC INTEGRATION

MEANING

Tinbergen defines international economic integration as “the creation. of most desirable structure of international economy, removing artificial hindrances to the optimum operation and introducing deliberately all desirable elements of coordination or unification” This is a vague, as well as an exhaustive definition. It is vague because it refers to ‘the creation of most desirable structure’ and does not specify the nature of structure for international economic integration. It is very exhaustive because it relates economic integration to the ‘international economy’. And not to group of countries. Salvatore’s definition is simple. He defines it as the “commercial policy of discriminatively reducing or elimination trade barriers only among the nations joining together”

TYPES OF ECONOMIC INTEGRATION

There are five types of arrangements for economic integration among nations. They are:

1. **Preferential Trading System.** It was the earliest form of economic integration among 48 Commonwealth countries of the British Empire established in 1932. It aimed at giving preferential treatment to the member nations by reducing tariffs on imports from each other but retaining higher tariffs on imports from outside the commonwealth preference system. This was a loose form of economic integration which ended after the formation of GATT Rules.
2. **Free Trade Area.** The free trade area is a new form of economic integration wherein the member countries remove tariffs and other trade barriers among themselves, but each member retains its own tariff, trade restrictions and commercial policies with non member countries. But measures are taken to prevent imports from outside the area via the country with the lowest external

tariff. In a free trade area, the member countries need not have common frontier with each other. The economic integration is simply based on intra-area trade. The European Free Trade Association (EFTA) and the Latin American Free Trade Area (LAFTA) which was superseded in 1980 by the Latin American Integration Association (LAIA) are examples of free trade area of regional economic integration.

3. **Customs Union.** In customs union, the participating countries adopt a common external tariff and commercial policy on imports from the outside world, and abolish all tariffs and trade barriers among themselves. Thus in a customs union, all members act as a unit in their trade relations with non-member countries. The European Community (EC) is a customs Union. The free trade area and custom union are similar in that there is tariff free movement of goods among the members. But they differ in that while a free trade area permits each member to retain its own tariff against non members the customs union adopts a common external tariff against them.
4. **Common Market.** The common market is a unified single market area among nations in which there is free movement of goods, services and factors of production. In a common market, product and factor market are integrated. In fact, the common market carries further the principle of customs union by allowing free movements of labour and capital alongwith goods among member countries. The EC is also a common market.
5. **Economic Union.** The Economic Union is the highest form of economic integration among nations. Besides the integration of product and factor markets as in the common market, it involves harmonization of monetary fiscal and other policies such as exchange rate, transportation, industrial, social policies, etc. Thus there is significant degree of co-ordination among the members of an economic union in the adoption of a common external tariff and domestic economic policies. The EC aims at the ultimate formation of such an economic union

BENEFITS OR MOTIVES OF ECONOMIC INTEGRATION

International economic integration benefits the members of a regional group in a number of ways:

1. It leads to a better allocation of resources among member nations when trades restrictions are removed.
2. It improves the quality and quantity of factor inputs as a result of technological changes and increased capital inflows.
3. It increases production due to specialization based on comparative advantage.
4. It leads to better exploitation of economies of scale resulting in higher output.
5. It increases the volume of trade.
6. It improves the terms of trade of the regional group with the rest of the world by better bargaining position.

7. It increases economic efficiency within the group due to increased completion among members.
8. It increases factor mobility among member countries.
9. The members benefit from co-ordinated monetary and fiscal policies.
10. The standard of living of the people increases with the availability of cheap and better products, larger employment opportunities and rise in income.
11. Member nations are able to achieve the common targets of full employment high rates of economic growth, reduction in income inequalities.

UNIT-III

ASSOCIATION OF SOUTH EAST ASIAN NATIONS (ASEAN)

The ASEAN was formed with the signing of the Bangkok Declaration on 8 August 1967 by six countries: Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand. Now it has ten members with the inclusion of Cambodia, Lao PD Republic, Myanmar and Vietnam in subsequent years. The principal objectives of ASEAN are economic, political, social and cultural cooperation among its members. It has been the most successful regional association for economic integration and peaceful co existence in South East Asia. Foreign trade is the life blood of the ASEAN countries following globalisation and prudent macroeconomic policies. The ASEAN economies have achieved sustained high growth rates leading to economic prosperity.

NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

NAFTA is the extension of Canada-US Trade Agreement (CUSTA) of 1988 for eliminating all tariff barriers. Later in 1991, Mexico joined them to form the NAFTA. It came into effect in January 1994. The principal objective of NAFTA was to promote trade among United States, Mexico and Canada by lifting trade barriers on various products like automobiles, and their parts, computers, textiles and farm products among member countries. They agreed to eliminate tariffs on 99% of goods and services traded within their borders by 2004. The agreement also required the removal restriction on FDIs (Foreign Direct Investments) among member countries. Further, the agreement called for trans-border co-operation and territorial investments and fair competition. It also included protection of intellectual property rights such as patents, copyrights and trademarks among the three countries

THE EUROPEAN UNION

European Union is a major regional trading group in recent economic history. It represents developed nations of Europe. It has evolved into a developed form of economic and political integration. As on date it has 27 members. The membership has grown over last 5 decades. From the historical pages it may be seen that each of these countries were arch enemies and fought many battles. Many did not like others in the past. It is business that has brought these countries to a common table. The EU has its ups and downs in the 5 decades regarding formation of the union. Now it is going strong and more countries like to join EU.

Few European countries started discussions on Trade Union in steel and coal in late 40. European coal and steel Community treat was signed in Paris in 1951. This is the starting point, after deliberations the trade was included and an 'European Economic community' treaty was signed in Rome in 1957. The members were known as EEC members. Since 1957, EEC members were expanding trade among the members, more commodities that is deeper in integration and geographic expansion. The membership as on date is 27. The list growth of membership over years is

- 1957: France, W.Germany, Italy, Belgium, Netherlands, Luxemburg
- 1973: Great Britain
- 1986: Greece (1981) Spain, Portugal
- 1995: Austria, Finland, Sweden
- 2004: Cyprus, Czech Republic, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia.
- 2007: Bulgaria, Romania.

Objectives of EU

1. Elimination of customs duties among member states
2. Elimination of obstacles to free flow of import and / or export of goods and services among member nations
3. Establishment of common duties and united industrial policies regarding countries outside the community.
4. Free movement of capital and people within the block
5. Acceptance of common agricultural policies, transport policies, health and safety regulations, and educational degrees
6. Common measures for consumer protection
7. Common laws to maintain completion throughout the community and to fight monopolies or illegal cartels.
8. Greater monetary and fiscal coordination among member states and certain common monetary fiscal policies.

SOUTH ASIAN FREE TRADE AGREEMENT (SAFTA)

During the twelfth SAARC summit at Islamabad, the historic agreement on South Asian Free Trade Area (SAFTA) was signed by all the SAARC members on 4 January 2004. SAFTA has come into force from 1 January 2006 and supersedes SAPTA. Under the agreement, India, Pakistan, and Sri Lanka are categorized as non least developed contracting states (NLDCS) and Bangladesh, Bhutan, and Nepal as least developed contracting states (LDCS) . SAFTA anticipates completion of the whole process of instituting free trade in 10 years. Measures for economic cooperation and integration of economies include removal of barriers to intra SAARC investment, harmonisation of customs classifications, transit facilities for efficient intra SAARC investment, harmonisation of customs classifications, transit facilities for efficient intra- SAARC

trade, and simplification of procedures for business visas, customs procedures, import licensing, insurance, and competition rules.

The Highlight of the agreement is given below.

1. Trade liberalization Programme-Non LDC countries would reduce their existing tariffs to 20 per cent within a time frame of two years from the date of coming into force of the agreement.
2. The LDC member countries would reduce their existing tariffs to 30 per cent within a time frame of two years from the date of coming into force of the agreement.
3. Tariff reduction shall be carried out on the basis of the negative list approach. Keeping in mind the interests of the domestic stakeholders, the agreement provides for a sensitive list to be maintained by each country which will be finalized after negotiations among the contracting countries with provision that the LDC contracting states may seek derogation in respect of products of their export interest.
4. Keeping in view the increasing importance of trade facilitation measures, the agreement provides for the harmonization of standards, reciprocal recognition of tests and accreditation of testing laboratories, simplification and harmonization of customs procedures, customs classification of HS coding system, import licensing and registration procedures, simplification of banking procedures for import financing, transit facilities for efficient intra-SAARC trade, micro-economic consultations, development of communication system transport, and infrastructure, and simplification of business visas.
5. The agreement also provides for an institutional mechanism to facilitate the implementation of its provisions, which includes safeguard measures in case of a surge in the imports of products covered under SAFTA concessions that threaten or cause a serious injury to the domestic industry and a dispute settlement mechanism for the interpretation and application of the provisions of this agreement or any instrument adopted within its framework concerning the rights and obligations of the contracting states.

ASIA-PACIFIC ECONOMIC COOPERATION (APEC)

The Asia-Pacific Economic Co-operation (APEC) was established in 1989 to enhance the economic growth and prosperity in the region and to strengthen the Asia-Pacific community. It is the only inter-governmental grouping in the world operating on the basis of non binding commitments, open dialogue and mutual respect. Unlike the WTO or other multilateral trade bodies, APEC has no treaty obligations required of its participants. Decisions made within APEC are reached by consensus and commitments are undertaken on a voluntary basis.

The APEC works in three broad areas to meet the broader goals of free and open trade and investment in the Asia Pacific region by 2010 for developed economies

and 2020 for developing economies, known as APECs 'three pillars'. The key areas of focus are

- a. Trade and investment liberalization
- b. Business facilitation
- c. Economic and technical cooperation

APEC has 21 members referred to as 'member economies'. Which account for about 40 per cent of the world's population, approximately 56 per cent of world GDP and about 48 per cent of world trade. Its member economies include Australia, Brunei, Darussalam, Canada, Chile, People's Republic of China, Hong Kong (China), Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Republic of Philippines, the Russian Federation, Singapore, Chinese Taipei, Thailand, the US and Vietnam. It represents the most economically dynamic region in the world, having generated nearly 70 percent of global economic growth in its first 10 years.

INTERNATIONAL MONETARY FUND (IMF)

The International Monetary Fund, A Global Institution, is frequently in the news, but its role and functions are often misunderstood.

The Origins of the IMF

The IMF was conceived in July 1944 at an international conference held at Bretton Woods, New Hampshire, USA. Delegates from 44 governments agreed on a framework for economic cooperation partly designed to avoid a repetition of the disastrous economic policies that had contributed to the Great Depression of the 1930s.

During the decade, as economic activity in the major industrial countries weakened, countries attempted to defend their economies by increasing restrictions on imports; but this just worsened the downward spiral in world trade, output, and employment. To conserve dwindling reserves of gold and foreign exchange, some countries curtailed their citizens' freedom to buy abroad, some devalued their currencies, and some introduced complicated restrictions on their citizens' freedoms to hold foreign exchange. These fixes, however, also proved self-defeating, and no country was able to maintain its competitive edge for long. Such "beggar-thy-neighbor" policies devastated the international economy; world trade declined sharply, as did employment and living standards in many countries.

As World War II came to a close, the leading allied countries considered various plans to restore international monetary. The country representatives drew up the charter (or Articles of Agreement) of an international institution to oversee the

international monetary system and to promote both the elimination of exchange restrictions relating to trade in goods and services, and the stability of exchange rates.

The IMF came into existence in December 1945, when the first 29 countries signed its Articles of Agreement.

The statutory purposes of the IMF today are the same as when they were formulated in 1944. Since then, the benefits of growth have not flowed equally to all – either within or among nations – most countries have seen increase in prosperity the contrast starkly with the interwar period, in particular. Part of the explanation lies in improvements in the conduct of economic policy, including policies that have encouraged the growths of international trade and helped smooth the economic cycle of boom and bust. The IMF is proud to have contributed to these developments.

In the decades since World War II, apart from rising prosperity, the world economy and monetary system have undergone other major changes – changes that have increased the importance and relevance of the purposes served by the IMF, but that have also required the IMF to adapt and reform. Rapid advances in technology and communications have contributed to the increasing international integration of markets and to closer linkages among national economies. As a result, financial crises, when they erupt, now tend to spread more rapidly among countries.

In such an increasingly integrated and interdependent world, any country's prosperity depends more than ever both on the economic performance of other countries and on the existence of an open and stable global economic environment. Equally, economic and financial policies that individual countries follow affect how well or how poorly the world trade and payments system operates. Globalization thus calls for greater international co-operation, which in turn has increased the responsibilities of international institutions that organize such co-operation including the IMF.

The IMF's purposes have also become more important simply because of the expansion of its membership. The number of IMF member countries has more than quadrupled from the 44 states involved in its establishment, reflecting in particular the attainment of political independence by many developing countries and more recently the collapse of the Soviet bloc.

The expansion of the IMF's between 1945 and 1971 agreed to keep their exchange rates pegged at rates that could be adjusted, but only to correct a "fundamental disequilibrium" in the balance of payments and with the IMF's concurrence. This so called Bretton Woods system of exchange rates prevailed until 1971 when the US government suspended the convertibility of the US dollar (and dollar reserves held by other governments) into gold.

At the same time as the IMF was created, the International Bank for Reconstruction and Development (IBRD), more commonly known as the World Bank, was set up to promote long-term economic development, including through the financing of infrastructure projects, such as road-building and improving water supply.

The IMF and the World Bank Group which includes the International Finance Corporation (IFC) and the International Development Association (IDA) – complement each other's work. While the IMF's focus is chiefly on macroeconomic performance, and on macroeconomic and financial sector policies, the World Bank is concerned mainly with longer-term development and poverty reduction issues. Its activities include lending to developing countries and countries in transition to finance infrastructure projects, the reform of particular sectors of the economy, and broader structural reforms. The IMF, in contrast, provides financing not for particular sectors or projects but for general support of a country's balance of payments and international reserves while the country stakes policy action to address its difficulties.

When the IMF and World Bank were established, an organization to promote world trade liberalization was also contemplated, but it was not until 1995 that the World Trade Organization was set up. In the intervening years, trade issues were tackled through the General Agreement on Tariffs and Trade (GATT).

The purposes of the International Monetary Fund are:

- i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems. To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
- ii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
- iii) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restriction which hamper the growth of world trade.
- iv) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustment in their balance of payments without resorting to measures destructive of national or international prosperity.
- v) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

Decisions making at the IMF

The IMF is accountable to its member countries, and this accountability is essential to its effectiveness. The day-to-day work of the IMF is carried out by an Executive Board, representing the IMF's 184 members, and an internationally recruited staff under the leadership of a Managing Director and three Deputy Managing Directors each member of this management team being drawn from a different region of the world. The powers of the Executive Board to conduct the business of the IMF are delegated to it by the Board of Governors, which is where ultimate oversight rests.

The Board of Governors, on which all member countries are represented, is the highest authority governing the IMF. It usually meets once a year, at the Annual Meetings of the IMF and the World Bank. Each member country appoints a Governor—usually the country's minister of finance or the governor of its central bank—and an Alternate Governor. The Board of Governors decides on major policy issues but has delegated day-to-day decision-making to the Executive Board.

Key policy issues relating to the international monetary system are considered twice yearly in a committee of Governors called the **International Monetary and Financial Committee**, or IMFC (until September 1999 known as the Interim Committee). A joint committee of the Boards of Governors of the IMF and World Bank called the **Development Committee** advises and reports to the Governors on development policy and other matters of concern to developing countries.

The Executive Board consists of 24 Executive Directors, with the Managing Director as Chairman. The Executive Board usually meets three-times a week, in full-day sessions and more often if needed, at the organization's headquarters in Washington, D.C. The IMF's five largest shareholders—the United States, Japan, Germany, France, and the United Kingdom—along with China, Russia, and Saudi Arabia, have their own seats on the Board. The other 16 Executive Directors are elected for two-year terms by groups of countries, known as constituencies.

Unlike some international organizations that operate under a one-country-one-vote principle (such as the United Nations General Assembly), the IMF has a weighted voting system: the larger a country's quota in the IMF—determined broadly by its economic size—the more votes it has. But the Board rarely makes decisions based on formal voting; rather, most decisions are based on consensus among its members and are supported unanimously.

The Executive Board selects the **Managing Director**, who besides serving as the chairman of the Board, is the chief of the IMF staff and conducts the business of the IMF under the direction of the Executive Board. Appointed for a renewable five-year term, the Managing Director is assisted by a First Deputy Managing Director and two other Deputy Managing Directors.

IMF employees are international civil servants whose responsibility is to the IMF, not to national authorities. The organization has about 2,800 employees recruited from 141 countries. About two-thirds of its professional staff are economists. Directors, who report to the Managing Director, head the IMF's 26 departments and offices. Most staff works in Washington, although about 90 resident representatives are posted in member countries to help advise on economic policy. The IMF maintains offices in Paris and Tokyo for liaison with other international and regional institutions, and with organizations of civil society; it also has offices in New York and Geneva, mainly for liaison with other institutions in the UN system.

MODULE V

INTERNATIONAL BUSINESS

Contents

Regional Economic Integrations: Meaning and rationale

Forms of integrations – EU, NAFTA, ASEAN, SAFTA, APEC and other groupings

International Financial Institutions - IMF, World Bank and ADB – functions and role in economic development.

UNIT-I

INTERNATIONAL ECONOMIC INTEGRATION

MEANING

Tinbergen defines international economic integration as “the creation of most desirable structure of international economy, removing artificial hindrances to the optimum operation and introducing deliberately all desirable elements of coordination or unification” This is a vague, as well as an exhaustive definition. It is vague because it refers to ‘the creation of most desirable structure’ and does not specify the nature of structure for international economic integration. It is very exhaustive because it relates economic integration to the ‘international economy’. And not to group of countries. Salvatore’s definition is simple. He defines it as the “commercial policy of discriminatively reducing or elimination trade barriers only among the nations joining together”

TYPES OF ECONOMIC INTEGRATION

There are five types of arrangements for economic integration among nations. They are:

1. **Preferential Trading System.** It was the earliest form of economic integration among 48 Commonwealth countries of the British Empire established in 1932. It aimed at giving preferential treatment to the member nations by reducing tariffs on imports from each other but retaining higher tariffs on imports from outside the commonwealth preference system. This was a loose form of economic integration which ended after the formation of GATT Rules.
2. **Free Trade Area.** The free trade area is a new form of economic integration wherein the member countries remove tariffs and other trade barriers among themselves, but each member retains its own tariff, trade restrictions and commercial policies with non member countries. But measures are taken to prevent imports from outside the area via the country with the lowest external

Funding of IMF

The IMF's resources come mainly from the quota (or capital) subscriptions that countries pay when they join the IMF, or following periodic reviews in which quotas are increased. Countries pay 25 percent of their quota subscriptions in Special Drawing Rights or major currencies, such as US dollars or Japanese Yen; the IMF can all on the remainder, payable in the member's own currency, to be made available for lending as needed. Quotas determine not only a country's subscription payments, but also the amount of financing that its can receive from the IMF, and its share in SDR allocations. Quotas also are the main determinant of countries' voting power in the IMF.

Quotas are intended broadly to reflect members' relative size in the world economy: the larger a country's economy in terms of output, and the larger and more variable its trade, the higher its quota tends to be. The United States of America, the world's largest economy, contributes most to the IMF, 17.5 percent of total quotas; Palau, the world's smallest, contributes 0.01 percent. The most recent (eleventh) quota review came into effect in January 1999, raising IMF quotas (for the first time since 1990) by about 45 percent to SDR 212 billion (about 300 billion).

If necessary, the IMF may borrow to supplement the resources available from its quotas. The IMF has two sets of standing arrangements to borrow if needed to cope with any threat to the international monetary system:

- the General Arrangements to Borrow (GAW), set up in 1962, which has 11 participants (the governments or central banks of the Group of Ten industrialized countries and Switzerland), and
- the New Arrangements to Borrow (NAB), introduced in 1997, with 25 participating countries and institutions. Under the two arrangements combined, the IMF has up to SDR 34 billion (about \$50 billion) available to borrow.

Concept of SDR

The SDR, or special drawing right, is an international reserve asset introduced by the IMF in 1969 (under the First Amendment to its Articles of Agreement) out of concern among IMF members that the current stock, and prospective growth, of international reserves might not be sufficient to support the expansion of world trade. The main reserve assets were gold and US dollars, and members did not want global reserves to depend on gold production, with its inherent uncertainties, and continuing U.S. balance of payments deficits, which would be needed to provide continuing growth in U.S. dollar reserves. The SDR was introduced as a supplementary reserve asset, which the IMF could "allocate" periodically to members when the need arose, and cancels, as necessary.

SDRs sometimes known as "paper gold" although they have no physical form have been allocated to member countries (as bookkeeping entries) as a percentage of their quotas. So far, the IMF has allocated SDR 21.4 billion (about \$32 billion) to member countries. The last allocation took place in 1981, when SDR 4.1 billion was allocated to

the 141 countries that were then members of the IMF. Since 1981, the membership has not seen a need for another general allocation of SDRs, partly because of the growth of international capital markets. In September 1997, however, in light of the IMF's expanded membership which included countries that had not received an allocation, the Board of Governors proposed a Fourth Amendment to the Articles of Agreement. When approved by the required majority of member governments, this will authorize a special one-time "equity" allocation of SDR 21.4 billion, to be distributed so as to raise all members' ratios of cumulative SDR allocations to quotas to a common benchmark.

IMF member countries may use SDRs in transactions among themselves, with 16 "institutional" holders of SDRs, and with the IMF. The SDR is also the IMF's unit of account. A number of other international and regional organizations and international conventions use it as a unit of account or as a basis for a unit of account.

The SDR's value is set daily using a basket of four major currencies: the euro, Japanese Yen, pound sterling, and US dollar. On July 1, 2004, SDR 1 = US\$1.48. The composition of the basket is reviewed every five years to ensure that it is representative of the currencies used in international transactions, and that the weights assigned to the currencies reflect their relative importance in the world's trading and financing systems. The IMF helps its member countries by:

- reviewing and monitoring national and global economic and financial developments and advising members on their economic policies;
- lending them hard currencies to support adjustment and reform policies designed to correct balance of payments problems and promote sustainable growth; and
- offering a wide range of technical assistance, as well as training for government and central bank officials, in its areas of expertise.

Advice on Policies and Global Oversight

The IMF's Articles of Agreements call for it to oversee the international monetary system, including by exercising firm "surveillance" – that is, oversight – over its member countries exchange rate policies. Under the Articles, each member country undertakes to collaborate with the IMF in its efforts to ensure orderly exchange arrangements and to promote a stable system of exchange rates.

More specially, member countries agree to direct policies toward the goals of orderly economic growth with reasonable price stability, together with orderly underlying economic and financial conditions, and to avoid manipulating exchange rates for unfair competitive advantage. In addition, each country undertakes to provide the IMF with the information necessary for its effective surveillance. The membership has agreed that the IMF's surveillance of each member's exchange rate policies has to be carried out within the framework of a comprehensive analysis of the general economic situation and economic policy strategy of the member.

The regular monitoring of economies, and associated provision of policy advice, that IMF surveillance involves can help signal dangers ahead and enable members to act in a timely way to avoid trouble.

The IMF conducts its oversight in three ways:

i) **Country Surveillance**, which takes the form of regular (usually yearly) comprehensive consultations with individual member countries about their economic policies, with interim discussions as needed. The consultations are referred to as "*Article IV consultations*" as they are mandated by Article IV of the IMF's charter. (They are also referred to as "bilateral" consultations, but this is strictly speaking a misnomer: when the IMF consults with a member country, it represents the entire membership, so that the consultations are really always multilateral). The IMF supplements its usually annual country consultations with additional staff visits to member countries when needed. The Executive Board also holds frequent, informal meetings to review economic and financial developments in selected number countries and regions.

ii) **Global surveillance**, which entails reviews by the IMF's Executive Board of global economic trends and developments. The main reviews of this kind are based on *World Economic Outlook* and *Global Financial Stability* reports prepared by IMF staff, normally twice a year, before the semiannual meetings of the International Monetary and Financial Committee. The reports are published in full prior to the IMFC meetings, together with the Chairman's summing up of the Executive Board's discussion. The Executive Board also holds more frequent, informal discussions on world economic and market developments.

iii) **Regional Surveillance**, under which the IMF examines policies pursued under regional arrangements. This includes, for example, Board discussions of developments in the European Union, the euro area, the West African Economic and Monetary Union, the Central African Economic and Monetary Community, and the Eastern Caribbean Currency Union.

IMF management and staff also participate in surveillance discussions of such groups of countries as the G-7 (the Group of Seven major industrial countries) and APEC (the Asia-Pacific Economic cooperation Forum).

Instruments of IMF lending and their evolution

The IMF provides loans under a variety of policies of "facilities" that have evolved over the years to meet the needs of the membership. The duration, repayment terms and lending conditions attached to these facilities vary, reflecting the types of balance of payments problem and circumstances they address.

Most of the IMF's financing is provided through three different types of lending policies:

Stand-By Arrangements form the core of the IMF's lending policies. First used in 1952, they are designed to deal mainly with short-term balance of payments problems.

Medium-term extended arrangements under the **Extended Fund Facility** are intended for countries with balance of payments difficulties related to structural problems, which may take longer to correct than macroeconomic weaknesses. Structural policies associated with extended arrangements include reforms designed to improve the way economy function, such as tax and financial sector reforms, privatization of public enterprises, and steps to enhance the flexibility of labor markets. The IMF has been providing concessional lending to help its poorest member countries achieve external viability, sustainable economic growth, and improved living standards since the late 1970s. The current concessional facility, the **Poverty Reduction and Growth Facility (PRGF)**, replaced the Enhanced Structural Adjustment Facility (ESAF) in November 1999, with the aim of making poverty reduction and economic growth the central objectives of policy programs in the countries concerned.

In the late 1990s, the IMF introduced facilities designed to help countries cope with sudden losses of market confidence, and to prevent "contagion" – the spread of financial crises to countries with sound economic policies. (See pages 30-33 for highlights of the IMF's evolving facilities). The IMF also provides loans to help countries cope with balance of payments problems caused by natural disasters, the aftermath of military conflicts, and temporary shortfalls in export earnings (or temporary increase in cereal import costs) beyond their control.

Just as new facilities have been introduced to meet new challenges, redundant facilities have over time been terminated. Indeed, the Executive Board initiated in early 2000 a review of facilities. The review led to the elimination of four obsolete facilities. The Board's consideration of modifications to other nonconcessional facilities led to agreement to:

adapt the terms of Stand-By Arrangements and Extended Fund Facility loans to encourage countries to avoid reliance on IMF resources for unduly long periods or in unduly large amounts;

reaffirm the Extended Fund Facility as one confined to cases where longer-term financing is clearly required; and

enhance monitoring of IMF-supported programs after their expiration, especially when a member's credit outstanding exceeds a certain threshold.

Selected IMF Lending Facilities

i) **Stand-By Arrangements** – form the core of IMF's lending policies. A Stand-By Arrangement provides assurance to a member country that it can draw up to a specified amount, usually over 12-18 months, to deal with a short-term balance of payments problems.

ii) **Extended Fund Facility** - IMF support for members under the Extended Fund Facility provides assurance that a member country can draw up to a specified amount, usually over three to four years, to help it tackle structural economic problems that are causing serious weaknesses in its balance of payments.

iii) **Poverty Reduction and Growth Facility** – (which replaced the *Enhanced Structural Adjustment Facility* in November 1999). A low-interest facility to help the poorest member countries facing protracted balance of payments problems (see page 46, "A new Approach to Reducing Poverty"). The cost to borrowers is subsidized with resources raised through past sales of IMF – owned gold, together with loans and grants provided to the IMF for the purposes by its members.

iv) **Supplemental Reserve Facility** – Provides additional short-term financing to member countries experiencing exceptional balance of payments difficulty because of a sudden and disruptive loss of market confidence reflected in capital outflows. The interest rate on SRF loans includes a surcharge over the IMF's usual lending rate.

v) **Emergency Assistance** – Introduced in 1962 to help members cope with balance of payments problems arising from sudden and unforeseeable natural disasters, this form of assistance was extended in 1995 to cover certain situations in which members have emerged from military conflicts that have disrupted institutional and administrative capacity.

At present, IMF borrowers are all either developing countries, countries in transition from central planning to market-based systems, or emerging market countries recovering from financial crisis. Many of these countries have only limited access to international capital markets, partly because of their economic difficulties. Since the late 1970s, all industrial countries have been able to meet their financing needs from capital markets, but in the first two decades of the IMF's existence over half of the IMF's financing went to these countries.

Technical Assistance and Training

The IMF is probably best known for its policy advice and its policy-based lending to countries in times of economic crisis. But the IMF also shares its expertise with member countries on a regular basis by providing technical assistance and training in a wide range of areas, such as central banking, monetary and exchange rate policy, tax policy and administration, and official statistics. The objective is to help strengthen the design and implementation of members' economic policies, including by strengthening skills in the institutions responsible, such as finance ministries and central banks. Technical assistance complements the IMF's policy advice and financial assistance to member countries and accounts for some 20 percent of the IMF's administrative costs.

The IMF began providing technical assistance in the mid-1960s when many newly independent countries sought help in setting up their central banks and finance ministries. Another surge in technical assistance occurred in the early 1990s, when countries in central and eastern Europe and the former Soviet Union began their shift from centrally planned to market-based economic systems. More recently, IMF has stepped up its provision of technical assistance as part of the effort to strengthen the architecture of the international financial system

Specially, it has been helping countries bolster their financial systems, improve the collection and dissemination of economic and financial data, strengthen their tax and legal systems, and improve banking regulation and supervision. It has also given considerable operational advice to countries that have had to reestablish government institutions following severe civil unrest or war.

The IMF provides technical assistance and training mainly in four areas:

- Strengthening monetary and financial sectors through advice on banking system regulation, supervision, and restructuring, foreign exchange management and operations, clearing and settlement systems for payments, and the structure and development of central banks;
- Supporting strong fiscal policies and management through advice on tax and customs politics and administration, budget formulation, expenditure management, design of social safety nets, and the management of internal and external debt;
- Compiling, managing, and disseminating statistical data and improving data quality; and
- Drafting and reviewing economic and financial legislation.

The IMF offers training courses for government and central bank officials of member countries at its headquarters in Washington and at regional training centers in Brasilia, Singapore, Tunis, and Vienna. In the field, it provides technical assistance through visits by IMF staff, supplemented by hired consultants and experts. Supplementary financing for IMF technical assistance and training is provided by the national governments of such countries as Japan and Switzerland, and international agencies such as the European Union, the Organization for Economic Cooperation and Development, the United Nations Development Program, and the World Bank.

UNIT-IV

WORLD BANK

Introduction

A need arises to finance various projects in various countries to promote the development of economically backward regions. The United States and other countries have established a variety of development banks whose lending is directed to investments that would not otherwise be funded by private capital. The investments include dams, roads, communication systems, and other infrastructural projects whose economic benefits cannot be computed and/or captured by private investors, as well as projects, such as steel mills or chemical plants, whose value lies not only in the economic terms but also, significantly in the political and social advantages to the nation. The loans generally are medium-term to long-term and carry concession rates.

Even though most lending is done directly to a government, this type of financing has two implications for the private sector. First, the projects require goods and services which corporations can produce. Secondly, by establishing an infrastructure, new investment opportunities become available for multinational corporations.

The World Bank or the International Bank for Reconstruction and Development (IBRD) was established in 1945 under the Bretton Woods Agreement of 1944. An International Monetary and Financial Conference was held at Bretton Woods, New Hampshire during July 1-22, 1944. The main purpose of the conference was finalisation of the Articles of Association of IMF and establishment of an institution for the reconstruction of the war shattered world economies. Thus, the conference has given birth to World Bank or International Bank for Reconstruction and Development (IBRD). World Bank was established to provide long-term assistance for the construction and development of the economies of the member countries while IMF was established to provide short-term assistance to correct the balance of payment disequilibrium.

The World Bank is an inter-governmental institution, corporate, in form, the capital stock of which is entirely owned by its members-governments. Initially, only nations that were members of the IMF could be members of the World Bank. This restriction on membership was subsequently relaxed. The World Bank makes loans at nearly conventional terms for projects of high economic priority. To qualify for financing, a project must have costs and revenues that can be estimated with reasonable accuracy. A government guarantee is a necessity for World Bank funding. The Bank's main emphasis has been on large infrastructure projects such as roads, dams, power plants, education and agriculture. However, in recent years the Bank has laid greater emphasis on quick loans to help borrower countries to alleviate their balance of payments problems. These loans are tied to the willingness of the debtor nations to adopt economic policies that will spur growth, free trade, more open investment, and a more vigorous private sector. Besides its members subscriptions, the World Bank raises funds by issuing bonds to private sources.

Functions of the World Bank

The principal functions of the IBRD are set forth in Article I of the agreement and are as follows:

- To assist in the reconstruction and development of the territories of its members by facilitating the investment of capital for productive purposes.
- To promote private foreign investment by means of guarantee of participation in loans and other investments made by private investors and, when private capital is not available on reasonable terms, to make loans for productive purposes out of its own resources or from funds borrowed by it.
- To promote the long term balanced growth of international trade and the maintenance of equilibrium in balance of payments by encouraging international investment for the development of the productive resources of members.

- To arrange loans made or guaranteed by it in relation in international loans through other channels so that more useful and urgent projects, large and small alike, will be dealt first. It appears that the World Bank was created to promote and not to replace private foreign investment. In this respect the Bank considers its role to be a marginal one, to supplement and assist private foreign investment in the member countries.

Membership of the World Bank

All the members of the IMF are also the members of the World Bank. Any country can join as a member of the IBRD by signing in the Charter of the Bank as its subscriber. It has 184 members in 2003. Bank has the authority to suspend any member, if the country concerned fails to discharge its responsibilities to the IBRD. Similarly, every member is free to resign from the membership but it has to pay back all loans with interest on due dates. The member is also required to pay its share of the loss on demand if the Bank incurs a financial loss in the year in which a member resigns.

Capital Structure of the World Bank

The World Bank or IBRD started with an authorised capital of US \$ 10 billion divided into 1,00,000 shares of US \$ 1,00,000 each. The subscribed capital at that time was US \$ 9.4 billion. The authorised capital was increased to 7,16,500 shares of the par value of SDR 1,00,000 each in 1985. In July 1992, the total authorised capital of the bank was \$ 14.1 billion with a capital increase of \$ 9.3 billion. This increase of 77,159 shares was subscribed by the republics of the former Soviet Union. The bank has raised capital worth \$ 23 billion in 2002.

The member countries contribute their share capital to the Bank as follows:

1. 2% of the share in the form of gold and US dollars. The World Bank utilizes this amount freely for granting loans.
2. 18% of the share capital in the form of own currency. This amount is also used by Bank for granting loans.
3. 80% of the share capital is payable at the request of Bank. This amount is also used by Bank for granting loans. But it can use this amount in discharging its responsibilities.

Organisation Structure of the World Bank

The World Bank like IMF is also managed by a three-tier structure including Board of Governors, Executive Directors and President.

(1) Board of Governors: The Board of Governors has full authority and control over the Bank's activities. Normally, each country appoints its Finance Minister as a Governor and the Governor of its Central Bank as Alternate Governor on the Board of Governors for a period of 5 years. The strength of the voting rights to the Governors depends upon the subscribed capital by the member country. In the absence of Governor, the Alternate Governor can exercise the voting right. Normally the Board of Governors meets annually.

(2) Executive Directors: The bank has 24 Executive Directors. They supervise the entire operations of the Bank. Out of these 24 Directors, are appointed by USA, UK, Germany, Finance and Japan. The remaining 19 Directors are elected by the remaining member countries. The Executive Directors normally meet regularly once in a month. The 24 Directors elect the President of the Bank who presides over the meetings of the Board of Executive Directors.

The Scope of Decisions of the Executive Directors Include:

- a) Policy making within the framework of the Articles of Agreement.
- b) Loans and credit proposals

Function of Board of Executive Directors

- a) To present audited annual reports.
- b) To prepare administrative budget.
- c) To prepare and present to Board of Governors annual reports on the operation and policies of the Bank.

(3) President: Normally the president does not have any voting right except in case of exercising equal rights. He is assisted by senior Vice-Presidents and Directors of various departments and regions.

Funding Strategy of the World Bank

There are the four basic objectives of the World Bank's funding strategy:

1. To make sure availability of funds in the market.
2. To provide the funds at the lowest possible cost to the borrowers through appropriate currency mix of its borrowing and opting to borrow when interest rates are expected to rise.
3. To control volatility in net income and overall loan changes.
4. To provide an appropriate degree of maturity transformation between its lending and the borrowing. Maturity transformation depicts the Bank's capacity to lend for longer period than it borrows.

Bank's Borrowings

Bank's main function is to lend the money to the need member. For leading activities, it needs money and therefore it has to borrow.

Source: The bank borrows from the following sources:

- 1) The Bank borrows from international market both for long-term and short-term periods.
- 2) The Bank also borrows under currency swap agreements (CSA).
- 3) The Bank also borrows under the Discount-Note Programme by two methods. First, it places bonds and notes directly with its member countries. Second, it offer issues to investors and in public markets.

The new borrowings instruments were evolved by the Bank. The first one is Central Bank Facility and US Dollar Dominated Facility. The second instrument of

Floating Rate Notes. The World Bank borrows from the commercial banks and other financial institutions with the help of this instrument.

(a) Bank's Lending Activities

The Bank grants loans to members in any one or more of the following ways:

- 1) by participating or granting indirect loans out of its own funds;
- 2) by granting loans out of funds raised in the market of a member or otherwise borrowed by the Bank; and
- 3) by guaranteeing in whole or part, loans made by private investors through the investment channels.

The total outstanding amount of the total direct and indirect loans made or guaranteed by the Bank is not to exceed 100 per cent of its total unimpaired subscribed capital, resources and surpluses. Bank imposes following conditions in granting loans:

- 1) The bank is satisfied that the borrower is unable to borrow under reasonable conditions in the prevailing market conditions.
- 2) The project for which loan is required should be recommended by the competent authority in the form of a written report after careful examination of the project.
- 3) The loan is required for productive purpose.
- 4) The borrower or guarantor has reasonable prospects of repaying loans and interest on loans.
- 5) If the project is located on the territory of the member but itself is not a borrower, then the member or its central bank has to guarantee the repayment of loan, interest on loans and other charges on loan.

In 1991, the Executive Board of the Bank modified the repayment terms which include extension of repayment period from 3 to 5 years for middle income countries and review of repayment terms for middle income countries within 3 years. The cumulative lending of the Bank is of \$ 383 billion and in the fiscal year 2003, it has lent \$ 11.2 billion for 99 new operations in 37 countries.

Facilities of Member Countries

The Bank provides the following facilities to member countries:

(1) Structural Adjustment Facility (SAF): In order to reduce their balance of payment deficit and maintaining or regaining the economic growth of member countries, the World Bank has introduced SAF in 1985. These funds are used to finance the general imports with a few agreed exceptions such as luxury and military imports. These funds are released in two parts and in a series of upto five SAFs to a borrowing country. Generally, the bank imposes stiff conditions for these. These are provided to supports to programmes running from 5 to 7 years.

(2) Enhanced Structural Adjustment Facility (ESAF): In order to increase the availability of concessional resources to the low income member countries, ESAF was established in December 1987. It provides new concessional resources of SDR 6 billion which will be financed by special loans and contributions from developed and OPEC countries. The

purposes for advancing the amount is same, i.e, to reduce balance of payment deficits of borrowing member countries and encourage growth. The interest rate charged by the Bank is 0.5 per cent to be repaid in ten semi-annual installments beginning after 5½ years of disbursements.

(3) Special Action Programme (SAP): The Special Action Programme (SAP) has been started in 1982 to strength the IBRD's ability to assist member countries in adjusting to the current economic environment. It has four major elements:

- i. Provide lending for structural adjustment, policy changes, export-oriented production, full utilisation of existing capacity and maintenance of critical infrastructure.
- ii. Provide advisory services regarding policies.
- iii. Enlisting familiar efforts by other donors for fast disbursing assistance.

Other Activities of the World Bank

In addition to lending activities, the Bank also undertakes the following activities.

(1) Training: In 1956, the Bank set up a staff college to provide training to senior officials of the member countries. This college is known as Economic Development Institute (EDI). The Institute helps the officials in improving the management of their economies and to increase the efficiency of their investment programmes. The EDI also organises seminars in Washington and in different regions of the World in Cooperation with regional institutes.

(2) Technical Assistance: The World Bank also provides technical assistance to its member countries. This assistance includes:

- i. **Engineering – related:** It includes feasibility studies, engineering design and construction supervision;
- ii. **Institution-related:** It includes diagnostic policy and institutional studies, management.

The primary way of providing technical assistance is through loans made for supervision, implementation and engineering services, energy, power transportation, water supply, etc. In 1975, the Bank created Projected Preparation Facility (PPF) for meeting gaps in project preparation and for institution building. The Bank also acts as executing agency for project financed by the United Nations Development Programme (UNDP).

(3) Inter-organisational Co-operation: The World Bank is also engaged in inter-organisation cooperation. It is based on formal agreement between it and international organisations, such as, the cooperative programmes between it and FAO, the UNESCO, the WHO, the GATT, the UNCTAD, the UNEP (United National Environment Programmes), The UNDP, The UNIDO (United Nations Industrial Development Organisation) the ILO, the African Development Bank, the Asian Development Fund, the International Fund for Agriculture Development (IFAD), etc.

(4) Economic and Social Research: In 1983, the Bank established a Research Policy Council (RPC). It provides leadership in the guidance, co-ordination and evaluation of all bank research. The Bank's own research staff undertakes research activities and also in collaboration with outside researchers.

(5) Operations Evaluation: The Bank has set up the Operations Evaluation Department (OED) to help borrowers in the post-evaluation of Bank assisted projects. Members of borrowers' staff visit this Department for seeking help in the preparation of project completion report.

(6) Settlement of Investment Disputes: The Bank has set up the International Centre of Settlement of Investment Disputes (ICSID) between states and nationals of other states. The Bank has successfully mediated in solving many international investment disputes such as the River Water Dispute between India and Pakistan, and the Suez Canal dispute between Egypt and the U.K.

Criticism of the World Bank

The modus operandi of the Bank has been criticised on various counts by different quarters as follows:

1. It is alleged that bank charges a very high rate of interest on loans. For example, some of the loans which India has received in recent years bear an interest of 5.75 per cent including the commission at 1% which is put in the Bank's special reserve.
2. The Bank's insistence, prior to the actual grant of loan, on the country having the capacity to transfer or repay, is open to criticism. The Bank should not apply orthodox standards to judge the transfer capacity of any borrowing country. Transfer capacity follows rather than precede the loan.
3. The financial help given by the Bank does not amount to more than a drop in the big ocean of financial requirements so essential for various development projects.

UNIT-V

India and the World Bank

India is the founder member of the Bank and held a permanent seat for number of years on its Board of Executive Directors. India is one of the largest receiver of assistance since 1949. Up to June 2002, cumulative lendings of the World Bank to India amounted to \$ 26.69 billion in 187 loans. The total amount borrowed by India from the World Bank and the IDA till June 2002 amounted to \$58.54 billion in 434 loans. This amounted to 11.6 percent of the total loans and credits approved by the World Bank groups. During 2001-02, India received \$893 million from the World Bank accounting for 11.22 per cent of its total loans.

India is helped by the World Bank in its planned economic development through granting loans, conducting field surveys, sending study terms and missions and through rendering expert advice. The Bank also provides training to Indian personnel at EDI. There is also a Chief of Missions of the Bank at New Delhi. He is representing the Bank for its aided projects in India for monitoring and consultations. The Bank has been helping India in various objects like development of ports, oil exploration including the Bombay high and gas power projects, aircrafts, coal, iron, aluminium, fertilizers, railway modernisation and technical assistance etc. It also helped India to solve its river water dispute with Pakistan. The benefits desired by India from the World Bank are:

- i. India has received a lot of assistance from the World Bank for its development projects.
- ii. Aid India Club was founded in 1950 by the efforts of the World Bank with a view to help India. This club is now called India Development Forum. This Forum had decided to give loans amounting to \$600 crore to India for implementing its structural adjustment.
- iii. The bank's role in solving the Indus water dispute between India and Pakistan has been invaluable.
- iv. General loans have also been granted by the World Bank to India, to be utilised as per its own discretion.
- v. As a member of the World Bank, India has become the members of International Finance Corporation, International Development Association and Multilateral Investment Guarantee Agency also.
- vi. India has received technical assistance from time to time from the World Bank for its various projects. The Expert Team of the Bank has visited India and given valuable suggestions also.
- vii. The massive population of India has always created problems in the economic development of the country. World Bank has been helping India in the population control programmes and urban development. For this purpose loans amounting to \$ 495 crore have also been given to India.
- viii. World Bank has been giving financial assistance to NGOs operating in India e.g. Leprosy Elimination, Education Projects, Child development service projects etc.

On the other hand, critics argue that the World Bank have endangered the economic freedom of India. The basic points of criticism are as follows:

- i. The World Bank has laid a great deal of emphasis on measures of economic liberalisation and more free play of market forces.
- ii. A lot of stress has been laid on going very slow on the setting up of public sector enterprises including financial intermediaries and encouraging private sector.
- iii. India's dependence on World Bank has been increasing which is adversely affecting its economic freedom.

- iv. The attitude of World Bank reflects the preference for free enterprise and a market oriented economy. It shows dissatisfaction with the general performance of economies which are based on planning and regulation. At different occasions the Bank has tried to undermine the significance of our planning commission.
- v. The devaluation of Indian rupee in 1966 and 1991 was done at the insistence of the World Bank only.

India's main problem till now has been the government's incapacity to act rightly, firmly and effectively in time, on account of being more emotional to set ideologies and compromising attitude to safeguard the political party's interest more than the national interest.

Affiliates to the World Bank

The Bank has four affiliates. These are:

International development Association (IDA)

The IDA was set up in 1960 as a subsidiary of the World Bank to provide "soft loans" to the member countries. Thus, the object of the IDA is to provide loans to member countries on liberal terms with regard to the rate of interest and the period of repayment. Another attraction of the IDA loans is that they can be repaid in the currency of the member country.

In approving an IDA credit, *three criteria* are observed:

1. **Poverty Test:** IDA's assistance is limited to the poorest of those countries classified as Part II countries, and which continue to face such severe handicaps as excessive dependence on volatile primary products markets, heavy debts servicing burden, and often, rates of population growth eat outweigh the gains of production.
2. **Performance Test:** Within the range of difficulties of establishing objective standards of performance, the following factors serve as the yardstick for an adequate performance test: satisfactory overall economic policies and past success in project execution.
3. **Project Test:** The purpose of The IDA is soft loans, not soft projects. IDA projects are appraised according to the same standard as that applied to the Bank projects – the test essentially requires that proposed projects promise to yield financial and economic returns adequate to justify the use of scarce capital.

The Objective of IDA are:

1. To provide development finance on easy terms to less developed member countries; and

2. To promote economic development, increase productivity and thus raise standards of living in the under developed areas.

Since the IDA charges nominal rates of interest on its loans, it has also been nicknamed the "soft-loan windows".

Membership: All the members of the World Bank are the members of the IDA. It has 164 members in June, 2003. There are two types of members. In IDA Part I members are the developed countries which are 24 in number and therefore are called as G-24 countries. Part II members are the developing countries.

Organisation: The organisation of IDA is same as that of the World Bank. Generally, the staff of the World Bank operates this association with few separate sections.

Loans: IDA loans are known as IDA credits. Only a member country can borrow from IDA with a restriction that a member country is eligible to borrow from IDA only if its per capita income is less than US \$ 695 at 1990 price index. Those projects get assistance from IDA which are not financed by the World Bank. IDA observes the poverty criterion, performance criterion and project criterion while approving the projects.

Terms of Loans: Conditions for IDA loans are:

1. Repayment period is 35-40 years.
2. Grace period is 10 years.
3. Interest rate varies between zero to 0.5% which is waived now.
4. Administrative fee is 0.75% on the loan amount disbursed.

Gross disbursement by IDA during the year 2002-03 were \$ 8.1 billion. India received \$ 686.6million interest free loan during the year 2002-03. The cumulative commitments of IDA were of \$ 142 billion and commitments of \$ 7.3 billion for 141 new operations in 55 countries were made in fiscal year 2003.

International Finance Corporation (IFC)

The International Finance Corporation (IFC) is the private sector arm of the World Bank family which was established in July 1956. It is the major multilateral agency promoting productive private investment in developing private investment in developing countries. It helps finance private sector projects to mobilise finance for them in the international financial markets, and provides advice and technical assistance to businesses and governments.

Membership

The Articles of Agreement of the IFC are similar to that of the World Bank. A country has to be a member of the World Bank in order to join the IFC. In June 2003, it had 175 members.

Objectives

The objectives for which the IFC was set up have been laid down in Article 1 of its Articles of Agreement as under:

"The purpose of the Corporation is to further economic development by encouraging the growth of productive private enterprise in member countries, particularly in the less developed areas, thus supplementing the activities of the International bank for Reconstruction and Development. In carrying out this purpose, the Corporation shall:

- (i) In association with private investors, assist in financing the establishment, improvement and expansion of productive private enterprise which would contribute to the development of its member countries by making investments, without guarantee of repayment by the member Government concerned, in cases where sufficient private investment is not available on reasonable terms;
- (ii) Seek to bring together investment opportunities, domestic and foreign private capital, and experienced management; and
- (iii) Seek to stimulate, and to help create conditions conducive to the flow of private capital, domestic and foreign, into productive investment in member countries".

IFC is the largest multinational source of loan and equity financing for private sector projects in the developing world. It offers a full array of financial products and services to companies in its developing member countries:

- long-term loan in major currencies, at fixed or variable rates
- equity investment.
- quasi-equity instruments (subordinated loans, preferred stock, income rates)
- guarantees and standby financing.
- risk management (intermediation of currency and interest rate swaps, provision of hedging facilities).

IFC has approved \$ 3.9 billion in financing 204 projects in various sectors in 64 developing countries in the fiscal year 2003. IFC invested in 11 projects involving an amount of \$ 48.1 million in India. It is composed to \$25.4 million in the form of loan and \$ 22.7 million in the form of equity.

In recent years, greater emphasis has been placed by the corporation on helping to develop resources and to increase the availability of foodstuffs.

The special feature of the IFC is that, unlike commercial financial institutions, it judges potential ventures in terms of both their financial viability and their contribution to the economic development of the country concerned. At the same time, unlike other official development institutions, it participates directly with the private sector in both

the developed and developing worlds. Unlike both types of institutions, it provides both equity and fixed rate financing.

The Multinational Investment Guarantee Agency (MIGA)

The Multinational Investment Guarantee Agency was established in April 1988 as a new affiliate of the World Bank. It is a joint venture of the World Bank and IFC. It was created to assist the World Bank and the IFC in the areas where the Bank and the IFC do not reach. The authorised capital of MiGA is \$ 1.08 billion

Objectives: The MIGA has the following objectives:

1. To encourage the flow of direct foreign investment into developing member countries.
2. To provide insurance cover against political risks to investors.
3. The guarantee programme of MIGA protects investors against non-commercial risks like danger involved in currency transfer, war and civil disturbances, breach of contract by governments, etc.
4. To provide promotional and advisory services.
5. To insure only new investments, expansion of existing investment, privatization and financial restructuring.
6. To establish credibility among investors.

Membership: Any country can become its full-fledged member by ratifying the convention and pay its capital subscription. By June 30, 2003, 162 countries had signed the MIGA convention. Of these, 136 countries had become its full fledged members.

Activities: The MIGA provides promotional and advisory services to its developing member countries, such as organisation of investment promotion conferences, executive development programmes, foreign investment policy, round table conferences, etc. It also operates the Foreign Investment Advisory Service in policy, institutional and legal matters relating to direct foreign investment.

Progress: 226 contracts of guarantee for investments in 52 developing countries have been signed by MIGA. Its outstanding contingent liability was \$ 2.8 billion in 2000. The amount of insured projects of foreign investment was \$ 8.4 billion. It issued 68 investment guarantee contracts with \$ 862 million. It assisted private firms of 17 countries in making investment in 27 countries. Its cumulative guarantee till fiscal year 2003 was of \$ 12.4 billion and alone is fiscal year 2003, it issued guarantee worth of \$ 1.4 billion.

India became the 113th member country of MIGA in April 13, 1992.

The International Centre for Settlement of Investment Disputes (ICSID)

The international Centre for Settlement of Investment Disputes was established in 1966. It has 139 members till date. It helps in encouraging foreign investment by

providing international facilities for conciliation and arbitration of investment disputes. Therefore, it is helping in fostering an atmosphere of mutual confidence between states and foreign investors. ICSID also conducts research and publishing activities in the areas of arbitration law and foreign investment law. It has registered 129 cases in total and in the fiscal year 2003, it had registered 26 cases.

Summary

Economic environment is one of the most important factors that influences the business environment. In the present times, there is a high degree of interdependence among nations. Liberalization of economy, worldwide, is creating several opportunities and the nations are becoming more open in their policies. Last few decades has witnessed a high growth in the international trade. However, the growth is skewed in favour of developed economies, in the services sectors and limited to the nations that have developed exclusive competitive advantages.

The General Agreement on Tariffs and Trade (GATT) was a multilateral treaty that laid down agreed rules for conducting international trade. It came into force in January 1948. Its basic aim was to liberalize trade and for 47 years it had been concerned with negotiating the reduction of the trade barriers and with international trade relations. Overseeing the application of its rules was an important and continuing part of its activities. GATT also provided a forum in which countries could discuss and overcome their trade problems and negotiate to enlarge international trading opportunities. The rapid and uninterrupted growth in the volume of international trade till 1994 provided a good testimony for the success of the GATT.

The World Trade Organisation (WTO) came into effect on January 1, 1995 with the support of 85 founder members. India was one of them. It is third pillar of worldwide economic dimensions along with the IMF and the World Bank. GATT is replaced by the WTO. The WTO has taken charge of monitoring and administering the new global trade rules agreed in the Uruguay Round. The world income is expected to rise by over \$ 500 billion annually by the year 2005 A.D. through the WTO agreements and market access commitments. The expected annual trade growth will be a quarter higher in the same year than it would otherwise have been.

The WTO is an international trade organisation, having set of rules and principles, which were mutually designed and agreed upon to promote international trade in general and also to reduce tariff barriers and to remove import restrictions, in particular. It can be called as World Trade System. It is a new trade organisation with global recognition and succeeded GATT on renewed agreements. The WTO has a new vision with tougher and wider enforcement power to promote international trade. Divergent views have been expressed in support and against our country becoming a member of the WTO.

The UNCTAD secretariat has been doing yeoman's service to LDCs in trade, finance and debt problems vis-a-vis developed countries. The detailed reports prepared by UNCTAD before each conference have created a new climate of thought with regard to the problems and need of LDCs. These are again discussed at other international forums such as the IMF, World Bank, OECD, EEC, NAM etc. Often, positive measures follow, such as larger aid by the World Bank and OECD, giving more trade concessions by EEC to LDCs etc. As such, the UNCTAD reflects the sentiments, hopes and aspirations of LDCs in a world still dominated by the developed countries, both politically and economically.

It can be noted that although wide-range measures have been proposed and devised from time to time by the UNCTAD and Commodity Agreements, there have remained certain important shortcomings in the effective implementation and follow-up. Nevertheless, it can be said that the increasing awareness among the developing countries has served the purpose of pressurizing the more powerful developed countries to listen and to accommodate the interest of the weaker developing countries to some extent, if not only fully. This indeed, has been the success of UNCTAD and Commodity Agreements.

It may be said that the World Bank has not come up to the expectations of many nations. Nevertheless, it has been instrumental to a very large extent in initiating and accelerating the work of economic reconstruction and development in different countries. No doubt, India has derived immense benefit from the World Bank. The bank may have failed to finance most of the development projects, but it should be remembered that it has financed quite a large number of them which have proved a notable success. The Bank has also played a significant role outside financial matters by serving as a mediator between different countries on major economic and political issues. For instance, its help in the solution of the Indus Water dispute between India and Pakistan and the Suez Canal dispute between UK and UAE has been valuable.

The ADB has been playing an important role in providing finance in the form of loans and grants to its member developing countries of their development. There have been two factors for the increase in the Bank's lending operations. First, at the time of its establishment, India had agreed not to get loans from the Bank so that smaller developing member countries might be given larger aid. But when China became its member and started setting assistance from the Bank, India followed it. This has led to increase in the Bank's lending operations. The second factor has been introduction of non-project loans. These are given to member countries to solve their balance of payments problems with the condition that the concerned countries should follow the policies laid down by the Bank. However, industrialised developing countries like China and India do not receive 'soft' loans from the Bank with a nominal rate of interest. The ADB's contribution to the economic development of the developing member countries of the region has been creditable.

QUESTIONS

10. Explain the origin, objectives and function of the World Bank.
 11. What are the objectives of the International Development Association? To what extent it has been successful in helping the developing economies?
 12. What is Multinational Investment Guarantee Agency? Discuss its objectives and workings.
 13. Discuss the objectives the Asian Development Banks. What has been its contribution to the regional development of India.
 14. Explain the working and achievements of the Asian Development Bank.
-