ENVIRONMENT : AN OVERVIEW

Objectives

After reading this unit, you should be able to:

- appraise the international business environment;
- analyze the political, economic, social, technological and legal environment;
- identify the key economic issues that influence international business;
- understand the transition of certain countries to a market economy and theeffects of the latter on international firms and their managers; and
- appreciate the dynamicsof political, social, technological and legal environmentsand their influence on business.

Structure

3.1 Introduction

3.2 Appraising International Business Environment

3.3 Political Environment

3.4 Economic Environment

3.5 Social and Cultural Environment

3.6 Technological Environment

3.7 Ecological Environment

3.8 Legal Environment

3.9 Summary

3.10 Key Words

3.11 Self-Assessment Questions

3.12 References/ Further Readings

3.1 INTRODUCTION

A firm has no control on external environment even in domestic business where it haveto deal with issues like, tax rates and policy, changes to the economic structure, threatsfrom competition, political factors, government regulations, industrial licensing and

approvals, ecological concerns, legal compliances to different acts and rules and dealing with changing technological landscape. This becomes extremely complex when a firmenters international business as it has to deal with different business environment in thecountries, it enters with. International business environment is regarded as the "*sum ofall the external forces working upon the firm as it goes about its affairs in foreignmarkets*". A firm can plan a course of action to manage uncontrollable external factorsin the domestic business as managers are familiar with business landscape of the country
and forces shaping it including political economy of home country.

This is not the case for international business operations where many uncontrollableexternal forces can challenge it. Some examples of such challenges are uncertainty offoreign trade regime, different political environment, changed economic legislation,confusing tax policies and procedure, misleading cultural interpretations and complexlegal compliances. Hence, the managers of an internationally engaged firm need toscan the following elements of international business environment to enter a market for

Components of international business environment:

Environment is a complex mix of components, which interact with each other and produce situations
which can be favourable or unfavourable for business. Wiiliam F. Gluck has defined business
environment set of factors, described as, "*Business environment is a the process by which strategists*
monitor the economic, governmental, market, supplier, technological, geographic, and social settings
to determine opportunities and threats to their firms".

Depending upon their proximity to a firm, various components of business environment can be
divided into two categories:

a) Internal environment

b) External environment

Both these factors have varying degree of influence on the business firm. There is varying degree of
control of a firm on these environmental components. The internal environment comprises of the
components which are related to direct achievement of the objectives and have a direct bearing on a
firm's performance. Since they relate to the achievement of tasks and activities within the
organization, they are also called task environment. A firm's management can assert control on these
factors. Hence, the internal environment is also connoted as controllable environment.

The external environment comprises of the components which lie outside a firm. These components
have a remote or indirect influence on a firm's activities. These components do not intervene with the
day to day activities, but assert an influence. Hence, the other name given to external environmental
components is the remote environment. Since these components lie outside the firm, the management

of the firm cannot exercise a direct control on them. So, the external environment is also considered to
be uncontrollable.
Exhibit.1 shows various components of the external and internal environment of a firm venturing into
overseas markets.

Value

Exhibit.1
Business Environment
Internal Environment External Environment
1. Value Systems
2. Vision
3. Mission
4. Objectives
5. Core Competences
6. Resources
7. Organizational Structure
8. Corporate Culture
9. Quality of Human resources
10. Economic
11. Political & Legal
12. Demographic
13. Socio-cultural
14. Natural
15. Suppliers
16. Customers
17. Marketing channels
18. Competitors
19. Publics
Components of Business Environment

Internal Environment

An organization's *internal environment* is composed of the elements within the organization,
including current employees, management, and specially corporate culture, which defines employee
behavior. Although some elements affect the organization as a whole, others affect only the manager.
A manager's philosophical or leadership style directly impacts employees. Traditional managers give

explicit instructions to employees, while progressive managers empower employees to make many of
their own decisions. Changes in philosophy and/or leadership style are under the control of the
manager. In other words, Internal driving forces are those kinds of things, situations, or events that
occur inside the business, and are generally under the control of the company. Various components of
internal environment of a firm are:

- Value Systems
- Vision and Mission
- Objectives & Strategy
- Core Competences
- Resources
- Organizational Structure

These are explained in the following discussion.

Value Systems

According to business dictionary, the value systems are comprehended as
a coherent set of values adopted and/or evolved by a person, organization, or society as a standard to
guide its behavior in preferences in all situations.
They represent the individuals' and consequently the firm's commitment to abide by the self defined
set of norms and values. These norms and value define a firm's conceptualization of righteousness
and wrongfulness of its actions and they set the standards for the range of deviations that they would
allow to themselves while earning the profits. These value systems tell us purpose of doing the
business and the basic values for which a firm stands for. All the subsequent actions of a firm are
translated on the basis of their value systems.
For example, purpose and values of Tata group are stated as under:

Purpose and Values of Tata Group

Purpose

At the Tata group we are committed to improving the quality of life of the communities we serve. We

do this by striving for leadership and global competitiveness in the business sectors in which we
operate.
Our practice of returning to society what we earn evokes trust among consumers, employees,
shareholders and the community. We are committed to protecting this heritage of leadership with trust
through the manner in which we conduct our business.

Core values

Tata has always been values-driven. These values continue to direct the growth and business of Tata
companies. The five core Tata values underpinning the way we do business are:

- **Integrity:** We must conduct our business fairly, with honesty and transparency. Everything
we do must stand the test of public scrutiny.
- **Understanding:** We must be caring, show respect, compassion and humanity for our colleagues and customers around the world, and always work for the benefit of the communities we serve.
- **Excellence:** We must constantly strive to achieve the highest possible standards in our day-today
work and in the quality of the goods and services we provide.
- **Unity:** We must work cohesively with our colleagues across the group and with our customers and partners around the world, building strong relationships based on tolerance,
understanding and mutual cooperation.
- **Responsibility:** We must continue to be responsible, sensitive to the countries, communities
and environments in which we work, always ensuring that what comes from the people goes
back to the people many times over.

We see a strong sense of purpose, which shows the group’s commitment to improving the quality of
life of all the stakeholders. All the businesses of the group have been built on these core values and
we see that even the present times of low ethical behaviour even highly reputed firms, Tata group has
never come in any kind of controversy.

Vision and Mission

The vision of an organization outlines what the organization wants to be, or how it wants the world in
which it operates to be (an "idealised" view of the world). It is a long-term view and concentrates on
the future. It can be emotive and is a source of inspiration. It is a long term view of the self and tells
what the stakeholders of a firm see for themselves after doing the business. It sets a framework for the
business to develop a roadmap of activities to translate into the vision.
The firm's mission decides the course of action that a firm will follow in order to survive and grow. In
the present times, the firms develop a few core competences and develop their entire global business
plan on its basis. They do not dissipate their resources by venturing into too many businesses, but
concentrate on their core strengths and do not mind outsourcing the rest. The mission is the roadmap
to achieve the framework defined by the vision.
Let us understand the concept from an example of global company "Coca-Cola'. The mission and
vision of Coca Cola group are as under:

Mission and Vision of Coca Cola Group

The world is changing all around us. To continue to thrive as a business over the next ten years and
beyond, we must look ahead, understand the trends and forces that will shape our business in the
future and move swiftly to prepare for what's to come. We must get ready for tomorrow today. That's
what our 2020 Vision is all about. It creates a long-term destination for our business and provides us
with a "Roadmap" for winning together with our bottling partners.

Our Mission

Our Roadmap starts with our mission, which is enduring. It declares our purpose as a company and
serves as the standard against which we weigh our actions and decisions.

- To refresh the world...
- To inspire moments of optimism and happiness...
- To create value and make a difference.

Our Vision

Our vision serves as the framework for our Roadmap and guides every aspect of our business by
describing what we need to accomplish in order to continue achieving sustainable, quality growth.

- **People:** Be a great place to work where people are inspired to be the best they can be.
- **Portfolio:** Bring to the world a portfolio of quality beverage brands that anticipate and satisfy
people's desires and needs.
Partners: Nurture a winning network of customers and suppliers, together we create mutual, enduring
value.
- **Planet:** Be a responsible citizen that makes a difference by helping build and support sustainable communities.
- **Profit:** Maximize long-term return to shareowners while being mindful of our overall responsibilities.
- **Productivity:** Be a highly effective, lean and fast-moving organization.

Objectives and Strategy

Business Dictionary defines the objective of a firm as a specific result that
a person or system aims to achieve within a time frame and with available resources. In general,
objectives are more specific and easier to measure than goals. Objectives are basic tools that underlie
all planning and strategic activities. They serve as the basis for creating policy and
evaluating performance. Some examples of business objectives include minimizing expenses,
expanding internationally, or making a profit. In other words, objectives are the quantified and
measurable steps to achieving the mission of a firm.
The mission translates into more operational paradigm in the form of strategy, which operates at
various levels. A strategy is a long-term plan, formulated by the top management to achieve the goals
within the framework of environmental uncertainty. Strategy is the direction and scope of an
organisation over the long-term: which achieves advantage for the organisation through its
configuration of resources within a challenging environment, to meet the needs of markets and to

fulfil stakeholder expectations. Strategies exist at several levels in any organisation - ranging from the
overall business (or group of businesses) through to individuals working in it.
Corporate Strategy - is concerned with the overall purpose and scope of the business to meet
stakeholder expectations. This is a crucial level since it is heavily influenced by investors in the
business and acts to guide strategic decision-making throughout the business. Corporate strategy is
often stated explicitly in a "mission statement".
Business Unit Strategy - is concerned more with how a business competes successfully in a
particular market. It concerns strategic decisions about choice of products, meeting needs of
customers, gaining advantage over competitors, exploiting or creating new opportunities etc.
Operational Strategy - is concerned with how each part of the business is organised to deliver
the corporate and business-unit level strategic direction. Operational strategy therefore focuses on
issues of resources, processes, people etc.
While understanding the tools for strategic analysis are beyond the scope of this lesson, it is
pertinent to mention some of the tools:
a) PEST analysis
b) Scenario planning
c) Five force analysis
d) Market segmentation
e) Directional policy matrix
f) Competitor analysis
g) Critical success factor analysis
h) SWOT analysis

Core Competences

The core competences are the main strengths or strategic advantages of a business. Core competencies
are the combination of pooled knowledge and technical capacities that allow a business to be
competitive in the marketplace. Theoretically, a core competency should allow a company to expand
into new end markets as well as provide a significant benefit to customers. It should also be hard for

competitors to replicate. The term "core competency" is relatively new. It originated in a 1990
Harvard Business Review article. In it, the authors suggest that business functions not enhanced by
core competencies should be outsourced if economically feasible. The term was coined by CK
Prahlad as an alternative tool to competitiveness, in addition to Porter's model of generic strategy.
Since core competences are difficult to imitate, they are also called as distinctive competences.
Firms often develop core competences, but only a few are able to convert it into successful business.
The classical case of Cannon vs Xerox is an example. Both the companies started by developing core
competence in optical scanning, but over a period of time, Xerox outsmarted the former by its
superior strategy. Cannon, at one time, had practically driven Xerox even out of its home country i.e.
USA. But, Xerox developed a very comprehensive marketing and customer service strategy and
regained its leadership in the photocopier industry. Similarly, Honda developed the core competence
in the field of petrol engine and this led it to become a market leader in the products based on the
same. Honda is the leader in cars, generator sets, and now two wheelers also. The formidable
competitive advantage dwells upon the core competence.

Resources

Firm's access to exclusive resources is a big source of competitive advantage. The resources can be in
the form of raw material, cheap labour, technology, networks, cheap power, infrastructure, etc. These
resources enable a firm to achieve effective strategy implementation resulting into a characteristic
distinctiveness. For example, Chinese manufacturers have access to good infrastructure, cheap power
and other inputs. Further, they have exclusive knowledge of materials science and are able to
reengineer the products to reduce the costs, without significant reduction into the operational

performance of the products. This makes them the low cost producers of the world, unmatched by any country in the world, eroding the competitive advantage of several developed nations. In the present times, the intangible resources, such as knowledge, technology, etc. are also playing an important role in imparting competitiveness to the firms.

Organizational Structure

Certain firms have organizational characteristics, including the structure and systems, which can be a good source of competitive advantage. Japanese firms have very strong systems of planning and collective decision making, organizational commitment and high degree of operational competence to produce zero defect products. Such an output is the result of the organization-wide efforts. In the present times, several firms have developed lean and efficient organizational structures, which help them to produce unmatched quality. Properly designed organizational structures facilitate hassle free communication between individuals, reduces conflict and helps in achieving better coordination between various departments. Similarly, organizational culture helps in motivating employees and achieving better productivity. The systems of multinational companies have helped them to survive for centuries, in diverse business environments. The recent example of strike and violent protests in Maruti were the results of the organizational problems. The top management failed to anticipate the brewing problem within the organization and the firm had to face labour protests, shut down of production and loss of market position. Maruti will have to work very hard to come out of this regain its leadership position in the automobile industry.

Summary

Business environment is a complex combination of various surrounding components, both within and outside an organization. The internal components of business environment are the factors within in an

organization and can be within the control of the management of the firm. These internal components
include organizational values, vision and mission, objectives, strategies, core competence, resources
and organizational characteristics of the firms. By carefully crafting each of these factors, the firms
can build the systems, which can help them to remain competitive. The firms must have effective
systems for assessing the internal conditions of the firms to avoid sudden uncertainties.

(II) MACRO ENVIRONMENT

The macro environment consists of
1. Economic environment.
2. Non-economic environment.

1.Economic environment: Business fortunes and strategies are influenced by the economic characteristics and economic policy dimensions. The economic environment includes 1. The structure and nature of economy. The structure of the economy (i.e,) primary mostly agriculture. Secondary industrial and territory sectors, large, medium, small and tiny sectors is the company, and their linkages, integrations with the world economy etc. are important to business. Because these factors indicate the prospects for different types of business, certain factors which affects the business etc, for example if an company is highly integrated with the global economy. The nature of the economy is nothing but the classification of the economics is on the basis of per capital income. Accordingly, these are broadly classified low income, middle income, high income economies. The difference in the income and development levels have important implicates for business.

(II) ECONOMIC CONDITIONS: The followings are some of the economic conditions of the country which affects the operations of the business. 1. Income levels. 2. Distribution of income. 3. GDP trends. 4. Sectoral growth trend. 5. Demand and supply trends. 6. Price trends. 7. Foreign exchange reserve position. 8. Global economic trends.
(III) ECONOMIC POLICIES: There are several economic policies which can have a very great impact on business. Important economic policies are,

1. INDUSTRIAL POLICY It can even define the scope and role of different sectors like private, public, joint and co- operative, or large, medium and small industries. Choice of technology, scale of operations, product risk and so on.
2. 2 TRADE POLICY: It can signified affect the fortunes of the firm For examples restrictive import policies are a policy of producing the home industry may greatly help the import competing industries, while a literalisation of the import policy

may create difficulties for such industries.

3. 3 FOREIGN EXCHANGE POLICY Exchange rate policy and the policy irrespective of cross border movement of capital are important for business.
4. 4. FOREIGN INVESTMET AND TECHNOLOGY POLICY: Liberal foreign investment and technology policy will increase domestic competition would put many domestic firms on account of foreign competition in problems. But at the same times it would benefit many domestic firms by permitting global sourcing of capital and technology by increasing in the quantity and quality of domestic supply of many goods and security etc., 5. FISCAL POLICY Government's strategy irrespective of public expenditure and revenue can have significant impact on the business. Example: Taxation policy.
5. 6. MONETARY POLICY The central bank by its policy towards the cost and availability of credit, can significantly influence the savings investments and consumer spending in the economy. Ex. a one percentage point reduction the cash ratio or statutory reserve ratio (SLR) will significant increase the loanable funds with the commercial banking system and vice versa.

NON- ECONOMIC ENVIRONMENT:

1. POLITICAL AND GOVERNMENT ENVIRONMENT The political environment includes factors such as characteristics and policies of the political parties, the nature of the constitution and government system and the government environment encompasses the economic and business policies and regulations Ex. congrass government – 1950 - - socialistic – pattern of society – nationalisation – pubic sector domination 1991 narasimroa government Important economic policies such as industrial policies, policy towards foreign capital and technology, fiscal policy and export import policy are often political decision. Many political decisions have serious economic and business implication. The economic policy of the ruling party is very important. In the past communist and other leftists favoured state capitalism and were against private capital, particularly foreign Capital.

UNIT-II

Balance of Payment (BOP)

The balance of payment is the statement that files all the transactions between the entities, government anatomies, or individuals of one country to another for a given period of time. All the transaction details are mentioned in the statement, giving the authority a clear vision of the flow of funds.

After all, if the items are included in the statement, then the inflow and the outflow of the fund should match. For a country, the balance of payment specifies whether the country has an excess or shortage of funds. It gives an indication of whether the country's export is more than its import or vice versa.

Types of Balance of Payment

The balance of payment is divided into three types:

Current account: This account scans all the incoming and outgoing of goods and services between countries. All the payments made for raw materials and constructed goods are covered under this account. Few other deliveries that are included in this category are from tourism, engineering, stocks, business services, transportation, and royalties from licenses and copyrights. All these combine together to make a BOP of a country.

Capital account: Capital transactions like purchase and sale of assets (non-financial) like lands and properties are monitored under this account. This account also records the flow of taxes, acquisition, and sale of fixed assets by immigrants moving into the different country. The shortage or excess in the current account is governed by the finance from the capital account and vice versa.

Finance account: The funds that flow to and from the other countries through investments like real estate, foreign direct investments, business enterprises, etc., is recorded in this account. This account calculates the foreign proprietor of domestic assets and domestic proprietor of foreign assets, and analyses if it is acquiring or selling more assets like stocks, gold, equity, etc.

Importance of Balance of Payment

A balance of payment is an essential document or transaction in the finance department as it gives the status of a country and its economy. The importance of the balance of payment can be calculated from the following points:

- It examines the transaction of all the exports and imports of goods and services for a given period.
- It helps the government to analyse the potential of a particular industry export growth and formulate policy to support that growth.
- It gives the government a broad perspective on a different range of import and export tariffs. The government then takes measures to increase and decrease the tax to discourage import and encourage export, respectively, and be self-sufficient.
- If the economy urges support in the mode of import, the government plans according to the BOP, and divert the cash flow and technology to the unfavourable sector of the economy, and seek future growth.
- The balance of payment also indicates the government to detect the state of the economy, and plan expansion. Monetary and fiscal policy are established on the basis of balance of payment status of the country.

Meaning of WTO

WTO – World Trade Organisation, was established in 1995 as the heir organisation to the GATT (General Agreement on Trade and Tariff). GATT was founded in 1948 with 23 nations as the global (international) trade organisation to serve all multilateral trade agreements by giving fair chances to all nations in the international exchange for trading prospects. WTO is required to build a rule-based trading government in which countries cannot place unreasonable constraints on trade.

In addition, its mission is to increase stock and trade of services, to assure maximum utilisation of world resources and to preserve the environment. The WTO deals include trade in commodities as well as services to promote international trade (bilateral and multilateral) through the elimination of the tax as well as non-tariff obstacles and implementing greater marketplace access to all member nations.

As an influential member of WTO, India is at the lead of building fair global laws, statutes and shields and supporting the concerns of the developing system. India has fulfilled its promises towards the liberalisation of trade, made in the WTO, by eliminating quantitative limitations on imports and decreasing tariff charges.

Objectives of WTO

- To set and execute rules for international trade
- To present a panel for negotiating and controlling additional trade liberalization
- To solve trade conflicts
- To improve the clarity of decision-making methods

Origin	• The WTO was founded in 1995. • It is the successor organisation to the General Agreemen on Trade and Tariff (GATT).
Members	• On 1st January 1995, 123 nations signed the agreement to replace the General Agreement on Trade and Tariff

	(GATT). • At present, there are 164 member countries of WTO. • 164 Members as on 29th July 2016. • Afghanistan is the 164th member of WTO. • All members are obliged to follow laws and policies framed under WTO rules.
Functions of WTO:	
Facilitate international trade	• It facilitates international trade through the removal of tariff and non-tariff barriers. • It provides greater market access to all member countries.
Formulation of rules	• It establishes a rule-based trading regime, in which nations cannot place arbitrary restrictions on trade.
Protecting the interest of developing countries	• It frames fair global rules, regulations. • It safeguards and advocates the interests of the developing world.
Optimum utilisation of world resources	• It is also responsible to increase production and trade of services. • It ensures optimum utilisation of world resources.

Why was W.T.O. Established? **(or)** **What were the objectives of establishing WTO?**	
: Following are the objectives of establishing WTO:	
Objectives of WTO	1. To raise the standard of living in member countries. 2. Development of a multilateral trading system. 3. To reduce Tariff and Non-Tariff barrier. 4. To eliminate discriminatory treatment in international trade relationships 5. To make coordination between trade policies, environmental policies ar

	sustainable development
Q.3- What are the features of WTO?	
ANSWER:	
Features of WTO	1. It is a much wider concept than GATT. 2. Each member has a single voting right. 3. Its member enjoys the international privilege. 4. It administers a unified package of an agreement to which all members are committed. 5. It is a forum of discussion between its member countrie

International Monetary Fund (IMF) is included under the international relations and economy sections. This article will discuss the origin of the IMF and its controlling bodies, apart from India's relations with the IMF.

Why one should read about the IMF?

The international organizations like the International Monetary Fund recur in then news.. Hence, it becomes imperative for the aspirants to know about such institutions/organizations for their preparation.

As of February 2021, the IMF has been in the news for the following:

1. It projected the growth rate of India for 2021 to be at 11.5 percent predicting India to be the fastest-growing economy in this fiscal year.
2. The IMF's report World Economic Outlook is important from the perspective of the GS 3 (Economy) preparation. It is published bi-annually.

3. It also releases a bi-annual Global Financial Stability Report.
4. IMF and COVID-19 Hub
    - Emergency Financing – IMF has responded by doubling the countries' access to its Rapid Credit Facility (RCF) and Rapid Transfer Financing (RFI)
    - Grants for Debt Relief – With this initiative, IMF has reached out to the 29 of its poorest and most vulnerable countries through its Catastrophe Containment and Relief Trust (CCRT).
    - Calls for Bilateral Debt Relief – IMF asked the bilateral creditors to suspend debt service payments from the low-income countries, using its Debt Service Suspension Initiative (DSSI).
    - Enhancing Liquidity – For the global financial safety, the International Monetary Organization approved the establishment of Short-term Liquidity Line (SLL).
    - Adjusting existing lending arrangements – The IMF's focus is also on to adjust its lending arrangements for new needs rising amid the pandemic.
    - Policy Advice – The organization is catering to the need for policy advice to the countries to boost the economy in the time of the pandemic.
    - Capacity Development – The organization has reached out to 160 countries to address urgent issues such as cash management, financial supervision, cybersecurity and economic governance.

International Monetary Fund (IMF)

The formation of the IMF was initiated in 1944 at the Bretton Woods Conference. IMF came into operation on 27th December 1945 and is today an international organization that consists of 189 member countries. Headquartered in Washington, D.C., IMF focuses on fostering global monetary cooperation, securing financial stability, facilitating and promoting international trade, employment, and economic growth around the world. The IMF is a specialized agency of the United Nations.

Formation of IMF

The breakdown of international monetary cooperation during the Great Depression led to the development of the IMF, which aimed at improving economic growth and reducing poverty around the world. The International Monetary Fund (IMF) was initially formed at the Bretton Woods Conference in 1944. 45 government representatives were present at the Conference to discuss a framework for postwar international economic cooperation.

The IMF became operational on 27th December 1945 with 29 member countries that agreed to bound to this treaty. It began its financial operations on 1st March 1947. Currently, the IMF consists of 189 member countries.

The IMF is regarded as a key organisation in the international economic system which focuses on rebuilding the international capital along with maximizing the national economic sovereignty and human welfare.

Organizational Structure of International Monetary Fund (IMF)

The United Nations is the parent organization that handles the proper functioning and administration of the IMF. The IMF is headed by a Managing Director who is elected by the Executive Board for a 5-year term of office. The International Monetary Fund (IMF) consists of the Board of Governors, Ministerial Committees, and the Executive Board.

To know more about the organizational structure of IMF, refer to the table below:

Structure of the International Monetary Fund (IMF)	
Governing Bodies of IMF	**Roles and Responsibilities**
Board of Governors	• Each governor of the Board of Governors is appointed by his/her respective member country. • Elects or appoints executive directors to the Executive Board. • Board of Governors is advised by the International Monetary and Financial Committee (IMFC) and the

	Development Committee. • An annual meet up between the Board of Governors and the World Bank Group is conducted during the IMF–Wor Bank Annual Meetings to discuss the work of their respective institutions.
Ministerial Committees 1. International Monetary and Financial Committee (IMFC) 2. Development Committee	• It manages the international monetary and financial syster • Amendment of the Articles of Agreement. • To solve the issues in the developing countries that are related to economic development.
Executive Board	• It is a 24-member board that discusses all the aspects of th Funds. • The Board normally makes decisions based on consensus but sometimes formal votes are taken.

Objectives of the IMF

IMF was developed as an initiative to promote international monetary cooperation, enable international trade, achieve financial stability, stimulate high employment, diminish poverty in the world, and sustain economic growth. Initially, there were 29 countries with a goal of redoing the global payment system. Today, the organization has 189 members. The main objectives of the International Monetary Fund (IMF) are mentioned below:

1. To improve and promote global monetary cooperation of the world.
2. To secure financial stability by eliminating or minimizing the exchange rate stability.
3. To facilitate a balanced international trade.
4. To promote high employment through economic assistance and sustainable economic growth.
5. To reduce poverty around the world.

What are the functions of the IMF?

IMF mainly focuses on supervising the international monetary system along with providing credits to the member countries. The functions of the International Monetary Fund can be categorized into three types:

1. **Regulatory functions:** IMF functions as a regulatory body and as per the rules of the Articles of Agreement, it also focuses on administering a code of conduct for exchange rate policies and restrictions on payments for current account transactions.
2. **Financial functions:** IMF provides financial support and resources to the member countries to meet short term and medium term Balance of Payments (BOP) disequilibrium.
3. **Consultative functions:** IMF is a centre for international cooperation for the member countries. It also acts as a source of counsel and technical assistance.

India & IMF

India is a founder member of the IMF. India's Union Finance Minister is the Ex Officio Governor on the IMF's Board of Governors. Each member country also has an alternate governor. The alternate governor for India is the Governor of the RBI. There is also an Executive Director for India who represents the country at the IMF.

- India's quota in the IMF is SDR 13,114.4 million that gives India a shareholding of 2.76%. Read about the Special Drawing Rights – Created in 1969 by International Monetary Fund (IMF) at the linked article.
- This makes India the eight largest quota holding country at the organization.
- In 2000, India completed the repayment of all the loans it had taken from the IMF.
- Now, India is a contributor to the IMF.

The emerging economies have gained more influence in the governance architecture of the International Monetary Fund (IMF).

- The reforms were agreed upon by the then 188 members of the IMF in 2010, in the aftermath of the global financial meltdown.
- More than six percent of the quota shares will shift to emerging and developing countries from the U.S. and European countries.

Which countries gained?

- India’s voting rights increased to 2.63 percent from the current 2.3 percent, and China’s to 6.08 percent from 3.8. Russia and Brazil are the other two countries that gain from the reforms.

Why delay the reforms?

- Among the reasons for the delay has been the time it took the U.S Congress to approve the changes.
- Though the country holds veto power, Republicans have been agitated over “declining U.S power.”

Advantages

- For the first time, the Executive Board will consist entirely of elected executive directors, ending the category of appointed executive directors. Currently, the members with the five largest quotas appoint an executive director, a position that will cease to exist.
- The significant resource enhancement will fortify the IMF’s ability to respond to crises more effectively.
- These reforms will reinforce the credibility, effectiveness, and legitimacy of the IMF.

International Bank of Reconstruction and Development (IBRD)-WORLD BANK

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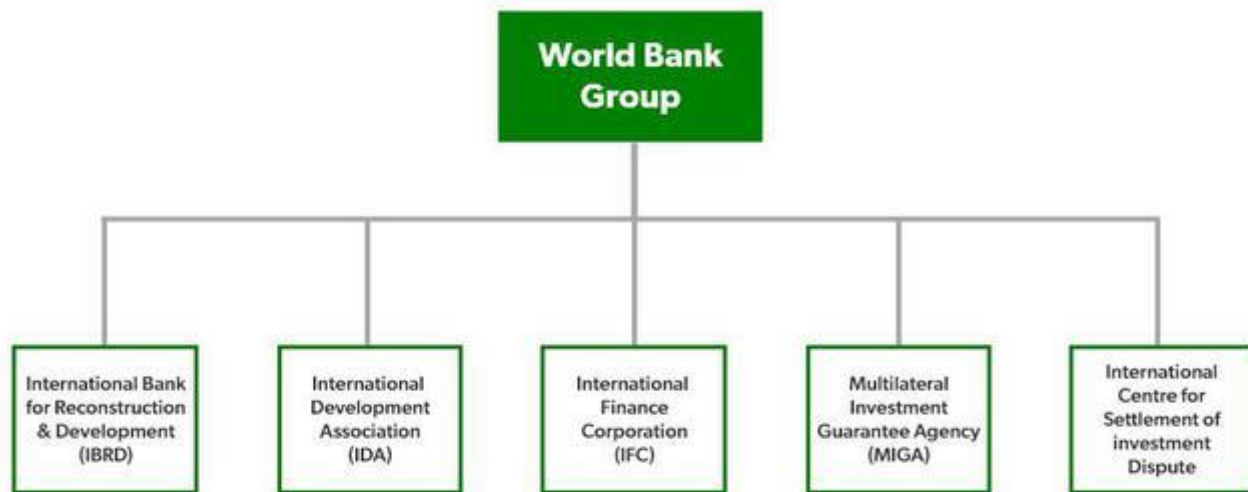
About IBRD (International Bank of Reconstruction and Development):

The International Bank of Reconstruction and Development (IBRD) also referred to as the lending arm of the world bank group was founded in 1944 after the end of the second world war. World Bank Group is composed of five organizations, and IBRD is one of them. The headquarter of IBRD is located in Washington D.C, United States. The primary motive of IBRD at the initial stages was to provide financial aid for the reconstruction and development of the European counties that were devastated by World War II. As the staff and leadership of the International Development Association (IDA) and the IBRD are the same they are collectively referred to as World Bank.



World Bank Group

Apart from the reconstruction and development of counties destroyed by wars this bank also lends loans to financially weaker countries to eradicate poverty and promote economic development. The IBRD also provides commercial loans to some sovereign states to improve some important sectors like infrastructure, health care, sanitation, education, etc. At present 189 counties are members of the IBRD and these countries act as a governing body and the owner of the IBRD. The member countries of IBRD are its shareholders and thus reserve the right to vote in its internal matters.

IBRD and its Priority:

After the redevelopment of European counties, IBRD shifted its focus to underdeveloped middle-income nations (MICs). The world's Middle-Income Countries (MICs) are a diverse group by size, population, and income level. They are defined as lower-middle-income economies – those with a Gross National Income (GNI) per capita between $1,036 and $4,045; and upper-middle-income economies – those with a GNI per capita between $4,046 and $12,535 (2021).

IBRD provides financial support to these countries. India is among the nations that attract some of the highest Foreign Direct Investment every year but due to its large population, the benefit of these investments doesn't seem to reach every person. Thus IBRD lends its services to such countries on a priority such that it doesn't come under huge economic collapses.

Among the priority of IBRD people, peace and prosperity are equally important, and thus these three priorities help IBRD eradicate poverty, promote sustainable development, and help people in building resilience. IBRD aims to end extreme poverty via investment in nutrition, health care, and quality education.

Who finances the IBRD?

The member countries of the IBRD are its major financiers the IBRD raises money from the holding of its shareholders. Also, it issues world bank bonds and borrows money from the international capital markets. ***In the Financial year 2019, the IBRD raised more than USD 54 Billion in around 27 different currencies.*** The return on equity and margins on loans are also major sources of income for IBRD. As the IBRD does not aims to earn any profit thus all the income generated from these different sources is diverted to IDA (International Development Association).

The Objective of IBRD:

IBRD's main objective is to provide financial assistance to middle-income countries, however, it also provides information services and strategic coordination to its borrowing member countries. IBRD only finances government-backed projects or directly finances sovereign governments. The loans offered by this bank have a long-term maturity period say 30 years, with a nominal or zero interest rate. Also, IBRD offers the loan in the local currency of a particular nation to avoid conversion charges. With the collaboration of the International Finance Corporation and IBRD, the bank offers loans with or without sovereign guarantees.

How did IBRD help underdeveloped countries?

Just after the formation of IBRD in 1944 till the date, this bank has financed more than 12,000 projects globally, via its small interest, zero interest, and traditional loans. IBRD has financed numerous projects in various middle-income countries across the globe and some of them are listed below.

- Promotion of a sustainable approach in farming to reduce the use of harmful chemicals, in Africa in March 2022.
- In January 2022 IBRD launched a project in Cambodia to improve the quality of education and make sure every child has access to education.
- In December 2021 IBRD financed a power sector project in Pakistan to make sure of proper power distribution via selected companies.
- In February 2022 IBRD launched a project in Africa to help people overcome the socio-economic effect of COVID-19.
- In December 2021 IBRD financed a project in India to ensure the proper delivery of clean and safe piped water across the state of Karnataka.

How has IBRD contributed to the Socio-Economic Development of India?

The IBRD has financially helped many middle-income countries to grow their economy, similarly, IBRD has a significant contribution to the socio-economic development of India, as discussed below.

- *India has received a loan of USD 39,576,852,00 by 2020 from the IBRD*. This loan amount is issued by the IBRD to India, to improve some of its key sectors like agriculture, health care, education, infrastructure, skill information, sanitation, etc.
- The Indian Development forum or previously known as the Aid-India Consortium was formed in 1958 by the world bank as an international scheme. The main aim of this scheme was to provide financial assistance to India in its development projects. The countries like the USA, Japan, Germany, and the UK are member countries of this forum.
- In January 2022, the world bank raised a fund of USD 125 million to uplift the economically backward sector and provide social protection to people living in vulnerable districts of West Bengal.
- In December 2021, IBRD launched a program that supported the Central Board of Secondary Education (CBSE) to develop vocational skills among students across India.

IBRD and the world bank have always been a helping hand for all countries, but still, there are many poor and middle-income countries that need the help of IBRD. For example, recently the Srilankan economy collapsed and now there is a huge shortage of basic necessities thus in such conditions a small help from IBRD can turn into great relief.

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UNIT – 3

International trade and Payments

International trade

International trade is the exchange of goods and services $39.7 trillion. That's $20.8 trillion in exports and $18.9 trillion in imports. Trade drives 46% of the $86 trillion global economy.

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

International payments

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

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

PAYMENT METHODS IN INTERNATIONAL TRADE FOR EXPORTS

AND IMPORTS

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

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

1. CASH-IN-ADVANCE

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

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

2. LETTERS OF CREDIT

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

3. DOCUMENTARY COLLECTIONS

In a documentary collection process, the seller instructs their bank to forward documents related to the export of goods to a buyer's bank with an instruction to present these documents to the buyer for payment, pointing when and on what circumstances these documents can be released to the buyer. Funds are received from the importer and

transferred to the exporter through the banks involved in the collection in exchange for those documents. Documentary Collections involve using a draft that requires the importer to pay the face amount either at sight (document against payment) or on a specified date (document against acceptance). The collection letter gives instructions that specify the documents required for the transfer of title to the goods.

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

4. *OPEN ACCOUNT*

An open account transaction is a sale where the goods are shipped

and delivered

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

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

5. *CONSIGNMENT*

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

Consignment increases the chances of exporters to become more competitive on the basis of better availability and faster delivery of goods. Selling on consignment can also help exporters reduce the direct costs of storing and managing inventory. The key to success in exporting

on consignment is to partner with a reputable and trustworthy foreign distributor or a third-party logistics provider. Appropriate insurance should be in place to cover consigned goods in transit or in possession of a foreign distributor as well as to mitigate the risk of non-payment.

Governmental Influence on Trade

Protectionism

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

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

Role of Government

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

The Economic Rationales for governmental intervention

1. Unemployment

One of the social objectives of government is to prevent unemployment. The government can do that through import

restriction. One difficulty with restricting imports to create jobs is that other countries normally retaliate with their own restrictions. Two factors can ease the effects of retaliation

Small trading countries are less important in the retaliation process.

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

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

2. *Infant industry protection*

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

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

Governments must identify those industries that have a high probability of success. Even if policy makers can determine those infant industries likely to succeed,

it does not necessarily follow that companies in those industries should

receive

governmental assistance.

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

3. Promote Industrialization

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

The following are the effects of promoting industrialization

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

Promoting investment inflows

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

Diversification

Prices and sales of agricultural products and raw materials

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

Greater growth of manufactured products

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

Import substitution versus export promotion

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

Nation Building

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

Use of surplus workers

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

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

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

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

Improving Balance of payments through BOT

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

Restrictions as a Negotiating tool

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

Price control on exports

Countries sometimes withhold goods from international markets in an effort to raise prices abroad. This policy may also encourage other countries to develop technology that will provide either substitute products or different ways of producing the same product. A country may

limit exports of a product that is in short supply worldwide in order to favor domestic consumers. Companies sometimes export below cost or below their home country price, a practice called dumping. Companies do dumping to build a market abroad.

Fair access/Reciprocity

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

Optimal tariff theory

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

EXIM Policy

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

Objectives of The EXIM Policy : -

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

- To accelerate the economy from low level of economic activities to high level of economic activities by making it a globally oriented vibrant economy and to derive maximum benefits from expanding global market opportunities.
- To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components,' consumables and capital goods required for augmenting production.
- To enhance the techno local strength and efficiency of Indian agriculture, industry and

  services, thereby, improving their competitiveness.
- To generate new employment.
- Opportunities and encourage the attainment of internationally accepted standards of quality.
- To provide quality consumer products at reasonable prices.

Global trade in merchandise

Merchandise trade as a share of GDP is the sum of merchandise exports and imports divided by the value of GDP, all in current U.S. dollars. Merchandise trade (% of GDP) in India was

30.76 as of 2018. Its highest value over the past 58 years was

43.03 in 2012, while its lowest value was 6.54 in 1972.

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

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

Global sourcing

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

Starting a global sourcing initiative

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

- ***Advantages of Global Sourcing:***

(i) Low cost manufacturing

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

(iii) Seeking the benefit of alternate suppliers

(iv) Utilizing an efficient supply chain management systems

(v) Learning global business skills

(vi) Meeting competition prudently and efficiently

- ***Disadvantages of Global Sourcing:***

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

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

(iii) Financial and political risks associated with emerging economies

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

(v) Long lead times

(vi) Labor problems and labor related issues

(vii) Unnecessary shutdowns and supply interruptions

(viii) Difficulty in supervision

(ix) Difficulty of monitoring goods and services quality

Balance of payments

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

Elements of balance of payment

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

Current accounts measure international trade, net

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

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

Current Account

- The current account is used to monitor the inflow and outflow of goods and services between countries. This account covers all the receipts and payments made with respect to raw materials and manufactured goods. It also includes receipts from engineering, tourism, transportation, business services, stocks, and royalties from patents and copyrights. When all the goods and services are combined, together they make up to a country's Balance Of Trade (BOT).

- There are various categories of trade and transfers which happen across countries. It could be visible or invisible trading, unilateral transfers or other payments/receipts. Trading in goods between countries are referred to as visible items and import/export of services (banking, information technology etc) are referred to as invisible items. Unilateral transfers refer to money sent as gifts or

donations to residents of foreign countries. This can also be personal transfers like – money sent by relatives to their family located in another country.

Capital Account

- All capital transactions between the countries are monitored through the capital account. Capital transactions include the purchase and sale of assets (non-financial) like land and properties. The capital account also includes the flow of taxes, purchase and sale of fixed assets etc by migrants moving out/in to a different country. The deficit or surplus in the current account is managed through the finance from capital account and vice versa.

- There are 3 major elements of capital account:

- Loans & borrowings – It includes all types of loans from both the private and public sectors located in foreign countries.

- Investments – These are funds invested in the corporate stocks by non-residents.

- Foreign exchange reserves – Foreign exchange reserves held by the central bank of a country to monitor and control the exchange rate does impact the capital account.

Financial Account

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

UNIT – 4

Multi National Corporations

International Investments

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

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

Multinational Corporation (MNC)

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

Characteristics of a Multinational Corporation

The following are the common characteristics of multinational corporations:

1. Very high assets and turnover

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

2. Network of branches

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

3. Control

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

4. Continued growth

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

5. Sophisticated technology

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

6. Right skills

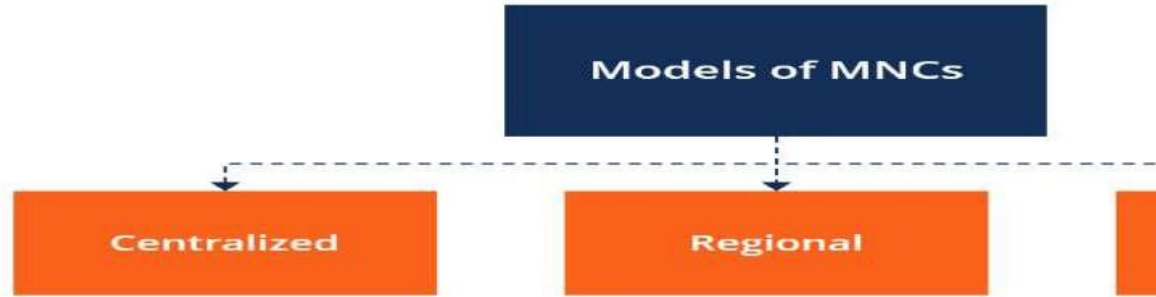
Multinational companies aim to employ only the best managers, those who are capable of handling large amounts of funds, using advanced technology, managing workers, and running a huge business entity.

7. Forceful marketing and advertising

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

8. Good quality products

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



The following are the different models of multinational corporations:

1. Centralized

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

2. *Regional*

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

3. *Multinational*

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

Advantages of Being a Multinational Corporation

There are many benefits of being a multinational corporation including:

1. **Efficiency**

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

2. **Development**

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

3. **Employment**

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

4. **Innovation**

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

Types of International Investments

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

- **Government Funds/Aids :** These are funds that flow from one economy to the other with the purpose of aid or assistance to the economy as a whole. These transactions are carried out between the governments.

- **Cross Border Loans :** A loan arrangement where a government or institution seeks loan financing from a foreign bank is known as cross border loans. Cross-border financing became a popular financing vehicle because of its easier accessibility and fewer collateral restrictions.

- **Foreign Portfolio Investment :** When investors express investment interests in foreign companies, they are known as FPIs. These investors may not have long-term interests necessarily but can be traded easily through exchanges.

- **Foreign Direct Investment :** FDIs are investments made by foreign multinational companies in an economy. Foreign direct investment is more of a long-term concern and takes any form of investing from equities and debts to property and assets.

Types of foreign investment

There are various types of foreign investments.

Governments classify foreign investors for monitoring.

Foreign investment can be broadly classified into two

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

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

1) *FOREIGN DIRECT INVESTMENT*

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

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

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

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

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

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

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

2) *FOREIGN INSTITUTIONAL INVESTMENT*

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

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

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

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

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

3) QUALIFIED FOREIGN INVESTMENT

- As we know, foreign individuals cannot invest directly in India's markets without sub-accounts with an FII.

- As an alternative, QFI was introduced in the year 2002. A Qualified Foreign Investor can invest in India without sub-account.

- However, they have to open a Demat account and Trade account with a depository participant in India.

4) FOREIGN PORTFOLIO INVESTMENT

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

FOREIGN INVESTMENT BY INDIAN COMPANY- IV UNIT

State	No. of Approvals	
Maharashtra	4763	
Delhi	2594	
Tamil Nadu	2583	
Karnataka	2411	
Gujarat	1192	
Andhra	1200	
M.P.	241	
West Bengal	663	
Orissa	140	
Uttar Pradesh	793	49146
Haryana	854	38654
Rajasthan	339	30121
Punjab	195	24287
Kerala	322	15460
Pondicherry	128	12631
Himachal	96	11740
Goa	235	9901
Bihar	49	7397
Chhattisgarh	45	6328
Jharkhand	80	1445
Uttaranchal	51	1257
Chandigarh	72	1961
DNH	72	1240
Daman & Diu	43	555
Others	49	997
State(s) not specified	6000	

Source: SIA Newsletter (Ministry of Commer

Introduction FDI

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

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

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

Benefits of FDI :

1. Access to superior technology

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

2. Increased competition

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

3. Increase in domestic investment.

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

4. Bridging host country's foreign exchange gap

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

Negative impacts of FDI

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

1. **Market monopoly**

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

2. **Crowding out and unemployment effects**

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

3. **Technology dependence**

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

4. **Profit outflow**

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

5. **Corruption**

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

6. **National security**

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

The Determinants of FDI Location

Market demand

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

Growth rate.

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

Political stability.

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

Macroeconomic stability

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

Infrastructure

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

FDI. The role of FDI in Economic Development

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

1. FDI and Productivity Growth

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

FDI as a mechanism for social advancement

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

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

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

First, foreign affiliates employ people in their domestic operations.

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

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

b) FDI's effect on host country's Environmental Standards .

Evidences are unavailable to prove that FDI is imposing pressure on developing countries to lower their environmental standards. It can be narrated as follows:

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

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

FDI in India

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

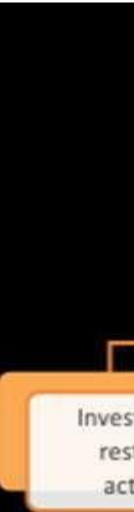
Routes through which India gets FDI

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

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

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

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



Government route

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

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

FDI prohibition

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

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

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Features of Multinational Corporations (MNCs

Huge Assets and Turnover

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

International Operations Through a Network of Branches

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

Unity of Control

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

Mighty Economic Power

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

Advanced and Sophisticated Technology

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

Professional Management

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

Aggressive Advertising and Marketing

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

Better Quality of Products

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

Doorway in India for foreign companies:

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

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Merits In 1973, the United Nations took note of the growing size of the multinationals and recommended an in-depth study of the rise of multinationals and its impact on trade and development of other countries.
A group of **eminent persons led by Mr. L.K. Jha** submitted a report on the subject in 1974. Important points made in the report are as follows:

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

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

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

Disadvantages of MNCs for the Host Country

Laws :

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

Intellectual Property :

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

Political Risks :

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

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Loss to Local Businesses

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

Loss of Natural Resources

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

Money flows

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

Transfer of capital

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

WORLD'S TOP 10 MNCs

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

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Technology **transfer comprises six** categories:

1. **International Technology Transfer**
   In which the transfer is across national boundaries. Generally, such transfers take place between developed and developing countries.
2. **Regional Technology Transfer**
   In which technology is transferred from one another.
3. **Cross-Industry or Cross-sector Technology Transfer**
   In which technology is transferred from one industrial sector to another.
4. **Inter firm Technology Transfer**
   In which technology is transferred from one company to another.
5. **Intra-firm Technology Transfer**
   In which technology is transferred within a firm, from one location to another.

Intra firm transfers can also be made from one department to another within the same facility.

6. **Pirating or Reverse-Engineering**
   Whereby access to technology is obtained at the expense of the property rights of the owners of technology.

Barriers to Technology Transfers

The problems encountered in transfer of technology are:

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

VARIOUS SOURCES OF TECNOLOGY TRANSFER

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

Methods of technology transfer Transfer of technology can be achieved:

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

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

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

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

Recent Technological Developments in India

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

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

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

4. **RFID:** Radio Frequency Identification (RFID) technology is no longer only about the US and Wal-Mart. more than 45 colleges in Pune have Technology Environment NOTES Self-Instructional 174 Material introduced student identity RFID cards that allow students access to hostels and monitor their classroom attendance;
5. **GPS:** Telematics, integrated use of telecommunications and informatics, is catching up in the transportation sector. Global Positioning System (GPS) is being used in Karnataka State Road Transport Corporation (KSRTC) buses (pilot project) in Bangalore. Many Indian logistics companies too are using GPS to track vehicle movements and errant drivers.. Other forthcoming applications include on-demand navigation, audio and audiovisual entertainment content.
6. **Podcast:** For the uninitiated, imagine a desktop aggregator where you subscribe to a set of feeds. Podcasting works similarly, except that instead of reading, you listen to the content.

Causes of Inappropriateness :

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

The Other general reasons :

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

Planning for Technology Adoption:

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

- **Identify the target group**

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

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

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

- **Assess actual ability to change**

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

- **Assess capacity and resources to change**

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

- **Access perceived priority of change**

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

Impact of Technology on Globalization

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

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

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

FOUR stages in **Technological Development Process**

1. Research and Development (R&D) Phase

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

2. The ascent phase:

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

3. The maturity phase

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

4. The decline phase

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

UNIT-V

GLOBALIZATION

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

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

DEFINITION

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

FEATURES OF GLOBALIZATION

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

- **Informational** - Increase in information flows between geographically remote locations. Arguably this is a technological change with the advent of fiber optic communications, satellites, and increased availability of telephone and Internet.
- **Language -** The most popular language is English. o About 75% of the world's mail, telexes, and cables are in English. o Approximately 60% of the world's radio programs are in English. o About 90% of all Internet traffic uses English.
- **Competition** - Survival in the new global business market calls for improved productivity and increased competition. Due to the market becoming worldwide, companies in various industries have to upgrade their products and use technology skillfully in order to face increased competition.
- **Ecological -** The advent of global environmental challenges that might be solved with international cooperation, such as climate change, cross boundary water and air pollution, over-fishing of the ocean, and the spread of invasive species. Since many factories are built in developing countries with less environmental regulation, globalism and free trade may increase pollution. On the other hand, economic development historically required a "dirty" industrial stage, and it is argued that developing countries should not, via regulation, be prohibited from increasing their standard of living.

- **Cultural -** Growth of cross-cultural contacts; advent of new categories of consciousness and identities which embodies cultural diffusion, the desire to increase one's standard of living and enjoy foreign products and ideas, adopt new technology and practices, and participate in a "world culture". Some bemoan the resulting consumerism and loss of languages. Also see Transformation of culture.
- Spreading of multiculturalism, and better individual access to cultural diversity (e.g. through the export of Hollywood and Bollywood movies). Some consider such "imported" culture a danger, since it may supplant the local culture, causing reduction in diversity or even assimilation. Others consider multiculturalism to promote peace and understanding between peoples.
- Greater international travel and tourism
- Greater immigration, including illegal immigration
- Spread of local consumer products (e.g. food) to other countries (often adapted to their culture).

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

Advantages of Globalization

1. Wider Markets

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

2. Rapid Industrialization

Globalization helps in the free flow of capital and engineering between states. Global houses can get finance at lower cost of capital.

Free flows of capital and engineering from advanced states help the developing states to hike up their industrialization. Industrialization of developing states leads to equilibrate development of all the states.

3. Greater Specialization

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

4. Competitive Additions

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

5. Higher Production

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

6. Price Stabilization

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

7. Addition in Employment and Income

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

8. Higher Standards of Populating

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

9. International Economic Cooperation

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

10. World Peace

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

Disadvantages of Globalization

1. Mutuality

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

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2. Menace to Domestic Industry

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

3. Unemployment

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

4. Drain of Basic Resources

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

5. Technological Dependence

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

6. Alien Culture

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

Essential Conditions for Globalization

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

12. Potential Pros of Globalization

1. Expansion of free trade

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

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

2. Increase in job opportunities

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

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

3. It can control the exploitation of currency

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

4. It can provide opportunities for developing countries

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

5. It broadens the horizons of communication

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

6. World power is Emerging

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

7. It increased openness to diversity

Nowadays, people are more open to variety than ever. It reduces a sense of alienation towards foreign culture because everything is globalized. People are becoming more open to learn and appreciate differences.

Globalization brings international corporations and governments together. This urges them to fulfill their responsibilities towards social and ecological problems of the global society. Only a stable community will embrace and welcome what all the business giants and innovative

8. It has made the world more convenient

Technological and scientific advancements have made the world a better place. There is an improvement in the quality of lifestyle and healthcare. Improvement of lifestyle has increased the life expectancy of human beings.

Now people can travel faster, communicate with each other, and benefit from life-saving medications. Rarities are no rarer. Various modes of trade have made it more accessible.

9. Pooling of resources

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

10. It supports democracy

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

11. Reduction of prices

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

12. It provides stability to world politics

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

12. Potential Cons of Globalization

1. It allows capitalization of wealth

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

2. The exploitation of low- cost job market

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

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

3. It creates a disparity of resources

Wealthy countries will consume more resources as compared to poorer countries. It will create a global wealth gap.

According to the United Nations Development Program, 86% of world resources are consumed by G-20 countries, whereas 80% of the world consumes only 14% of the wealth.

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

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4. The spread of diseases is more rapid

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

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

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

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

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

6. It can be dangerous for the environment

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

7. Cultural identity would be lost

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

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

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

8. It can increase global corruption

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

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

9. It can lead to political capitalism

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

10. High cost of labor

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

11. Globalization increases consumerism

It has worsened the situation of over-consumption. It gives rise to a disparity of resources and issues regarding waste management.

The wealthiest countries of the world consume 90% of all consumable items per day. For example, a quarter of energy is used by the USA, while only 5% of the world population lives there.

12. It increased racism and hate crimes

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

A very important disadvantage of globalization is overpopulation.

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

CONCLUSION

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

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

the world economy.

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

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