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UNIT 13

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Author - Dr. Dinesh Kumar
Associate Professor- Commerce
Allahabad Degree College,
(University of Allahabad)
Allahabad

UNIT-13 TECHNOLOGICAL ENVIRONMENT IMPACT OF TECHNOLOGY ON BUSINESS:

Structure:

- 13.1 Introduction
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13.1 INTRODUCTION:

In the earlier units you learnt about all other components of macro environment, technological environment exerts considerable influence on business. This unit is devoted to a detailed discussion of the technological environment and its impact on business.

Technology is the most dramatic force shaping the destiny of the people all over the world. Some of the technological inventions, the man feels, are wonders, some others are horrors, and yet other have mixed blessings.

J.K. Galbraith defines technology as a systematic application of scientific or other organised knowledge to practical tasks. During the last 150 years, technology has developed beyond anybody's comprehension. Science and technology enabled man to conquer distances, save lives, generate, preserve and distribute energy, discover new materials and substitutes to existing ones, introduce machines to do the work of human beings, substitute

mental work with computers, control birth rate, provide him self with lot of leisure and comfort.

13.2 OBJECTIVES OF THE UNIT:

After reading this unit you will be able to:

- Understand the technological environment.
 - Understand the rule of technological environment.
 - Explain the impact of Technological Environment on business.
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13.3 TECHNOLOGICAL ENVIRONMENT:

Technology includes the tools – both machines and ways of thinking available to solve problems and promote progress between and among societies. According to United Nations Conference on trade and Development's (UNCTAD) Draft the types of Technology Code, Technology should be described as", systematic knowledge for manufacture of a product, for the application of a process or for the rendering of a service and does not extend transactions involving mere sale or lease of goods.

Technology in one of the important determinants of success of a firm as well as the economic and social development of a nation. Technology includes not only knowledge or methods that are necessary to carry on or to improve the existing production and distribution of goods and services, but also entrepreneurial expertise and professional know-how. Technology is one of the eight factors considered by the World Economic Forum to evaluate the global competitiveness of nations. The 1999 Global Competitiveness Report of the Forum, which continued to increase its focus on information technology as a new source of competitiveness, observes that there are at least three aspects to this. First, e-mail, second, the internet and third – emerging area of e-commerce. Technical innovations are very important factor that provides competitive advantage and, consequently, determines success.

Science and Technology has made a phenomenal impact the world over n shaping the life style of the common man. If India has to go ahead, science and technology must play a pivotal role in all the important tasks of nation's development, hence, the development in the field of science and Technology as an effective tool of growth, as an strategy. In order to derive maximum output from meagre resources the science and technology must be brought into the mainstream of economic, agricultural, industrial and services sectors. Today India spends one percent of its GNP on science and technology. Pt. Jawahar Lal Nehru made conscious efforts to modernize the scientific infrastructure in the country by setting up a number of R&D centres through universities and national laboratories.

In the new economic order the main cause of economic backwardness is the low level of technological advancement. Technology can play an important role in the economic development of the country. It is an important instrument to get rid of socio-economic and political backwardness. The tasks of technological change in developing economies is difficult because the social set-up in developing pre-industrial economies is not conducive to technological improvements on any significant scale. It has been observed that the absence of technological change retards the economic development of the economy. The U. N. experts observed that, "Unless special effort is made, the process of technological development in the underdeveloped countries will be relatively slow and the gap in technology will continue to grow wider as the cumulative scientific progress of developed countries accelerates."

Technology is considered as the basic factor in the process of economic development. In business environment, technological change means the technical knowledge used in the production of capital and machinery. The modern changes in technology lead to increase in the productivity of labour, capital and other production factors. The technology is the powerful means of wresting power from nature in all possible ways. Technology strengthens the faculties of men and enables them to harness gigantic physical forces of nature.

In the words of Frankel, "Technological change is not a mere improvement in the technical know-how. It means much more than, this. It should be preceded by sociological change also, a willingness and desire on the part of community to modify their social, political and administrative institutions so as to make them fit with new techniques of production and faster tempo of economic activity".

According to Dr. H. Bhabha, "What the developed countries have and the underdeveloped lack is modern science and economy based-on modern technology. The problem of the developing underdeveloped countries is, therefore, the problem of establishing modern science in them and transferring their economies to one based on modern science and technology".

Role of Technology in the Economic Development of a Country:

Technological advancement and economic development are related to each other. The level of technology is an important determinant of economic development. In an economy the high rate of growth can be achieved through high level of technology. Prof. Schumpeter has observed that innovation or technological progress is only the determinant of economic progress. Kindleberge observes that major part of the increased productivity is due to technological changes. Robert Solow estimated that technological change accounted for about 75 per cent of growth of the U. S. economy, after showing for growth in the labour force and capital stock. In real sense, the technology can be considered as primary source in economic development and the changes in technology contribute in the development of developing economies.

Role of Technology:

Every industry and country is concerned with technology. It is technology alone, which can solve many problems. The role of technology in the economic development of a country can be discussed in the following heads :

(1) Quicker Rate of Growth:

When technology is available new machinery can be set up. The economy proceeds on the path of industrialization. The rate of growth is both faster as well as quicker. The result of all this is that economy is in a position to become self-sufficient very quickly.

(2) Inflation is Checked:

Capital-intensive technique means spending more and more capital in the economy. When more money is available in the economy and gets circulated, then adverse effect is that the economy cannot bear it.

Therefore, inflation can be seen on the economy. But on the other hand, when there is labour-intensive technique of production, then no capital comes in the economy and the country is not faced with the problem of inflation.

(3) Bulk Production Possible:

With the help of capital-intensive production it becomes possible to produce goods in bulk, with which both national as well as global needs can be met.

(4) Encouragement to Small and Cottage Industries:

If labour-intensive techniques are adopted in the economy, then small and cottage industries will receive encouragement for the betterment of the nation as a whole.

(5) Proper Use of Raw Material:

Each nation has some raw material locally available to it. If new techniques are adopted, then the raw material is very usefully utilised, e.g. cotton can be used for manufacture of cloth at village level with labour-intensive techniques.

(6) Quick Results Available:

With the help of labour-intensive techniques, there is no gap between

investment and production. The labour begins to work with the available skill and society gets the product. The society does not feel the need and necessity of getting the people trained from abroad.

From the above discussions it is clear that technology is the heart of economic development. But technology must suit local needs and to make an impact on the lives of common men, must give constant thought to even small improvements which could make better use of existing materials and methods of work.

13.4 IMPACT OF TECHNOLOGY ON BUSINESS:

The inter ace between business and technology can be explained under the following heads :

(1) Technology Reaches through Business

Business is an institution through which people expect new techniques to be converted into goods and services. The managerial staff of the business organisations pool the necessary resources and work: on the new discoveries to convert them into useful products. Society depends on business to keep the stream of discovery flowing into useful goods and services for human beings. There is no doubt that economic prosperity of a country depends on technology. Fifty two percent of economic growth, of USA, France, UK and Japan has come from techn-i-cz1 progress achieved in these countries.

(2) Increased Productivity:

The primary role of technology is to increase productivity in terms of both quality and quantity. This is the main reason why most technology is adopted. In an organisation, the objective may be quantitative and qualitative in terms of maximum production at lower cost. As a result of productivity improvements, real wages of employees tend to rise and prices of some products decline.

(3) More Spent on Research and Development:

The investment in Research and Development (R and D) has increased

from a paltry Rs. 20 crore in the First Five Year Plan to about Rs. 20, 000 crore in the Eleventh Five Year Plan. Presently, there are 214 universities, 400 national laboratories and 1,300 in-house R and D centres in the industrial sector. Several science and technology departments have been set up in the areas of environment, non-conventional energy resources, bi-technology industrial research, defence, health, agriculture and electronics.

- An important question arises. Why does business spend much more money on discovering new technologies? The following reasons are responsible for investing :

- (a) declining growth in base business;
- (b) dramatic development in new technologies;
- (c) development of international competition; and,
- (d) vitality of the venture markets.

(4) Fast Changing Technology:

The changing global and national scenario is bound to make greater demands on science and technology. Our government policy for science and technology planning has to be geared to face this demand. Government policy framework would continue to encompass encouragement of entrepreneurship; development of indigenous technology through investment in R and D, bringing in fast changing technology.

From the above discussions it may be said that development technology has a large impact on business, but in the technological race between different economies, the developing economies lag far behind, consequently they are dependent on the developed industrial world for technology required to accelerate development process.

5. Growth and Decline of Products and Organisations:

A new technology may spawn a major industry but it may also destroy an existing one. Transistors, for example, hurt the vacuum-tube industry and xerography hurt the carbon-paper business. Television hurt radios and movies

and synthetic fibers reduced demand for cotton fabrics. It is for this reason that Schumpeter saw technology as a force for 'creative destruction.' And it is precisely for the same reason that the saying, "Today's growth product is tomorrow's earthen pot", becomes relevant. Products, like mortals, have life-cycles. A typical product, today, is subject to a cycle : introduction, growth, maturity, decline, and abandonment.

6. New Expectations of Consumers:

Technology has contributed to the emergence of affluent societies. Affluent citizens want more of many things than more of same things. New varieties of products, superior in quality, free from pollution, more safe and more comfortable, are to be produced and supplied to the affluent sections. This calls for a massive investment in R & D. One important compulsion for investing in technological advances in Japan is its customer's high expectations regarding design sophistication, quality, delivery schedules and prices.

7. Employment Tend to Become More Intellectual:

With the advancement of technology, employment tends to become more intellectual or upgraded. A job hitherto handled by an illiterate and unskilled worker now requires the services of an educated and competent worker. A clerical post in an office now demands the services of an expert in computers.

Introduction of new technology dislocates some workers unless they are well-equipped to work on new machines. This makes it obligatory on the part of business to retrain its employees and to rehabilitate those displaced and untrainable. Equal is the responsibility of the government to provide training and educational facilities to its citizens. Government and businessmen should boldly demonstrate and convince the people that economic growth is more an insurance against unemployment than opposition to technological advancement.

But for those who pick up and acquaint themselves with new

technology, the job will be rewarding: The new job will be more challenging and rewarding. Working class, in general stands to gain through increased productivity, reduced prices and increased real wages-all by-products of technological advancement.

Along with upgrading jobs, technology has its impact on human relations. Technology lays down the requirements for much of the human interaction in organisations. The arrangement of a production set-up determines who will be near whom. The work flow determines who needs to talk to whom. And since interaction and activity affect sentiments, technology indirectly determines what individuals in large groups will feel and think about one another and about their work situation .

8. Problem of Technological Infrastructure :

With the advancement of technology only jobs become more intellectual, even the incumbents tend to become highly professionalised and knowledgeable. An organisation which has adopted the latest technology is flush with scientists, engineers, college graduates and highly skilled workers on its pay roll. Though such an organisation can boast of a progressive and modern outlook of its personnel complement, the problems such an enterprise has to face on this account are serious, to say the least. Motivation of such employees, for instance, is a difficult task.

The presence of technicians is not confined to the precincts of an industrial establishment, the influence goes beyond and covers the entire gamut of society. The social values change to productivity, rationality, and efficiency when society gets dominated by technicians. Social institutions may be reconstructed or even eliminated. Family, for instance, might prove an anachronism as family loyalties might well interfere with rationality and efficiency. Procreative functions might be according to the laws of eugenics, breaking the age-old barriers of inbreeding. Education could be made a purely pragmatic institution, devoted to scientific and technical disciplines. Most significant is the fact that scientists and technicians are and will continue to be the keymen in our civilisation.

9. Need for Multi Purpose Professionals in Business:

Technical professionals who assume reins of administration, need to be qualified in management education in addition to the proficiency they have acquired in chosen fields of specialisation. Today's business needs biprofessional and multiprofessional managers. To fill up a factory manager's post, for instance, the desired qualification stipulated is a degree in engineering and M.B.A. from a recognised institution. The need for managers well-versed in different fields of knowledge is greatly felt now than ever before. Technological advancement has made the business more complex and its management more demanding.

10. Strict Rules and Regulation and Stiff Opposition:

The impact of technological advancement is the ever-increasing regulation imposed on business by the government of the land and stiff opposition from the public. Government has the powers to investigate and ban products that are directly harmful or hurt the sentiments of a section of society. Import of animal tallow has been banned by the Government of India because the alleged mixture of tallow with vanaspati oil hurt the feelings of Hindus. Continuous struggle launched by the FMRAI (Federation of Medical Representatives of India) produced gainful results like banning of the sale of harmful drugs and banning of sales promotion and advertisement of infant formula through the mass media.

Technological advancement is inviting opposition from those who fear that new innovations are a threat to ecology, privacy, simplicity and even the human race. These people oppose construction of high-rise buildings, location of plants that eject harmful effluent, and setting up of hydroelectric plants. As the production proceeds becomes more complex and products assume greater sophistication, public have to be assured of their (products) safety, their minimal propensity to cause pollution, and their least threat to happiness and well-being of the human race.

The public must be enlightened that technology is not always

unidirectional in its effects. It can be corrective as well as curative. Technology has created antibiotics which give rise to side effects. The same technology has also shown remedial measures for the side effects. Again, technology causes pollution, but it can also be used to check pollution caused by it and by human beings. Technology does contribute to urban light, but it can also be used to beautify the city and make it more comfortable and enjoyable for the people to live in.

11. Complexity of System:

New Technology has resulted in complexity. Modern machines work better and faster, no doubt. But if they fail, they need services of experts to repair. They fail often because of their complexity. A machine or a system is composed of several hundred components. All parts must work in tandem to accomplish a desired task. Reliable performance of each part, therefore, assumes greater significance.

Also there is interdependence of system failure of power supply, for example, will cause dry water taps, closed petrol bunks, suspended elevators between floors, dark streets, dark houses, dead TVs, closed retail establishments and so on. A localised problem in a power house balloons into a regional problem affecting thousands of people. It is possible that technology might eventually lead to simplicity and small independent operational units. Such a possibility still remains a distant dream. Meanwhile, more complexity in work and product systems is expected. Management is, therefore, under pressure to keep the whole system working all the time.

12. Massive Need for Investment:

Modern technology necessitates massive investment of money on acquiring or discovering of new ideas and their adoption; educating, training and maintaining of the managers and the managed and on several other related areas. In fact, today's technology is characterised by its insatiable demand for capital. Business organisations should not only raise huge funds, exploiting all ways and means, the mobilised funds must be judiciously em-

ployed for gainful purposes. This calls for honest and efficient financial management. Qualified and competent people must be appointed to assume responsibility for financial management and should be given due place in the hierarchy of organisation.

13. Change in Social Life:

The most striking influence of technology is found on society. Practically every area of social life and the life of every individual has been in some sense changed by the development in technology. However, two major modes of technological influence on social life may be noticed. Firstly, there is the change in social life which results from a change in a technological process. Thus, an invention may destroy the economic basis of a city; displace thousands of workers; yet the same invention may result in the creation of a new city somewhere else and create even more jobs than it originally destroyed. Technological changes of this sort create a constant turmoil in society, with socially uprooted, mobile populations drifting about in search of new centres of employment. Sometimes, this drifting may result in a new geographical distribution of population; an example is provided by the constant drift of population centres of electronic or aerospace industries."

Besides uprooting population, technology directly changes the patterns of their social life, for instance the family, the sensitive recorder of all types of change, alters with technological development. An invention may open new employment opportunities to women, radically change hours spent at work and in the family, increase available leisure time, open jobs to youth, and deny them to middle aged or old workers. Technological development may basically change the stratification system of a community. Skilled jobs, carrying great prestige, may be destroyed. Jobs may be opened to members of discriminated against and low-ranking or racial groups. Technological advancement tends to smoothen out social differences. Industrial technology tends to iron out differences between sexes and between parents and children in a family.

13.5 SUMMARY:

Technology is the most dramatic force shaping the destiny of the people all over the world. Some of the technological inventions, the man feels, are wonders, some others are horrors, and yet other have mixed blessings.

J.K. Galbraith defines technology as a systematic application of scientific or other organised knowledge to practical tasks. During the last 150 years, technology has developed beyond anybody's comprehension. Science and technology enabled man to conquer distances, save lives, generate, preserve and distribute energy, discover new materials and substitutes to existing ones, introduce machines to do the work of human beings, substitute mental work with computers, control birth rate, provide him self with lot of leisure and comfort.

According to United Nations Conference on trade and Development's (UNCTAD) Draft the types of Technology Code, Technology should be described as", systematic knowledge for manufacture of a product, for the application of a process or for the rendering of a service and does not extend transactions involving mere sale or lease of goods.

Technology is considered as the basic factor in the process of economic development. In business environment, technological change means the technical knowledge used in the production of capital and machinery. The modern changes in technology lead to increase in the productivity of labour, capital and other production factors.

Technological advancement and economic development are related to each other. The level of technology is an important determinant of economic development. In an economy the high rate of growth can be achieved through high level of technology. Prof. Schumpeter has observed that innovation or technological progress is only the determinant of economic progress.

Impact of Technology on Business : Increased Productivity, R&D, New Employment, Consumer Satisfaction, New Products, Need of Multipurpose Professionals, Complexity of System, Need of Heavy Investments, Change in Social Life etc.

13.6 KEY WORDS:

Technology : Means Scientific knowledge for the manufacture of a product or rendering a service.

Transfer of Technology : Means adopting and absorbing newer technologies.

Appropriate Technology: Whether it will suit our condition or not.

13.7 SELF ASSESSMENT TEST:

1. What do you mean by Technological Environment?
 2. Discuss the role of Technology in the Economic Development of a Country.
 3. Discuss the Impact of Technology on Business.
 4. Write Short note on R & D in India.
 5. Briefly discuss the impact of Technology on Society.
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13.8 FURTHER READINGS:

The Economic Survey : Govt. of India Publication, New Delhi.

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UNIT-14 TECHNOLOGICAL POLICY, IMPORT OF TECHNOLOGY, APPROPRIATE TECHNOLOGY & PROBLEM IN TECHNOLOGY TRANSFER:

Structure:

- 14.1 Introduction
- 14.2 Objectives
- 14.3 Technological Policy
- 14.4 Import of Technology
- 14.5 Appropriate Technology
- 14.6 Problem in Technology Transfer
- 14.7 Summary
- 14.8 Key Words
- 14.9 Self Assessment Test
- 14.10 Further Readings

14.1 INTRODUCTION:

In this unit you will have an understanding about the Governments Technological Policy, how the Govt. import technology, which are the appropriate technology among various options for the country and what are the problem in transfer of technology from other country.

Technology Policy of the Government is a very important element of the technological environment that is why a government may favour or disfavour certain types of technologies. Government's policy towards foreign technology is also a critical factor. Some labour abundant countries have a preference for labour intensive technology, mechanisation and automation may be opposed in such countries. Such a situation may adversely affect the business. In countries like India, the over emphasis on indigenous technology had led to high costs and distorted developments.

14.2 OBJECTIVES OF THE UNIT:

After going through this unit you will be able to:

- Understand the technological policy of the country.
- Understand the way the technology is being imported in the country.
- Explain the appropriate technology for the country.
- Understand and short out the problems in transfer of technology.

14.3 TECHNOLOGICAL POLICY:

India, like any other third world country, attained political independence after prolonged colonial rule and exploitation. The country entered the modern world in a state of economic backwardness and poverty of a large section of people. It is obvious that technology must attend to the basic problems of food, clothing, health and housing of people. At the same time rapid industrial development through latest technology is necessary to catch up with the advanced countries.

When India gained her independence after two hundred years of British rule, she was a country devastated by exploitation and neglect. While some basic infrastructure had been installed, there was little else to show for the harrowing experience she had undergone. Since the objective of a colonial power is to prop up a dominion for the primary purpose of transferring assets to the home country, India showed all the symptoms of economic hemorrhage, social and intellectual stagnation, and a collective psyche shattered by humiliating inequality and gross deprivation.

Thus, from the very midnight immortalized by Jawaharlal Nehru in his 'Freedom at Midnight' speech, the new leaders of the infant nation traumatized by Partition, tried to visualize the great future that was the country's birthright. Well they knew the trials and tribulations that lay in wait for them along the path, but the blueprint for a resurgent India was etched

firmly in their minds. Being visionaries cast in the mould of men like Benjamin Franklin, they knew that progress on all fronts would be impossible without heroic efforts to foster a scientific spirit among their countrymen, and harness technology for the all-round progress of the newborn nation...

On March 4, 1958, the Scientific Policy Resolution was adopted by the Government of India, under the direct inspiration of Jawaharlal Nehru himself. It promoted the role of science and technology as being critical to India's future success on economic, defence and other fronts. The main objectives of the Policy were:

1. To foster, promote, cultivate and sustain both pure as well as applied research across technological disciplines.
2. To create the conditions necessary to educate, train, recognize and, finally, utilize qualified personnel to achieve rapid and self sustaining progress across a variety of scientific frontiers.
3. To ensure that the benefits conferred by science and technology were transferred to the people of India

In achieving the above objectives, the government acknowledged the importance of-

- (i) Cultivating a scientific temper among the people of the country, by Methodically approaching the issue through creating teaching, training and research institutions across the length and breadth of the country, and
- (iii) Ensuring that the benefits were equitably proliferated across as broad a canvas as possible, so that
- (iv) The benefits percolated down to grassroots level and benefited all citizens of the country, and
- (v) Strengthened the national resolve to catch up with the rest of the world.

Thus, the main aims of the Technological Policy were:

1. To attain self Sufficiency and adequate competence in routine as well as strategic areas by maximizing use of indigenous resources.
2. To provide maximum thrust to the economy by creating a new class of technology based business and industry, as opposed to traditional industries such as sugar mills, textile mills, etc.
3. To widen the employment base and provide fresh avenues for employment for the youth and experienced persons languishing for outlets for their skills.
4. To ensure a judicious balance between technology based and manual industries, so as not to disturb the livelihood of weaker sections.
5. To develop import substitution technologies, particularly those with potential for producing exportable goods.
6. To enhance productivity and quality through better, more modern technology.
7. To achieve significant energy savings, particularly that derived from non-replenishable sources.
8. To ensure ecological balance and harmony with nature while benefiting from technology.
9. To recycle industrial waste and tap by-products to the maximum extent possible.

In order to maximize returns from the investments in science and technology, it is necessary that policies covering S & T, Industry, Finance and Agriculture must be meaningfully intermeshed. The recent Industrial Policy has reserved very few industries for the public sector, reduced the sectors where industrial licensing was earlier necessary, liberalised the procedures relating to technology acquisition and investment, removed the restrictions on large companies and redefined the goals of the public sector undertakings. For this, the technology development must take place in a competitive environment and the policy for industrial research and

development should be appropriately reoriented. In the formulation of future policy for the industrial R&D, the spirit and guidelines of the New Industrial Policy must be followed. In consonance with the agricultural policy, S&T inputs must be able to provide the ever increasing food requirements of our growing population. The S&T agencies would be directed not only to develop capabilities in their specialised areas but also to interact with the various developmental sectors, industries, institutions set up by the farmers and those providing services to promote the utilisation of their expertise. National laboratories under the S&T agencies should make their facilities available to the scientists from the agricultural and industrial sectors and provide services to the university system and evolve collaborative programmes with them. The socio-economic sectors therefore must lay a greater emphasis on the S&T content in their programmes and place their crucial demands on the S&T agencies.

14.4 IMPORT OF TECHNOLOGY:

Rather than spend huge sums of money and valuable time in research which may not yield the desired results, Indian firms interested in taking a quantum jump in production quality, introducing new, high-tech products or using vastly improved processes prefer to take the import route. However, developed countries rarely part with their latest technology; foreign firms prefer to extend the life cycle of their outmoded technologies by selling or licensing them to developing economies (for whom it may be a vast improvement over what they then have) rather than parting with their current secrets. Hence, the question remains whether the technology available is the right choice for the country's level of development, especially because transplanted technology is not always the best answer. This leaves only one alternative, i.e., trying to develop the technology in-house where possible, and that too without infringing patents, etc.

For example, the two-wheeler technology available in India is far behind what is in vogue in developed countries. Perhaps Suzuki-Maruti is one of the rare cases where the latest models like *Swift* are being produced here

and launched globally, that too because India is a preferred low-cost production base. Hyundai Motor Company of South Korea has also declared that it intends developing India as a global supplier of their cars and components, but this means that the technology essentially remains with in the company for an appreciably long time before it gradually percolates into the mainstream. Usually, self interest is the sole motive for parting with technology, and it comes at a price that not all are willing to pay.

Even fairly new technology is obtained, there is always the problem of training Indian personnel to handle it, quite apart from the problem of ensuring the requisite quality and safety standards that go with the new methods. Suitable raw materials, parts, components and sub-assemblies have to be ensured by, again, training and developing vendors. All this entails considerable training, knowledge upgradation efforts and even some backward integration. When Maruti-Suzuki first started, they went through all these phases, and till today, the quality is overseen by the Japanese collaborators. This is because Indian firms are usually so far behind technologically that they are slow in adapting themselves to the new versions. Accepting and absorbing foreign technology needs a radical change in attitudes to work and quality, and this itself is a major task.

Besides, merely paying the royalty for licensing a technology or buying it outright is only a small part of the technology import picture. Even if we assume that there are companies in developed economies that are willing to part with their technology, the problem remains of obtaining the Indian government's approval to the terms and conditions under which the technology will be allowed to be imported. Clearance for the payment to the foreign principals in foreign currency introduces a whole new set of RBI and other statutory restrictions. Only when all these hurdles are cleared can the foreign technology reach Indian shores.

14.5 APPROPRIATE TECHNOLOGY:

When different technologies are available, it needs to be ensured that

the chosen is the most appropriate for the country. The technology suitable in one environment may not be appropriate in different environment. Even when a technology is sought to be imported, it has to be seen whether it will suit Indian conditions. The heat, dust, humidity and other climatic conditions obtaining in India are obvious points of difference, as are the knowledge levels and attitudes of the persons abroad who might have successfully used the technology. Indians have a different outlook on life, and it takes time for Indian labour to imbibe the attitudinal changes that often go with the new systems, e.g., the Japanese concept of *kaizen* or small, cumulative improvements, or even Toyota's 'autonomic' quality system where individual workers are empowered to levels that Indian labour has yet to experience. Moreover, it could be possible that raw materials and other inputs the user countries take for granted might be scarce or even nonexistent in India. The condition of our roads, transport bottlenecks, lack of adequate cold chains and other infrastructural inadequacies and bureaucratic bottlenecks could make a huge difference to the efficiency with which the new technologies function in India.

In fact, like any life-form transplanted on alien soil, it needs to acclimatize or adapt to the changed conditions. It must be seen whether any such adaptation is necessary, and if so, whether it is feasible. Labour is cheap and abundant in India, whereas it is just the opposite abroad, and so the imported technology is usually capital intensive, not labour intensive generally just the reverse of what often suits our local conditions. Besides, the Indian economy is unlikely to be identical to that of the exporting country; the purchasing power of the average Indian is far less than his western counterpart, and the imported technology may push up the price of the finished products beyond his capacity to pay. Hence, the financial aspect is also crucial when it comes to making a decision to import a particular technology, far beyond the 'mere' cost of the technology itself.

14.6 PROBLEM OF TECHNOLOGY TRANSFER:

The economic development of a country depends upon the technology existing in that country. In the new economic environment, technological change in developing or less developed countries is a difficult task and it needs special effort on the part of people and the government, Prof. Nurkse observes that, "It is much easier to adopt superior consumption habits than improved production methods. Hence, fashions in consumption can spread more quickly than techniques of production. But despite these difficulties the process of technological change is initiated in these, countries. It is essential to identify those branches of economy which are in most need of technological change. Then the appropriate technology must be chosen."

Problems of Transfer of Technology:

The main problems of transfer of technology are :

- (a) The less developed countries have divergent conditions like economic environment, social structure, education system etc. which call for different methods of transfer of technology.
- (b) Import of technology is not-easy because developed countries are not willing to lend it. In fact, these countries view India as a potential rival. The technology, the developed countries are willing to lend is limited in scope and is aimed at exploiting India's dynamic cooperative advantages in order to feed the markets in which developed countries are interested.
- (c) The less developed countries have a problem of intermediate technology.
- (d) Modern technology is extremely capital-intensive which is not suitable for labour-abundant and capital-poor less developed countries.
- (e) A typical manager is obsessed with issues of productivity. With productivity mind-set, a typical manager is not able to focus attention

on new technology.

- (f) The less developed countries are inadequate in human skilled resources who fail to make use of modern sophisticated imported technology.
- (g) A typical manager is opposed to new technology. He does not encourage new technology. It is clear that new technology is expensive and risky.
- (h) For transfer of technology there is an urgent need of managerial skill but less developed countries have shortage of managerial skill, thus, a great hurdle in the path of transformation.
- (i) The less developed countries have dearth of infrastructure like power, energy etc.
- (j) In less developed countries, the shortage of foreign exchange creates greatest constraint in the path of technological transformation.

Measures to Prevent:

The main suggestions are :

- (a) The less developed countries should design their industrial licensing policy in such a way that it may not hamper transfer of technology.
- (b) Multinational corporations have an important role in the dissemination of modern technology. Such corporations should design technology based on indigenous materials.
- (c) The international financial agencies like World Bank, International Monetary Fund, Asian Development Bank etc. should come forward and encourage foreign technology which is suitable to less developed countries.
- (d) The policy of protection and import substitution may be better for the efficiency of productions.
- (e) In less developed countries, there must be special advisory and

extension service with a view to promoting the use of modern technology in small and cottage industries.

Transfer of technology for the betterment of less developed countries faces a number of problems. The developed countries should come forward and create an atmosphere by providing economic initiatives. In the words of Prof. Schumpeter, "Intermediate technology would be vastly superior in the productivity to their traditional technology while at the same time being vastly cheaper and simpler than highly sophisticated and enormously capital-intensive technology of the west."

In any society economic growth would be possible only through the introduction of improved technical inputs into the process of economic transformation. In the last few decades it has become quite clear that no economic development would be possible without higher technical input available in the-society. Our planners have pointed out that capital must be created and selective capital be invested in growth for development of the economy if the country wants to achieve a desired rate of growth. The importance of capital cannot be denied, but capital by itself will not be able to bring about the change which we are looking for. Capital can only be a means for facilitating input of technology. The economic growth of Japan, Korea and Taiwan presents clear examples that the input technology and the improved grade of technology have been responsible for their progress. In spite of more than Ten Five-Year Plans, we have not been able to grow at the desired rate nor are we in a position to produce and compete with Japan and Korea as we have not been able to bring in and use the latest technology. Hence, we can conclude that capital and money alone cannot make us move faster towards our desired goal; instead it is the application of latest technology which is needed.

Science produces knowledge, technology helps to produce wealth. Technology gives its owner temporary advantage over his competitors. That is why the owner of technology protects his technique from others through registration as patent and charges money from those who want to use it. The

acquisition of technology from external sources is known as technology transfer.

Technology may be considered as improving something already being done, satisfying a long pending need and creating the possibility of a new need. There may be invention or innovation in this process. In its early stage of development technical change in a country is mainly the result of advanced technology imported from industrially and technologically advanced countries. That is to say technical progress is an agent of technology transfer. Technical change is defined as a shift in the production function whereas factor accumulation is identified with a movement along the function. There are two distinct components of technological progress. One are the elements that are 'embodied' in the original machinery and equipments and the second are the 'disembodied' components which are subsequently added by innovation in the recipient country in the fields of production, management, marketing, raw materials etc. known as technology transfer. There is evidence to show that the rate of technological progress can be stepped up by the disembodied component, even with existing technology.

The scope of technology may be explained as a resource which comprises knowledge, skills and means for using and controlling the factors of production to produce, maintain, and distribute goods and services for which there is an economic and social demand. Under this broad definition various **sources of technology transfer** can be grouped under the following categories:

1. *Projects*-Foreign direct investment; turn-key construction and co-production.
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, to-chemical 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.

The great majority of developing countries including India are poor and suffer from overpopulation and consequent higher rates of unemployment. The technology of advanced countries by definition is capital-intensive, whereas the technology required in most developing countries has to be employment-intensive. This is, therefore, the basic contradiction. The transfer of capital-intensive technology into developing countries is likely to worsen the employment position as such technology would deny the unemployed the gains of economic growth through the adoption of capital-intensive techniques. The extremists, therefore, argue for an almost total rejection *of* transferring western technology to Indian conditions and advocate for the adoption of Gandhian or Maoist patterns of economic development in which emphasis is not on maximisation of income but on the maximisation of employment. Those who are of moderate views are *of* the opinion that the transference *of* western technology may not be feasible in to, yet there are certain areas like the generation of power where

capital-intensive technology may pay desired dividends. Both the views ascertain that import of technology needs careful handling. The priorities of national planning and the choice of technologies both have to be optimized. An appropriate technology that will maximize employment and at the same time provide to the consumers products at reasonable prices has yet to be evolved.

Sometimes it is argued that developed countries must evolve appropriate technology suitable to the environment of developing countries and should not transfer their highly sophisticated technologies.

Advanced industrialised countries are trying to sell their technology to less developed countries. This is being done either by establishing multinational companies or through technical collaboration with leading companies. This is transfer of technology. It should be selective and its application should be according to the conditions prevailing in the developing country concerned.

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 organisations and the effective use of technology.

INTERNATIONAL TECHNOLOGY TRANSFER

International Transfer of technology has played a great role in:

- (a) the economic development of a developing country, like India and Pakistan.

- (b) the Dissemination of technology from one developed country to another. For example, from USA to Japan or UK to USA etc.
- (c) offering economic aid from UN to a developing country like Nepal, Sri Lanka etc.

Such international transfer of technology is usually large in size and volume involving billions of dollars, a long period of time usually five to ten years, hundreds of manpower, large number of contractors and sub-contractors under the main contractor, a consortium consisting of three to 15 companies offering the complex know-how, a main consultant aided by a large number of co-consultants etc. This is usually in the fields of Iron & Steel, Aluminium, Fertilisers, Dams and Barrages, Agriculture, Civil Engineering and Architecture for Civil Engineering and Architecture for Stadium, Residential Complexes, Railway Terminus, Airports, Water Supply stations etc. Many such projects are financed by the World Bank. International Monetary Fund or large aids from UN or organisations like Aid-India consortium.

14.7 SUMMARY:

Realising the important role technology can play in the development of science the Government of India in 1983 introduced Technology Policy Statement the basic objective of which was to ensure absorption and adaptation of imported technology appropriate to national priorities and availability of resources. Technological developments have been revolutionizing the business. They facilitate not only the introduction of new products but also tremendous improvement in the operational efficiency of business. The Government's technological policy creates very important technological environment. Restriction on foreign technology, scale of operations, type of technology etc very adversely affected the Indian business in the past.

14.8 KEY WORDS:

Technology : Means Scientific knowledge for the manufacture of a product or rendering a service.

Transfer of Technology : Means adopting and absorbing newer technologies.

Appropriate Technology: Whether it will suit our condition or not.

14.9 SELF ASSESSMENT TEST:

1. Describe the technological policy of the Government.
 2. What is Technology Transfer?
 3. Explain methods of Technology Transfer.
 4. Identify the problems of Technology Transfer.
 5. What would be the most appropriate technology for India? Discuss.
 6. What do you mean by import of Technology?
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UNIT-15 INTERNATIONAL ENVIRONMENT, EMERGENCE OF GLOBALISATION, CONTROL OF FOREIGN DIRECT INVESTMENT:

Structure:

- 15.1 Introduction
- 15.2 Objectives
- 15.3 International Environment
- 15.4 Emergence of Globalisation
- 15.5 Foreign Direct Investment
- 15.6 Control of Foreign Direct Investment
- 15.7 Summary
- 15.8 Key Words
- 15.9 Self Assessment Test
- 15.10 Further Readings

15.1 INTRODUCTION:

A competitive business is an essential feature for global business. In various economies the nature of business competition is different. With the emergence of globalisation there is tremendous change in international business environment. It is a fact that business environment varies from place to place and from time to time. The United States' business environment is entirely different from Indian System, values, cultural factors socio-economic background and so on. On the account of their higher productivity and marketing success of US business system. On the other hand we find individualism, one-man decision making, collective coercion of the management by trade unions and so on in business environment of India. It means that international environment contrasts are most decisive factor in

international business environment. There is a lot of difference between the business environment of developed and developing countries.

15.2 OBJECTIVES:

After going through this unit you will be able to:

- Understand the meaning and nature of International Environment.
 - Understand the meaning and emergence of Globalization.
 - Explain the need and importance of Foreign Direct Investments.
 - Explain the control measures of Foreign Direct Investment in India.
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15.3 INTERNATIONAL ENVIRONMENT:

The business environment in developing countries like India, differ substantially from that the developed market economies. The business organisations which operate in the global market must consider the environmental differences before they formulate policies. This is the reason why business managers must have the global approach. Their business operational strategies and business policies must consider the different economic system in the marked.

The rapid internationalisation and globalisation of business took place during 1990s. The entire global market is passing through a transition period. Today conducting and managing international business is a crucial venture worldwide due to variation in social, cultural, economic and political factors from one country to another. Now the international business operators must have accurate and timely information to enter into international market. The market segmentation pricing policy, size of production, are other factors to be kept in mind while formulating international business policies. The role of world Bank, IMF, WTO, FDI policy etc are also playing a vital role in framing international business environment these days.

15.4 EMERGENCE OF GLOBALISATION:

Globalization can be defined, simply as an expansion of economic activities across political boundaries of nation states. More importantly, perhaps, it refers to a process of deepening economic integration, increasing economic openness and growing economic interdependence between countries in the world economy. It is associated not only with a phenomenal spread and volume of cross border economic transaction, but also with an organization of economic activities which straddles national boundaries. The term 'Globalization' has been extensively used in modern discussion of industrial policies and also national economic policies, besides in business circles. Generally, the term 'globalization' is considered as a synonym for the term 'internationalization'. Strictly speaking, it is not so. Business with one or more foreign countries amounts to internationalism, whereas globalization means adopting a global outlook for the business and business strategies are aimed at enhancing global competitiveness. Companies, which have adopted global outlook "stop thinking of themselves as national marketers, but start thinking themselves as global marketers." In these companies, the management and the staff are given training in planning business all the world over, competing in International markets throughout the globe. Executives are trained in worldwide operations and not mere domestic market or a few market outside the country.

Agricultural societies see industrialisation as the main vehicle for improving their living standards, even though initially industry relied largely on foreign trade. Industry is severely handicapped if it is deprived of the ability to trade widely. The division of labour is united by the size of the market. It is the key to increased productivity. The World Development Report, 1987 stated that progress of small countries depended upon their ability to trade relatively freely with the rest of the world. On the other hand, economies with large domestic market, trade-led specialisation, economies of scale and competition to keep the managers alert. The volume of trade since 1970 has multiplied ten times. The world trade scene is at present marked by

two opposing trends. On the one hand, there is a growing trend towards free trade. Quantitative trade restrictions are being gradually removed. More and more items like agriculture and free services are being sought to be brought under multilateral trade agreements. Custom duties have also been drastically reduced over the years. On the other hand, regional trade blocks have been formed. A regional trade block is a trade arrangement which discriminates between countries within the block and those which are outside it, and hence restricts the growth of trade and prosperity.

MEANING OF GLOBALISATION

Globalization is the integration of international markets for goods and services, technology, finance and to some extent labour. It is the integration of the country with the world economy. World is perceived as global village. A country will be able to supply anything to or buy anything from anybody in, the world. Globalization implies the linkage of a nation's market with the global market. Technology is an important factor, which has facilitated the globalization process. Globalization has made markets highly competitive and there is a remarkable growth of new service products.

GLOBALISATION IN INDIA

In 1991, India had unprecedented balance of payments crisis. The finances of the Central, as well as State Governments had reached a situation of near bankruptcy. India's increased reliance on high cost external commercial borrowings and NRI deposits further accentuated this problem. With the downgrading of India's credit rating by some international agencies, combined with political uncertainties at home, there was heavy flight of capital out of India. Since India lost its credit worthiness in the international market, the government mortgaged 40 tonnes of Gold to Gold Bank of England.

In spite of adopting several restrictive measures in the import sector and also drawing 1.8 billion dollars from the Contingency Compensatory Financing Facility (CCEF) in January 1991, foreign exchange reserves declined to 1.1 billion dollar in June 1991, an amount barely sufficient for

just two weeks of imports into the country. Default on debt servicing appeared imminent, and this could be avoided only if credit were made available by these institutions, but with a condition of adopting 'Stabilization, and Structural adjustment Programme' which included stabilization, domestic liberalization and external liberalization. Under these circumstances, the new government in July 1991 presented its budget with a series of policy changes, which underlined globalization, liberalization and privatization. This has come to be called as India's New Economic Policy. The policies are further strengthened when India signed the Dunkel Draft in 1994. From this, it is evident that the adoption of the policy of globalization was not out of selection of a policy, but it was a matter of compulsion, both voluntary and involuntary.

15.5 FOREIGN DIRECT INVESTMENT:

Every where in the world, including the developed countries governments are vying with each other to attract foreign capital. The belief that foreign capital plays a constructive role in a country's economic development, it has become even stronger since mid-1980. The experience of South East Asian Countries (1986-1995) has especially confirmed this belief and has led to a progressive reduction in regulations and restraints that could have inhibited the inflow of foreign capital

NEED FOR FOREIGN DIRECT INVESTMENT (FDI):

The need for FDI arises because of the following reasons. In most developing countries like India, domestic capital is inadequate for the purpose of economic growth. FDI is typically seen as a way of filling in gaps between the domestically available supplies of savings, foreign exchange, government revenue and the planned investment necessary to achieve developmental targets. To give an example of this 'savings-investment' gap, let us suppose that planned rate of growth output per annum is 7 percent and the capital-output ratio is 3 percent, then the rate of saving required is 21 percent. If the saving that can be domestically mobilized is 16 percent there is a shortfall or

a savings gap of 5 percent. Thus the foremost contribution of foreign capital to national development is its role in filling the resource gap between targeted investment and locally mobilized savings. Foreign capital is needed to fill the gap between the targeted foreign exchange requirements and those derived from net export earnings plus net public foreign aid. This is generally called the foreign exchange or trade gap.

An inflow of private FDI helps in removing deficit in the balance of payments over time if the foreign owned enterprise can generate a net positive flow of export earnings.

The third gap that the FDI and specifically, foreign investment helps to fill is that between governmental tax revenue and the locally raised taxes. By taxing the profits of the foreign enterprises the governments of developing countries are able to mobilize funds for projects (like energy, infrastructure) that are badly needed for economic development.

FDI meets the gap in management, entrepreneurship, technology and skill. The package of these much-needed resources is transferred to the local country through training programmes and the process of 'learning by doing'. Further foreign companies bring with them sophisticated technological knowledge about production processes while transferring modern machinery equipment to the Capital poor developing countries. In fact in this era of globalization, there is a great belief that foreign capital transforms the productive structures of the developing *economics* leading to high rates of growth. Besides the above, foreign capital, by creating new productive assets, contributes to the generation of employment a prime need of a country like India.

FORMS OF FOREIGN INVESTMENT:

Foreign Capital can be obtained in the form of foreign investment or non-concessional assistance or concessional assistance.

1. Foreign investment includes Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). FPI' includes the amounts raised by

Indian corporate through Euro Equities, Global Depository Receipts (GDR's), and American Depository Receipts (ADR's).

2. **Non-Concessional Assistance** mainly includes External Commercial Borrowings (ECB's), loans from governments of other countries/multilateral agencies on market terms and deposits obtained from Non-Resident Indians (NRIs).

3. **Concessional Assistance** includes grants and loans obtained at low rates of interest with long maturity periods. Such assistance is generally provided on a bilateral basis or through multilateral agencies like the World Bank, International Monetary Fund (IMF), and International Development Association (IDA) etc. Loans have to be repaid generally in terms of foreign currency but in certain cases the donor may allow the recipient country to repay in terms of its own currency. Grants do not carry any obligation of repayment and are mostly made available to meet some temporary crisis. Foreign Aid can also be received in terms of direct supplies of agricultural commodities or industrial raw materials to overcome temporary shortages in the economy. Foreign Aid may also be given in the form of technical assistance.

15.6 CONTROL OF FDI IN INDIA:

The Government announced in 1991, a list of industries in which Foreign Direct Investment would be automatically allowed *tip* to 51 percent. (Foreign Equity) These industries ranged from the capital goods and metallurgical sector to the entertainment, electronic, food processing and service sectors with significant export potential. Hotels and tourist-related areas were also allowed foreign equity holdings by international trading companies of up to 51 percent.

In order to accelerate the progress of the power sector, 100 per cent foreign equity participation was allowed for setting up power plants. Such equity participation allowed free repatriation of profits and other incentives.

During 1992 - 93, several additional measures were taken to encourage investment flows:

The dividend balancing condition earlier applicable to foreign investment up to 51 per cent equity was no longer to be applied except for consumer goods industries.

Existing companies with foreign equity could raise it to 51 per cent subject to certain prescribed guidelines. FDI was also allowed in exploration, production and refining of oil and marketing of gas. Captive coalmines could also be owned and run by private investors in power.

Non-Resident Indians (NRIs) and Overseas Corporate Bodies (OCBs) predominantly owned by them were permitted to invest up to 100 percent equity in high priority industries with repatriability of capital and income. NRI investment up to 100 per cent was also allowed in export houses, hospitals, export oriented units, sick industries, hotels and tourism related industries and without the right of repatriation in the previously excluded areas of real estate, housing and infrastructure.

The restriction prohibiting the use of foreign brand name or trademark for approval for foreign investment and foreign technology agreements was removed.

Disinvestments of equity by foreign investors no longer needed to be at prices determined by the RBI.

The Foreign Exchange Regulations Act (FER-A) 1973 was substantially liberalized in 1991-93. All restrictions on FERA companies in the matter of borrowing funds or raising deposits in India as well as taking over or creating any interest in business in Indian companies were removed. Indian companies and Indian nationals were allowed to start joint ventures abroad. FERA companies were also exempted from restrictions on the establishment of branches, liaison offices, and acquisition of company in India carrying on business in trade, commerce or industry excepting agriculture and plantations. Companies with more than 40 percent of foreign

equity were also now treated on par with fully Indian-owned companies. Now of course, Foreign Exchange Management Act (FEMA) has replaced FERA.

The Indian corporate sector has also been encouraged to access global capital markets through the GDR mechanism as described below:

1. Foreign Investors can invest in Indian companies through the GDR route without any lock-in period.
2. These receipts can be listed on any of the overseas stock exchanges and denominated in any convertible foreign currency. However, the underlying shares would be denominated in Indian rupees.
3. Private placement with United States (US), investors is also permissible in accordance with the US Securities Act.
4. Short-term capital gains are taxable at the rate of 65 percent along with business income long-term capital gains (computed on holdings for more than 12 months) are taxable at the rate of 10 percent.

The Guidelines for Euro issues were liberalized in June 1996 so as to give the market a free play in judging the quality of issues and the number of issues that can be floated in a year. The conditions relating to end-use of GDR proceeds have been relaxed significantly. Investment in the stock market and real estate is not, however permitted out of GDR proceeds.

In August 1999, a Foreign Investment Implementation Authority (FIIA) was established within the Ministry of Industry in order to ensure that approvals for Foreign Investments (including NRI investments) are quickly translated into actual investment inflows and that proposals frutify into proceeds.

The Insurance Regulatory and Development Authority (IRDA) Act was passed by parliament in December 1999. The Act, which seeks to promote private sector participation in the insurance sector, permits foreign equity shares in domestic private insurance companies up to maximum of 26 percent of the total paid-up capital.

In 2000-2001, further steps were taken:

Foreign Direct Investment (FDI) up to 100 percent was permitted in Ecommerce subject to specific conditions.

The dividend balancing condition for *FDI* in twenty-two consumer goods industries was removed.

FDI under the automatic route was permitted up to 100 percent for all manufacturing activities in Special Economic Zones (SEZs) except certain activities.

100 percent FDI was also allowed (with certain conditions) in telecommunications sector, for Internet service providers, infrastructure providers, providing dark fiber, electronic mail and voice mail.

In March 2003, the Union Cabinet decided to set a cap of 26 percent on foreign investment in news channels that seek to uplink from India, putting television news and the print media on par. Until now, there was no separate up linking policy for news and current events channels. Other measures adopted during 2002-03 for encouraging greater FDI inflows included permission for 100 percent FDI in development of integrated townships regional urban infrastructure, and permission to foreign firms to pay royalty on brand name\trademark as a percentage of net sales in case of technology transfer.

Sources of Foreign Direct Investment

The largest source of FDI to India over the period of 1991-2000 has been the USA and its share in total FDI approved has been 22 per cent. The second position was occupied by Mauritius with its share in FDI during that period of 12 per cent. However, it should be noted here that Mauritius based investments are nothing but US invest invests. They are routed through Mauritius because of tax advantages. Since the tax rates prevailing in Mauritius are amongst the lowest in the world, many MNCs prefer to route their investments to India through Mauritius.

Prior to 90s, India had to depend on a few developed Western countries for capital. During the 90s a number of other countries took interest in investing in India. These included countries like Italy, Australia, South Korea, Singapore, Malaysia etc. Many other countries like Israel, Thailand, Saudi Arabia, South Africa whose names did not appear in the FDI list prior to 1901, have increased their share over the years.

15.7 SUMMARY:

The rapid internationalisation and globalisation of business took place during 1990s. The entire global market is passing through a transition period. Today conducting and managing international business is a crucial venture worldwide due to variation in social, cultural, economic and political factors from one country to another. Now the international business operators must have accurate and timely information to enter into international market. The market segmentation pricing policy, size of production, are other factors to be kept in mind while formulating international business policies. The role of world Bank, IMF, WTO, FDI policy etc are also playing a vital role in framing international business environment these days.

The term 'Globalization' has been extensively used in modern discussion of industrial policies and also national economic policies, besides in business circles. Generally, the term 'globalization' is considered as a synonym for the term 'internationalization'. Strictly speaking, it is not so. Business with one or more foreign countries amounts to internationalism, whereas globalization means adopting a global outlook for the business and business strategies are aimed at enhancing global competitiveness. Companies, which have adopted global outlook "stop thinking of themselves as national marketers, but start thinking themselves as global marketers."

Every where in the world, including the developed countries governments are vying with each other to attract foreign capital. The belief that foreign capital plays a constructive role in a country's economic development, it has become even stronger since mid-1980. The experience of

South East Asian Countries (1986-1995) has especially confirmed this belief and has led to a progressive reduction in regulations and restraints that could have inhibited the inflow of foreign capital.

Foreign Capital can be obtained in the form of FDI, FPI, GDRs, ADRs, ECBs etc.

Control on FDI in India was further amended in 1991 with FEMA, IRDA, FIIA and liberalised upto 100 percent with certain conditions from time to time.

15.8 KEY WORDS:

Globalization : Expansion of economic activities across political boundaries of nation states.

FDI	-	Foreign Direct Investments.
FPI	-	Foreign Portfolio Investments.
GDRs	-	Global Depository Receipts.
ADRs	-	American Depository Receipts.
ECBs	-	External Concessional Borrowings
OCBs	-	Over Seas Corporate Bodies
NRI	-	Non Resident Indians
FEMA	-	Foreign Exchange Management Act.

15.9 SELF ASSESSMENT TEST:

1. What do you mean by Globalization?
2. Describe the Government's Policy towards.
3. Discuss the Cause and effect of Globalization in India.
4. Why Foreign Capital is needed? Discuss various sources of foreign capital.
5. Discuss the significance and method of control of F.D.I. in India.

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UNIT-16 BENEFITS AND PROBLEMS FROM MNCs, W.T.O. ITS ROLE AND FUNCTIONS:

Structure:

- 16.1 Introduction
- 16.2 Objectives
- 16.3 Multinational Corporation Concept and Features
- 16.4 Benefits from MNCs
- 16.5 Problems from MNCs
- 16.6 WTO
- 16.7 Role of WTO
- 16.8 Functions of WTO
- 16.9 Summary
- 16.10 Key Words
- 16.11 Self Assessment Test
- 16.12 Further Readings

16.1 INTRODUCTION:

Multinational Corporations are huge business organisations which extend their business operations beyond the country of origin through a network of industries and marketing operations. They are multi process and multi product enterprises. The few examples of MNCs are: Sony of Japan, IBM of USA, Siemens of Germany, Videocon and ITC of India. There are more than 40,000 MNCs, with more than 2,50,000 overseas subsidiaries. The top 300 MNCs Control over 25 percent of the world economy. The MNCs are such business units which operate simultaneously in different countries of the world. All business operations are carried out in different countries, with the strategic head quarters is any part of the world. Earlier only American based multinationals ruled the world, but today, many Japanese, Korean, European

and Indian multinational companies have spread their wings in many parts of the world.

The reasons for the growth of MNCs are many but with advancement of Globalisation and Liberalisation policy of so many developing countries after 1990 the MNCs are now indispensable business partner. A few reasons are: non transferable knowledge in the form of patent, desire to exploiting reputations, protecting secrecy, avoiding tariffs, product life cycle theory and strategic alliance and investment of available capital.

16.2 OBJECTIVES OF THE UNIT:

After reading this unit your will be able to:

- Understand the meaning and features of MNCs.
- Explain the advantages of MNCs.
- Understand the problems and disadvantages of MNCs.
- Understand the role and functions of W.T.O.

16.3 MULTINATIONAL CORPORATION : CONCEPT & FEATURES:

Meaning : An Multinational Corporation is one which undertakes foreign direct investment, i.e. it owns or controls income generation, assets in more than one country, and in so doing produces goods or services outside its country of origin, i.e. engages in international production.

Definition : There is no universally accepted definition of the term multinational corporation. Different authorities define the term differently.

(1) *As ILO Report says, "The essential nature of the multinational enterprises lies in the fact that its Managerial Headquarters are located in one country (home country) while the enterprise carries out operations in a number of other countries as well (host countries)"*

(2) *Lonard Gomes obviously said, what is meant is, "A corporation that controls production facilities in more than one county, such facilities having*

been acquired through the process of foreign-direct investment. Firms that participate in international business, however large they may be, solely by exporting or by hunting technology are not Multinational enterprises."

(3) The *United Nations* defines MNCs as. "Enterprises which control assets-factories, mines, sales offices and the like in two or more countries."

(4) *In India, the Foreign Exchange Regulation Act, 1973 (FERA)* provides a specific definition of multinational corporation as follows :

"A corporation incorporated in a foreign country or territory shall be deemed to be multinational corporation if such corporation (a) is a subsidiary or a branch or has place of business in two or more countries or territories. (b) carries on business or otherwise operations in two or more countries or territories."

A "*multinational corporation*" is also referred to 'as an *international, transactional or global corporation*. Actually, for an enlarging business firm, multinational is a beginning step, as it gradually becomes transnational and then turns into a global corporation.

FEATURES OF MULTINATIONAL CORPORATIONS:

Main features of multinational corporations are as under:

1. **Giant Size:** MNCs are predominantly large-sized and exercise a great degree of economic dominance. The assets and sales of MNCs run into billions of dollars and they also make supernormal profits.
2. **International Operations :** The control of such institutions resides in the hands of a single institution but its interests and operations sprawl across national boundaries. It operates through a /parent corporation in the home country.
3. **Transfer of Resources** MNCs facilitates the collective transfer of resources between countries. There is a package of transfer in the form of equipment, raw materials, finished products, labour, technical know-how and financial investment.

4. Varied Activities : MNCs perform varied functions. One of their functions is concerned with services. These corporations transfer capital and techniques. Regarding knowledge of sale of goods, foreign trade, packing etc. They provide research and development services. Other activities are related to production etc.

5. Oligopolistic Structure : Through the process of merger and takeover etc. in course of time a MNC acquires awes one power. This coupled with its giant size make it oligopolistic in character.

6. Spontaneous Evolution:: MNCs usually grow in a spontaneous and unconscious manner. There is no need of any pre-planning. Many firms gradually assume international character. Several factors contribute the spread and development of multinational corporation, Viz., difference in wage rate in different. countries, favourable trade conditions etc.

7. Other Features : A large part of the capital assets of the parent company is owned *by* the citizens of the company's home country.

The absolute majority of the members of the Board of Directors are citizens of the home country.

Decisions on new investment and the local objectives are taken by the parent company.

16.4 BENEFITS OF MULTI NATIONAL CORPORATIONS:

The MNCs have a revolutionary effect on the international economy. It is only due to this reason that the MNCs have affected the traditional form of capital flows and international trade for many economies. In the present world, they constitute a powerful force in the world economic system.

According to the *ILO Report*, "For some, the multinational companies are an invaluable dynamic force and instrument for wider distribution of capital technology and employment; for others they are monsters, which our present institutions, national or international cannot adequately control, a law

to themselves with no reasonable concept, that the public interest or social policy can accept."

Benefits from MNCs can be studied under heads :

(I) *Benefits to the host countries* and (II) *Benefits to the home countries*.

(I) Benefits to the Host Countries: To the host countries MNCs are likely to bring the following benefits :

1. Transfer of Capital : The MNCs have played significant role to help the developing countries to obtain capital from the advanced countries of the world. Therefore, they transfer capital from countries where it is abundant to the countries where it is scarce.

2 Raising the Rate of Investment: MNCs raise the rate of investment in the host country. This brings about rapid industrial growth and is followed by greater opportunities for employment in different sectors of the economy.

3. Use of Modern Techniques: MNCs not only provides finance but also managerial administrative and technical personnel, new technology; research and innovations in products and techniques of production which are in short supply in LDCs. They tend to increase the pace of development.

4. Linkage Effects : The UDCs do not have a sufficient degree of linkage with other industries. The MNCs usually produce 'linkage effects' in the host country. They also help in the creation of 'linked industries'. Such linkages may be either forward or backward.

5. Expansion of International Trade : MNCs facilitate the expansion of international trade and bring out greater economic co-operation between the developed and developing countries by functioning as links between them.

6. Effects on Balance of Payment : investment by MNCs in the developing countries improves their balance of payment by increasing exports and providing access to required inputs.

7. Increasing Employment : All round diversification by MNCs increases employment and income and helps to raise living standards in LDCs.

8. Risk Undertaking : They undertake great risk in investing their funds in LDCs in the face of imperfect infrastructural facilities like power, transport, skilled labour, etc., low market demand and short supply of inputs.

9. Development of Human Resource Capital : Still another point in favour of MNCs is that they are helpful to the development of human resource capital. They serve as carriers of knowledge and experience in different spheres. Thus, they provide sophisticated technology and improved skill and knowledge to under developed countries.

(II) Benefits to the Home Countries : The following benefits are likely to accrue to home countries

(1) Inflow of income from overseas profits, royalties, licensing fee and management contracts.

(2) Export of components and finished goods *for* assembly or distribution in foreign markets.

(3) Technology and management expertise acquired from competing in global markets.

(4) Acquisition of raw materials from abroad, often from a steadier supply and at lower prices that can not be found domestically.

(5) Job and career opportunities at home and abroad in connection with overseas operations.

16.5 PROBLEMS OF MULTINATIONAL CORPORATION:

As is the case with many other activities, there are several problems of MNCs that may accompany the benefits brought to home and host countries. Some of the drawbacks are as follows :

1. Interference in the Economic Sovereignty of the Host Country :

Since MNCs are economically powerful, they can evade or undermine national economic autonomy and political control. This poses the risk that they may threaten the political sovereignty of the host country.

2. Drainage of Resources : The main objective of the MNCs is to earn maximum profit. To achieve this objective they invest their capital in underdeveloped countries. According to *one* estimate, 300 *MNCs of America* received about \$ 40 billion as profit from underdeveloped countries.

3. Capital Intensive Technology : The MNCs use modern capital intensive technology which is inappropriate to the conditions in underdeveloped countries. In countries where labour is in abundance and unemployment widespread, such labour saving technology is inappropriate because it does not offer many jobs.

4. Economic Inequality : 'MNCs have not adhered to the goal of economic equality in the following way :

- (i) income gap among people also get widened as MNCs pay more salaries and perks to their employees.
- (ii) These corporations give more importance to the production of luxury goods than the production of mass consumption goods.
- (iii) Regional inequality has aggravated *as* MNCs set-up industries in advanced regions and not in backward regions.

5. Effect on the Balance of Payments: MNCs can have an unfavourable effect on the balance of payment of a country. Their presence results in a large drain on the scarce foreign exchange resources of a developing country.

6. Neglect of Research and Development : Although MNCs could have played a catalytic role in the promotion of research and development in the developing economies, their performance in this connection is far from satisfactory. Their expenditure on scientific research is negligible.

7. Pre-Emptying Savings: MNCs are pre-empting local savings by overpricing the imports and underpricing the exports of LDCs. In cases where there is competition from local entrepreneurs, the MNCs undercut them by charging low prices for their products. As a result, the local firms are squeezed out of the business.

8. Exploitation of Labour : MNCs establish ventures in UDC to exploit the cheap labour available there. Therefore they are interested in maintaining a gap between the wages prevailing in their home country and the host country.

9. Cultural Loss : The most serious threat faced by the host country is the loss of their cultural moorings in the name of globalisation the MNCs *usher in* their own dress and fond habits which are simply grabbed by the youth of the host countries.

10. Unfair Trade Practices : The MNCs also use unfair trade practices. For instance to save the corporate tax they over invoice the imports and under invoice the exports.

11. Distortions in Consumption Pattern : The MNCs may also lead to distortions in consumption patterns. By the massive, aggressive and sustained publicity, they can create demands and evolve market for their products. They have resources to spend and the art to attract customers. Thus, the worldwide network of MNC's in eatables like KFC, soft drinks like Pepsi and Coca Cola, Junk food outlets etc., are all examples of how the MNC's have created a taste for their products and ensured wider markets for sale.

12. Depletion of Natural Resources : The transnational corporations cause fast depletion of some of the non-renewable natural resources in the host country. They have also been accused of the following environmental problems : polluting the environment; not paying compensation for the environmental damages; causing harmful damages to the local living conditions; and, paying little regard to the risks of accidents causing major environmental catastrophes.

13. Encouraged Demonstration Effect : The MNCs made heavy expenditure on advertisement and publicity. It resulted in wasteful expenditure whose burden is ultimately to be borne by customers.

14. Creation of Monopolies : The MNC's may create their monopolies in the markets and eliminate local competitors.

15. Evasion of Taxes : The MNC's may manipulate their accounts to evade the taxes in the host country.

16. Against the National Interest : The Multinational Corporations have instances of acting against the interests of the local economy. Many such instances can be quoted :

- (i) Ship-owning companies (and indeed, their countries) like Bergesen (Norway) and (Greece) regularly violate international and national laws and dump their hazardous wastes at ship-breaking yards in India, Pakistan, China, Turkey and Bangladesh
- (ii) In Kodaikanal (India), Hindustan Lever a subsidiary of Unilever Plc, an Anglo-Dutch multinational dumped mercury waste from its thermometer factory in the surrounding forests and on an innocent local community.
- (iii) In Bhopal (India) more than 8,000 people died in the first three days after 40 tonnes of lethal gas spilled out from Union Carbide's Pesticide factory in December 1984.

Despite all these problems and disadvantages the developing countries are inviting the MNCs to gain some advantages at least and to be in tune with expanding global economy.

16.6 WORLD TRADE ORGANISATION:

On January 1, 1995, the first and most powerful world trade regulating agency, namely World Trade Organisation (WTO) came into existence, India is one of its 132 founding members. The WTO is the umbrella organization responsible for overseeing the implementation of all agreements that have

been negotiated just before it came into existence. It is also responsible for the settlement of disputes among its members. Finally, periodic review of the trade policies would also be initiated under the auspices of WTO.

Before the WTO came into existence international trade in merchandise was guided by the rules and provisions of the GATT. The GATT rules, however, could not absorb the complexities of world trade, which had been growing steadily since the Bretton Woods days, both in terms of commodity coverage and the nature of regulators applied by the regional trade blocks. Moreover, the GATT umbrella did not cover trade in services.

16.7 ROLE OF WORLD TRADE ORGANISATION:

The avowed goal of the WTO is to create a fair and equitable, rule based Multilateral trade system. The most appealing aspect is that the new multilateral trade regime would be transparent and non-discriminatory. For the world trading community as a whole, every initiative on trade liberalisation should ensure rewards in the form of large and expanding markets and greater trade flows for all participating members. All quantitative restrictions (quotas, import licensing etc.) would be replaced by tariff so as to make the process more transparent and open to international public scrutiny; all reductions and adjustments in tariffs would be effected through negotiations and are to be notified to the WTO. Then all kinds of subsidies would be reduced in due course by the developed Countries that the developing economies under their sheer comparative cost advantage could gain larger access to the markets in the developed world.

The two most significant principles of WTO agreements are the Most Favoured Nation and the National Treatment Clause. Under the former, no discrimination is to be exercised among member countries; any trade concession offered by one member to another must be offered to all members. Under the latter, imported products and domestic products are to be accorded the same treatment; moreover, besides import duty, no extra tax other than one also levied on domestic products is to be imposed. Foreign companies

investors and Government must feel assured that trade barriers would not be raised arbitrarily by any trading partner, Lastly, the new trade regime should work to a greater advantage of the less developed countries; they must be given more time to adjust, greater flexibility and some special privileges.

On a broad plane, the canvas of WTO agreements is spread over three compartments; goods, services and intellectual property rights. First, trade in goods of all descriptions (agricultural or industrial) is to be governed under GATT reformulations. Second, trade in services of all kinds is to be regulated under General Agreement on Trade in Services. Third, trade related aspects of Intellectual Property Rights would set out the terms and conditions for the international flow of intellectual property.

Evaluation- The new trading system of WTO seems to give undue emphasis on private sector and competition and fails to recognise the strategic role which the state plays in promoting the right kind of development with emphasis on equity and social infrastructure. Overemphasis on competition seems to have eroded the concept of public good and thereby provided a partial view of development process.

One of the objectives of trade negotiations under the GATT is providing a freer trading environment for the movement of goods and services. This objective is based on the assumption that free trade is an optimal modality for global welfare. But free trade does not necessarily imply fair trade. Given the differences in the initial conditions, total free trade seems to aggravate the gap between the rich and the poor countries. The new trading system under WTO fails to recognise this adverse impact of liberalisation of trade on the norms of fairness.

16.8 FUNCTIONS OF WORLD TRADE ORGANISATION:

The new World Trade Organisation (WTO) which replaced the General Agreements in Tariff's and Trade (*GATT*) came into effect from 1st January, 1995, with the backing of at least 85 founding member including

India. The WTO now comes as the third economic pillar of worldwide dimensions alongwith the World Bank and the IMF.

As many as 77 of the 125 countries which signed the Uruguay Round trade accord in April 1994 at a conference in Marrakesh have officially notified GATT that they would join the WTO.

The new trade body-WTO with powers to settle trade disputes between nations and to widen the principle of free trade to sectors such as services and agriculture, covers more areas than GATT, whose rules had been in operation for the last 50 years. The WTO envisages the reduction of tariffs by more than one-third and is concerned with further opening of markets. It is expected that the world trade would be stimulated in the long run as a result of the coming, into being of the new trade body-WTO. According to an estimate made by the GATT, in 2005 turnover through international trade could be as high as \$510 billion annually.

Like GATT, the WTO agreement will regulate the commodities trade, but in addition it will also deal with services across borders like insurance and tourism. The new WTO conditions also protect intellectual property like patents, copyrights and brands. Agriculture and textiles are completely covered by the WTO agreements. The highest WTO body is a ministerial conference which will meet at least once in two years.

The WTO has been entrusted with the following functions:

1. The WTO would facilitate proper implementation of multinational trade agreements.
2. It will review trade policies undertaken by the member countries.
3. It will act as a forum for the negotiation of disputes among, the member countries over trade related problems.
4. The WTO will work in cooperation with the IMF and the World Bank.

WTO AND INDIA :

India is committed to WTO on following points:-

1. ***Tariff Lines:*** WTO, India has bound about 67 per cent of its tariffs lines whereas prior to the Uruguay Round only 6 percent of the tariff lines were bound. For non-agricultural goods with it few exceptions, ceiling bindings of 40 per cent advalorem on finished goods and 25 per cent on intermediate goods, machinery and equipment have been undertaken. The phased reduction to these bound levels is being undertaken over the period March 1995 to the year 2005. In textiles where reduction will be achieved over a period of 10 years, India has reserved the right to revert to duty levels prevailing in 1990, if the integration process, envisaged Under the Agreement on Textiles, does not materialise in full. Under the Agreement of Agriculture, India's bound rate ranges from 100 to 300 per cent.
2. ***Quantitative Restrictions:*** Quantitative restrictions on imports maintained on balance of payments grounds were notified to WTO in 1997 for 2714 tariff lines at the eight digit level. In view of the improvements in India's balance of payments, the Committee on Balance of Payments Restrictions had asked India for a phase out for the quantitative restrictions. An agreement between USA and India was reached which envisaged the phasing out of all quantitative restrictions by India by April 2001 In line with this agreement, India removed quantitative restrictions on 714 items in the EXIM Policy announced on March 31, 2000 and on the remaining 715 items in the EXIM Policy announced on March, 2001.
3. ***TRIPs (Trade-related Intellectual Property Rights):*** The ruling of the two WTO Dispute Settlement Panels following the complaints made by the USA and the European Union that India had failed to meet its commitments under Article 70.8 and Article 70.9 made it obligatory for the Government of India to make appropriate amendments to the Patents Act, 1970 by April 1999. "The Patents (Amendment) Act, 1999 was passed by Parliament in March 1999 to provide for Exclusive Marketing Rights. In respect of plant varieties, a decision

has been taken to put in place *a sui generis* system as it is perceived to be in our national interest.

As far as copyrights and related rights are concerned, the Copyright Act, 1957, as amended in 1994 takes care of our interests and meets the requirements of the TRIPs Agreement except in the case of terms of protection of performers' rights, A Bill to increase this term to 50 years was passed by Parliament in December 1999.

4. ***TRIMs (Agreement on Trade-related Investment Measures):*** Under the TRIMs agreement, developing countries have a transition period of five years up to December 31, 1999 during which they can continue to maintain measures consistent with the Agreement provided these are duly notified. The Government of India notified two TRIMS viz., that related to local content requirements in the production of certain pharmaceutical products and dividend balancing requirement in the case of investment in 22 categories consumer items.
5. ***GATS:*** Under the General Agreement on Trade in Services (GATS), India has commitments in 33 activities. Foreign service providers will enter these activities. According to the Government of India, the choice of the activities has been guided by considerations of national benefit.
6. ***Customs Valuation Rules:*** India's legislation on Customs Valuation Rules, 1998, has been amended to bring it in conformity with the provisions of the WTO Agreement on implementations of Article VII of GATT 1994 and the Customs Valuation Agreement.

16.9 SUMMARY:

Multinational Corporations are huge business organisations which extend their business operations beyond the country of origin through a network of industries and marketing operations. They are multi process and multi product enterprises.

The reasons for the growth of MNCs are many but with advancement of Globalisation and Liberalisation policy of so many developing countries after 1990 the MNCs are now indispensable business partner. A few reasons are: non transferable knowledge in the form of patent, desire to exploiting reputations, protecting secrecy, avoiding tariffs, product life cycle theory and strategic alliance and investment of available capital.

The MNCs have a revolutionary effect on the international economy. It is only due to this reason that the MNCs have affected the traditional form of capital flows and international trade for many economies. In the present world, they constitute a powerful force in the world economic system.

According to the *ILO Report*, "For some, the multinational companies are an invaluable dynamic force and instrument for wider distribution of capital technology and employment; for others they are monsters, which our present institutions, national or international cannot adequately control, a law to themselves with no reasonable concept, that the public interest or social policy can accept."

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by more than one-third and is concerned with further opening of markets. It is expected that the world trade would be stimulated in the long run as a result of the coming, into being of the new trade body-WTO. According to an estimate made by the GATT, in 2005 turnover through international trade could be as high as \$510 billion annually.

16.10 KEY WORDS:

- WTO - World Trade Organisation
- GATT - General Agreement on Tariff and Trade.
- MNCs - Multinational Corporations.
- UDCs - Underdeveloped Countries.
- LDCs - Less Developed Countries.
- TRIPs - Trade Related Intellectual property Rights.
- TRIMs - Trade Related Investment Measures.
- GATs - General Agreement on Trade in Services.
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16.11 SELF ASSESSMENT TEST:

1. What is MNCs? Discuss.
 2. Discuss the features of MNCs.
 3. Discuss the benefits of MNCs.
 4. Briefly explain the problem of MNCs.
 5. What is WTO?
 6. Discuss the role & Functions of WTO.
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16.12 FURTHER READINGS:

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Dunning and Handani (Edited) New Globalisation and Developing Country.

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