VALLUVAR COLLEGE OF SCIENCE AND MANAGEMENT, KARUR

DEPARTMENT OF BUSINESS ADMINISTRATION

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GATT

The ultimate aim of GATT is the establishment of a free multilateral trading system and liberalization of international trade through removal of discrimination in international trade and reduction in trade barriers.

For the achievement of this objective, GATT has adopted the following fundamental principles. These principles forbid unfair trade practice and set a code of conduct for the participants.

(i) Trade should be on non-discriminatory basis.

(ii) Quantitative restrictions on trade are prohibited.

(iii) Settlement of trade disputes should be achieved through consultations within the framework of GATT.

(iv) Tariff reductions are to be accomplished in a series of multilateral negotiations, or GATT rounds.

THE URUGUAY ROUND

Uruguay Round is the name by which the eighth Round of the multilateral trade negotiation held under the auspices of the GATT is popularly known, because it was launched in Punta del Este in Uruguay , a developing country, in September 1986. The Doha Round which commenced in 2001 still continues.

The first six Rounds of MTNs concentrated almost exclusively on reducing tariffs, while the Seventh Round (Tokyo Round—1973- 79) moved on to tackle on non- tariff barriers. The UR sought to broaden the scope of MTNs far wider by including new areas such as:

- Trade in services
- Trade related aspects if intellectual property.
- Trade related investment measures

Because of the inclusion of the new aspects in the GATT negotiations, the developing countries had serious apprehensions about the outcome of the Uruguay Round.

The Uruguay Round took up three basic subjects for discussions:

1. Reducing specific trade barriers and improving market access.
2. Strengthening GATT disciplines.
3. Problems of liberaliasation of trade in services, trade related aspects of intellectual property rights and trade related investment measures.

The most outstanding feature of the UR was the inclusion of the subjects in the 3rd item referred to above in the MTNs of GATT.

WTO

In order to implement the final of Uruguay round agreement of GATT the WTO was established on 1st January 1995. India is one of the founder members of WTO (Out of 104). The WTO is an organisation GATT is a legal agreement. The WTO was designed to play the role of 'watch dog'

Functions of WTO

The former GATT was not really an organisation; it was merely a legal arrangement. On the other hand, the WTO is a new international organisation set up as a permanent body. It is designed to play the role of a watchdog in the spheres of trade in goods, trade in services, foreign investment, intellectual property rights, etc. Article III has set out the following five functions of WTO;

(i) The WTO shall facilitate the implementation, administration and operation and further the objectives of this Agreement and of the Multilateral Trade Agreements, and shall also provide the frame work for the implementation, administration and operation of the plurilateral Trade Agreements.

(ii) The WTO shall provide the forum for negotiations among its members concerning their multilateral trade relations in matters dealt with under the Agreement in the Annexes to this Agreement.

(iii) The WTO shall administer the Understanding on Rules and Procedures Governing the Settlement of Disputes.

(iv) The WTO shall administer Trade Policy Review Mechanism.

(v) With a view to achieving greater coherence in global economic policy making, the WTO shall cooperate, as appropriate, with the international Monetary Fund (IMF) and with the International Bank for Reconstruction and Development (IBRD) and its affiliated agencies.

Objectives of WTO

Important objectives of WTO are mentioned below:

(i) to implement the new world trade system as visualised in the Agreement;

(ii) to promote World Trade in a manner that benefits every country;

(iii) to ensure that developing countries secure a better balance in the sharing of the advantages resulting from the expansion of international trade corresponding to their developmental needs;

(iv) to demolish all hurdles to an open world trading system and usher in international economic renaissance because the world trade is an effective instrument to foster economic growth;

(v) to enhance competitiveness among all trading partners so as to benefit consumers and help in global integration;

(vi) to increase the level of production and productivity with a view to ensuring level of employment in the world;

(vii) to expand and utilize world resources to the best;

(viii) to improve the level of living for the global population and speed up economic development of the member nations.

GATS

The GATS is a multilateral agreement under the WTO that was negotiated in the Uruguay Round and came into effect in 1995. It was essentially inspired by the same objectives as the General Agreement on Tariffs and Trade (GATT), which is its counterpart in merchandise trade:

- Creating a credible and reliable system of international trade rules
- Ensuring fair and equitable treatment of all participants (principle of non-discrimination)
- Stimulating economic activity through guaranteed policy bindings
- Promoting trade and development through progressive trade liberalization.

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General or unconditional obligations

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Most Favoured Nation treatment

MFN means treating one’s trading partners equally. Under GATS, if a country allows foreign competition in a given sector, equal opportunities in that sector should be given to service providers from all other WTO members. This applies even if the country has made no specific commitment to provide foreign companies access to its markets under the WTO and it applies moreover to mutual exclusion treatment. E.g. if one country chooses to exclude another country from providing a certain service, all WTO members should be excluded.

MFN applies to all services, but some special temporary exemptions have been allowed.

Transparency

In order to guarantee transparency, governments must publish all relevant laws and regulations. Inquiry points within their administrations should help foreign companies and governments obtain information about regulations in any service sector. Moreover governments have to notify the WTO of any changes in regulations that apply to the services that come under specific commitments.

Measures

These include all laws, regulations and practices from national, regional or local governments that may affect trade; this term applies to all sectors. 5

Conditional obligations

There are a number of conditional obligations attached to national schedules, e.g. market access and national treatment. These apply only to commitments that are listed in national schedules and whose degree and extent is determined by country.

Market access

The lists of market access commitments (along with any limitations and exemptions from national treatment) are negotiated as multilateral packages, although bilateral bargaining sessions are needed to develop the packages. The commitments therefore contain the negotiated and guaranteed conditions for conducting international trade in services. If a recorded condition is to be changed for the worse, then the government has to give at least three months' notice and it has to negotiate compensation with affected countries. But the commitments can be improved at any time.

National treatment

This principle means treating one's own nationals and foreigners equally. In services, this means that once a foreign company has been allowed to supply a service in one's country there should be no discrimination between the foreign and local companies.

Under GATS, a country only has to apply this principle when it has made a specific commitment to provide foreigners access to its services market. It does not have to apply national treatment in sectors where it has made no commitment. Even in the commitments, GATS does allow some limits on national treatment.

Progressive Liberalization

In GATS, it is the intention that with each round of negotiations further liberalization of trade in service is realized. This involves two aspects - more sectors are covered and more trade limitations are removed.

Bottom-up and Top-down approach

In the context of GATS, a bottom-up approach means that each country determines the type and extent of its commitments for each sector.

Top down refers to the main rules and obligations as well as the progressive liberalization agenda, there will be increasing pressure to remove trade barriers.

Trade Related Investment Measures (TRIMs)

It refers to certain condition or restrictions imposed by a Government in respect of foreign investment in the country. The TRIM text provides that the foreign capital would not be discriminated by the member Governments.

Features of TRIMs

1. Abolition of restriction imposed on foreign capital

2. Offering equal rights to the foreign investor on par with the domestic investor

3. No restrictions on any area of investment

4. No limitation or ceiling on the quantum of foreign investment

5. Granting of permission of without restrictions to import raw material and other components

6. No force on the foreign investors to use the total products and or materials

7. Export of the part of the final product will not be mandatory

8. Restriction on repatriation of dividend interest and royalty will be removed

9. Phased manufacturing programming will be introduced to increase the domestic content of manufacturer

Trade Related Intellectual Property Rights (TRIPs)

Intellectual property rights may be defined as “Information with commercial value”. IPR have been characterised as a composite of “ideas and creative expression”. Plus “ the public willingness to bestow the status of property. It include

a. Protection of patent

b. Copyright

c. Industrial design

d. Geographical indication

e. Trademarks

f. Trade secrets

g. Layout design (topographies of integral circuits)

Dispute settlement under WTO

The WTO’s procedure for solving trade quarrels under the Dispute settlement Understanding is vital for enforcing the rules and therefore for ensuring that trade flows smoothly. Countries bring dispute to the WTO if they think their rights under the agreements are being infringed. Judgments by specially – appointed independent experts are based on interpretations of the agreements and individual countries commitments.

Definition:

A multinational or transnational enterprise is an enterprise that engages in foreign direct investment (FDI) and owns or, in some way, controls value-added activities in more than one country.

DOMINANCE OF MNCs

The global liberalization has paved the way for fast expansion and growth of the MNCs. The value added to all foreign affiliates of MNCs as a percentage of world GDP increased from about 5 percent in beginning of the 1980s to nearly 7 percent at the end of the 1990s.

The economic clout of the MNCs is indicated by the fact that the GDP of most of the countries is smaller than the value of the annual sales turnover of the multinational giants. The value of the annual sales of General Motors in 2004 was about $ 194 billion. Only a very small number of developing countries like India, China, Mexico, Brazil, Russia, Argentina, Indonesia and Republic of Korea had GDP which was higher than this figure.

Top 10 fortune 5000 companies , 2005

RANK	COMPANY
1	Exxon Mobil
2	Wal-Mart Stores
3	Royal Dutch/Shell Group
4	BP
5	General Motors
6	Chevron
7	DaimlerChrysler
8	Toyota Motor
9	Ford Motor

With sales totaling $ 183 billion in 2000, General Motor (GB), this maintained the No. 1 position in terms of sales for a long time, had fallen behind Exxon Mobile Corporation and Wal-Mart Stores. In 2005, Exxon Mobile, with nearly $ 240 billion in revenue, unseated Wal-Mart from its four-year reign at No. 1. Five of the Five of the fortune 2006 were oil companies and four were automakers.

In 2004, foreign affiliates of MNCs employed over 57 million people, compared to 24 million in 1990. The greater part of the increase of employment in foreign affiliates in recent years has taken place in developing countries. A considerable share of the increase was concentrated in East and South- East Asia , in particular in china, and in export processing zones in those regions and elsewhere.

ORGANISATIONAL MODELS

MULTINATIONAL CORPORATION

This was the type of the corporation popular when many European companies internationalized during the pre-war (1920s and 1930s) when the trade barriers were very high. According to Bartlett and Ghoshal, the multinational organization is defined by the following characteristics: a decentralised federation of assets and responsibilities, a management process defined by simple financial control systems overlaid on informal personal coordination, and a dominant strategic mentality that viewed the company's worldwide operation as a portfolio of national business. In a multinational organization, the decisions, obviously, are decentralized.

INTERNATIONAL ORGANISATION MODEL

This organization structure was predominant in the case of the American companies which internationalized in the early post-war years.

In the international organization, the structural configuration of which is described as coordinated federation, many assets, resources, responsibilities and decisions are decentralized but controlled from the headquarters. The overseas operations are regarded essentially as appendages to a central domestic corporation. In this model, the headquarters transfers knowledge and expertise to overseas environments that were less advanced in technology or market development. While local subsidiaries are often free to adapt the new products or strategies, their dependence on the parent company for new products, processes, or ideas dictated a great deal more coordination and control by the headquarters than in the classical multinational organization.

GLOPAL ORGANISATIONAL MODEL

The Japanese companies which internationalized since the mid-1960s through the 1970s and 1980s adopted global organization model. The global configuration is based on centralization of assets, resources and responsibilities; overseas operations are used to reach foreign markets in order to build global scale. The role of local subsidiaries is to assemble and sell products and to implement plans and policies developed at headquarters. Compared with subsidiaries in multinational or international organisations, they have much less freedom to create new products or strategies or even to modify existing ones.

In the global model, management treats overseas operation as delivery pipelines to a unified global market, from a centralized hub.

The rapid decline in tariffs, coupled with dramatic improvements in transportation and communication of this period, made a truly export-based strategy feasible.

TRANSNATIONAL MODEL

The transnational organization and model seeks to eliminate some of the drawbacks of the other model. It endeavors to achieve global competitiveness through, inter alia, multinational flexibility and worldwide learning.

In a transnational , the specialized resources and capabilities are dispersed among the various operating units globally. These units are interdependent and integrated and have large flows of components, products, resources, people and information among them. An important feature of the transnational, therefore, is the complex process of coordination and cooperation in an environment of decision making.

MULTINATIONALS IN INDIA

Arguments for MNCs (The positive role):

The MNCs play an important role in the economic development of underdeveloped countries.

1. Filling Savings Gap:

The first important contribution of MNCs is its role in filling the resource gap between targeted or desired investment and domestically mobilized savings. For example, to achieve a 7% growth rate of national output if the required rate of saving is 21% but if the savings that can be domestically mobilised is only 16% then there is a 'saving gap' of 5%. If the country can fill this gap with foreign direct investments from the MNCs, it will be in a better position to achieve its target rate of economic growth.

2. Filling Trade Gap:

The second contribution relates to filling the foreign exchange or trade gap. An inflow of foreign capital can reduce or even remove the deficit in the balance of payments if the MNCs can generate a net positive flow of export earnings.

3. Filling Revenue Gap:

The third important role of MNCs is filling the gap between targeted governmental tax revenues and locally raised taxes. By taxing MNC profits, LDC governments are able to mobilize public financial resources for development projects.

4. Filling Management/Technological Gap:

Fourthly, Multinationals not only provide financial resources but they also supply a "package" of needed resources including management experience, entrepreneurial abilities, and technological skills. These can be transferred to their local counterparts by means of training programs and the process of 'learning by doing'.

Moreover, MNCs bring with them the most sophisticated technological knowledge about production processes while transferring modern machinery and equipment to capital poor LDCs. Such transfers of knowledge, skills, and technology are assumed to be both desirable and productive for the recipient country.

5. Other Beneficial Roles :

The MNCs also bring several other benefits to the host country.

(a) The domestic labour may benefit in the form of higher real wages.

(b) The consumers benefits by way of lower prices and better quality products.

(c) Investments by MNCs will also induce more domestic investment. For example, ancillary units can be set up to ‘feed’ the main industries of the MNCs

(d) MNCs expenditures on research and development(R&D), although limited is bound to benefit the host country.

Apart from these there are indirect gains through the realization of external economies.

Reasons for the growth of MNCs :

Reasons for the growth of multi nationals are manifold, the important ones being as follows :

1) Expansion of market territory.

2) As the operations of a large size firm expand and as its international image builds up, it seeks more and more extension of its activities beyond the physical boundaries of the country in which it is incorporated.

3) Marketing superiorities: A multinational firm enjoys a number of marketing superiorities over the national firms:

A) It possesses a more reliable and up to date market information system.

B) It enjoys market reputation and faces less difficulty in selling in production.

C) It adopts more effective advertising and sales promotion technique use and .

D) It has efficient warehousing facilities due to lower inventory requirements.

4) Financial superiorities: A multinational firm enjoys the following financial superiorities over the national firm :

A) It has huge financial resources with which it can easily turn on circumstances in its favour.

B) It maintains a high level of funds utilization by generating funds in one country and using them in another.

C) It has easier access to external capital markets.

D) because of its international reputation it is able to rise more international resources even investors and banks of the host country are eager to invest in it.

Arguments Against MNCs (The negative role):

There are several arguments against MNCs which are discuss below.

1. Although MNCs provide capital, they may lower domestic savings and investment rates by stifling competition through exclusive production agreements with the host governments.

MNCs often fail to reinvest much of their profits and also they may inhibit the expansion of indigenous firms.

2. Although the initial impact of MNC investment is to im prove the foreign exchange position of the recipient nation, its long-run impact may reduce foreign exchange earnings on both current and capital accounts. The current account may deteriorate as a result of substantial importation of intermediate and capital goods while the capital account may worsen because of the overseas repatriation of profits, interest, royalties, etc.
3. While MNCs do contribute to public revenue in the form of corporate taxes, their contribution is considerably less than it should be as a result of liberal tax concessions, excessive investment allowances, subsidies and tariff protection provided by the host government.
4. The management, entrepreneurial skills, technology, and overseas contacts provided by the MNCs may have little impact on developing local skills and resources. In fact, the development of these local skills may be inhibited by the MNCs by stifling the growth of indigenous entrepreneurship as a result of the MNCs dominance of local markets.
5. MNCs' impact on development is very uneven. In many situations MNCs activities reinforce dualistic economic structures and widens income inequalities. They tend to promote the interests of some few modern-sector workers only. They also divert resources away from the production of consumer goods by producing luxurious goods demanded by the local elites.
6. MNCs typically produce inappropriate products and stimulate inappropriate consumption patterns through advertising and their monopolistic market power. Production is done with capital-intensive technique which is not useful for labour surplus economies. This would aggravate the unemployment problem in the host country.
7. The behaviour pattern of MNCs reveals that they do not engage in R & D activities in underdeveloped countries. However, these LDCs have to bear the bulk of their costs.
8. MNCs often use their economic power to influence government policies in directions unfavourable to development. The host government has to provide them special economic and political concessions in the form of excessive protection, lower tax, subsidized inputs, cheap provision of factory sites. As a result, the private profits of MNCs may exceed social benefits.
9. Multinationals may damage the host countries by suppressing domestic entrepreneurship through their superior knowledge, worldwide contacts, and advertising skills. They drive out local competitors and inhibit the emergence of small-scale enterprises.

There is no distinction between an MNCs & a domestic company in India policy regarding MNCs is the same as for Foreign Private Capital in indie. Large & dominant MNCs along with Indian Companies are covered under MRTP Act. MNCs are specifically covered under Foreign Exchange Management Act (FEMA). Now, we study the operation of MNCs in India:

1.) Profit Maximisation.

2.) International Network of marketing.

3.) Diversification Policy.

4.) Concentration in Consumer goods.

5.) Location of central control offices.

6.) Techniques to achieve Public Acceptability.

7.) Existence of Modern & Sophisticated Technology.

8.) Business but not social Justice.

9.) MNCs & Process of planned Economic Development in India.

10.) Cultural Explosion.

Control Over Multinational Corporations :

Theresponsibilityof controlling the activities of multinational corporation in India rests on different government agencies. These agencies are :

1) The ministryof Company Affairs,

2)The reserve Bank of India ,

3)The ministry of Industrial Development, and

4)The Ministry of finance. However, these agencies do not work in close cooperation with each other.

As a result of a study by Michael Kidron entitled Foreign Invest ment in India published in 1965 (and the follow –up discussion in which many economist participated) and the appearance of the Industrial Licensing policy Inquiry Committee Report in 1968, the belief got strengthened that imports of foreign technology were overpriced and were designed to perpetrate dependence. As a consequence, the government policy was progressively tightened in the following

1) some industries were not allowed to import technology at all, the underlying principles of the policy being that

a) no ‘inessential’ article should be produced with fresh imports of technology (this gave the exiting domestic and foreign producers automatic protection against fresh imports of technology)and

b) Where domestic capacity was ‘adequate’ no technology should be imported;

2) Among industries where technology imports were allowed , the maximum rate of royalty was laid down;

3) In some designed industries, foreign investment was allowed in principle, but sanction in individual cases was a matter of administrative decision;

4) The normal permissible period of agreements was reduced from ten years to five, and renewals were generally frowned upon;

5) Exports and other marketing restriction were generally not allowed , and often an obligation to export a certain proportion of the output was insisted upon;

6) A clause was often inserted in the agreements granting permission to the importer to sub-license the technology;

7) The CSIR was allowed to look at applications for approval of technology imports , and if it expressed willingness to supply the technology, approval was withheld or at least delayed.

UNIT-3

GLOBALISATION DEFINITION

According to International Monetary Fund, this stresses the growing economic Interdependence of countries worldwide through increasing volume and variety of crossborder Transactions in goods and services, free international capital flows, and more rapid and widespread diffusion of technology.

• According to Dr. Ismail Shariff, globalization is the worldwide process of homogenizing prices, products, wages, rates of interest and profits

• The term "globalization" is used to refer to these collective changes as a process, or else as the cause of turbulent change.

• Globalization relies on three forces for development:

• the role of human migration

• international trade, and rapid movements of capital

• integration of financial markets

RECENT TRENDS IN GLOBALIZATION

The Human Development Report, 1999, mentions the following as the new features of the current phases of globalization

New markets

- Growing global markets in services—banking, insurance, transport
- New financial markets-- deregulated. Globally linked, working around the clock, with action at distance in real time, with new instruments such as derivates.
- Deregulation of antitrust laws and proliferation of mergers and acquisitions.
- Global consumer markets with global brands.

New actors

- Multinational corporations integrating their productions and marketing, dominating food productions.
- The WTO- the first multilateral organization which authority to enforce national governments compliance with rules.
- An international criminal court system in making
- A booming international network of NGOs

- Regional blocs proliferating and gaining importance--- European union, Association of South- East Asian Nations, North American Free Trade Association, Southern African Development Community, among many others
- More policy coordinating groups ---- G-7, G -40, G-22 , G-77 , OECD

New rules and norms:

- Market economic policies spreading around the world , with greater privatization and liberalization than in earlier decades
- Widespread adoption of democracy as the choice of political regime.
- Human rights conventions and instruments building up in both coverage and number of signatories- and growing awareness among people around the world.
- Consensus goals and actions agenda for development.
- Conventions and agreements on the global environment—biodiversity, ozone layer, disposal of hazardous waste, desertification, climate change
- Multilateral agreements in trade agreements, taking on such agendas as environmental and social conditions.
- New multilateral agreements--- for services, intellectual property, communications

New tools of communications:

- Internet and electronic communications link many people simultaneously.
- Smart phones
- Fax machine
- Faster and cheaper transport by air, rail and road
- Computer aided design

GLOBALISATION OF BUSINESS

Stages of globalization:

Normally, a firm passes through different stages of development before it becomes a truly global corporation. Typically, a domestic firm starts its international business by exporting. Later it may establish joint ventures or subsidiaries abroad. From an international firm it may then develop into a multinational firm and finally into a global one.

STAGES:

- **The FIRST STAGE** is the arm's length service activity of essentially domestic company which moves into new markets overseas by linking up with local dealers and distributors.
- In **STAGE TWO**, the company takes over these activities on its own.

- In the **THIRD STAGE,** the domestic based company begins to carry out its own manufacturing, marketing and sales in the key foreign markets.
- In **STAGE FOUR**, the company moves to a full insider position in these markets, supported by a complete business system including R&D and engineering. This stage calls on the managers to replicate in a new environment the hardware system and operational approaches that have worked so well at home.
- In the **FIFTH STAGE**, the company moves towards a genuinely global mode of operation. In this context Ohmae points out that a company's ability to serve local customers in markets character of its industry depends on its ability to strike a new organizational balance

ESSENTIAL CONDITIONS FOR GLOBALISATION

There are, however, some essential conditions to be satisfied on the part of the domestic economy as well as the firm for successful globalization of the business. They are the following:

BUSINESS FREEDOM: There should not be unnecessary government restrictions which come in the way of globalization, like import restrictions on sourcing finance or other factors from abroad, foregin investment, etc. That is why the economic liberalization is regarded as a first step towards facilitating globalization.

FACILITIES: The extent to which an enterprise can develop globally from home country base depends on the facilities available like the infrastructural facilities.

GOVERNMENT SUPPORT: Although unnecessary government interference is a hindrance to globalization, government support can encourage globalization. Government support may take the form of policy and procedural reforms, development of common facilities like infrastructural facilities, R&D support, financial market reforms, and so on.

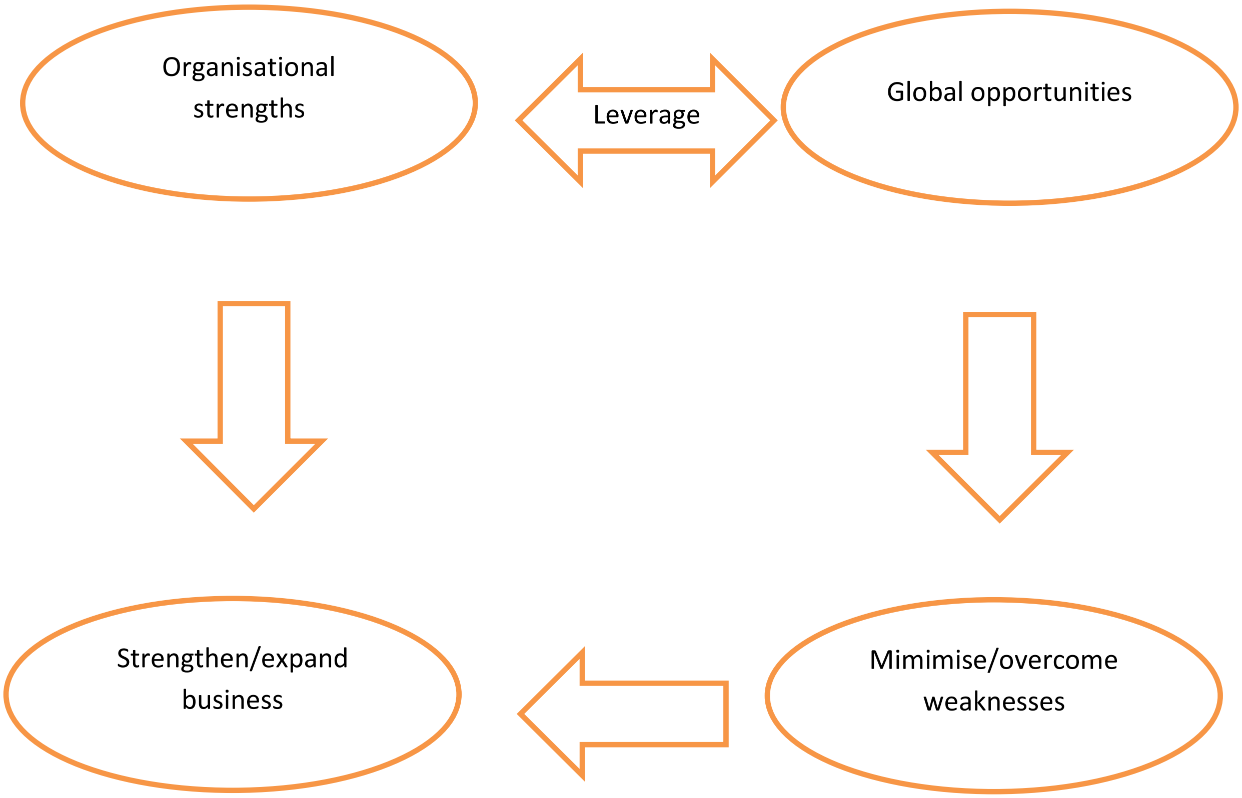
RESOURCES: Resources is one of the important factors which often decide, the ability of a firm to globalize. Resourceful companies may find it easier to thrust ahead in the global market. Resources include finance, technology, R&D capabilities, managerial expertise, company and brand image, human resource, etc. It should, however, be noted that many small firms have been very successful in international business because of one or other advantage they process.

ORIENTATION: A global orientation on the part of the business firms and suitable globalization strategies are essential for globalization.

ADVANTAGES OF GLOBALISATION

Globalisation has several advantages for a firm.

STRATEGIC ADVANTAGES OF GLOBALISATIONS



Certain strengths of a firm may be leveraged to benefit from the global opportunities. For example, Tata motors leveraged its strengths to acquire Daewoo Commercial Vehicle company of South Korea. By this acquisition Tata motors was, in fact, augmenting its strength to enhance its competitiveness in the domestic market and to exploit the foreign markets. There are two aspects of global opportunity to be considered in respect of this acquisition. One, the opportunity to acquire a firm like the Daewoo Commercial Vehicles which could help to overcome some of its critical weaknesses like technological, product mix and market segment gaps.

IMPLICATIONS AND IMPACT

Globalisation can have both positive and negative impact on nations and firms.

ILL-EFFECTS OF GLOBALISATION

The almost universal acceptance of the market economy and the globalization driven by private enterprise tend to aggravate most of the harmful effects traditionally attributed to neocolonialism.

The important adverse effects of globalization from a macro-economic point of view are the following:

1. The global dominance of industries by MNCs is on the increase. Global gross product attributable to foreign affiliates of MNCs was about one-tenth of global GDP in 2000 compared to 5 per cent in the beginning of the 1980s.
2. Many countries are indiscriminate in liberalizing foreign investment. Pepsi, coke and 'junk food' are allowed even in countries like china.
3. A number of countries allow high foreign stake even in industries where that is not really required. This could affect domestic enterprise of developing countries.
4. There has been a large number of cases of takeover of national firms by foreign firms. In some of these cases, the domestic firms are driven to a situation of having to hand over the majority or complete equity to the foreign partners of joint ventures because of the inability of the Indian partners to bring in additional capital or some other incapability.
5. Nexus between MNCs and governments is not uncommon. An alarming development under the Indian liberalization was the unscrupulous way the Government was implementing the policy as well as the foreign companies had been behaving.
6. Replacement of traditional and indigenous products by modern products, resulting in the ruin of traditional crafts and industries and the livelihood of people in these sectors have also been happening in several countries.
7. One of the common criticisms is that the technology the MNCs bring in may not be the one suited to the host country but that suits the objectives of the MNC.
8. Another usual criticism is that MNCs dump obsolete technology to the developing world. This criticism, however, is not as valid today as in the past and in future it is likely to be even less valid.
9. The developing countries, in general, have been disadvantaged by the international trading system.
10. The developing countries vehemently argued for the liberalization of trade in textiles.

11. While developing countries, which, in the past, were against globalization, have wide opened their doors for globalization, many people in developed countries like USA are angry against globalization.

According to the survey, the important adverse effects of globalization are as follows:

- Millions of Americans have lost jobs due to imports or production shifts abroad. Most find new jobs that pay less.
- Millions of others fear losing their jobs, especially at those companies operating under competitive pressure.
- Workers face pay cut demands from employers, which often threaten to export jobs.
- Service and white collar jobs are increasingly vulnerable to operation moving offshore.
- US employees can lose their comparative advantage when companies build advanced factories in low-wage countries, making them as productive as those at home.

The above problems may be applicable to the developed countries in general.

BENEFITS OF GLOBALISATION

1. Foreign capital, if properly utilized, can make substantial contribution to the economic development of the nation. A classical example is the communist China.
2. Productivity grows more quickly when countries produce goods and services in which they have comparative advantage. Living standards can go up faster.
3. Increase in competition would make companies more cost and quality conscious and innovative.
4. Global competition and imports keep a lid on prices, so inflation is less likely to derail economic growth.
5. Liberalisation and global competition enhance consumer choice and consumer surplus.
6. An open economy spurs innovation with fresh ideas from abroad.
7. Export jobs often pay more than other jobs.
8. Unfettered capital flows give the country access to foreign investment and keep interest rates low.
9. Globalisation opens up enormous domestic and global opportunities for firms in developing countries.
10. Despite discriminations of the global economic order against them, there are chances of developing countries benefiting from trade.

There should also be benefits for employment from a liberal financial regime. Removing restrictions on capital flows should attract more FDI, creating more jobs for the poor by integrating them into international systems of production**.**

CHALLENGES:

Globalisation throws up a number of challenges for the individuals, firms and nations, Globalisation will doom the future of those who fail to meet these challenges effectively.

1. In a competitive environment, a firm can survive only if it is efficient. Companies all around world, including many large multinationals, have been cutting down the size of their human resources as one of the means of achieving cost efficiency.
2. Attracting foreign investment is a real challenge, as us evident from the fact that the FDI inflow to India is far below the target and dismal when compared to China.
3. Another criticism is that the liberalization increase the economic inequality. Even in China, the liberallisation has created many island of affluence.
4. The domestic and cross-border M&As pose a serious challenge to governments to ensure fair competition. An effective competition policy and law and its proper implementation assumes great importance here.
5. Liberalisation will be successful only if the policy is proper and clear and there is the required political mandate, will and boldness.

POLICY OPTIONS

With a view to minimizing the damages and maximizing the opportunities of globalization from the macro socio-economic point of view, the Human Development Report, 1997 of the UNDP has made the following policy suggestions:

1. Manage trade and capital flows more carefully.
2. Invest in poor people.
3. Foster small enterprises.
4. Properly manage new technology.
5. Reduce poverty and introduce safety nets.
6. Influence governance.

UNIT-5

BUSINESS ETHICS

The term business ethics refers to the system of moral principles and rules of conduct applied to business.

That there should be business ethics means that business should be conducted according to certain self-recognized moral standards.

SOCIAL RESPONSIBILITY OF BUSINESS

Social responsibility of business refers to what the business does, over and above the statutory requirement, for the benefit of the society. The word responsibility connotes that the business has some moral obligations to the society.

George Goyder, in his famous book, **The Future of Private Enterprise;** A study in responsibility, mentions the following as the principal objectives of a responsible company

1. The Extension, development and improvement of the company's business and the building up of its financial independence.
2. The payment of fair and regular dividends to the shareholder.
3. The payment of fair wages under the best possible conditions to the workers.
4. The reduction in the prices to be charged to consumers.

In other words, the primary objectives of a socially responsible business should be to strengthen itself with due regard to the interests of the shareholders, employees and consumers.

A responsible company has certain secondary objectives as well. Important among them are:

1. To enhance labour welfare.
2. To enchance customer service and goodwill.
3. To assist in developing and promoting the amenities in the locality.
4. To assist in developing the industry of which the firm is a member.
5. To contribute to national goals.

Singhania has classified the nature of the social responsibility of business into two categories.

- The manner in which business carries out its own business activity. This involves the acceptance of the fact that business is not merely a profit- making occupation but a social function which involves certain duties, and requires that appropriate ethics are followed. For examble, a business must obey all the laws, even when they are disagreeable: it should produce the maximum goods of good quality, fair wages to employees, pay taxes, shun malpractices and reasonable dividend to shareholder.
- The welfare activity that takes upon itself as an additional function. In addition to its commercial activity, business also plays a role inn promoting social welfare activity, even directly.

RESPONSIBILITY TO DIFFERENT SECTIONS

1 Responsibility to Shareholders

2 Responsibilities to Employees

3 Responsibilities to Consumer

4 Responsibilities to Community

Responsibilities to Shareholder:

The responsibility of a company to its shareholder, who are the owners, is indeed a primary one. The fact that shareholder have taken great risk in making investments in the business should be adequately recognized.

To protect the interest of the shareholder and employees " the primary business of a business is to stay in business". TO safeguard the capital of the shareholders and provide a reasonable dividend, the company has to strengthen and consolidate its position. Hence, it should develop and improve its business and bulid up its financial independence.

The shareholder are interested not only in protection of their investment and the return on it but also in the image of the company. It shall, therefore, be the endeavor of the company to ensure that its public image is such that the shareholders can feel proud of their company.

Responsibilities to the Employees

The success of an orgnisation depends to a very large extent on the morale of the employees and their whole- hearted cooperation. Employee morale depends to a large extent on the discharge of the company's responsibilities to them and employer- employee relationship. The responsibilities of the organization to workers include

- The payment of fair wages
- The provision of the best possible working conditions.
- The establishment of fair work standards and norms.
- The provision of labor welfare facilities to the extent possible and desirable.
- Arrangements of proper training and education of the workers.
- Reasonable chances and proper system for accomplishment and promotions.
- Proper recognition, appreciation and encouragement of special skills and capabilities of the workers.
- The installation of an efficient grievance handling system.
- An opportunity for participating in managerial decisions to the extent desirable.

Responsibilities to Consumers

1. To improve the efficiency of the functioning of the business so as to (a) increase productivity and reduce prices. (b) improve quality and (c) smoothen the distribution system to make goods easily available.
2. To do research and development, to improve quality and introduce better and new products.
3. To take appropriate steps to remove the imperfections in the distribution system, including black- marketing or profiteering by middleman or anti-social elements.
4. To supply goods at reasonable prices even there is a sellers market.

5. To provide the required after- sales services.
6. TO ensure that the product supplied has no adverse effect on the consumer.
7. To provide sufficient information about the products, including their adverse effects, risks, and care to be taken while using the products.
8. TO avoid misleading the customer by improper advertisements or otherwise.
9. To provide an opportunity for being heard and to redress genuine grievances.
10. TO understand consumer needs and to take necessary measures to statisfy these needs.

Responsibilities to the Community.

A business has a lot of responsibilities to the community around its location and to the society at a large. These responsibilities include.

1. Taking appropriate steps to prevent environmental pollution and to preserve the ecological balance.
2. Rehabilitating the population displaced by the operation of the business, If any.
3. Assisting in the overall development of the country.
4. Taking steps to conserve scarce resources and developing alternatives, wherever possible.
5. Improving the efficiency of the business operation.
6. Contributing to research and development.
7. Development of backward area.
8. Promotion of ancillarisation and small scale industries.
9. Making possible contribution to furthering social causes like the promotion of education and population control.
10. Contributing to the national effort to build up a better society.

ENVIRONMENTAL ISSUES

Environmental issues have been engaging increasing discussion on theInternational business horizon.

ECONOMIC GROWTH,GLOBALISATION AND ENVIRONMENTAL:

There is close association with the pattern of economic growth and environmental problems. Globalisation, by accelerating certain types of economic activities, causing unscrupulous exploitation of natural resources and using ecologically unfriendly technologies and operation, makes the problem more serious

Rostow's theory of economic growth tells us that after a certain stage growth will become 'self-sustaining'. But the trends of ecological damages associated with economic growth seem to tell us that if the present style of growth is pursued for long, economic growth will become 'self-defeating', and not self-sustaining. The seeds of destruction are present in the process of growth itself. Destruction of ecological balance seems to destruction are become a concomitant of rapid growth. The environmental problems become more acute with increase in the level of industrialization, urbanization and intensification of agricultural activities with the modern pollution-prone technology.

Population explosion and modern technology are upsetting the ecological balance. The process of economic growth has been functioning as a double-edged weapon. With one edge it has been cutting open the way to human prospects, but, at the same time, with the other edge, it hasbeen chocking off future prospects. The modern industrial technology, which enhances human welfare by making available a large variety of goods and services on a massive scale, also takes heavy toll of human welfare by the environmental destruction caused by it. The agro-chemicals which helped revolutionise the agriculture, besides poisoning the food crops and causing soil and water pollutions, reduce the original productive capacity of land.

The fouling of water by industries and other sources cause destruction of fish wealth, thus fouling the daily bread of tens of thousands of poor fishermen. The crop damages caused by air, water and air pollution .

Environmental pollution has been regarded as the root cause of most of the diseases. Due to the fouling of the environment, many diseases increase and new ones emerge. If a realistic estimate of the cost of human health and life on account of pollution is made including the loss of life, medical and public health expenditure, loss of production and productivity due to ill health and other associated problems created by pollution, we will get an astounding figure.

Alvin Toffler in his famous Future Shock characterizes the modern industrial society as 'the throw away society'. Napkins, towels, non-returnable containers, cans, toys plastic packs, pastry tins, etc. create mounting solid disposal problems. In many developing countries, there is no effective arrangement for their disposal and this causes a very serious damage to the ecology and poses an alarming threat to the future generations.

Globalisation increases these problems because of the indiscriminate increase in the consumption of such throw away categories of product in societies which are environment conscious. The impact of globalization on environment is further indicated in the following sub-section.

The problem of environmental degradation is thus assuming more and more serious proportions. It is high time comprehensive long-term measures were taken to combat the problem. The Stockholm Conference on Human Environment, held decades ago, suggested a number of measures this end. The following are the main principles of the Stockholm declaration.

- The natural resources of the earth including the air, water, land, flora and fauna and especially representative samples of natural ecosystem must be safeguarded for the benefit of present and future generations through careful planning or management as appropriate.
- The capacity of the earth to produce vital renewable resources must be maintained and wherever practicable restored or improved.

- The non-renewable resources of the earth must be employed in such a way as to guard against the danger of their future exhaustion and to ensure that benefits from such employment are shared by all mankind.

- States shall take all possible steps to prevent pollution of the sea by substances that are liable to create hazards to human health, to harm living resources and marine life, to damage amenities or interfere with other legitimate uses of the sea.
- For the developing countries, stability of prices and adequate earnings for primary commodities and raw materials are essential to the environment management since economic factors as well as ecological processes must be taken into account.
- Resources should be made available to preserve and improve the environment, taking into account the circumstances and particular requirements of developing countries and any costs which may emanate from their incorporating environmental safeguards into their development planning and the need for making available to them upon their development planning and the need for making available to them upon their request, additional international technical and financial assistance for this purpose.
- Rational planning constitutes an essential tool for reconciling any conflict between the needs of development and the needs to protect and improve the environment`
- States have, in accordance with the Charter of the United Nations and principles of International law, the sovereign right to exploit their own resources pursuant to their own environmental policies, and the responsibility to ensure that activities within their jurisdiction or control do not cause damage to the environment of other states or of areas beyond the limits of national jurisdiction.
- States shall cooperate to develop the international law regarding further liability and compensation for the victim of pollution and other environmental damage caused by the activities within the jurisdiction of such states to areas beyond their jurisdiction.
- International matters concerning the protection and improvement of the environment should be handled in a cooperative spirit by all countries, big or small, on an equal footing. Cooperation through multilateral or bilateral arrangements or other appropriate means is essential to prevent, eliminate or reduce and effectively control adverse environmental effects resulting from activities conducted in all spheres, in such a way that due account is taken of the sovereignty and interests of all states.
- States shall ensure that international organizations play a coordinated, efficient and dynamic role for the protection and improvement of environment.

- Man and his environment must be spared the effect of nuclear weapons and all other means of mass destruction. States must strive to reach prompt agreement, in the relevant international organs, on the elimination and complete destruction of such weapons.

THE DISADVANTAGED DEVELOPING COUNTRIES

As in the case of some other social issues in the fore, the environmental issues raised are mostly those which disadvantage the developing countries, ignoring or relegating to the background several serious issues which hold the developed nation or firms from such nations guilty.

Some countries prohibit the import of goods which cause ecological damage. For example, the US has banned the import of shrimp harvested without turtle excluder devise because of its concern for the endangered sea turtles. Countries like India are affected by it.

Developing countries are affected by the relocation of polluting industries from the developed to the developing ones. Similarly, several products which are banned in the developed nations are marketed in the underdeveloped world.

The dumping of nuclear and hazardous wastes in developing countries and the shifting of polluting industries to the developing countries impose heavy social costs on them. The exploitation of the natural resources of the developing countries to satisfy the global demand also causes ecological problems.

When the multinationals employ in the developing nations polluting technologies which are not allowed in the developed countries or do not care for the ecology as much as they do in the developed nations, it is essentially a questions of ethics.

Another serious problem is that developed nations sometimes raise environmental issues as a trade barrier or a coercive measure rather than for genuine reasons.

LABOUR ISSUE

One of the important social issues in the developed countries in respect of business with the developing countries pertains to ill-treatment of labour and children.

Child labour used in the manufacture of exports from the developing countries is widely criticized by people in the developed countries. There is protest against this in the developing countries too. For example, it is alleged that child labour is used by the carpet industry in India and some other countries and social activists in the developed nation demand ban on the import of goods embodying child labour. Consumers are called upon to boycott such goods.

A similar issues is the sweat labour. The argument here is that goods are manufactured by labour working in inhuman/unhealthy working conditions not getting fair wages should be banned or boycotted. Certain important developing country exports, like garments, are alleged to be suffering from such problem. Some multinationals are criticized for sourcing products from developing countries benefiting from the sweet labour.

According to an ILO Report, it is a regrettable feature of many export processing zones that both male and female workers are trapped in low wage and low skill jobs and labour relations and human resources development remain two of the most problematic aspects of zone functioning. The frequent absence of minimal standards and poor labour-management relations have predictable outcomes, such as high labour turnover, absenteeism, stress and fatigue, low rates of productivity, excessive wastage of materials and labour unrest which are still too common.

Another important issue is trade union rights. Absence of trade union rights in some countries provides them a cost advantage. Should the products of such countries be permitted in other countries? It may be noted that many multinationals are taking advantage of the absence of trade union rights in some countries.

UNIT – 4

INDIA IN THE GLOBAL SETTING

INDIA-AN EMERGING MARKET

India is emerging as one of the largest markets in the world. It is indeed one of the growth markets of the future.

While the market for a number of products in the developed countries are saturating or declining as pointed out in chapter 1, India presents an expanding market because of the following factors:

- Existence of a large backlog of unsatisfied desires, like those for consumer durables.
- Fast increase in population.
- Rising income.
- The communication revolution and changing social attitudes giving rise to a revolution of rising expectations and spurt in demand.

The India economy presents a mixed picture of problems and opportunities.

India is the second most populous nation in the world. However, as the population of India is growing much faster than that of China, in future the population of India could exceed that of China although now China's population is about 30 percent higher than that of India. China has nearly three times the land area of India, indicating that considering the geographical size the population problem is the most serious in India.

In terms of the per capita income, India is one of the poorest countries of the world. India with about 17 percent of the world population produces only about 1.6 percent of the world GDP. In purchasing power parity terms, it is about 5.5 percent.

India with a per capita GNI of $620 in 2004 ranked very low among the nations of the world. The per capita income of India is less than half of the average per capita income of the developing countries. However, now it is higher than that of the low income economies ($450 in 2003).

Although the per capita income of India is very low, the size of its GNI is large. In 2006, India was the 10th largest economy, a remarkable improvement over the 12th and 13th ranks respectively in 2003 and 2001. Among the developing countries, only China had a GNI larger than that of India in 2006. The GNI of a number of developed economies is less than that of India.

In purchasing power parity terms, India is the fourth largest economy in the world and it is estimated that by the year 2030, it will be the third largest (after China and USA). See Tables 26.1 to 26.3.

Although the growth rate of the Indian economy has been very poor in comparison with that of several East Asian countries, India is one among the countries whose per capita income in the early 1990s was higher than ever before. Over much of the period since 1980 to early 1990s, economic decline or stagnation affected 100 countries, reducing the incomes of more than a quarter of the world's population. In 70 of these countries, average incomes in the early 1990s were less than they were in 1980, and in 43 countries less than they were in 1970.

TABLE26.1 Some Indicators of India's position in the Global economy

	Share (percentage)	Rank
Area	2.47	7
Arable land	11.24	2
Population (2006)	17.00	2
GNI(2006)	1.9	10
GNI measured at purchasing power parity (PPP) (2006)	6.3	4
Human Development Index (2005)	_	128
Export of goods (2007)	1.0	26
Import of goods (2007)	1.5	18

Export of services (2007)	2.7	9
Import of services (2007)	2.5	13
Net foreign Direct Investment Inflow (2003)	0.8	–

TABLE 26.2 India's Share of Developing Countries* (2003)

Factor	India's share (Percentage)
Population	20
GNP	8.4
GNP at purchasing power parity	13.4
FDI	2.4
Merchandise exports	2.7
Merchandise imports	3.7

TABLE 26.3 India's Global Ranking

Factor	Rank
Population	2
Area	7
Arable land	2
Irrigated area	1
Tractors in use	2
Nitro fertilizer consumption	2
Rice production	2
Wheat production	2
Tobacco production	2
Tea production	1
Milk production	1
Butter and ghee production	1
Sugar production	2
Merchandise exports	31

Merchandise imports	24
Services exports	20
Services imports	23
GNI	12
GNI at purchasing power parity	4

Among the 48 low human development countries, India is the only country whose annual growth in per capita income was above 1.5 per cent during the period since 1960-1993.

primary and manufactured. In the cases of many agricultural commodities, the productivity is very low in India. The output can be increased substantially by productivity improvements.Some of the Indian companies are among the largest ones in their industries. The number of listed companies in India is second only to that of USA. India is now the second largest economy in Asia. But as Naisbitt observes, more important is its potential for further growth… Importantly, entrepreneurship has a long history.

Considering countries with GDP of 100 billion and above to be in the Big League, India was already in this League in the 1980s. Although India's share in the combined GDP of this League declined in the 1980s and 1990s, it is expected to rise in the next two decades.

INDIA IN GLOBAL TRADE

India had a significant share in the world trade at the time of Independence. However, since then there was a secular decline in India's share in the world exports until 1980. It fell from 2 per cent in 1950 to 0.4 per cent in 1980. It has, however improved to about one per cent by 2007. The foreign trade Policy 2004-2009, announced in 2004, aims at doubling India's share within five years, i.e., by 2009.

In fact, in the early 1950s, India's economic position was much better than that of many countries. Among the developing countries, India had a relatively broad based industrial structure and significant export market share for several commodities such as tea, jute and cotton textiles. However, advantage could not be taken of this favourable position due to several reasons such as the inward looking trade strategy, absence of an effective export development strategy, etc.

See the section Comparative Export Performance of India in the previous section for certain relevant information.

LIBERALISATION AND INTEGRATION WITH THE GLOBAL ECONOMY

The economic liberalization of the 1990s and the Uruguay Round Agreement are increasing India's integration with the global economy.

Many favourable effects of the liberalization are visible. Investment in the infrastructural and industrial sectors has increased substantially, industrial production has recorded good growth, competition has increased to the advantages of consumers, and export GDP ratio and export intensity of companies(i.e., the ratio of export sales to total sales) have increased. Foreign investments, both portfolio and direct, have increased very substantially. Indian companies are expanding foreign business with a new vigour.

Since the liberalization, there has been significant improvement in the foreign exchange reeserves position.

The composition of the financial inflows has changed very significantly. The proportion of the debt-creating flows has declined substantially. The dept service ratio, although still very high, has shown favourable change.

India having joined the globalization trend, should be expected to become more and more integrated with the global economy.