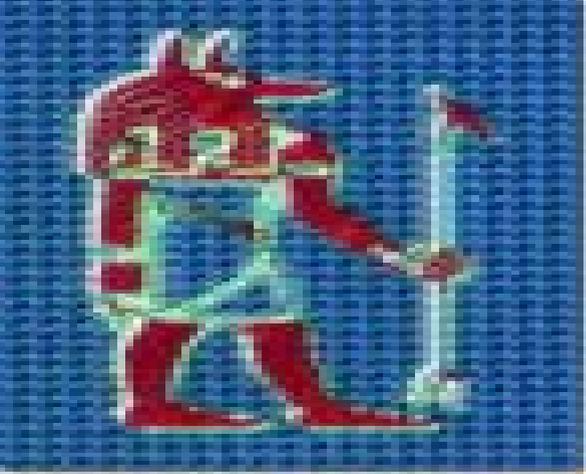


# *DOING BUSINESS IN A GLOBALIZING WORLD*



*1.*

*Global Trade :  
A Historical Background*



# Origins & Development of Trade in the Early Stages of Civilization

- Global Trade existed in the form of barter, in the Egyptian, Mesopotamian, Indus Valley, Phoenician and Chinese civilization as far back as 4000 BC to 1000 BC.
- Initially trade comprised of products like spices, jeweler, gold, silver, pottery, animal pelts etc.
- The earliest monetary units were introduced in 700 BC by Lidia, a country in the Aegean region of Europe, now part of Turkey.

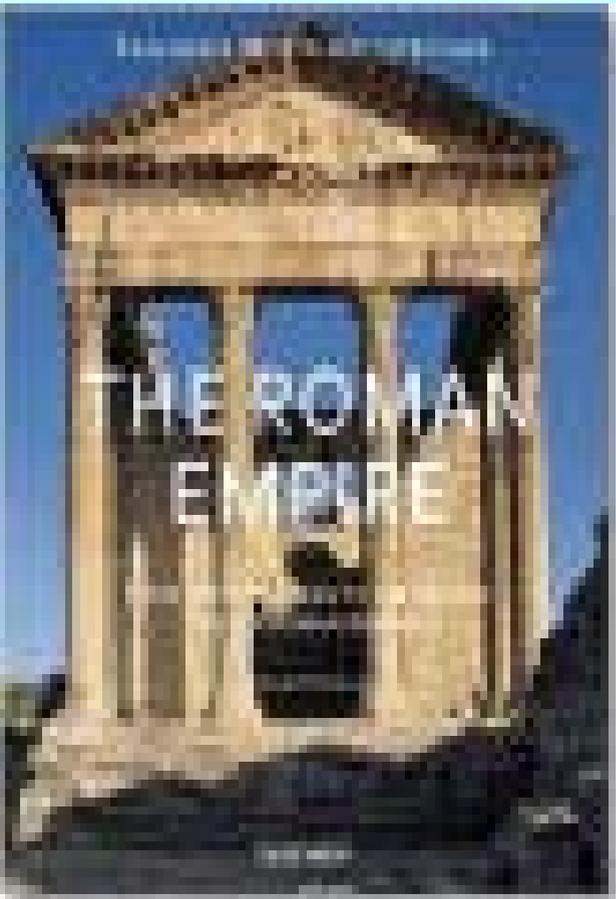


➤ Trade boomed between Europe and Asia with the conquests of Alexander the Great in 400 BC between Greece and Rome, Middle East and India.

➤ The Greeks and Romans brought ships to ports in the east and sold their goods to buyers directly from the ships. Improvement in ship design, the development of the compass and the use of astronomy for guiding vessels accelerated trade as -most trade took place via ships.



- **Between the years 200 AD and 600 AD, during the reign of the Han Dynasty in China, overland trade routes were opened to India and the Mediterranean. Later, around 700 AD, China commenced trade with Japan and Korea.**



- **There was a general decline in trade from the 5th to the 12th century following the fall of the Roman empire and the advent of the church.**
- **The church did not encourage mercantilism and enforced trade controls.**



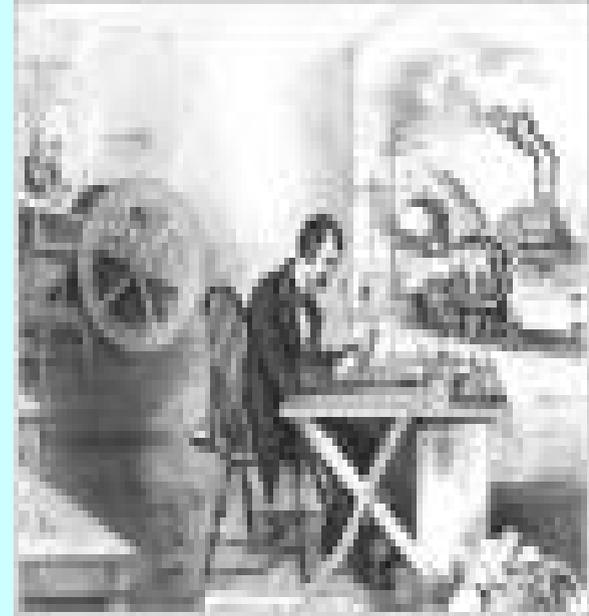
# Shifts in Trade Patterns

## – 15<sup>th</sup> to 19 Century

- ❖ The need for the production of goods for export to keep the economies of Western Europe active. This led to the formation of merchants guilds in Europe in the 13 Century.
- ❖ Several factors were to give impetus to global trade.
- ❖ Increases in the size and investment in businesses resulted in the shared ownership of ships and finally in the formation of the first business partnership.
- ❖ From the end of the 15th and early -16th centuries very rapid economic, social, and cultural changes occurred in western Europe.

- **Colonization by Spain, Portugal, Great Britain and France in the 16th and the 17th centuries.**
- **Chartered rights were granted for exclusive trade in exchange for certain obligations to the state**
- **One of the earliest companies to be granted exclusive trading rights was the Hudson Bay Company which in 1670 had rights for exclusive trade in northern America where it formed a chain of retail outlets.**

❖ **Between the 18th & 19th centuries, with the advent of the industrial revolution, several companies began to market their products in the world market in an organized and effective manner.**



- ❖ **Among the first transnational companies to develop during the 19th century were Unilever of Holland and England.**
- ❖ **Unilever started operations around 1882 and became internationally known around 1929.**
- ❖ **American firms were innovative, created new products and marketed aggressively.**

# Factors giving Impetus to Global Business in the 20th Century

The 20th century has seen rapid development in global business largely influenced by the following factors:

- Political Blocs.
- Economic Depression.
- Revolution in Communication.
- Liberation of Colonies.
- Reconstruction of nations defeated in the war.
- The end of the Cold War & Market reforms in Communist countries.



---

2.



# *The Basis of Global Trade*



# **The Theory of Comparative Cost Advantage**

- **Our world is a diverse one, nations vary on several counts: size, population, geography, climate, language, culture, currency, etc.**
- **The theory of comparative cost advantage was first propounded in 1917, by David Ricardo in his book Principles of Political Economy and Taxation.**

- **Take two men who both make hats and shoes, as Ricardo did. One of the men is actually better than the other on both counts, with his advantage on the hat front resting at 40 per cent, while in the business of making shoes he is 33 per cent more productive.**
- **It would therefore be better, in terms of the principle of comparative cost advantage, for the better man to concentrate on the making of hats, leaving the making of shoes to the other.**
- **Similarly in global trade, basic economic forces work towards outflows from each country in those areas where in relative terms its resources are greater.**

- **Global trade covers the transfer of resources in the fields of capital, labor, technology, management and know-how, and in the areas of natural resources and finished products, from one nation to the other, based on factor endowment and on applicable government regulations.**
- **The gain from specialization and trade is the same, whether or not the trading areas are separated by a national border.**
- **Similarly trade between regions takes place because of differences in production costs.**





# Factor Endowment & Trade

- ★ Comparative cost advantages exist, according to Heckscher and Ohlin, because of differentials in factor cost from one country to another, in turn, depends on the differentials existent in factor endowment.
- ★ Australia which has more land, has a higher potential for agro-based products than a smaller country such as Japan, since land is a major factor in agricultural production.
- ★ Cheaper and more abundant labour available in developing countries contributes to a comparative cost advantage in those production processes where labour is relatively speaking, a large input.

- ★ **At times a country with high capital abundance may not follow trade patterns in keeping with its factor endowment.**
- ★ **In Holland for example, the cultivation of certain kind of fruits, flowers, and vegetables in state-of-the-art greenhouses has developed on account of major investments in this area. Thus the availability of abundant capital has resulted in Holland, despite its limited abundance of land and labor, becoming a major exporter of these products.**



# Technology & Trade

- ❖ The factor proportion may in fact vary from one country to another for the manufacture of the same product, as borne out by Gruber, Mehta and Vernon's research.
- ❖ This-brings into play another variable- technology, with different levels of technological input influencing the proportions of the other factors required.
- ❖ Thus, in many industries with an evolution of technology to higher levels the comparative cost advantage can shift from one country to another.



# GNP & Trade

- ✿ Linder an economist researched and found that trade between nations is dependent on GNP levels, according to Linder, with higher per capita incomes increasing the potential for mutually beneficial trade, and vice versa.
- ✿ The higher GNP of both Germany and Switzerland makes for greater trade between these nations. India and Bangladesh, on the other hand with their low GNP, have low levels of trade between them.

# Product Life Cycle and Trade

- ▶ The concept of a “product life cycle” in global trade, introduced by Wells, Hafbauer and Hirsch has also been detailed by Raymond Vernon in his “product cycle theory”.
- ▶ According to this concept, four stages exist in the life cycle of a product in global trade.
- ▶ Stage one is the creation of a product with a unique characteristic, typically in high per capita income economies.
- ▶ In the synthetic textile industry, this stage was marked by mass production in the USA and Japan.
- ▶ The second stage comes when the product is exported to countries where demand has been created by awareness of the product and its utility.



- ▶ This stage is also marked by satisfaction with the product in the country of origin.
- ▶ Stage three is when the product is manufactured in the countries that hitherto imported it, taking advantage of factors such as lower labour costs.
- ▶ The fourth and last stage comes when the initially importing country exports the very same product at a lower cost to the country of origin, which by now has ceased production.



# Global Corporations & Trade

**Prof. John Fayerweather research highlights the role of global corporations**

- Basic trade theories must consider the transmission of all resources that are a part of international business.**
- Thus, it is not only capital, labour and natural resources that are to be considered but technological, managerial and entrepreneurial skills as well.**



- **Economic flows from a country are not only resources which are merely plentiful in a country, but those which are plentiful as compared to another country.**
- **Governmental policies influence resource flows.**
- **Characteristics of firms, including factors such as their financial and manpower resources, organization structure and corporate philosophy, and business plans determine trade flows.**

3.

# *Global Trade Patterns*





# Volume and Composition of Global Trade

- Global trade is characterized by large shifts in the economic fortunes of nations and their firms.
- Helps fulfill the needs of the people.
- It provides an opportunity to increase national productivity.
- National productivity can also be increased by establishing foreign subsidiaries which deal in activities that are less productive at home.
- Global competition helps raise productivity over a period of time.
- Much of world trade takes place between advanced industrial nations with similar factor endowments.

- **The USA is one of the world's largest nations, yet it is one of the least dependent countries with respect to the share that global trade represents in its total economic activity.**
- **Countries of low levels of development tend to be heavily dependent for their export trade on primary commodities and intermediate goods using low levels of technology and relatively simple manufacturing processes.**
- **Countries that are industrially advanced, such as the USA tend to export advanced manufactured goods and sophisticated services such as financial services, insurance and transportation.**



# Commodity Composition of World Trade, WTO 2003

## Value of World Trade (US \$ Billion)

FOOD	437
RAW MATERIAL	110
ORES AND MATERIALS	63
FUELS	616
IRON & STEEL	130
CHEMICALS	595
OTHER SEMI-MANFRS	432
MACHINERY & TRANSP EQPT	2453
TEXTILE	147
CLOTHING	195
OTHER CONSUMER GOODS	525



- According to Table 1, It is evident that half of this trade comprises food and fuels in the primary products sector and machinery and transport equipment in the manufactured goods sector.

# **Merchandise trade by countries, WTO 2003**

<b>COUNTRIES</b>	<b>IMPORT (cif)</b>	<b>EXPORT (fob)</b>
<b>US</b>	<b>1306</b>	<b>724</b>
<b>GERMANY</b>	<b>602</b>	<b>748</b>
<b>JAPAN</b>	<b>748</b>	<b>383</b>
<b>FRANCE</b>	<b>388</b>	<b>385</b>
<b>UK</b>	<b>388</b>	<b>304</b>
<b>ITALY</b>	<b>289</b>	<b>290</b>
<b>CANADA</b>	<b>246</b>	<b>274</b>
<b>RUSSIAN FED</b>	<b>745</b>	<b>135</b>
<b>NETHERLANDS</b>	<b>261</b>	<b>293</b>
<b>BELGIUM</b>	<b>234</b>	<b>255</b>
<b>HONGKONG</b>	<b>233</b>	<b>224</b>
<b>CHINA</b>	<b>233</b>	<b>438</b>

Table 2 shows that the USA, Germany, Japan, France, UK, China & Korea are the major importers and exporters in the arena of Global Trade.

<b>COUNTRIES</b>	<b>IMPORT (cif)</b>	<b>EXPORT (fob)</b>
<b>SPAIN</b>	<b>200</b>	<b>152</b>
<b>KOREA REP.</b>	<b>179</b>	<b>194</b>
<b>SINGAPORE</b>	<b>128</b>	<b>144</b>
<b>TAIWAN</b>	<b>127</b>	<b>151</b>
<b>AUSTRIA</b>	<b>98</b>	<b>96</b>
<b>SWITZERLAND</b>	<b>96</b>	<b>101</b>
<b>AUSTRALIA</b>	<b>89</b>	<b>70</b>
<b>SWEDEN</b>	<b>82</b>	<b>101</b>
<b>DENMARK</b>	<b>59</b>	<b>68</b>
<b>CZECHOSLOVAKIA</b>	<b>51</b>	<b>49</b>
<b>SAUDI ARABIA</b>	<b>34</b>	<b>89</b>

Table III.1

**World merchandise exports by region, 2004**

(Billion dollars and percentage)

	Value	Share			Annual percentage change			
	2004	1990	1995	2000	2000-04	2002	2003	2004
World	8907	100.0	100.0	100.0	9	5	17	21
North America	1324	16.6	17.1	19.5	2	-4	5	14
United States	819	11.6	11.7	12.5	1	-5	5	13
South and Central America	276	3.1	3.0	3.1	9	0	13	30
Brazil	96	0.9	0.9	0.9	15	4	21	32
Europe	4031	-	46.5	42.0	11	7	19	19
European Union (25)	3714	-	...	38.9	11	7	19	19
Commonwealth of Independent States (CIS)	266	-	2.2	2.3	16	6	27	37
Russian Federation	183	-	1.6	1.7	15	5	27	35
Africa	232	3.1	2.2	2.3	12	2	25	32
South Africa	46	0.7	0.6	0.5	11	2	23	26
Middle East	390	4.1	3.0	4.3	10	5	20	29
Asia	2388	21.8	26.0	26.4	10	8	18	25
Japan	566	8.5	8.8	7.6	4	3	13	20
China	593	1.8	3.0	4.0	24	22	35	35
Six East Asian traders	860	7.8	10.3	10.4	7	6	15	24
Memorandum items:								
ASEAN (10)	552	4.2	6.4	6.9	6	5	13	20
MERCOSUR (4)	136	1.4	1.4	1.3	13	1	19	28

Table III.2

**World merchandise imports by region, 2004**

(Billion dollars and percentage)

	Value	Share			Annual percentage change			
	2004	1990	1995	2000	2000-04	2002	2003	2004
World	9250	100.0	100.0	100.0	9	4	17	21
North America	2013	19.6	19.8	25.8	5	1	8	17
United States	1526	14.8	15.0	19.3	5	2	9	17
South and Central America	237	2.5	3.4	3.1	4	-13	5	27
Brazil	66	0.6	1.0	0.9	3	-15	2	30
Europe	4140	-	45.4	42.5	11	5	20	20
European Union (25)	3791	-	...	39.2	10	5	20	19
Commonwealth of Independent States (CIS)	172	-	1.8	1.2	21	10	27	30
Russian Federation	96	-	1.2	0.7	21	13	25	27
Africa	212	2.8	2.5	2.0	13	2	22	27
South Africa	57	0.5	0.6	0.5	18	4	40	39
Middle East	252	2.9	2.5	2.4	12	4	13	27
Asia	2224	20.3	24.5	22.9	10	6	19	27
Japan	455	6.7	6.5	5.8	5	-3	14	19
China	561	1.5	2.6	3.4	26	21	40	36
Six East Asian traders	785	8.0	11.0	9.4	6	4	12	27
Memorandum items:								
ASEAN (10)	500	4.6	6.9	5.8	7	5	10	25
MERCOSUR (4)	94	0.8	1.6	1.4	1	-26	10	37

Table III.3

## Intra- and inter-regional merchandise trade, 2004

(Billion dollars and percentage)

Origin	Destination							World
	North America	South and Central America	Europe	Commonwealth of Independent States (CIS)	Africa	Middle East	Asia	
Value								
North America	742	71	216	5	15	25	249	1324
South and Central America	93	64	59	3	7	5	39	276
Europe	367	51	2973	88	98	105	308	4031
Commonwealth of Independent States (CIS)	18	6	129	55	4	10	35	266
Africa	43	7	99	1	23	3	39	232
Middle East	55	4	64	1	13	22	193	390
Asia	533	39	417	25	45	75	1201	2388
World	1852	242	3957	179	205	245	2065	8907
Share of inter-regional trade flows in each region's total merchandise exports								
North America	56.0	5.4	16.3	0.4	1.1	1.9	18.8	100.0
South and Central America	33.7	23.2	21.4	1.1	2.5	1.8	14.1	100.0
Europe	9.1	1.3	73.8	2.2	2.4	2.6	7.6	100.0
Commonwealth of Independent States (CIS)	6.8	2.3	48.5	20.7	1.5	3.8	13.2	100.0
Africa	18.5	3.0	42.7	0.4	9.9	1.3	16.8	100.0
Middle East	14.1	1.0	16.4	0.3	3.3	5.6	49.5	100.0
Asia	22.3	1.6	17.5	1.0	1.9	3.1	50.3	100.0
World	20.8	2.7	44.4	2.0	2.3	2.8	23.2	100.0
Share of regional trade flows in world merchandise exports								
North America	8.3	0.8	2.4	0.1	0.2	0.3	2.8	14.9
South and Central America	1.0	0.7	0.7	0.0	0.1	0.1	0.4	3.1
Europe	4.1	0.6	33.4	1.0	1.1	1.2	3.5	45.3
Commonwealth of Independent States (CIS)	0.2	0.1	1.4	0.6	0.0	0.1	0.4	3.0
Africa	0.5	0.1	1.1	0.0	0.3	0.0	0.4	2.6
Middle East	0.6	0.0	0.7	0.0	0.1	0.2	2.2	4.4
Asia	6.0	0.4	4.7	0.3	0.5	0.8	13.5	26.8
World	20.8	2.7	44.4	2.0	2.3	2.8	23.2	100.0

Table III.4

# World exports of commercial services by region, 2004

(Billion dollars and percentage)

	Value	Share			Annual percentage change			
	2004	1990	1995	2000	2000-04	2002	2003	2004
World	2125	100.0	100.0	100.0	9	7	14	18
North America	379	20.3	19.8	22.3	3	2	5	11
United States	318	17.0	16.8	18.8	3	2	5	11
South and Central America	56	2.9	2.9	3.2	4	-3	9	14
Brazil	12	0.5	0.5	0.6	6	1	9	20
Europe	1126	-	50.5	48.6	12	9	19	17
European Union (25)	1017	-	45.5	43.5	12	9	19	17
United Kingdom	172	6.9	6.5	7.9	10	11	13	18
Germany	134	6.5	6.2	5.4	14	15	20	15
France	110	8.5	7.0	5.4	8	4	15	12
Spain	85	3.5	3.4	3.6	12	7	23	11
Commonwealth of Independent States (CIS)	33	-	...	1.2	18	19	16	23
Russian Federation	20	-	0.9	0.6	20	20	20	25
Africa	48	2.4	2.2	2.1	12	4	24	20
Egypt	14	0.6	0.7	0.7	10	4	19	30
South Africa	8	0.4	0.4	0.3	13	1	60	10
Middle East	36	...	...	2.0	5	-2	13	16
Israel	14	0.6	0.7	1.0	0	-7	12	16
Asia	450	16.8	21.8	20.7	10	7	9	27
Japan <sup>a</sup>	95	...	5.8	4.9	7	2	8	25
China	62	0.7	1.6	2.0	20	20	18	34
Hong Kong, China	54	2.3	2.9	2.6	8	9	6	18
Korea, Republic of	40	1.2	1.9	2.0	8	-3	15	27
India	40	...	...	1.1	...	14	21	...
Singapore	37	1.6	2.3	2.0	6	3	2	19
Taipei, Chinese	26	0.9	1.3	1.3	6	9	7	11
Australia	25	1.3	1.3	1.2	8	7	18	20
Thailand	19	0.8	1.2	0.9	8	18	3	21
Malaysia	17	0.5	1.0	0.9	5	3	-9	24
New Zealand	8	0.3	0.4	0.3	16	18	25	23

<sup>a</sup> Secretariat estimates for exports prior to 2003 are based on the new methodology applied by the Bank of Japan. See the Technical Notes.

Table III.5

# World imports of commercial services by region, 2004

(Billion dollars and percentage)

	Value	Share			Annual percentage change			
	2004	1990	1995	2000	2000-04	2002	2003	2004
World	2095	100.0	100.0	100.0	9	5	14	17
North America	335	16.5	14.3	18.3	6	3	9	13
United States	260	11.9	10.8	14.2	6	2	8	14
South and Central America	58	3.0	3.8	3.7	1	-11	4	14
Brazil	16	0.8	1.1	1.1	1	-15	6	12
Europe	1025	-	46.7	45.7	11	8	19	15
European Union (25)	954	-	43.5	42.5	11	8	19	15
Germany	193	10.2	10.9	9.2	9	2	19	13
United Kingdom	136	5.4	5.2	6.5	9	9	13	14
France	96	6.1	5.4	4.1	13	10	20	18
Italy	81	5.7	4.6	3.7	10	9	20	10
Commonwealth of Independent States (CIS)	50	-	...	1.6	20	16	17	25
Russian Federation	33	-	1.7	1.1	19	15	16	24
Africa	55	3.2	2.9	2.6	10	6	16	16
South Africa	9	0.4	0.5	0.4	13	3	49	16
Egypt	7	0.4	0.4	0.5	1	-5	0	22
Middle East	61	...	...	3.1	7	1	12	20
Israel	13	0.6	0.7	0.8	2	-8	4	13
Asia	512	21.8	27.4	25.1	8	5	8	25
Japan	134	10.3	10.1	7.9	4	0	3	22
China	72	0.5	2.1	2.4	19	18	19	31
Korea, Republic of	50	1.2	2.1	2.2	11	11	10	25
India	41	...	...	1.3	...	5	23	...
Singapore	36	1.0	1.7	1.9	7	5	-1	23
Taipei, Chinese	30	1.7	1.9	1.7	4	2	4	20
Hong Kong, China	30	1.3	1.7	1.7	5	4	1	16
Australia	26	1.6	1.4	1.2	9	7	19	22
Thailand	23	0.8	1.6	1.0	11	14	9	28
Indonesia <sup>a</sup>	21	0.7	1.1	1.0	...	8	2	...
Malaysia	19	0.7	1.2	1.1	3	-2	7	8

<sup>a</sup> Secretariat estimate.

Table III.6

**Exports of commercial services of selected economies by selected partners, 2003**

(Percentage)

	World	United States	EU (15)	Japan	Other economies
World	100	14	21	7	58
United States	100	-	35	10	55
European Union (15)	100	32	-	5	63
Japan	100	31	22	-	48
Other economies	100	10	24	7	58

Note: Excluding intra-EU (15) trade.

Table III.7

**Imports of commercial services of selected economies by selected partners, 2003**

(Percentage)

	World	United States	EU (15)	Japan	Other economies
World	100	19	23	5	54
United States	100	-	38	8	54
European Union (15)	100	32	-	3	65
Japan	100	29	21	-	49
Other economies	100	17	27	5	50

Note: Excluding intra-EU (15) trade.

4.



*Global Agreements and  
Legal Framework to  
regulate trade*

# The Need for Global Agreements

- ✓ Governments have established regulatory frameworks with the aim of protecting or developing their countries' economies or increasing their share of the benefits associated with the activities of transnational corporations. These influence the flow of capital and technology.
- ✓ There is a constantly evolutionary state in the life of a nation that causes it to change its regulatory framework depending on its needs at a particular time.



- ✓ Countries are constantly evolving their policies to suit and adapt to such changes.
- ✓ Thus China, under the communist model for economic development, closed its doors for over three decades, concentrating on providing its population with the basic needs.
- ✓ Today, the Chinese economy is far more open, inviting as it does foreign technology and investment.
- ✓ Brazil is another case in point, where a relatively recent free market economy has accelerated economic development.



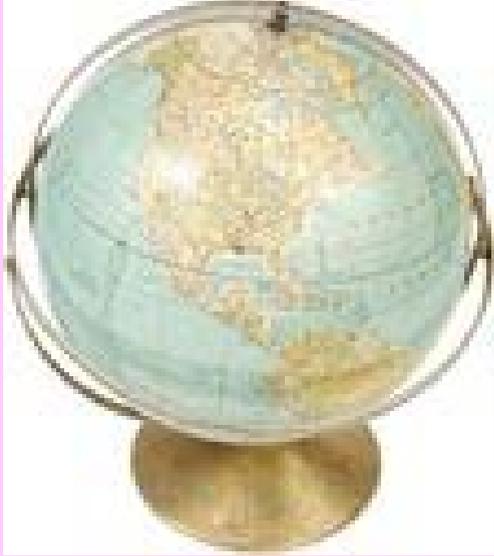
- ✓ **Similarly, India, which followed a socialistic pattern of economic development has liberalized its policies, opting for market reform. Brazil, Thailand, Indonesia, Malaysia and many other countries in South America, Asia and Africa are liberalizing their economies.**
- ✓ **The developed countries lay a great deal of emphasis on freedom of access to markets in the world for service sectors, viz. banking, insurance, shipping, etc.**
- ✓ **They also seek to protect their own markets, to permit the payment of large royalties against intellectual properties and the payments for patents and royalties for R & D investments made by them.**

- ✓ **Developing countries, on the other hand, favor relationships that permit the free flow of cheap manufactured goods to developed countries without the restriction of tariff protections.**
- ✓ **Developing countries also seek to protect their own markets, not permitting the payment of large royalties against intellectual properties.**
- ✓ **Such countries also try restrict access to the services sector of developed countries.**



# General Agreement on Tariffs & Trade (GATT)

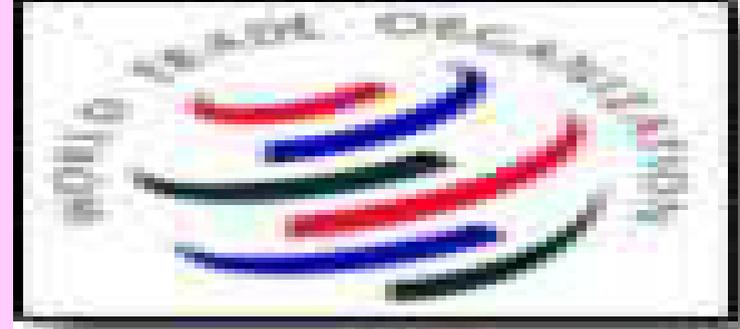
- The General Agreement was a ‘contract’ calling for non-discriminatory treatment of trading partners and setting rules intended to counter protectionism and the law of the jungle’ in international trade.
- The contract is what was left of the 1947 Havana Charter, drawn up as the constitution of a planned International Trade Organisation (ITO).
- ITO was intended as a mainstay of the post-war economic system on par with the International Monetary Fund and the World Bank.



- Havana, Cuba 1947.
- Annecy, France, 1949.
- Torquay, Britain 1959 -51.
- Geneva, Switzerland, 1955-56.
- The 'Dillon Round', Geneva 1960-62.
- The 'Kennedy Round', Geneva 1964-67.

- The 'Tokyo Round', opened in 1973 in Tokyo, ended in 1979 in Geneva.
- The 'Uruguay Round' started in 1986 in Uruguay
- The Uruguay Round ended in 1994 and resulted in the formation of the WTO.
- The Doha Round, 2001.
- the Hong Kong round of 2005.

# World Trade Organization (WTO)



- ✦ The general agreement on trade and tariffs evolved into the world trade organization.
- ✦ The lengthy WTO negotiations, in 2001 under the “Doha Development Agenda ”focused on the contentious issues of agricultural product tariffs and intellectual property. The next round with a focus on the same issues and with painstakingly slow forward movement was held in Hong Kong in Dec 2005.

- ✳️ They deal with agriculture, textiles and clothing, banking telecommunications, government purchases, industrial standards and product safety, food sanitation regulations, intellectual property, and much more.
- ✳️ The WTO agreements allow countries to introduce changes gradually, through “progressive liberalization”.
- ✳️ In the WTO, when countries agree to open their markets for goods or services, they “bind” their commitments.





- ✳ **A country can change its bindings, but only after negotiating with its trading partners, which could mean compensating them for loss of trade.**
- ✳ **Many WTO agreements require governments to disclose their policies and practices publicly within the country or by notifying the WTO.**
- ✳ **The WTO replaced GATT as an international organization, but the General Agreement still exists as the WTO's umbrella treaty for trade in goods, updated as a result of the Uruguay Round negotiations.**

# General obligations & disciplines

## □ Coverage

- The agreement covers all internationally-traded services - for example, banking, telecommunications, tourism, professional services, etc.
- It also defines four ways (or “modes”) of trading services:
  - services supplied from one country to another (e.g. international telephone calls), officially known as “cross-border supply” (in WTO jargon, “mode 1”)
  - consumers or firms making use of a service in another country (e.g. tourism), officially “consumption abroad” (“mode 2”)
  - a foreign company setting up subsidiaries or branches to provide services in another country (e.g. foreign banks setting up operations in a country), officially “commercial presence” (“mode 3”)
  - individuals traveling from their own country to supply services in another (e.g. fashion models or consultants), officially “presence of natural persons” (“mode 4”)

## □ **Most-favoured-nation (MFN) treatment**

- Favour one, favour all. MFN means treating one's trading partners equally on the principle of non-discrimination.
- Under GATS, if a country allows foreign competition in a 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)

## □ **Commitments on market access and national treatment**

- Individual countries commitments to open markets in specific sectors - and how open those markets will be- are the outcome of negotiations.
- The commitments appear in “schedules” that list the sectors being opened, the extent of market access being given in those sectors.

## □ Intellectual property: protection and enforcement

- The WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), negotiated in the 1986–94 Uruguay Round, introduced intellectual property rules into the multilateral trading system for the first time.
- Ideas and knowledge are an increasingly important part of trade. Most of the value of new medicines and other high technology products lies in the amount of invention, innovation, research, design and testing involved.

## □ Anti-dumping

- Binding tariffs, and applying them equally to all trading partners (most-favoured-nation treatment, or MFN) are key to the smooth flow of trade in goods. The WTO agreements uphold the principles, but they also allow exceptions - in some circumstances. Three of these issues are:
  - actions taken against dumping (selling at an unfairly low price)
  - subsidies and special “countervailing” duties to offset the subsidies.
  - emergency measures to limit imports temporarily, designed to “safeguard” domestic industries.

## □ **Non-tariff barriers**

- **A number of agreements deal with various bureaucratic or legal issues that could involve hindrances to trade.**
  - import licensing
  - rules for the valuation of goods at customs
  - preshipment inspection: further checks on imports
  - rules of origin: made in ... where?
  - investment measures

## □ **Import licensing**

- **Although less widely used now than in the past, import licensing systems are subject to disciplines in the WTO.**
- **The Agreement on Import Licensing Procedures says import licensing should be simple, transparent and predictable.**
- **For example, the agreement requires governments to publish sufficient information for traders to know how and why the licences are granted.**
- **It also describes how countries should notify the WTO when they introduce new import licensing procedures or change existing procedures.**

## ❑ Trade policy reviews

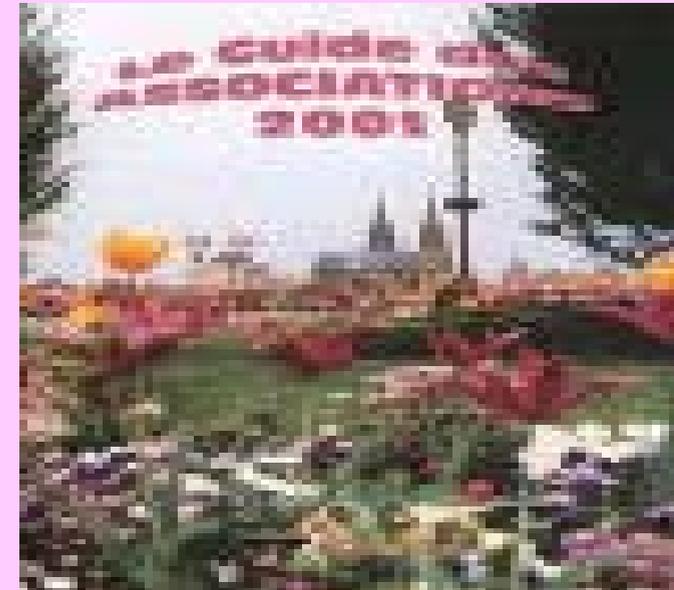
- ❑ Individuals and companies involved in trade have to know as much as possible about the conditions of trade.
- ❑ It is therefore fundamentally important that regulations and policies are transparent. In the WTO, this is achieved in two ways:
  - ❑ governments have to inform the WTO and fellow-members of specific measures, policies or laws through regular “notifications”
  - ❑ the WTO conducts regular reviews of individual countries’ trade policies - the trade policy reviews.

## ❑ Settling disputes

- ❑ The priority is to settle disputes, not to pass judgement.
- ❑ Dispute settlement is the central pillar of the multilateral trading system, and the WTO’s unique contribution to the stability of the global economy.
- ❑ Without a means of settling disputes, the rules-based system would be less effective because the rules could not be

# Other Associations & Forums

- ☯ The United Nations Conference on Trade and Development (UNCTAD)
- ☯ International Air Transport Association (IATA)
- ☯ Regional Economic and Trade Forums
- ☯ Global Legal Framework



5.



# *Global Direct Foreign Investment*

# Directory of Trade



The Directory of Trade Statistics compiled annually by the International Monetary Fund and the World Investment Report issued by the United Nations provide excellent documentation on the various flows of direct foreign investment.

# Directory of Trade



## → Direct Foreign Investment in the 70s

- A 15 per cent per annum increase was registered in the 1970s, more than trebling between 1970 and 1980.
- Developing countries are still only a minor source of direct foreign investment in comparison with the developed market economies.
- IMF data suggests that developing countries experienced a slight increase in the proportion of the inflow of direct foreign investment.
- In the 70s, the rate of growth of Direct Foreign Investment to developing countries increased faster than the flow into developed market economies

# → Direct Foreign Investment in the 80's



- Though worldwide Direct Foreign Investment outflows registered a compound annual growth rate of 28.9 percent during 1983-89, reaching a level of US\$196 billion inflows and US\$1.5 trillion in stocks in 1989, out of the US\$196 billion only US\$30 billion went to developing countries.
- Despite a growth of 23 percent since 1985, compared to 3 percent during 1980-84, the share of developing countries in worldwide inflows fell from 25 percent 1980-84 to 19 per cent in the 1985-90 period.



- Over 95 per cent of recorded flows continue to originate in the OECD area and about three-quarters of the flows are channeled to other OECD countries.
- Africa received only 7 per cent — US\$2.2 billion, roughly equal to that of a small country like Portugal— of all investment flows to developing countries in 1990.
- The Asian region also continued to be an exporter of capital with an outflow of just under US\$8 billion.



# → **Direct Foreign Investment in the 90's**

- The importance of official flows of aid more than halved, while private capital flows became the major source of capital for a number of emerging economies.
- FDI grew continuously throughout the 1990s. Mergers and acquisitions were the most important source of this increase, especially those resulting from the privatization of public companies.
- Net portfolio flows grew from \$0.01 billion in 1970 to \$103 billion in 1996.



## → Direct foreign investment from the year 2000.

- Between 1988 and 2003 service sector FDI increased at an annual rate of 30 percent and accounted for around 40 percent of total FDI inward stocks in developing countries.
- Hong Kong, Singapore, South Korea and Taiwan, and more recently Malaysia, Thailand and the Philippines have seen an enormous increase in inward investment, mostly from Japanese companies that locate their production facilities overseas.

# Direct Foreign Investment & Development



- From the late 70' early 80's, developing the countries like China, Mexico, Argentina, Philippines, Indonesia Malaysia, Bangladesh, Brazil and India have attempted to globalize, liberalize and privatize.
- Foreign capital which represented about 20% of GDP of many developing countries, almost doubled in countries which have implemented policies of globalization and liberalization, more rapidly.



- The result of these measures has also been that there has been an overall increase of developing countries who before liberalization in the 80's exported 75% of raw material and primary commodities and only 25% of manufactured products. This increased to 80% of manufactured products of their total exports.
- The GDP growth rate of these countries have also on an average almost doubled in each of these countries ranging from 2.9 to 5% from the 70's to the 90's, in some cases like China and India, it has been as high as 7-10%.

# Role of Governments in Facilitating Direct Foreign Investment



- ◆ Catalyst of change
- ◆ Friendly environment
- ◆ Rapid integration of financial markets
- ◆ Right infrastructure
- ◆ Investment in R & D
- ◆ Good information base
- ◆ Stable taxation laws
- ◆ Remittance of profits and dividends
- ◆ Management of red-tapism
- ◆ Investment in Education
- ◆ Efficient legal system
- ◆ Political stability
- ◆ Public relations by host countries
- ◆ Government-Business Co-operation
- ◆ Advice and Support for Direct Foreign Investments



- ◆ Singapore is a country that has all most factors in place, leading to a well-balanced government role and accelerated economic development.
- ◆ This has resulted in Singapore becoming one of the most attractive countries in the world for foreign investment, despite its small size & poor natural resource.



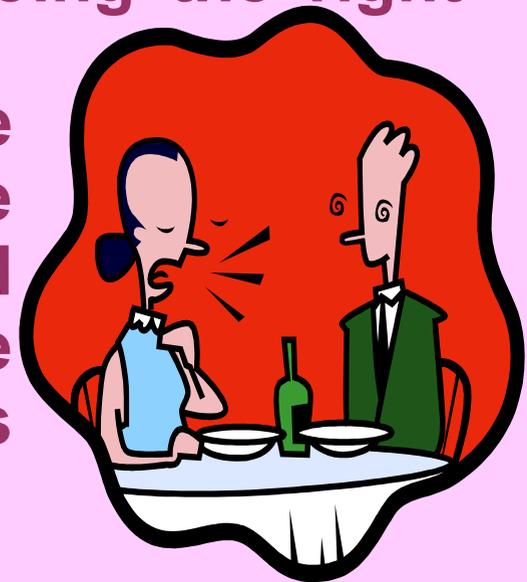
**Many developing countries like China, Mexico, India, Malaysia, Brazil, Japan and some East European countries are now creating conducive investment plan to encourage Direct Foreign Investment & Joint Ventures.**

6.



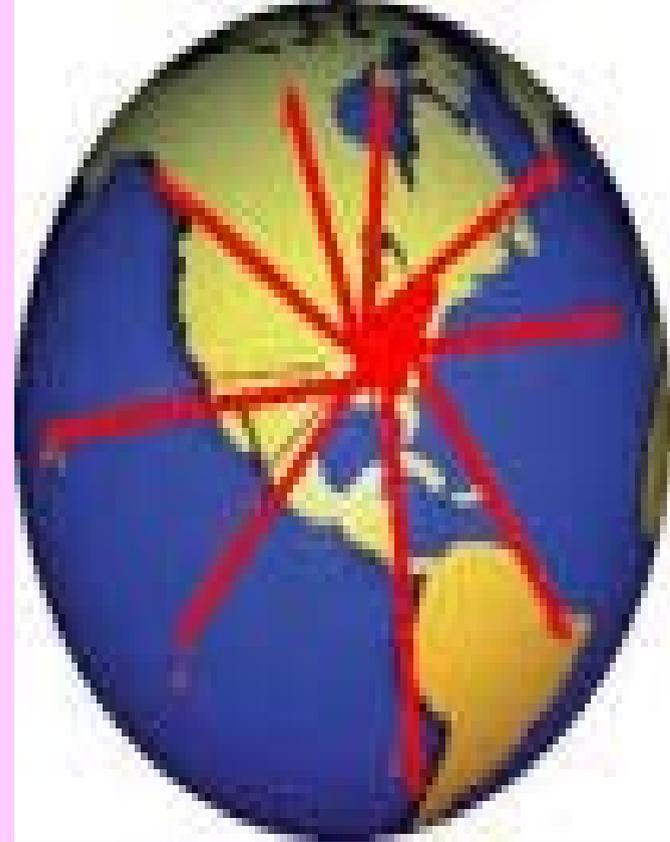
*Global Competitiveness -  
Comparative Versus  
Competitive Advantages*

- It has been continuously demonstrated that the key to competitiveness lies in the implementation process.
- Transformation of ideas and technologies into products is crucial, and Japan, Germany, Taiwan, Sweden and Singapore are among the countries that have mastered this process.
- Being merely innovative as in the case of the USA, UK or France, or just having an abundance of natural resources and raw materials as do Canada, Brazil and India, is not enough, implementation is vital as “doing things right is no less important than doing the right thing”.
- Thus without discounting the importance of say, technology or market forces, the fact remains that countries and enterprises that implement well, that are therefore process driven, are countries that maintain a competitive advantage.



# Competitiveness of Nations

It is assumed that the higher the quality and quantity of the factors, the more successful a country will be at adding economic value and selling its products in the domestic and global trade arena.



- Macro economic development of the economy
- Internationalization of the economy
- Government uplinks
- Finance
- Infrastructure
- Management
- Science & technology
- People

# Elements of Corporate Competitiveness



- The results for 2003 shows how countries rank in their competitiveness.
- It is found that US, Finland, Denmark, Sweden, Japan, Germany and Switzerland hold high positions in the industrialised world, with Portugal, Spain and Greece occupying the lowest.
- In the developing world countries like Singapore, Hong. Kong and Taiwan come out on top, Chile, Tunisia, Brazil, Argentina, Thailand, China and India are in the middle and Bangladesh Nigeria, Paraguay, Honduras & Bolivia are at the bottom.

# Elements of Corporate Competitiveness

Competitiveness exists in domestic and global markets through products and services that are created to satisfy customer needs. Corporate competitiveness is a function of the various factors described below :

- Profits
- Research & Development
- Entrepreneurship
- Management Development
- Business Philosophy
- Customer Orientation
- Global Reach of Companies
- Strong Home Base
- Efficiency and Flexibility of Organization
- Innovativeness
- Proactive Orientation



7.



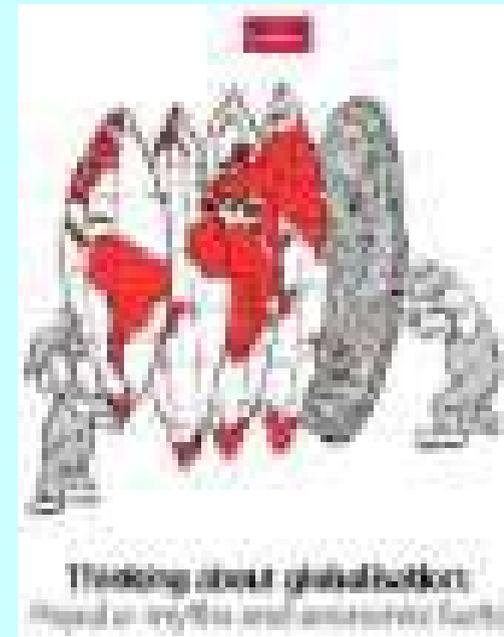
# *Globalisation Of Business By Firms*



# Globalization Imperatives

The driving force of domestic firms to globalize may be summed up as follows:

- legislation that exists in home countries and host countries such as tariff barriers.
- the need to stay ahead of competition.
- advantages of low cost labour.
- savings on shipping costs.
- less stringent pollution laws in other countries.
- speed and efficiency of delivery systems
- exchange rates.
- WTO regulations.
- the media revolution.
- the Internet revolution.



- **Global firms can take advantage of competitive edge in a number of areas such as technology gained through research development, high-powered marketing and advertising techniques, capital resources, management expertise, human resources and organizational skill.**
- **Firms can aim at optimizing on economies of scale by vertical integration as a result of freer access to markets, larger scale markets improved transportation systems, varying advantages in different countries.**
- **Companies are integrating their worldwide strategy in contrast with the earlier multinational approach whereby companies set up subsidiaries to design, produce and market products tailored the needs of particular countries.**



# A company that wants to globalize needs to do the following:



- Consolidate its comparative advantage in the home country.
- Develop a core strategy — the basis of competitive advantage— in the home base first.
- Develop a global competitive strategy which provides for more options because of uniformity. This, however, may be a disadvantage as local competitiveness sometimes suffers.
- Globalize the core strategy through an expansion of activities abroad and through adaptation.
- Integrate this global strategy across countries.

- Truly global companies must view even home country, and not only foreign operations, as global operations, thus ensuring that home country operations are not given undue pre-eminence.
- Thus, in a truly global setting, it is the needs of the business that determine decision making, and particularly as global operations grow in volume and value, the importance of the origin of the firm may be reduced.

# Options for Globalization for firms

Depending on the size, background and experience of the firm, there are various stages through which a firm must pass before it can achieve the optimum global efficiency enjoyed by large firms that have already been operating multinationally. There are four basic factors

- Organisation structure; comprising the reporting relationships in a business.
- Management processes, which cover activities such as planning or budgeting.
- People, including all employees, the human resources of the business.
- Culture, comprising the values and the implicit rules that shape behaviour in a corporation.



- **When the area of comparative advantage faces severe competitive threats, many companies successfully diversify into related fields of business through acquisitions and mergers, and sometimes through even totally new operations.**
- **Professor Nancy Adler, in her book Human Resource Management, describes four stages whereby purely domestic company becomes international, then multinational, and finally global.**
- **These four stages can be characterized by developments in various aspects of the company : its strategy, its technology, its market and its organizational structure.**



- In the first phase, companies focus on domestic marketing reaching for the state-of-the-art to compete with domestic competitors in an effort to service domestic customers and need.
- In the next stage, the companies begin by exporting their products and then manufacturing these products in countries with lower costs. World business now becomes important and the market too gains significance.
- With evolution to the next stage viz that of a multinational company, manufacturing and market opportunities are increasingly optimized with more sharing of technology and R & D.
- In the final stage, the company goes truly global with mass customized products. Strategy becomes very important, and the emphasis is on product and process engineering, and production and raw material sourcing in center of least cost.



# PREPARATION FOR GLOBALIZATION

## ■ Locational and Industry Analysis

- In the process of selecting a city for a regional location, various factors need to be considered and compared, some of which are the cost of space, office and residential, the time required for commuting, public utility services, distances between office and residential areas, the cost of infrastructural facilities such as electricity, the efficiency of communication systems.
- The distance between office and the airport and key business areas such as ports and other relevant points, the location of government and other relevant offices, etc. also need to be considered.
- If Bangkok, for example, is short-listed, it may well turn out that positive factors such as relatively low cost of operation may be outweighed by the fact that Bangkok is one of the worst cities in the world for traffic congestion. Singapore, on the other hand, would do well on all parameters.



## ■ Locational Strategies

- Owing to a relative lack of experience in negotiations with foreign countries, very often professionals in developed countries assume trends to be similar to those at home.
- Frustration often results when they find that appointments are not kept and meetings are often adjourned or that there is a comparative lack of flexibility in the host country.
- Thus a great deal of patience is required during negotiations and to understand the areas of common give and take.
- It would be best if firms understand from other similar firms general ground rules so that they do not make demands that unlikely to be met, and are at the same time aware of what concessions the government makes during the process of negotiations.



## ■ Negotiating with Governments

- Owing to a relative lack of experience in negotiations with foreign countries, very often professionals in developed countries assume trends to be similar to those at home.
- Frustration often results when they find that appointments are not kept and meetings are often adjourned or that there is a comparative lack of flexibility in the host country.
- Thus a great deal of patience is required during negotiations and to understand the areas of common give and take.
- It would be best if firms understand from other similar firms general ground rules so that they do not make demands that unlikely to be met, and are at the same time aware of what concessions the government makes during the process of negotiations.



## ■ Industry Survey

- To evaluate the potential of an industrial sector, one needs to first evaluate the global background and thereafter review the overall state of the particular industry in the host country.
- The reason is that with increasing globalization, the impact of one particular industry in one country has a growing impact on the industry in other countries around the world too.
- For instance, what happens to the steel sector in Germany impacts the steel sector other countries, what happens to the textile sector in Japan has an impact on textile sectors in other countries.
- Similarly, in the field of electronics, developments in the USA have an impact on the electronic industry worldwide.



## ■ Government's Attitude

- Evaluate the attitude of the government in the country in question to the particular industry. Are there, for example, incentives being given, or are there impediments involved in the development of that particular industrial sector, say in the area of taxation?

## ■ Level of technology

- Review the current level of technology employed by the host country *vis-a-vis* state-of-the-art technology available globally and investigate the extent of local R & D carried out and the level of investment in R & D within the country.





## ■ Demand Assessment

- Study the position of the major players in the industry and their respective market shares to understand whether there are monopolistic or oligopolistic situations.
- This should be supported with a detailed demand analysis after taking into account the existing capacity and new projects on the anvil.
- Rivalry between existing competitors as well as the sharpness of competitiveness and marketing efforts would give an indication of the nature of competitors and the demand/ supply situation.
- Thus when Coke seeks to enter a market where Pepsi already exists, it is necessary to review a whole new area.



## ■ Supporting Industries

- Review the availability of the related and supporting industries and ancillaries and their levels of sophistication.

## ■ Industry Dispersal

- A geographic analysis of the industry dispersal should also be made.

## ■ Discerning Level of Buyers

- Analyze how discerning buyers are. Consider the trends of the assuming sector in order to plan for the appropriate levels of the product in terms of sophistication of product characteristics.
- Products should not be rendered obsolete in a short while, and modernisation should be planned for.



## ■ Competitive Advantage

- Investigate whether it would be possible to achieve competitiveness and whether one possesses a competitive advantage in the form of either lower costs or differentiated products that command premium prices. Also, investigate if the firm will be able to maintain advantage and achieve more through better quality products services or more efficient production.

## ■ Existing Competitors

- Investigate the rivalry among existing competitors as greater competitive rivalry erodes profit margins by requiring higher costs for advertising, etc. or by lowering prices. A detergent manufacturer, for example, would need to closely examine a market where sharp competition between say, Procter & Gamble and Unilever is already in existence.



## ■ New Competitors

- Investigate the possible threat of new competitors, their arrival limits, their overall profit potential in the industry, as new competitors bring new capacity which sometimes means new product features, thus putting pressure on margins and market share.

## ■ Competitive strengths of suppliers & buyers

- Survey the competitive strength of suppliers in terms of reliability of suppliers and their dependence on the firm as well as other options of purchase available to buyers.

## ■ Substitute products

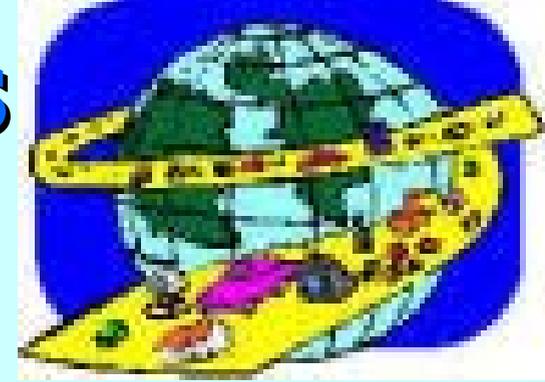
- Investigate the threat of substitute products that exist for marginal buyers to switch to these, limiting price flexibility.

# Globalization Strategies

## Some Examples:

### ⇒ Xerox - Technological Advantage

With no single nation commanding technological advantage, world companies search the globe for leading scientific and design ideas. Xerox has introduced some 80 different office copier models the USA that were engineered and built by its Japanese joint venture, Fuji Xerox Co.



### ⇒ Ericsson

Ericsson, a Swedish company, has been in the global arena in search of new markets for a long time. It believes in tapping local technologies, adapting them for local requirements and also exporting them globally to the group's advantage wherever applicable.



## ⇒ **United Technologies Corporation**



### - **Effective Globalization**

Being deployed globally helped Otis Elevator Inc., a unit of United Technologies Corporation, develop the customised Elevonic 411 at the lowest possible cost. The elevator, programmed to make cars available to floors where demand is high, was developed by six research centres in as many as five countries.

## ⇒ **Sony And Honda – Japan’s Truly Global Firms**

The Japanese manufacturers that come closest to being stateless are Sony Corporation and Honda. Sony earns approximately per cent of its revenues internationally and keeps a loose rein on its far-flung operations.





## ⇒ Hewlett Packard

Hewlett Packard is an example of a well-integrated global that has manufacturing chains from the USA, where they employ highly qualified and high-skilled workers to low wage workers assembly plants in India and Malaysia.



## ⇒ The Parker Company

As a result of growing global competition, the Parker Company, in the early 80s, cut the number of types of Pen manufactured and also reduced the number of its plants worldwide.

## ⇒ General Motors



A good example of global integration is General Motors whose global operations were initially run more as independent national subsidiaries.

## ⇒ Honda



Honda has manufacturing divisions in Japan, North America and Europe — all three legs of the Triad, but its managers do not think or act as if the company were divided between Japanese and overseas operations.

## ⇒ Casio



At Casio, top managers gather information directly from each of their primary markets and then sit down together once a month to lay out revised plans for global product development.

## ⇒ McDonald's: Staying On Top



McDonald's is one company that is constantly on the move to retain its position as global champion in the fast food business having spent over two decades methodically building a presence in 68 countries around the world.

# Finding the Competitive Edge in Global Corporation

- The advent of greater automation has rendered the cost of labor a less important element of the total cost of production a manufacturing has become more of a fixed cost activity.
- In a variable cost business, the main objective for the manager is to increase profits by controlling the cost of materials and wages where as in a business where fixed costs are more relevant, the emphasis shifts to sales. This necessitates a look at larger globe markets.



**A global corporation should make its costs independent of host country currency and on par with competition in the host country Cheaper sources of raw materials from other parts of the world - an avenue which may not *be* available to the local manufacturer should be used to the maximum.**

- **Partnerships with Suppliers/Distributors**
- **Team Incentives**
- **Material Substitution**
- **Reducing Cycle Time**
- **TV and Joint Selling**
- **Application of techniques – balanced score card ERP & CRM globally**





# **Transnational Corporations Of The Republic Of Korea: A Success Story**

- 🌐 The World Investment Report 1992 outlined the Transnational Corporations (TNCs) of the Republic of Korea. Six of the US\$17 billion corporations from developing countries are firms from the Republic of Korea.**
- 🌐 They started out in the basic sectors of economy - steel, ship-building and textiles - and then diversified into electronics and computers as well as service activities, particularly construction. These TNCs have over 400 affiliates operating overseas.**
- 🌐 The South Korean TNCs invest heavily in developing countries.**

- ☯ In recent years, about 40 per cent of DFI outflows from the Republic of Korea has gone to developing countries.
- ☯ Foreign investment allows access to natural resources upon which the Republic of Korea is highly dependent.
- ☯ Most overseas manufacturing projects require investments of less than US\$2 million, and more than half of those projects must be valuated against the long range goals of a company in a specific market.



- 👁️ **The Republic of Korea's manufacturing investments in neighbouring Asian countries are in relatively labour-intensive of technologically standardized products such as textiles and unsophisticated product lines of electric and electronic appliances**
- 👁️ **Thus the TNCs from Korea are an excellent example of how even a development-oriented nation is taking advantage of its various factor endowments and accelerating the process of its own development through a process of setting up its own TNCs in other countries.**
- 👁️ **After the Asian Financial Crisis struck in 1997, Korea recovered quickly thanks to strong structural reforms, especially in the financial and corporate sectors.**

8.

# *Global Joint Ventures*



# Types of Global Joint Ventures

## Evolution of Joint Ventures

- ♣ In the broadest sense of the term, a global joint venture comprises any form of association which implies collaboration for more than a transitory period.
- ♣ The recipient or host country generally supplies the land, labour, some raw materials and the infrastructure for the development of the joint venture.
- ♣ The earliest joint ventures between developed and developing countries were in mining and plantations.



- ♣ **The establishment of real joint ventures, with both partners playing a significant role, evolved out of the need to locate manufacturing facilities closer to sources of raw materials or markets and various other reasons cited above.**
- ♣ **Depending on a firm's motivation, the extent of development and potential of a host country would result in direct foreign investment and joint ventures of various types.**

# Types of Global Joint Ventures



- **Non-Investment Oriented**
  - **Joint Ventures to develop a source of raw materials for the parent firm's use.**
  - **Joint Ventures to give loan Capital to the developing countries, which is undertaken by international developmental institutions.**
  - **Joint ventures involving the use of brand names or patent rights or licences to produce for a fixed fee or a percentage royalty.**

# Types of Global Joint Ventures

Some of the more typical ones are as follows:

- **Investment Oriented**
  - **Joint ventures with minority equity.**
  - **Joint ventures with majority equity.**
  - **Joint ventures as wholly-owned subsidiaries.**
  - **Joint ventures for supplying management or technical know-how.**

## **Many combinations of joint ventures are possible. For eg:**

- **Two American firms joining together in a foreign market such as Standard Oil and International Minerals and Chemicals in India. Joint Ventures to develop a source of raw materials for the parent firm's use.**
- **A foreign company joining with a local company, e.g. Sears Roebuck of USA and Simpsons in Canada.**
- **Companies from two or more countries forming a joint venture in a third country, e.g. Alcan (Canadian) and Pechiney (French) in Argentina.**

- A private company, and a local government such as Philips (Dutch) with the Indonesian government.
- A government control led company with joint ventures abroad, such as Dutch State Mines with Pittsburgh Plate Glass in the USA.
- More than two nations in a joint venture, for example, Australia Aluminium owned by two American companies (American Metal Climax & Anacanda), two Japanese companies (Sumitomo Chemical company and Showa Bunko), one Dutch company (Holland Aluminium) and one German company (Vereinigte Aluminium Werke).



# **Advantages of Global Joint Ventures to National Economies of Developing Countries**

Some common characteristics of developing countries are poor quality of life, rapid population growth, rapid urbanisation, poor level of education, shortage of technology, poor capital formation, under-employment and unemployment and uneven distribution of income. DFI and Global Joint Ventures bring such countries certain advantages, some of which are described below.

- Capital resources
- Transfer of technology
- Vendor development
- Import substitution
- Export earnings
- Employment generation
- Transfer of skills
- Utilisation of local resources
- Sharing of wealth



# **Disadvantages of Global Joint Ventures as perceived by host countries**

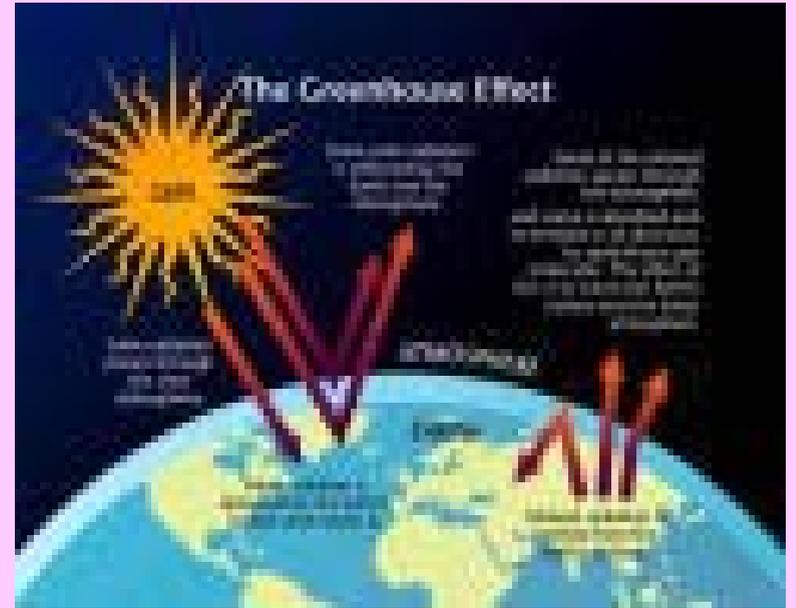
**The host countries restrict or allocate markets among subsidiaries.**

**The host firm generally has an existing marketing set-up operating from the parent company headquarters which markets the products from the new venture within an existent framework.**

- **Over invoicing equipment and spare parts exported and overcharging for transfer of technology and management, thus making no real equity contribution.**
- **Extracting excessive profits and fees based on monopolistic advantage and ‘price-fixing’.**
- **Financing their entry” mainly through local debt and retaining a majority or even 100% percent equity with the parent.**
- **Diverting local savings away from productive investment by nationals.**
- **Poaching away the most talented personnel.**

- **Dumping unwanted technology and even banned products, especially medicines and chemical products, jeopardizing the health and life of the host countries populations.**
- **Restricting the learning process by staffing key technical and managerial positions with expatriates.**
- **Showing scant respect for social customs, believing that what worked at home should work anywhere.**
- **Contributing to price inflation by producing unnecessary goods with scarce resources.**
- **Dominating key industrial sectors.**

# Controls Effectuated by Governments to Regulate Foreign Investment & Joint Ventures



Host countries change their policy towards joint ventures from time to time depending on their needs and on the amount of benefit derived from foreign investment. Some of the controls effectuated are:

- Requiring that foreign firms share ownership with nationals. They also set limits on percentage of equity in the joint venture.

- **Requiring that a specified proportion of key positions in the Executive ranks and on the board of directors be manned by nationals with a gradual, complete phasing out of expatriates.**
- **Not encouraging foreign participation from non-priority industries or industries which could be developed locally, and encouraging joint ventures only in high technology or export-oriented industries.**

- **Placing ceiling rates on royalties and fees paid for technology and percentage of profits that can be repatriated.**
- **Renegotiating old concessions or contracts in mining petroleum industries to be more favourable to the host country.**
- **Insisting that foreign firms raise more of their debt financing outside of local capital markets and use the local market to raise equity capital in order to contribute to the development of local financial institutions and markets.**
- **Pressuring foreign firms to engage in better training programmes for locals.**

# Code of Conduct for Global Joint Ventures



- Various mechanisms exist to regulate the functioning of global corporations. Some of these are the Foreign Investment Code of the Andean Group 1970, the Guidelines for Multinational Enterprises of the UN Commission on Transnational Corporations, the Declaration of International Investment of Multinational Enterprises of June 1976 of the OECD, etc.

- The need for the code has been recognised by organisations of business, labour, consumers and environmentalists.**
- These standards would require TNCs not only to conduct their operations in accordance with the laws and regulations of the government of the host country relating to preservation of the environment but also, in conducting their activities, to take steps to protect the environment.**

9.



Global  
Alliance

# Globalization Via Alliances



- 😊 Global tie-ups are motivated by the fact that firms need to gain easy access to new markets, to share costs of expansion, and to increase skills without having to develop them in-house, all of which can take place through a relationship with collaborating partners.
- 😊 The need for global tie-ups is accelerated by rapid changes taking place in global markets where consumer tastes and preferences are becoming universal on account of ever-increasing exposure to global media.

- ☺ The kind of tie-ups possible include partnerships, wholly owned or subsidiary companies, licensing agreements, distribution agencies and contract manufacturing, as well as joint ventures and strategic alliances.
- ☺ Several types of alliances are possible, for example, entailing joint R & D or entailing access to markets for one partner's product into another partner's area, into a common area, OF into a new area altogether.
- ☺ Alliances are also possible with more than one partner in various fields.



# Advantages of Alliances

- ★ In an alliance, one partner may initially learn from the other as in the case of UK whisky manufacturers in Japan who first used Japanese distributors, and later chose to go the independent route, thus minimizing both cost and risk, and accelerating the process of learning and growth.
- ★ Glaxo, the British pharmaceutical company, has not been keen to establish a full business system in each country where it has set up business.

- ★ India is a good case in point, and a range of options mainly available in its liberalized economic environment has resulted an equally wide gamut of strategies for globalization on the part of international firms.
- ★ There is expected to be a growth alliances in the agricultural sector in India.
- ★ J.P. Morgan, the third largest bank in the US, has in the last few years transformed itself from a conventional commercial bank to a European-style universal bank with a strong emphasis on investment banking and trading functions.

# Advantages brought to firms by corporate alliances include:-

- ★ Economies of scale of manufacturing.
- ★ Strengthening marketing/ market access.
- ★ Optimizing purchase/ sourcing/ joint sub-contracting.
- ★ Shared cost of research and development.
- ★ Optimizing use of production facilities, with each alliance partner working in its area of specialization.



# Alliances and Acquisitions

Research reveals that about 50 per cent of cross-national alliances have been successful as opposed to only 25 percent domestic diversification by firms. It is also found that the average life expectancy of an alliance before one or the other partner buys the other one out is about seven years. The termination of an alliance or its development into an acquisition does not mean that the alliance has been a failure.



# Alliances and Acquisitions

## ■ Global Alliances : Some Examples

- The Sandoz Sankyo alliance resulted in the establishment of an independent business for Sandoz in Japan, thus fulfilling Sandoz's goal and making Sandoz one of the top 25 companies in Japan today.
- Bayer's alliance with Takeda ended on a happy note, in which a long-standing sales agreement with Takeda was terminated to enable Bayer to sell its own products through its own channels.
- The Toshiba and Motorola alliance goes back to the early 80s.
- Toshiba and Motorola have a high degree of interdependence in terms of shared factories, distribution and specialized skills which keeps the joint venture cemented together on a long term basis.

# Forging a Successful Alliance

Some of the points to keep in mind before entering into an finances are:

- Good chemistry amongst alliance partnerships
- Willingness to share control
- Trust and openness
- Compatible philosophy and management styles.
- Willingness to adapt to new management styles and values
- Willingness to compromise
- Thorough planning to make it work
- Patience



**Forging an alliance with firms in a particular country often means that certain specific areas must be taken into consideration In China for example, experts hold that foreign companies find it easier to avert potential problems with their Chinese partners if the following issues are addressed at the very beginning of a venture's life:**

- Shared objectives**
- The optimal equity split**
- The role of the board**
- Who has management control**
- Resolving differences**
- Equal compensation**
- Developing Chinese management**

# Global Alliances

## Some Examples:

- ❖ **International Airlines**
- ❖ **The future in alliances Global alliances are equally relevant in service as in manufacturing sectors.**
- ❖ **Thus, airlines around the world are seeking closer ties with each other to gain economies of scale. For instance, Lufthansa has made moves to form a new entity incorporating the erstwhile East Germany's Influg Airline and is developing closer ties with Air France.**
- ❖ **Similarly, Singapore Airlines is forming a joint venture with Sabena of Belgium.**
- ❖ **Alitalia is establishing commercial arrangements with Iberia of Spain and US Air.**
- ❖ **These are all signs of increasing global alliances to improve efficiency and be better prepared for**



## ❖ **Inland Steel -Nippon Steel - A Complementary Alliance**

- ❖ **Inland Steel, USA, and Nippon Steel, Japan, are jointly building what is described as the world's most advanced continuous cold steel mill at Indiana, USA.**
- ❖ **Inland gains from Nippon's technology and low cost capital to help supply a better product to the American customer, while Nippon is able to overcome import quotas and supply Japanese auto plants in the USA.**

## ❖ **Smith Kline Beecham - Becoming An Insider**

- ❖ **One of the factors that prompted the US pharmaceutical company Smith-Kline and Britain's Beecham to merge was the need to avoid licensing and regulatory restrictions in their major markets Western Europe and the USA.**
- ❖ **"The merged company can identify itself as an inside firm in both Europe and the US," says Robert ? Bauman, a London-based American who is head of Smith-Kline Beecham Corp.**
- ❖ **"When we go to Brussels, we're a member state of the European Community, and when we go to Washington' we're an American company too," he says.**

## ❖ **Old Adversaries — New Alliances**

- ❖ **Companies with existing global operations such as Ford with plants in several continents finds that old adversaries can form necessary and good alliances.**
- ❖ **The recent one between Nissan and Volkswagen is a case in point, prompted by the customer need for a product range greater than one company can handle.**
- ❖ **Adding new product lines is another advantage gained by the formation of alliances.**
- ❖ **General Electric for example, has entered several major alliances in diverse fields in Europe, Japan, and Korea.**

## ❖ **From Litigation To Partnerships**

- ❖ **Ironically, alliances have even been formed in the process of litigation. Texas Instruments' legal battle with Hitachi, (initiated on the grounds that Japanese industry dumped memory chips on the American market) eventually evolved into an alliance.**
- ❖ **Both companies came to know each other better during the litigation process.**

## ❖ **AT&T— Some Bitter Lessons**

- ❖ **AT&T, the US telecommunication giant, has learnt a painful lesson in its pursuit of foreign partners. Deciding to go global, AT&T linked up with Philips, the Dutch electronics leader, to sell switching equipment to government-owned telecommunication companies in Europe.**
- ❖ **Almost simultaneously it formed a separate alliance with Italy's Olivetti hoping to become an international force in computers and office automation.**

## ❖ **Xerox — Venturing Jointly**

- ❖ **At a time when its rapidly expanding domestic business absorbed all available managerial resources, Xerox Corporation opted for a joint venture with the Rank Organization to produce and market its copying machine outside the USA, thus making an entry in the growing global market.**

# Corning - A Variety Of Global Tie-ups

Corning has tied up with several firms globally for its different products. They include :



- BICC (Britain) optical fibre
- Ciba-Geigy (Switzerland) for medical diagnostic equipment and materials
- Cie Financiere des Fibres Optiques (France) for optical fibre
- Siemens (West Germany) for optical fibre, cable
- Finimi (Belgium) for speciality glass
- Asahi Glass (Japan) for glass for TV picture tubes, cookware

# Corning - A Variety Of Global Tie-ups

- **Beijing Electronic Glass Engineering**
- **Technology (China) School for glass for TV picture tubes**
- **NGK Insulators (Japan) ceramics for catalytic converters**
- **Samsung Group (South Korea) glass for TV picture tubes**
- **Australian Consolidated Industries (Australia) for cookware**
- **Metal Manufacturers, Australasia (Australia) Amalgamated Wireless for optical fibre.**

10.

*Marketing In  
Global Context*





# INTRODUCTION

- Marketing is a key business function which entails the identification of people's needs and wants, and with the assistance of other franchises of a company, entails the fulfillment of these needs to the benefit of both the person receiving the product or service, and the organization producing it.
- Seen in a global context, while the objectives and methods of the marketing process remain the same, as does the marketing function, the difference is that international marketing activities are conducted across national boundaries and simultaneously in a number of different national markets.

- **These international elements affect both marketing strategy decisions and marketing management.**
- **Contemporary global corporations have to serve the needs of varying customer segments, sometimes coming up with new products and services that headquarters never would have thought of.**

# Evolution of Global Marketing



- ➔ The concept of the international product life cycle often forms basis of the decision for companies to go international. Foreign markets offer manufacturers an opportunity to extend their products life cycle after the point of saturation for domestic demand been reached.
- ➔ The usual way to enter a foreign market is export, which may well be occasional or passive in nature, or more active in approach.
- ➔ Companies typically start with indirect export through links with agents or export management firms, eventually moving on handling their own exports, with increased levels of investment handling their own exports, with increased levels of investment and risk, but greater potential return.

- **Licensing is yet another mode of entry into the international marketing arena, as is contract manufacturing, or in the area services, management contracting.**
- **Joint ventures and direct foreign investment are other entry options, and while most companies show a distinct preference for one mode of entry, environmental factors such as the global legal framework mean that companies must optimally adapt to varying situations, thus learning and mastering at entry methods, and finally going through the internationalisation process.**

# The Global Marketing Programme



- Should a company operating in several markets adapt its marketing mix to varying local conditions?
- If so, to what degree? And if no is a standard marketing mix worldwide a viable one?
- The question of international standardization versus differentiation is one that impinges upon all areas of the marketing mix.
- Potential adaptations therefore touch all its elements: product, promotion, price and distribution.

# Product Strategies

Product strategies may involve straight extension, or the introduction, of a product into international markets with no change.

Such strategies have been extremely successful with cameras and consumer electronics, and equally disastrous say in the case Hallmark cards in France, where people prefer writing their own messages rather than sending sentimental ones of the printed kind.



- ❖ **Product adaptation**
- ❖ **Product invention**
- ❖ **Product extension**
- ❖ **The best product strategy - the one that optimizes profits over the long term - will depend on the specific product -market - company mix.**

# Pricing Strategies



- ✓ In the area of a global pricing policy, several choices are also available to firms, once more within the spectrum of international standardization versus differentiation.
- ✓ A market based price in each country is another pricing option, but the disadvantage of ignoring varying actual costs is inherent here.

- ✓ Using a standard mark up is yet another pricing strategy, where a varying cost- based price is used.
- ✓ In setting prices for any single market, both cost and market conditions are important.
- ✓ The international company that uses pricing as a part of its strategic product mix will develop a pricing system and pricing policies that recognize the diversity of national markets in these three basic dimensions viz. cost, competition and demand.

# Promotional Strategies



- ✓ Promotional strategies may also be adopted as in the home market or adapted to each local market. Media used will go through the process of local adaptation based on varying availability and effectiveness.
- ✓ Promotional strategy will depend of course on product strategy.

- ✓ **When a product fits a different need or services a different function in a market other than the home market, adjustments are required in promotional direction.**
- ✓ **Adaptation of promotional strategy is also called for when promoting new products designed specifically for a particular market.**
- ✓ **In terms of advertising, culture-specific campaigns will no doubt be more effective than those that are more central in nature.**

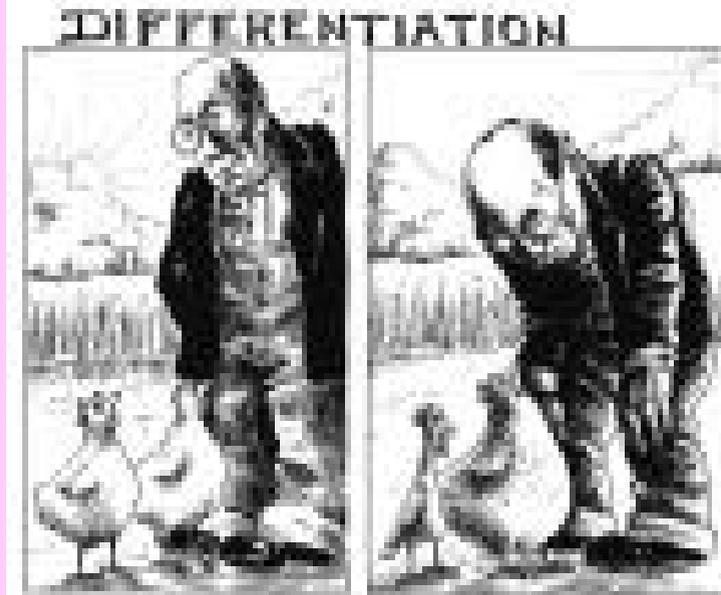
# Distribution Strategies



- ✓ Distribution channels vary widely from country to country, particularly with respect to the number and types of middlemen involved in the distribution process, and in the size and character of retail units.
- ✓ International distribution management is closely related to several dimensions of marketing management and global strategy.

- ✓ **As a first step to identifying distribution channels, their desired function should be spelt out. In the case of automobile exports for example, a necessary distribution function must be the provisional of after sales service and repairs.**
- ✓ **The next step is to understanding the distribution alternatives available, and given that the structure of the distribution system is in the process of change in many areas of the world.**

# Standardization versus Differentiation



- ✓ The advantages of product differentiation to meet the needs of varying markets are in direct conflict with the advantage of reducing unit costs through standardization.

- ✓ **Standardization can bring considerable savings from production economies, and from spreading expenditures on R & D, advertising, promotion and general management over a greatly expanded sales base. Yet pressures toward differentiation are great.**
- ✓ **The marketing strategy of global firms therefore generally falls somewhere between the extremes of a central market focus a decentralized development, and between the extremes of product mix standardization and diversification.**

# Some Examples of Appropriate Adaptation as a Key to an Effective Global Marketing Strategy



- ✓ Aircraft manufacturers have excelled at producing globally standardised products, while being flexible in meeting differing worldwide needs by adapting the standardised core product.
- ✓ As Kenichi Ohmae elaborates on the subject in *The Borderless World*, when discussing the entry of Coke into the Japanese market, Access to this market was by no means assured from day one, consumer preference was not assured from day one.

- ✓ **SKF, a Swedish firm, a large manufacturer of ball bearings, set up a South East Asia sales and distribution centre in Singapore.**
- ✓ **Euro-disney: Transatlantic Troubles-The initial enthusiasm that greeted Disney's multi-billion dollar plan to bring a theme park to Europe soon turned to skepticism, the Euro-Disney dream was soon a nightmare.**

11.



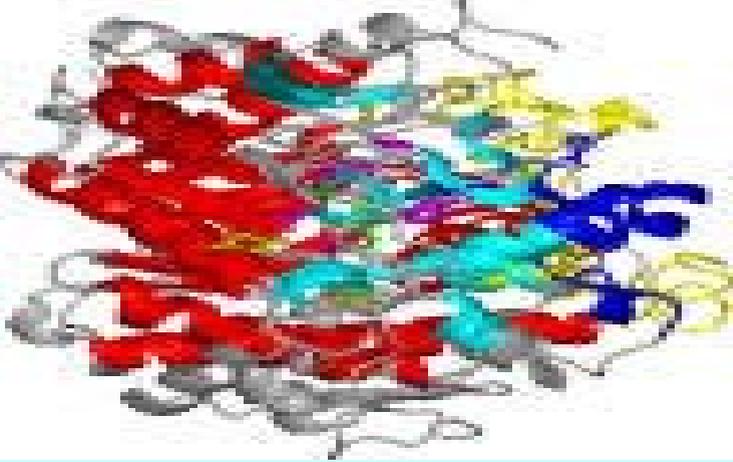
*Cultural Adaptation In  
A Global Business  
Environment*



# **Complexities of Cultural Adaptation**

- \* One of the greatest challenges facing global firms is the need to develop human resources capable of handling global operations.**
- \* This is a major challenge as global firms operate in multiple cultural environments whereas individuals tend to be brought up in single environments.**

- \* The policy of employing nationals from home countries and sending them out to run foreign operations has been the standard practice of traditional global firms.**
- \* Some factors that expatriates consider in overseas postings are whether they will be able to afford the same lifestyle in terms of modern living, if they will be able to establish a social circle, whether good schooling is available for children, chances of advancement when they return to their own country, language difficulties, concern about safety and medical care.**
- \* The common western practice is an extension of the same approach.**



# Understanding Human Differences Around the World

➤ **Physical Differences**

➤ **Demographic Differences**

➤ **Age Distribution**

➤ **Class Differences**

➤ **Motivation**

➤ **Trust**

➤ **Beliefs**

➤ **Family Structure**

➤ **Morals Etiquette**

➤ **Ethnocentrism versus Polycentrism**



# **Developing Global Professionals**

**Today, the trend is increasingly towards finding global managers in the mould of the American Apple Corporation and Compaq's chief operating officers, both Germans.**

**This type of manager can skip easily across frontiers, from function to function (though they are most often wanted for special, rather than general talents) and industry to industry.**

**The pressing need for global firms is to plan strategy to develop global managers. Some of the means to develop these are given below:**

# Developing Global Professionals

- ▶ **Seek locals who operate subsidiaries of businesses and then train them to run global businesses.**
- ▶ **Locate professionals who may be already internationally exposed.**
- ▶ **Recruit foreign graduates who have training in the home country methods and who would like to return home to work.**
- ▶ **Recruit technically qualified home country professionals with global exposure.**
- ▶ **Rotate people around the world as there is no substitute for line experience in three or four countries to create a global perspective.**

# Training for Global Managers



Training is an extremely important part of developing global Managers.

- In a world where globalization is a rapid and all-encompassing phenomenon, the second approach will become increasingly relevant, and firms should therefore build up specialized programmes within their systems orientated towards training professionals for managing global businesses.

- **Global training may be defined as training that imparts an understanding of other cultures, values and ways of life, with a view to adapting one's own ways to the imperatives of other cultures and the needs of global business.**
- **In the 50s and 60s global training in most companies comprised instruction on travel and health precautions, information on local conditions, occasionally language teaching and very rarely, some information on the business or economic climate of the country.**
- **Global and cultural issues need to be integrated across the spectrum of business, into product development, manufacturing and marketing objectives.**

**To fully realize the potential of global training, corporations around the world have to be receptive about organizing training programmes for their staff.**

**The methods of training can be:**

- ❖ sending personnel to training programmes conducted by various business schools around the world**
- ❖ organizing in-house training programmes where professionals who are exposed internationally**
- ❖ conducting training in specific aspects of certain international businesses**
- ❖ on-the-job training at the firm's different locations**

# Some Key Attributes of Global Managers



- generally well-informed on matters of global importance
- quick learners to adapt to new technologies.
- broad-minded.
- ability to respect the various ways different countries operate, and appreciate the reasons for these global variations
- ability to steer clear of cultural excuses for inefficiency
- innovativeness.

- ⑧ **patience.**
- ⑧ **competence to overcome language barriers.**
- ⑧ **ability to give attention and care to cultural characteristics and values of local society which must be respected.**
- ⑧ **adaptability and flexibility of outlook.**
- ⑧ **extensive global traveling experience in different cultures.**
- ⑧ **proactive rather than reactive, thus pre-empting competition.**



# **Influence of Culture on Business**

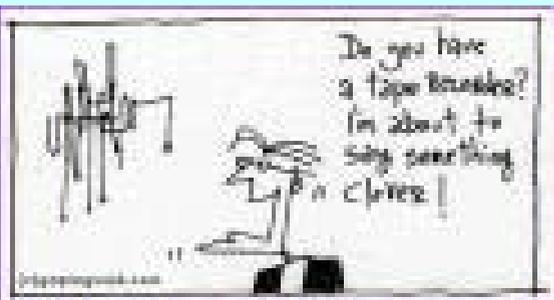
- ③ **Cultural traditions from nation to nation vary vastly and depend on a centuries-along cultural history that covers ways of life, customs, norms, upbringing and value systems which are in their own way dependent upon climatic and geographic factors.**
- ③ **While firms develop their own culture and values based on the business philosophy of say founders or shareholders, directors or leaders, the cultural backgrounds and orientation of the people employed and the places the firm operates in are equally relevant.**

- ③ **In other parts of Asia, in countries such as India, Pakistan, Bangladesh and Sri Lanka, the traditional relationship between Employer and employee is a feudal, paternalistic one where the employer is seen as a father figure and the employee the child, with the employer expecting to take an active part in every aspect of the employee's life, including participation in family marriage customs and rituals.**
- ③ **In contrast, moving westwards, relationships between the organisation and the individual are more formal in Europe.**
- ③ **American society is the ultimate in the promotion of individual value systems.**

# **Cultural characteristics & their influence on business**

- ‡ Child-rearing practices across the world influence national characteristics and in turn have a bearing on adult attitudes to business.**
- ‡ In African families, children are generally a part of a - large extended family, and often view society as such.**
- ‡ In Japan, the spirit of conformity engendered in children causes them to fall in line with common practice.**
- ‡ English child-rearing tradition has children respectful of elders and doing as they are told, whereas in the USA, an independent approach is encouraged.**

- 👤 All this early experience usually translates into different cultural values, developing into a way of life as individuals grow up.
- 👤 Attitudes to women area also reflected within the business world.
- 👤 In the Arab world, women are not encouraged to be a part of business life, and business associates are rarely even invited home for meals.
- 👤 Social attitudes also tend to spill over into business.
- 👤 In China, as in Japan, one goes through the niceties of other exchanges before talking about business.





# Training for Cultural orientation

-  Besides the embassies of some countries that offer orientation programmes for students and executives proceeding abroad for studies or work, there are now various professional agencies offering cultural integration training to prepare those going abroad.
-  A frequent practice in these training programmes is to include families in the orientation process.

 This has become necessary given that the failure rate of executives proceeding on overseas assignments ranges between 10 per cent to as high as 60 per cent in some cases.

 The costs per person for this can be anything from US\$25,000 to US\$1,000,000 depending upon the country and the level of the professional concerned.

 It would be an equally useful practice for such agencies to provide post-adjustment feedback to find out how the trainees have benefited from the orientation and what problems continue, thereby allowing for fine-tuning and improvement of the programme itself.

# Global Competitiveness & Business Culture



- ① American and British companies operate in a very different competitive environment as compared to Japanese, French and even German companies.
- ① American managers are constrained by matters such as profits and stock market performances in the short term and need to be on their guard against the possibility of a takeover.

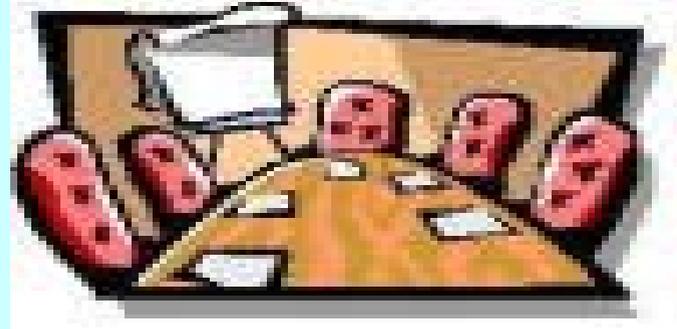
-  The German approach stresses a more long-term development of a core business strength, usually technology-based, and these companies have strong-knit relationships with the government, financial institutions and industry.
-  The governments of some Asian countries control competitive conditions in their countries.
-  Thus there are significant differences in the competitive environment of nations as a result of different histories, cultures and politics.
-  The emerging economies of East Europe are likely to follow the West European modes of development.

# Adapting for success in different Global Cultures



- 👍 When several national cultures operate within an organization, an important part of the international manager's role is to ensure that different cultures understand and respect each other.
- 👍 If one culture dominates, others may be suppressed.
- 👍 As more and more companies try to compete globally, more executives are crossing borders.

- 👍 To be successful, therefore, the global manager has to understand the differences between cultures as a step in learning to manage global teams.**
- 👍 Global managers must learn to manage in the context of continuous change and diversity.**
- 👍 The basis for such alliances will be mutually-shared purpose that transcends cultural differences.**
- 👍 One of the keys to creating a truly global corporation is having a top management team comprising of personnel from different nationalities.**



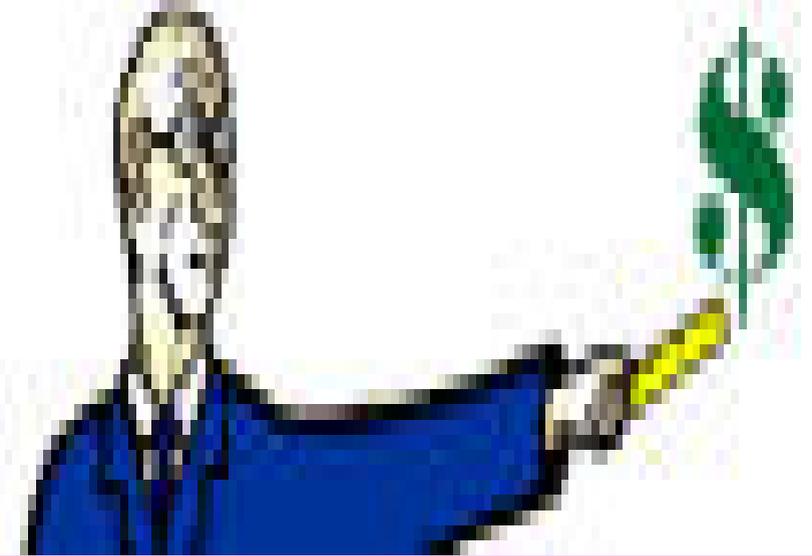
- 👍 **Traveling is an extremely important means of interaction, communication and learning. It is one of the quickest and best methods of knowing people, knowing local situations and understanding the difficulties being faced in different parts of the world, while learning to accept each other's values.**
- 👍 **Strong commitment to the organization is necessary which result in quick responses to any managerial problems that may arise.**
- 👍 **A healthy, effective corporate culture can be created by having a very participative management approach that allocates responsibility to all levels.**

- 👍 **Decisions on input needs or output targets should be based on the point of view of the host organization and not on those of the parent company.**
- 👍 **Standards of living and education are improving and the influence of western ideas and values is increasing.**
- 👍 **Global citizenship is no longer a phrase in the lexicon of futurologists. It is every bit as real and concrete as measurable changes in GNP or trade flows.”**

12.



*The Global  
Finance Scenario*



# Global Financial Structure

- \$ The Global Financial Structure, a fixed system of exchange rates based on individual countries making adjustments of imbalances without resorting to devaluations or currency regulations, was in operation for two and a half decades after the Second World War.
- \$ It was formulated on the basis of the Bretton Woods Agreement — the instrument through which the International Monetary Fund (IMF) was also conceived.

- \$ When a country joined the IMF, its currency's value was declared based on gold or the dollar.**
- \$ Given the strength of the US dollar, the dollar was the basis of world trading currency, with countries trading against it. The dollar was hinged to the price of gold.**
- \$ What emerged was another arrangement by which individual countries caused their currencies to float or remain pegged to currency values of other countries.**
- \$ A floating exchange rate system replaced the Bretton Woods system, forming the basis of the current international financial framework.**

# Balance of Payments



- & The balance of payments of a nation comprises all international transactions carried out by a nation and its various constituents, viz. the government, business, private residents, etc.
- & The purpose of maintaining and analyzing the balance of payments is essentially to find out whether the country has a debit or a credit balance of payments.
- & A healthy surplus of balance of payments enables a country to have a stable, strong currency and a sound domestic economy with inflation and interest rates under control.

- & Debts therefore accumulated, resulting in a debt crisis of massive proportions and throwing several American and European banks out of business.**
- & Business decisions, such as making investments or holding deposits in certain currencies, can in turn affect the balance of payments of a country, thus affecting the value of its currency.**
- & The net effect, in terms of balance of payments of foreign exchange, could be positive or negative depending on how the investments are made.**



# Foreign Exchange Markets and Exchange Rates

- 👁️ The mechanism which facilitates the purchase and sale of commodities and securities from one nation to another is known as the foreign exchange market.
- 👁️ There are about 100 currencies in the world.
- 👁️ Major trade is carried out in US dollars, pound sterling, Japanese yen, Swiss francs and German marks.

- 👁️ **The supply of foreign exchange is provided by those who are willing to sell a currency they hold, including foreign currency received against export of goods and services, sale of securities to foreign nationals and receipt of gifts or contributions made by foreign nationals.**
- 👁️ **The rate of exchange is defined as the number of units of one currency exchanged against one unit of a currency of another country.**
- 👁️ **The rate of exchange is the link connecting different national currencies, making global cost and price comparison possible.**
- 👁️ **Foreign exchange is transacted in two ways: spot and forward**

# Taxation & Corporate Structuring

- ✂ The taxation structure itself can contribute to determining the nature of a global venture, and methods of financing such an operation.
- ✂ A global operation may take the form of a joint venture, a subsidiary or branches, funds may be raised internally or externally, and debt to equity ratios maintained along certain lines, all on the basis of the taxation structure.



-  Broadly, corporation tax in different jurisdictions follows one of two approaches, viz, the worldwide income tax concept and the territorial income tax concept.
-  Direct taxes are generally charged by countries on the basis of residence, domicile, place of incorporation, control and management, source of income, etc.
-  The tax havens are widely used for trusts, foundations, holding companies, investment companies, offshore funds, banking companies, reinvoicing companies and captive insurance companies.

# Global Financial Management and Information Systems



- 📞 The MIS system of global firms should be centralized and uniform as this is one area where great local flexibility is not essential
- 📞 Global companies should reckon in one major currency for global operations, such as the dollar, for uniform comparison of performances.
- 📞 Many firms do not realize the opportunities for taking advantage of global financial management functions and instead allow subsidiaries to operate at individual levels, then trying to coordinate and centralize the effort.

-  It is important to develop a comprehensive and adaptive global information system, to take maximum advantage of global operations.
-  A balance is to be maintained, not to such a point where the very purpose of the effectiveness of communications and information flow is defeated.
-  It can be done by having information pooled and analyzed as a whole to create a comprehensive global funds flow management system.

# Global Sources of Capital

⇒ Many sources of public and private funds are available to the global corporation. Multilateral lending institutions like the International Development Association, the International Bank for Reconstruction and Development and the International Finance Corporation were designed to provide financial support to less developed countries on a private as well as public basis.



⇒ The equity capital market is another available source of financing, with the three largest international stock exchanges in the world being the New York, Tokyo and London Stock Exchange.

- ≈ **Sales abroad will usually be financed by bank borrowings at home supported by export credit guarantees.**
- ≈ **Construction projects may be funded by a combination of home and foreign sources through a consortium of banks, supported sometimes by international monetary agencies like the World Bank.**
- ≈ **In areas of foreign collaboration, agents, licensees and other partners are normally financed from their national sources.**

# Mechanisms for effecting foreign exchange transactions include:

- Commercial bills of exchange
- Bank drafts
- Letters of credit
- Assured of payment
- Documents of acceptance and documents upon payment
- Floating Rate Notes
- Non-issuing facility
- Interest Rate Swaps



13.



*Environmental*

*&*

*Social Issues of*

*Globalization of Business*

# **Environmental Protection**

## **Some Suggestions from the UN**

**The World Development Report 1992 of the United Nations has made some useful suggestions which are still valid today guiding action for national policy makers in the area of environmental protection.**



# Some Suggestions from the UN

 **Build the environment into policy making**

 **Make population a priority**

 **Act first on local damage**

 **Economize on administrative capacity**

 **Assess and minimize tradeoffs**

 **Research, inform, train**

 **Prevention is cheaper than cure**

 **Adjust aid portfolios**

 **Invest in research and technological development**

 **Ensure open trade and investment**

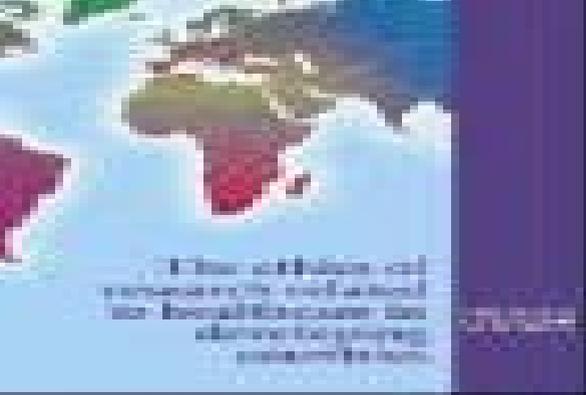
 **Pay for environmental services**



# The Role of Developed Countries

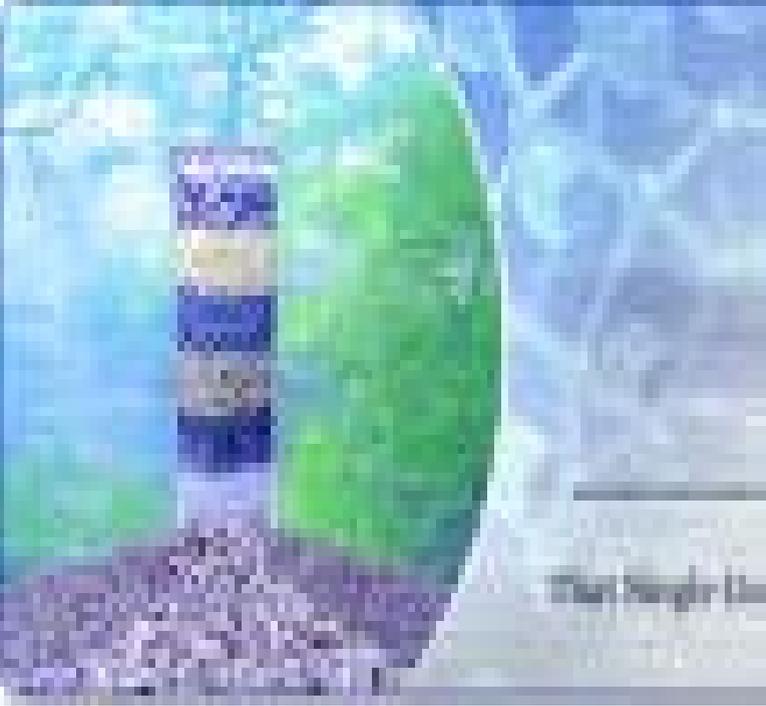
- ❖ Developed countries should provide access to less polluting technology and share environmental lessons learnt.
- ❖ Funds could be created to be used for research to conservation of natural resources and or developing alternate sources of energy.
- ❖ Developed countries can provide their developing counterparts better access to markets.





## ■ The role of developing countries

- ❖ Developing countries could enforce the most stringent laws for industries that use excessive fossil fuel, irrigated water and pesticides, and industries that deplete natural resources and cause environmental pollution.
- ❖ The governments of developing countries should structure their laws on ownership and management of land, forests and fisheries so as to minimize depletion and damage.



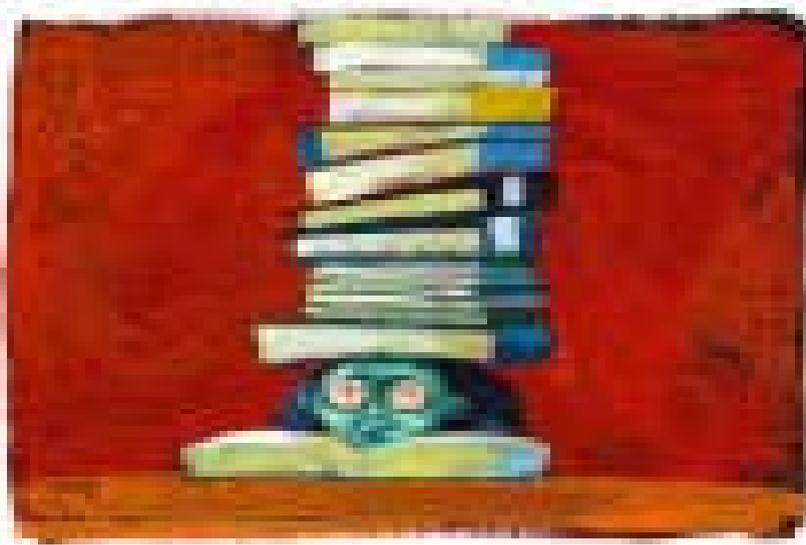
# **Global Business and Environmental Protection**

**Global business firms, in order to make their due contribution to the environmental protection of planet earth, need to follow a certain system of values and principles in respect of environmental protection.**

# Suggestions include:

- ✂ Making a commitment to environmental protection.
- ✂ Never cutting corners to save on costs and increase profits at the cost of growing environmental pollution.
- ✂ Providing pollution-free technology wherever possible.
- ✂ Creating/contributing to environmental funds/trusts and movements.
- ✂ Setting up good pollution control systems within the firm's operations.
- ✂ Using ecologically friendly materials wherever possible, and minimising consumption of depleting resources.
- ✂ Training the work force to be environmentally conscious.

# **Social Obligations of Global Firms**



- **Global firms have certain social obligations wherever they operate. They could, for example, initiate social responsibility in training workers from underprivileged groups, constructing and subsidizing housing providing school and medical facilities, providing training and infrastructural development projects, including agricultural projects, thus facilitating better socio-economic and political conditions**

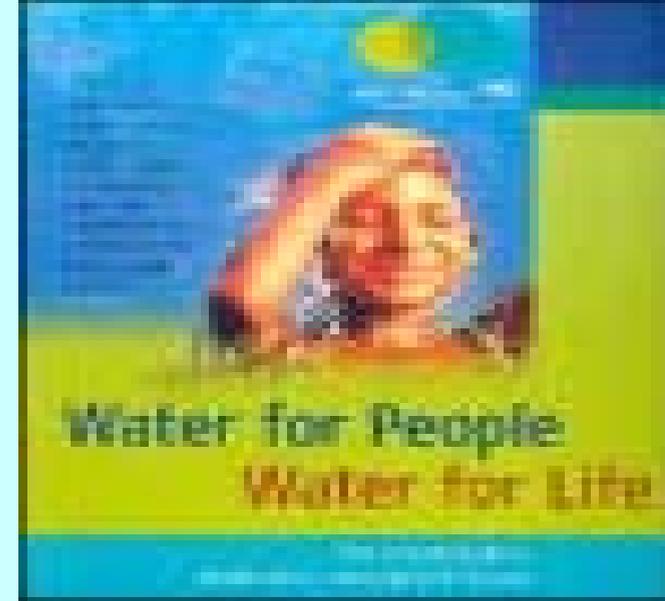
- **Activities in any area entailing a major change should be planned and should include all affected people in discussion particularly when a change in operations has a major effect on the lives of employees and communities, and on the environment.**
- **The global firm should ensure that a venture brings adequate socio-economic benefits to local society, and to people in the host country.**
- **It also must demonstrate firm commitment to bettering the lot of the local population by being a visibly good citizen.**

# World Development Reports, key recommendations.



- The next 50 years could see a fourfold increase in the size of the global economy and significant reductions in poverty but only if governments act now to avert a growing risk of severe damage to the environment and profound social unrest.
- Without better policies and institutions, social and environmental strains may derail development progress, leading to higher poverty levels and a decline in the quality of life for everybody.

- **Misguided policies and weak governance in past decades have contributed to environmental disasters, income inequality, and social upheaval in some countries, often resulting in deep deprivation, riots, or refugees fleeing famine or civil wars.**
- **Today, many poor people depend on fragile natural resources to survive.**
- **Development policies need to be more sharply focused on protecting these natural and social assets.**
- **The report suggests new alliances are needed at the local, national and global levels to better address these problems.**



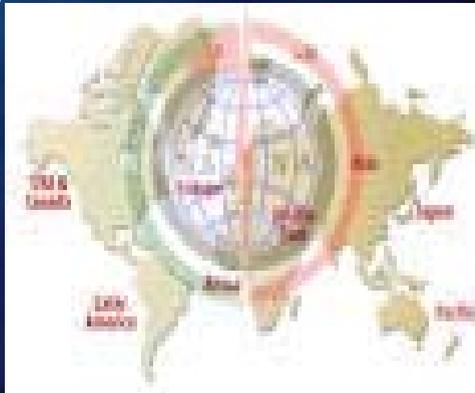
- **Making Services Work for Poor People** says that too often, key services fail poor people - in access, in quantity, in quality.
- This imperils a set of development targets known as the **Millennium Development Goals (MDGs)** which call for a halving of the global incidence of poverty, and broad improvements in human development by **2015**.

- **The report provides powerful examples of where services do work, showing how governments and citizens can do better.**
- **There have been spectacular successes and miserable failures in the efforts by developing countries to make services work.**
- **The main difference between success and failure is the degree to which poor people themselves are involved in determining the quality and the quantity of the services which they receive.**



14.

*Macro Dimensions Of  
Global Business  
In The Future*



# Evolution of Human Lifestyles



- ‡ Looking back at how man has evolved from hunter gatherer vis-a-vis business and industry.
- ‡ We find the starting point in agricultural and animal-rearing communities, where lifestyles were rural and basic in nature.
- ‡ Simple manufacturing came next for example spinning, as also weaving on very rudimentary hand looms, with a shift to semi-urban living.

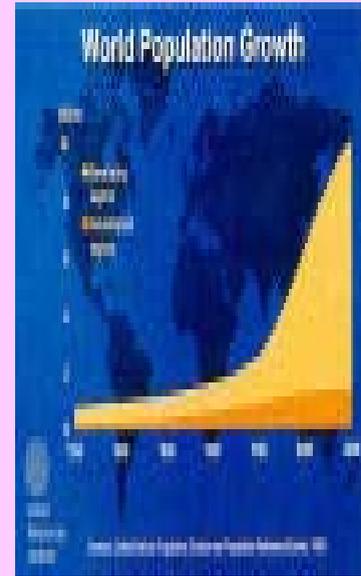
- ‡ With the industrial revolution urbanization followed.
- ‡ Manufacturing grew more sophisticated.
- ‡ As life became more complex, new needs gave rise to the services sector, with financial services and transportation.
- ‡ While urbanization continued to set the demographic direction, new trends emerged, where among the affluent even in developing countries.
- ‡ This has put pressure on government to both accelerate the pace of economic development and bridge the poverty gap which will continue to rise though absolute poverty will reduce. With the telecommunication revolution there will be a convergence of cultures.



# Future Indicators for Global Business

## World Population

The future population growth of developing countries will continue to rise despite control measures. Thus, by the middle of the next century, more than 80 percent of the world's population will be concentrated in the developing world.



## Education

Higher Levels of the literacy will be prevalent in most countries, with literacy at least up to the basic level of primary education by the middle of the next century.



## 👤 Urbanization



This is another important aspect with regard to developing countries and those that have predominantly agrarian economies. There will be a large shift of these populations in the process of urbanization, and by the middle of the century, an average about 50 percent of the population will be found in urban areas. Secondary orbit cities may be the targets of such a shift in population, and not major metropolitan cities, on account of the difficulties associated with living there. However, urbanization as a whole would be a continuing trend in the century.



## Global Awareness

With improved telecommunications and the advent of satellite TV, and the internet, national controls on information will be increasingly reduced. Happenings from all over the world will be increasingly beamed into homes everywhere dramatically increasing people's levels of knowledge and awareness.



## Capital

Developing countries will continue to be short of capital to fund their development needs. However this will also provide more attractive investment opportunities and capital will tend to flow there. Africa the last frontier for high return investment opportunities will become attractive. In the next couple of decades.



## Energy

With fluctuating oil prices with upward pressures will provide incentive for development of alternative sources of energy which are likely to make breakthroughs. Although dependence oil is unlikely to decrease, as the ongoing and increasing economic boom in developing countries will greatly increase demand for oil.

## Technology



Technological change will be the hallmark of the next century as rapid developments continue in the field of electronics, micro electronics, hydro phonics, lasers, computers, genetics, bio-technologies etc. Integration of the computer, the television and telecommunications especially hand held devices coming together, into one multi-purpose electronic unit to meet the needs of education, entertainment and communications will revolutionize these industries.

## 👤 Regionalism



With the end of the Cold War, military objectives will be based more on local, ethnic and regional requirements as opposed to global geological objectives. Thus more regional groupings will emerge and will be based on local security requirements and ethnic considerations. The clash of civilizations will be accentuated. The USA will continue to be the most major global power.

## 👤 Government Role

Governments will be proactive, catalyzing the political and economic development process as the globalization wave spreads. More and more countries will shed their 'isolationist' policies and fall into the global economic system & make more & bolder moves for openness of the economy.



## Trading blocks

For the next few decades large trading blocks will be here to stay, developing strength as individual trading barriers between countries fall. Countries will be forced to continue to improve productivity and to introduce enlightened legislation as a means of domestic competitiveness. It is expected that by the middle of the next century the trading blocks themselves will fade away into more open global trade, with the world operating more as a truly global village.



## † Free market economies

The process of the development of free market economies will be accelerated and it will be this approach to economic development which will determine the future of the world's economic systems. Large countries such as China and India have already stated to develop more rapidly with free market economies. The countries of East Europe and Latin America will also make major economic strides. Africa will be the final frontier which will follow in a couple of decades.

## ¶ Services sector

The continued increase in the importance of service sectors in both developed and developing countries globally will be another hallmark of the change in economic development and business direction.



## ¶ East-West conflict

The conflict between developed and developing countries on intellectual property rights and counter claims on the developed countries for access to their markets on issues such as farm subsidies, IPR and other issues will get resolved, with both sides negotiating as hard as possible. The WTO will play a major role in this.



## 👤 Environmental protection

- The environmental protection groups will increase their importance and influence in pressurizing both developed and developing countries for better environmental protection.
- With increased consciousness towards environmental protection, related measures will be accelerated, with greater cooperation between developed and developing countries, all doing their bit for environmental protection in spite of the conflicts and differences that exist.

- **With a view to protecting planet earth, it is expected that if not better sense and voluntary and legislative measures consumer drive will greatly increase to pressurize firms to adopt eco-friendly practices.**
- **Thus firms in the environmental protection areas of business and who follow environmentally friendly practices will flourish.**

*THANK YOU*