NOTES-BE

UNIT-5

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**UNIT-5**

**International forces in Business Environment**

**The business environment** is greatly influenced by global forces and trends that tend to define how organizations interact with customers and respond to competition. From advances in technology to religious fundamentalism, business culture has come to be defined by events dictated by these forces, leaving companies with little choice but adapt to their dynamics. Globalization has brought with it both uniformity and fierce competition. and businesses have to devise strategies that enhance compliance with prevailing market trends.

**Focus on Sustainability and the Environment**

In an effort to mitigate global warming, governments, manufacturing industries and small businesses worldwide are focusing on sustainability by encouraging environmentally friendly practices. Going green is a powerful global force that comes at a cost to small business. Every company product must have a stamp of approval proclaiming its production and disposal processes are green. The service industry must observe stringent environmental laws that add to administrative overheads. The net effect is a rise in production costs incurred by the manufacturing sector and the business community as a whole.

**Advances in Technology**

Advances in technology have led to the current global grid driven by one thing: information. Information technology is a strong force that continues to enhance communications in all sectors. Companies are wise to take advantage of various marketing platforms driven by the Internet, such as dedicated websites, social networks, smartphone apps and email. Small businesses are in a unique position to leverage the power of technology to expand their market base through affordable advertising on these media and reach a sizable number of potential customers.

**Emerging Markets**

One clear aspect of globalization has been the drive toward international commerce. Businesses are virtually interlinked, creating a powerful force in the form of a market without borders. As small business enterprises gain a global foothold, a contradiction emerges: on one end is market potential in various parts of the world; on the other, every financial catastrophe occurring in one part of the world reverberates globally. This is compounded by emerging markets that have seen an increase in manufacturing industries and buying power, and companies have to compete for raw materials and customers.

**Cultural and Religious Ideologies**

Differing ideologies can be a force that defines how businesses conduct their affairs. Ideologies seem to compete for people’s attention, time and resources. Whether political, cultural or religious, individuals hold strong convictions and are deeply committed to maintaining and defending them, sometimes by force and intimidation. Particularly for small businesses transacting outside the United States, ideologies often dictate how, when and where they conduct business; thus, they have to devise strategies for operating within this world setting. Some products or services may be decreed in some countries due to religious reasons, even if there is clear potential for the market.

**SEZ, EPZ, GATT/ WTO**

**Special Economic Zone (SEZ)**

A special economic zone (SEZ) is an area in which business and trade laws are different from the rest of the country. SEZs are located within a country’s national borders, and their aims include: increased trade balance, increased investment, job creation and effective administration. To encourage businesses to set up in the zone, financial policies are introduced. These policies typically regard investing, taxation, trading, quotas, customs and labour regulations. Additionally, companies may be offered tax holidays, where upon establishing in a zone they are granted a period of lower taxation.

The creation of special economic zones by the host country may be motivated by the desire to attract foreign direct investment (FDI). The benefits a company gains by being in a special economic zone may mean that it can produce and trade goods at a lower price, aimed at being globally competitive. In some countries the zones have been criticized for being little more than labor camps, with workers denied fundamental labor rights.

Modern SEZs appeared from the late 1950s in industrial countries. The first was in Shannon Airport in Clare, Ireland. From the 1970s onward, zones providing labour-intensive manufacturing have been established, starting in Latin America and East Asia. The first in China following the opening of China in 1979 by Deng Xiaoping was the Shenzhen Special Economic Zone, which encouraged foreign investment and simultaneously accelerated industrialization in this region. These zones attracted investment from multinational corporations.

**SEZ in India**

SEZs were introduced to India in 2000, following the already successful SEZ model used in China. Prior to their introduction, India relied on export processing zones (EPZs) which failed to make an impact on foreign investors. By 2005, all EPZs had been converted to SEZs. As of 2017, there are 221 SEZs in operation, with a further 194 approved for 2018. For developers to establish an SEZ in India, applications can be made to the Indian Board of Approval. Companies, partner firms and individuals may also apply by completing Form-A which is available on the Department of Commerce’s website. There are four types of SEZs in India, which are categorized according to size: Multi-sector (1,000+ hectares); Sector-specific (100+ hectares); Free Trade & Warehousing Zone (FTWZ) (40+ hectares); and Tech, handicraft, non-conventional energy, gems & jewellery (10+ hectares).

**Export Processing Zone (EPZ)**

An Export Processing Zone (EPZ) is a Customs area where one is allowed to import plant, machinery, equipment and material for the manufacture of export goods under security, without payment of duty. The imported goods are subject to customs control at importation, through the manufacturing process, to the time of sale/export, or duty payment for home consumption.

**Advantage of an Export Processing Zone**

* It helps to boost the manufacturing sector the country and thus leading to the creation of job.
* It helps to boost the GDP and individual income of a particular economy.
* It helps to attract company to the particular country.
* On the whole export processing zones help in welfare and development of a particular economy

**Disadvantage of an Export Processing Zone**

* Many times companies dumb their goods in the domestic market which can lead to price wars and thus hampering the health of the domestic producer
* Many companies also tend to dump their waste in the host country which can be detrimental to the environment of the country.

**Recent trends in India**

In the recent years the government has been particular to boost up the manufacturing sector of the country and thus many has launched many initiatives such as “Make in India “,” Skill India” etc. The growth story has also been fueled by the creation of export processing zone in strategic location of the country.

**Example of China**

In the recent times China has been the manufacturing hub of the world. We have seen manufacturing companies from all over the globe having their manufacturing plants in China. This has not only been fuelled by the availability of cheap labour but also by the presence of a large no of export processing zones in the country. This has booted the GDP of the country and China has been achieving a double digit growth in the recent past.

**General Agreement on Tariffs and Trade (GATT)**

General Agreement on Tariffs and Trade (GATT) was a legal agreement between many countries, whose overall purpose was to promote international trade by reducing or eliminating trade barriers such as tariffs or quotas. According to its preamble, its purpose was the “substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis.”

It was first discussed during the United Nations Conference on Trade and Employment and was the outcome of the failure of negotiating governments to create the International Trade Organization (ITO). GATT was signed by 23 nations in Geneva on 30 October 1947, and took effect on 1 January 1948. It remained in effect until the signature by 123 nations in Marrakesh on 14 April 1994, of the Uruguay Round Agreements, which established the World Trade Organization (WTO) on 1 January 1995. The WTO is a successor to GATT, and the original GATT text (GATT 1947) is still in effect under the WTO framework, subject to the modifications of GATT 1994.

**The World Trade Organization (WTO)**

The World Trade Organization (WTO) is an intergovernmental organization that regulates international trade. The WTO officially commenced on 1 January 1995 under the Marrakesh Agreement, signed by 124 nations on 15 April 1994, replacing the General Agreement on Tariffs and Trade (GATT), which commenced in 1948. It is the largest international economic organization in the world.

The WTO deals with regulation of trade in goods, services and intellectual property between participating countries by providing a framework for negotiating trade agreements and a dispute resolution process aimed at enforcing participants’ adherence to WTO agreements, which are signed by representatives of member governments and ratified by their parliaments.

The WTO prohibits discrimination between trading partners, but provides exceptions for environmental protection, national security, and other important goals. Trade-related disputes are resolved by independent judges at the WTO through a dispute resolution process.

**Functions of the World Trade Organization**

At the heart of the Organization are the WTO agreements, negotiated and signed by the bulk of the world’s trading nations. The goal is to help producers of goods and services, exporters, and importers conduct their business. The WTO’s overriding objective is to help trade flow smoothly, frets, fairly, and predictably.

With these objectives in mind, we can state the following six specific functions

(i) It shall facilitate the implementation, administration and operation of the WTO trade agreements, such as multilateral trade agreements, plurilateral trade agreements.

(ii) It shall provide forum for negotiations among its members concerning their multilateral trade relations.

(iii) It shall administer the ‘Understanding on Rules and Procedures’ so as to handle trade disputes.

(iv) It shall monitor national trade policies.

(v) It shall provide technical assistance and training for members of the developing countries.

(vi) It shall cooperate with various international organizations like the IMF and the WB with the aim of achieving greater coherence in global economic policy-making.

**Globalization Meaning, Nature and stages of Globalization, features of Globalization**

The aim of globalization is to secure socio- economic integration and development of all the people of the world through a free flow of goods, services, information, knowledge and people across all boundaries.

Globalization is seen as a conscious and active process of expanding business and trade across the borders of all the states. It stands for expanding cross-border facilities and economic linkages. This is to be done with a view to secure an integration of economic interests and activities of the people living in all parts of the world. The objective of making the world a truly inter-related, inter-dependent, developed global village governs the on-going process of globalization.

Globalization is the concept of securing real social economic, political and cultural transformation of the world into a real global community. It is considered to be the essential means for securing sustainable development of all the people of the world.

“Globalization represents the desire to move from national to a global sphere of economic and political activity”. It seeks to transform the existing international economic system into a unified system of global economics. In the existing system, national economies are the major players. In the new system, the globalized economic and political activity will ensure sustainable development for the whole world.

“Globalization is both an active process of corporate expansion across borders and a structure of cross border facilities and economic linkages that has been steadily growing and changing.” —**Edward S.Herman**

“Globalization is the process whereby social relations acquire relatively distance-less and borderless qualities.” —**Baylis and Smith**

**Nature of Globalization**

1. **Liberalization**

It stands for the freedom of the entrepreneurs to establish any industry or trade or business venture, within their own countries or abroad.

1. **Free trade**

It stands for free flow of trade relations among all the nations. Each state grants MFN (most favored nation) status to other states and keeps its business and trade away from excessive and hard regulatory and protective regimes.

1. **Globalization of Economic Activity**

Economic activities are be governed both by the domestic market and also the world market. It stands for the process of integrating the domestic economy with world economies.

1. **Liberalization of Import-Export System**

It stands for liberating the import- export activity and securing a free flow of goods and services across borders.

1. **Privatization**

Keeping the state away from ownership of means of production and distribution and letting the free flow of industrial, trade and economic activity across borders.

1. **Increased Collaborations**

Encouraging the process of collaborations among the entrepreneurs with a view to secure rapid modernization, development and technological advancement.

1. **Economic Reforms**

Encouraging fiscal and financial reforms with a view to give strength to free world trade, free enterprise, and market forces.

Globalization accepts and advocates the value of free world trade, freedom of access to world markets and a free flow of investments across borders. It stands for integration and democratization of the world’s culture, economy and infrastructure through global investments.

**Typical Stages of the Globalization of Business Companies**

1. “In the first stage of globalization, companies normally tend to focus on their domestic markets. They develop and strengthen their capabilities in some core areas.
2. In the second stage of globalization, companies begin to look at overseas markets more seriously but the orientation remains predominantly domestic. The various options a company has in this stage are exports, setting up warehouses abroad and establishing assembly lines in major markets. The company gets a better understanding of overseas markets at low risk, but without committing large amounts of resources.
3. In the third stage of globalization, the commitment to overseas markets increases. The company begins to take into account the differences across various markets to customize its products suitably. Different strategies are formed for different markets to maximize customer responsiveness. The company may set up overseas R&D centers and full-fledged country or region specific manufacturing facilities. This phase can be referred to as the multinational or multi-domestic phase. The different subsidiaries largely remain independent of each other and there is little coordination among the different units in the system.”
4. In the final stage of globalization, the transnational corporation emerges. Here, the company takes into account both similarities and differences across different markets. Some activities are standardized across the globe while others are customized to suit the needs of individual markets. The firm attempts to combine global efficiencies, local responsiveness and sharing of knowledge across different subsidiaries.

**8 Important Features of Globalization**

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1. **Several dimensions of Globalization**

Increased and Active Social, Economic and Cultural Linkages among the people. Globalization has social, economic, political cultural and technological dimensions. It involves all round inter-linkages among all the people of the world.

Free flow of knowledge, technology goods services and people across all societies is it key feature. It attempts at making geographical borders soft permitting all the people to develop their relations and links.

Globalization accepts and advocates the value of free world, free trade, freedom of access to world markets and a free flow of investments across borders. It stands for integration and democratization of the world’s culture, economy and infrastructure through global investments.

**Foreign Market entry strategies, LPG model**

There are many ways in which a Company can find a route to an overseas market. There is no single market entry that works for all International markets. For many businesses direct exporting may be the best strategy while in another it may be suitable to set up a joint venture and in another it may be effective to license the manufacturing. Many factors will determine the choice of strategy, including, but not limited to, tariff rates, the degree to which you need to adapt your product, marketing and transportation costs. These factors may well increase cost to market but it would be expected that the increase in sales will offset these costs.

The following Market entry strategies can be regarded as the main options for companies:

**Direct Exporting**

The most common form of exporting, it’s selling directly into the chosen market using your own resources initially. Many companies once they have established a sales programme turn to agents and/or distributors to represent them in that market. Distributors and Agents work closely with the company in representing the company’s interests and it’s critical that much time is spent in deciding the choice of agent / distributor. A good distributor / agent could transform chances of success in a chosen market and vice versa.

**Acquisition of an Overseas Company**

For some companies operating who want to enter a market the purchase of an existing business may be the most appropriate strategy. This may be because the company has large market share, may be a direct competitor or due to government regulation this is the only option for the company to enter the market. It will be certainly costly to acquire a business and determining the value of a company in a foreign market will require competent financial due diligence. The up-side is this market entry strategy will instantly provide the company with the standing of being a local company and will receive all the benefits of local knowledge, an established customer base and be treated by the local government as a local business.

**Licensing**

Licensing is quite a sophisticated arrangement where a firm transfers the rights to the use of a product or service to another company. It’s a particularly beneficial if the purchaser of the license has a large share in the market that the company wants to enter. Licensing can be both for marketing or production.

**Franchising**

Very common in North America it’s a process for rapid market expansion but it can be seen to be expanding globally. Franchising works particularly well for companies that have a good brand that has repeatable business. For example, food outlets which can be easily relocated into other markets. Two points of importance are required when considering using the franchise strategy. First, is that your business model should be unique or have a strong brand that can be leveraged internationally. The second is that you may run the risk of creating your future competition in your franchisee.

**Joint Ventures**

Joint Ventures are a particular form of partnership that involves creating a third independently managed company. Two companies agree to work together in a particular market, either geographic or product and create a third company to action this. Risks and profits are normally shared equally. Some good examples of a successful joint ventures are Sony/Ericsson the mobile phone company, Jaguar Land Rover sealed a joint venture with Chinese company Chery Automobile marking £1.1bn of investment into China.

**Partnering**

Partnering can be almost a necessity when companies enter certain foreign markets, for example Asia. Partnering can be a simple co-marketing arrangement or a sophisticated strategic alliance for manufacturing. Partnering can work well in those markets where the culture, both business and social is vastly different that the company’s home market. The local partners will bring local market knowledge, contacts and even potential customers.

**Turnkey Projects**

Turnkey projects are normally associated to companies that provide services such as environmental consulting, architecture, construction and engineering. A turnkey project is where the facility is built from scratch and turned over to the customer and ready to go – turn the key and the factory is operational. This can be a good way to enter foreign markets as the customer is normally a government and often the project is being financed by an international financial agency such as the World Bank so the risk of not being paid is dramatically reduced.

**Piggybacking**

Piggybacking is a fairly unique method of entering the international marketplace. If a company has a particularly interesting and unique product or service that they sell to large domestic companies who operate on foreign markets, it may be worth approaching them to see if a product or service can be included in their sales portfolio for international markets. This reduces the risk and costs because you are essentially selling domestically and the larger company is marketing your product or service for the company internationally.

**Greenfield Investments**

Greenfield investments require the greatest involvement in international business. A greenfield investment is where a company purchases the land, builds the facility and operates the business on an ongoing basis in a foreign market. It’s certainly the most costly option and holds the greatest risk but some markets may require companies to undertake the cost and risk due to government regulations, transportation costs and the ability to access technology or skilled labour.

**Liberalization, Privatization, Globalization (LPG Model)**

**Liberalization**

The basic aim of liberalization was to put an end to those restrictions which became hindrances in the development and growth of the nation. The loosening of government control in a country and when private sector companies’ start working without or with fewer restrictions and government allow private players to expand for the growth of the country depicts liberalization in a country.

**Objectives of Liberalization Policy**

* To increase competition amongst domestic industries.
* To encourage foreign trade with other countries with regulated imports and exports.
* Enhancement of foreign capital and technology.
* To expand global market frontiers of the country.
* To diminish the debt burden of the country.

**Privatization**

This is the second of the three policies of LPG. It is the increment of the dominating role of private sector companies and the reduced role of public sector companies. In other words, it is the reduction of ownership of the management of a government-owned enterprise. Government companies can be converted into private companies in two ways:

* By Disinvestment
* By Withdrawal of governmental ownership and management of public sector companies.

**Forms of Privatization**

* **Denationalization or Strategic Sale:** When 100% government ownership of productive assets is transferred to the private sector players, the act is called denationalization.
* **Partial Privatization or Partial Sale:** When private sector owns more than 50% but less than 100% ownership in a previously construed public sector company by transfer of shares, it is called partial privatization. Here the private sector owns the majority of shares. Consequently, the private sector possesses substantial control in the functioning and autonomy of the company.
* **Deficit Privatization or Token Privatization:** When the government disinvests its share capital to an extent of 5-10% to meet the deficit in the budget is termed as deficit privatization.

**Objectives of Privatization**

* Improve the financial situation of the government.
* Reduce the workload of public sector companies.
* Raise funds from disinvestment.
* Increase the efficiency of government organizations.
* Provide better and improved goods and services to the consumer.
* Create healthy competition in the society.
* Encouraging foreign direct investments (FDI) in India.

**Globalization**

It means to integrate the economy of one country with the global economy. During Globalization the main focus is on foreign trade & private and institutional foreign investment. It is the last policy of LPG to be implemented.

Globalization as a term has a very complex phenomenon. The main aim is to transform the world towards independence and integration of the world as a whole by setting various strategic policies. Globalization is attempting to create a borderless world, wherein the need of one country can be driven from across the globe and turning into one large economy.

**Outsourcing as an Outcome of Globalization**

The most important outcome of the globalization process is Outsourcing. During the outsourcing model, a company of a country hires a professional from some other country to get their work done, which was earlier conducted by their internal resource of their own country.

The best part of outsourcing is that the work can be done at a lower rate and from the superior source available anywhere in the world. Services like legal advice, marketing, technical support, etc. As the Information Technology has grown in the past few years, the outsourcing of contractual work from one country to another has grown tremendously. As a mode of communication has widened their reach, all economic activities have expanded globally.

Various Business Process Outsourcing companies or call centres, which have their model of a voice-based business process have developed in India. Activities like accounting and book-keeping services, clinical advice, banking services or even education are been outsourced from developed countries to India.

The most important advantage of outsourcing is that big multi-national corporate or even small enterprises can avail good services at a cheaper rate as compared to their country’s standards. The skill set in India is considered most dynamic and effective across the world. Indian professionals are best at their work. The low wage rate and specialized personnel with high skills have made India the most favourable destination for global outsourcing in the later stage of reformation.

**LPG Model in India**

After Independence in 1947 Indian government faced a significant problem to develop the economy and to solve the issues. Considering the difficulties pertaining at that time government decided to follow LPG Model. The Growth Economics conditions of India at that time were not very good. This was because it did not have proper resources for the development, not regarding natural resources but financial and industrial development. At that time India needed the path of economic planning and for that used ‘Five Year Plan’ concept of which was taken from Russia and feet that it will provide a fast development like that of Russia, under the view of the socialistic pattern society. India had practiced some restrictions ever since the introduction of the first industrial policy resolution in 1948.

**Liberalization** is defined as making economics free to enter the market and establish their venture in the country. **Privatization** is defined as when the control of economic is sifted from public to a private hand. **Globalization** is described as the process by which regional economies, societies, and cultures have become integrated through a global network of communication, transportation, and trade.

**MNCs: Definition, Meaning, Merits, Demerits**

**Multinational Companies (MNCs)**

A multinational company is one which is incorporated in one country (called the home country); but whose operations extend beyond the home country and which carries on business in other countries (called the host countries) in addition to the home country.

It must be emphasized that the headquarters of a multinational company are located in the home country.

IBM computer and Pepsi-Cola from U.S.A., Siemens from Germany, Sony and Honda from Japan Philips from Holland etc., are some of the MNCs operating at international levels.

According to ILO report (i.e. International Labour Organization) “The essential nature of the multinational enterprises lies in the fact that its managerial headquarters are located in one country, while the enterprise carries out operations in number of other countries’.

**Merits of MNCs**

1. **Economic Development:**The Developing countries need both foreign capital and technology to make use of available resources for economic and industrial growth. MNCs can provide the required financial, technical and other resources to needy countries in exchange for economic gains.
2. **Technology Gap:**MNCs are the instruments of transfer of technology to the host country. Technology is necessary to bring down cost of production and produce quality goods on a large scale. The services of MNCs can be of great help to bridge the technological gab between developed and developing countries.
3. **Industrial Growth:**MNCs are dynamic and offer growth opportunities for domestic industries. MNCs assist local producers to enter the global markets through their well established international network of production and marketing. And there by ensure industrial growth.
4. **Marketing Opportunities:**MNCs have access to many markets in different countries. They have the necessary skills and expertise to market products at international level. For example, an Indian Company can enter into Joint Venture with a foreign company to sell its product in the international market.
5. **Work Culture:**MNCs introduces a work culture of excellence, professionalism and fairness in deals. The sole objective of Multinational is profit Maximation. To achieve this, the Multinationals use various strategies like product innovation, technology up gradation, professional management etc.
6. **Export Promotion:**MNCs assist developing countries in earnings foreign exchange. This can be done by promoting and developing export oriented and import substitute industries.
7. **Research and Development:**The resources and experience of MNCs in the field of research enables the host country to establish efficient research and development system. It is a fact that many MNCs are now shifting their research units to countries like India to avail of monetary incentives and cheap labour.

**Demerits of MNCs**

1. **Problem of Technology:**Technology developed by MNCs from developed countries does not fully fit in the needs of developing countries. This is because, such technology is mostly capital intensive.
2. **Political Interference:**The MNCs from developed countries are criticised for their interference in the political affairs of developing nations. Through their financial and other resources, they influence the decision-making process of the governments of developing nations.
3. **Self-Interest:**MNCs work towards their own self-interest rather than working for the development of host country. They are more interested in making profits at any cost.
4. **Outflow of foreign Exchange:**The working of MNC is a burden on the limited resources of developing countries. They charge high price in the form of commission and royalty paid by local subsidiary to its parent company. This leads to outflow of foreign exchange.
5. **Exploitation:**MNCs are criticised for exploiting the consumers and companies in the host country. MNCs are financially very strong and adopt aggressive marketing strategies to sell their products, adopt all means to eliminate competition and create monopoly in the market.
6. **Investment:**MNCs prefer to invest in areas of low risk and high profitability. Issues like social welfare, national priority do not find any place on the agenda of MNCs.
7. **Artificial Demand:**MNCs are criticised on the ground that they create artificial and unwarranted demand by making extensive use of the advertising and sales promotion techniques.

**MNCs in India**

**Multinational Corporations (MNCs)** or **Transnational Corporation (TNC)**, or **Multinational Enterprise (MNE)** is a business unit which operates simultaneously in different countries of the world. In some cases the manufacturing unit may be in one country, while the marketing and investment may be in other country.

In other cases all the business operations are carried out in different countries, with the strategic head quarters in any part the world. The MNCs are huge business organizations which extend their business operations beyond the country of origin through a network of industries and marketing operations.

**Multinational Corporations in India**

MNCs have been operating in India even prior to Independence, like Singer, Parry, Philips, Unit- Lever, Proctor and Gamble. They either operated in the form of subsidiaries or entered into collaboration with Indian companies involving sale of technology as well as use of foreign brand names for the final products. The entry of MNCs in India was controlled by existing industrial policy statements, MRTP Act, and FERA. In the pre-reform period the operations of MNCs in India were restricted.

**New Industrial Policy 1991 and Multinational Corporations**

The New Industrial Policy 1991, removed the restrictions of entry to MNCs through various concessions. The amendment of FERA in 1993 provided further concession to MNCs in India.

**At present MNCs in India can**

(i) Increase foreign equity up to 51 percent by remittances in foreign exchange in specified high priority areas. Subsequently MNCs are free to own a majority share in equity in most products.

(ii) Borrow money or accept deposit without the permission of Reserve Bank of India.

(iii) Transfer shares from one non-resident to another non-resident.

(iv) Disinvest equity at market rates on stock exchanges.

(v) Go for 100 percent foreign equity through the automatic route in Specified sectors.

(vi) Deal in immovable properties in India.

(vii) Carry on in India any activity of trading, commercial or industrial except a very small negative list.

Thus, MNCs have been placed at par with Indian Companies and would not be subjected to any special restrictions under FERA.

**Criticisms against MNCs in India**

The operations of MNCs in India have been opposed on the following grounds:

(i) They are interested more on mergers and acquisitions and not on fresh projects.

(ii) They have raised very large part of their financial resources from within the country.

(iii) They supply second hand plant and machinery declared obsolete in their country.

(iv) They are mainly profit oriented and have short term focus on quick profits. National interests and problems are generally ignored.

(v) They use expatriate management and personnel rather than competitive Indian Management.

(vi) Though they collect most of the capital from within the country, they have repatriated huge profits to their mother country.

(vii) They make no effort to adopt an appropriate technology suitable to the needs. Moreover, transfer of technology proves very costly.

(viii) Once an MNC gains foothold in a venture, it tries to increase its holding in order to become a majority shareholder.

(ix) Further, once financial liberalizations are in place and free movement is allowed, MNCs can estabilize the economy.

(x) They prefer to participate in the production of mass consumption and non-essential items.

**FDI Policy**

**Foreign Direct Investment (FDI)**

Foreign Direct Investment (FDI) is one of the most important sources of non-debt foreign investment flows in developing countries like India. After the announcement of New Industrial Policy, 1991 and the current policies of liberalization, India has been experiencing an acceleration in the flow of foreign investment into the country.

**FDI Policy of Government of India**

Government of India has taken various effective steps to simplify the Foreign Direct investment policy. The Foreign Direct Investment Policy (FDI Policy) of the Government of India prescribes the foreign investment cap in specified industrial sectors. But in the recent times many activities have been transferred to unrestricted sectors in which 100% Foreign Direct investment is permitted. Broadly, the industrial sectors are categorized as:

* Restricted
* Prohibited
* Unrestricted Sectors (Up to 100% foreign ownership)

All the sectors other than those mentioned below subject to terms and conditions in the FDI policy come under unrestricted sectors for example:

* Mining (except Mining and mineral separation of titanium bearing minerals and ores, its value addition and integrated activities)
* Manufacturing related commercial activities
* Information Technology related activities
* E-commerce (permitted in marketplace model and not the inventory based model. Also, it applies only to Business to Business e-commerce and not business to consumer e-commerce)

The Government of India embarked upon major economic reforms since mid-1991 with the intension of integrating with the world economy and to emerge as a significant, player in the globalization process. As a part of economic reforms, the government made necessary promotion of foreign direct investment.

As part of extant policy, FDI up to 100 per cent is allowed, under the automatic route, in most of the sectors or activities. FDI under the automatic route does not require prior approval either by the government or the RBI. Investors are only required to notify the regional office concerned of RBI within 30 days of receipt of inward remittances and file the required documents with that office within 30 days of issue of shares to foreign investors.

Under the government approval route, approvals for FDI proposals, other than Non-resident Indians, and proposals for FDI in ‘Singh Brand’ product retailing, and Multi-Brand Retail Trading (MBRT) are received in the Department of Economic Affaires.

Proposals for FDI in ‘Singh Brand’ product retailing, MB and by NRIs are received in the Department of Industrial Policy and Promotion. These proposals are then considered by the Foreign Investment Promotion Board (FIPB) which is housed in the Department of Economic Affaires.

Foreign investments in equity capital of an Indian Company under the port-folio Investment scheme are governed by separate regulations of RBI/securities and Exchanges Board of India (SEBI). The FDI policy has been extensively liberalized progressively through review of the policy on an ongoing basis and allowing FDI in more sectors under the automatic route. Three major reviews were undertaken on the year 2000, 2006 and 2007-08. A major policy stance defining indirect foreign investment was taken in 2009.