Although foreign direct investment flows had their ups and downs, the stock of FDI has increased tremendously over time. The worldwide stock of FDI tripled from $500 billion in 1980 to $1,500 billion in 1990. At the beginning of 2000, the FDI stock amounted to more than $4.7 trillion, over 70 per cent of it being in the developed countries.

The growth of FDI has been much faster than those of domestic output, domestic investment and international trade. The average annual value of FDI increased from $6.6 billion during 1965-69 to $25.6 billion during 1975-79. After a steady upward trend in the 1970s, DFI dropped off between 1981 and 1986. However it recovered later.[10] During 1992-95 it averaged about $227 billion. In 1999 the total FDI was $1,075 billion. It increased to $1,275 billion in 2000.

TABLE 38.1 : GROWTH OF FDI

($ Billion)

	World	*Developed Countries*	*Developing Countries*	*Share of Developing Countries (%)*
1986-91 (Annual Average)	159	130	29	18
1999	1075	830	222	21
2000	1271	1005	240	19

Source: United Nations, *World Investment Report 1998 and IMF Survey, October 8, 2001.*

The economic liberalisation in many countries, including the erstwhile communist countries and countries which still claim to be communist or socialist like the Peoples Republic of China, should be expected to enlarge the FDI flows in future.

DISPERSION OF FDI

The major chunk of the FDI flows take place between the developed countries. For nearly three decades till the early 1990s, about three-quarters of the FDI have gone to the developed countries. Nearly two thirds of the flows take place between the countries of the *Triad* – the US, the European Community and Japan. In 1999, the United States and the United Kingdom were the leaders both as investors and recipients. With $199 billion, the UK became the largest outward investor in 1999, forging ahead of the US. In 1999, the inward FDI flow to USA ($276 billion) was about one-third of the world total.

The share of the FDI going to the developing countries declined substantially from 25 per cent during 1980-85 to 17 per cent during 1986-90. There was, however, an increase in the absolute amount of FDI flows to the developing countries. The economic liberalisations in the developing countries have helped increase their share of the FDI recently. According to provisional estimates, in 1997 developing countries have attracted about 38 per cent of the total FDI. Although the FDI to developing countries reached a record level of $240 billion in 2000, it was only 19 per cent of the global FDI flows, the lowest since 1991. The 30 largest host countries account for 96 per cent of world FDI in flows while 30 home countries generate around 99 per cent of outward FDI flows.

Within the group of the developing countries, the relatively developed among them get the lion's share of the FDI. Very little FDI has taken place in low income economies leaving exceptions like China and India. In most cases, this has been due to the small size of the domestic market and other adverse factors like poor infrastructure, lack of skilled labour etc.

The lion's share of the FDI flows to the developing countries has been cornered by two regions, *viz.*, East Asia and the Pacific and Latin America while Sub-Saharan/Africa, and Middle East and North Africa got very low shares. South Asia's share has been very dismal.

One traditional attraction of foreign investment, *viz.*, cheap labour, is becoming less important. Foreign investment today is not merely for exploitation of local resources. Foreign companies today evaluate the market potential and production and related facilities and their efficiencies, inter alia, for investment decision-making. Countries with large and growing markets, fairly developed infrastructures and efficient input supplies, conducive trade policies, favourable political environment, required type of manpower supplies etc. rank high for investment. An encouraging government policy alone is not sufficient. China has been able to attract huge FDI because its economic growth for quite some time now has been wonderful, it is one of the largest potential markets in the world, because of the statist policy of until recently it is virtually a virgin market for many products, the labour force is 'disciplined' by the State and China has favourable political and bureaucratic environment. Although India is not as attractive as China in terms of the above factors, its potential is enormous. FDI flows to India have, however, been discouraged by such factors as confusing political environment as reflected by the Enron controversy, agitation against certain multinationals etc. and bureaucratic problems. It may be recalled that the Motorola, disgusted by the administrative delays, has shifted to China a significant project originally earmarked for India. Countries which are at very low levels of development would not be attractive to foreign investors due to factors like constraints of domestic markets and absence of infrastructural and other input supplies of the quantity and quality needed to make the enterprises competitive.

An examination of the investment pattern of the major sources of FDI shows that they, generally, had a regional bias in their investment in the developing countries. The US investments were largely in Latin America. Japan's investments went mostly to the Asian neighbours. There has, however, been some significant changes in the Japanese investments recently. Much of the United Kingdom's investment has gone to the Commonwealth nations, and France had a favour for countries with past colonial ties, mainly Africa.

It has also been observed that direct investment is concentrated in particular economic sectors. For instance, investment by UK and German firms has been mainly in manufacturing while US and Japanese investment, although more evenly spread over the major economic sectors, has a bias towards manufacturing and primary industries; within manufacturing direct investment has been made mainly in transportation equipment, chemicals and machinery (which includes electronics).

The vast expansion of the investment opportunities across the world should be expected to encourage some changes in the directional pattern of the foreign investment flows.

Some developing countries have also emerged as important source of FDI.

PORTFOLIO INVESTMENTS

Portfolio equity flows to developing countries was conspicuous by their absence prior to 1982. The average annual portfolio flows to developing countries, which was $1.3 billion during

1983-90 shot up substantially in the 1990s. The portfolio inflows are likely to significantly increase in future, supported by such factors as further capital market liberalisation and reforms in developing countries, growth in global financial assets, growth in developing countries' exports and capacity to service foreign liabilities, industrial and general economic growth in developing countries, increased diversification of investor portfolios, growing resources of the investors and faster equity market capitalisation in developing countries.

The fact that this very small share of the total investment by the developed country portfolio investment would amount to large chunk of investment in the developing country markets has serious implications because of the high sensitivity and volatility of the portfolio investments. The Mexican crisis and the South-East Asian crisis may be remembered here. Further, large foreign portfolio investment in companies could have other implications.

CROSS-BORDER M&As

A very significant aspect of the recent FDI surge is that it is triggered to a large extent by cross-border M&As. The total value of M&As related FDI in 1999 amounted to $720 billion, representing over 80 per cent of the total FDI, compared to $342 billion in 1977 and less than 100 billion in 1987. FDI resulting from cross–border majority–held M&As increased very much faster than the total FDI flows. M&A related FDI increased to $1,100 billion in 2000.

Cross-border M&As of larger size have increased in number and value. Such mega deals worth more than $1 billion increased from 35 in 1995 to 45 in 1996 and to 58 in 1997. Cross-border mega deals of more than $3 billion were the order of the day in 1998, when 32 such deals took place – four times the figure for 1996 and more than double the number in 1997. Some of these – *e.g.*: the takeover of Amco by BP for $55 billion and the acquisition of Chrysler by Daimler-Benz for $44.5 billion – involved record amounts. These were surpassed by the IT industry's very high value M&As like those involving Time Warner and America Online ($135 billion) and Vodafone Air Touch and Mannesmann ($180 billion). By historical standards, however, the size of today's M&As may not be all that big: when, at the turn of the 19th century, the United States internal market went through a process of consolidation – perhaps not unlike what the global economy may be experiencing today – the value of the largest merger of that time, leading to the creation of US Steel, represented seven per cent of the country's GDP. The merger between BP and Amoco represented one per cent of combined GDP of the UK and USA.

As an UN report points out, one recent feature is that M&As among large or dominant TNCs, resulting in even larger TNCs, seem to impel other major TNCs to move towards restructuring or making similar deals with other TNCs. The pharmaceutical, automobile, telecommunications and financial industries are typical example of industries in which such concentration can be observed. This trend significantly changes the industry structure.In the automobile industry, *for example*, the total number of major automobile makers may well decline to 5-10 by 2010, from the 1998 figure of 15. In the pharmaceutical industry, many markets are now controlled by a small number of firms. In both these industries, there have been a string of M&As. Major M&As in the pharmaceuticals include Glaxo-SmithKline Beecham, Pfizer Warner Lambert and Hoechst-Rhone.

The trend towards M&A is also accelerating the sale of non-core operations or affiliates by firms and the acquisition of similar operations from other firms (of divisions or affiliates, or firms

FOREIGN INVESTMENT IN INDIA

The flow of direct foreign investment to India has been comparatively limited because of the type of industrial development strategy and the very cautious foreign investment policy followed by the nation.

Direct foreign investment (private) in India was adversely affected by the following factors.

1. The public sector was assigned a monopoly or dominant position in the most important industries and, therefore, the scope of private investment, both domestic and foreign, was limited.
2. When the public sector enterprises needed foreign technology or investment, there was a marked preference for the foreign government sources.
3. Government policy towards foreign capital was very selective. Foreign investment was normally permitted only in high technology industries in priority areas and in export-oriented industries.
4. Foreign equity participation was normally subject to a ceiling or 40 per cent, although exceptions were allowed on merit.
5. Payment of dividends abroad, repatriation of capital, etc., as well as inward remittances were subject to stringent laws like the Foreign Exchange Regulation Act (FERA), 1973. These discouraged foreign investment.
6. Corporate taxation was high and tax laws and procedures were complex.

These factors either limited the scope of or discouraged the foreign investment in India.

Government Policy

The following paragraphs give a very brief account of Government of India's policy towards foreign capital and technology. First, the salient features of the policy followed till the economic liberalisation introduced in July 1991 are given. This is followed by an account of the new policy.

India was following a very restrictive policy towards foreign capital and technology. Foreign collaboration was permitted only in fields of high priority and in areas where the import of foreign technology was considered necessary. In other areas, import of technology was considered on merits if substantial exports were guaranteed over a period of 5 to 10 years and if there were reasonable proposals for such exports. The government had issued lists of industries where:

(a) *(i)* Foreign investment may be permitted.

(ii) Only foreign technical collaboration (but no foreign investment) may be permitted.

(b) No foreign collaboration (financial or technical) was considered necessary.

The government policy on foreign equity participation was, thus, selective. Such participation had to be justified with regard to factors such as the nature of technology involved, whether it would promote exports which might not otherwise take place and the alternative terms available for securing the same or similar technological transfers. Foreign equity participation was limited to 40 per cent, although exceptions were allowed on merit. The foreign share capital was to be by way of cash without being linked to tied imports of machinery and equipment or to payments for know how, trade marks, brand names, etc.

Technical collaborations were to be considered on the basis of annual royalty payments which were linked with the value of actual production. The percentage of royalty was dependent on the nature of technology. Whenever possible, the payment of fixed amount of royalty per unit of production was preferred. Royalty payments were limited to a period of 5 years.

The *Foreign Exchange Regulation Act* (FERA), 1973, served as a tool for implementing the national policy on foreign private investment in India. The FERA empowered the Reserve Bank of India to regulate or exercise direct control over the activities of foreign companies and foreign nationals in India. A foreign company was defined as one (other than a banking company) which was not incorporated in India or in which non-resident interest was more than 40 per cent or any branch of such a company.

According to the FERA, non-residents (including Indian citizens), foreign citizens resident in India and foreign companies required the permission of the RBI to accept appointment as agents or technical management advisers in India, of any person or company, or permit the use of their trade marks.

The trading, commercial and industrial activities in India of persons resident abroad, foreign citizens in India and foreign companies were regulated by the FERA. They had to obtain permission from the RBI for carrying on in India any activity of a trading, commercial or industrial nature; opening branches/offices or other places of business in India' acquiring any business undertaking in India; and purchasing shares of Indian companies.

RBI had given general permission for certain matters. *For example*, general permission was granted to foreign companies to acquire or hold any immovable property in India which was necessary for, or incidental to, any activity undertaken by them with the permission of the RBI.

The New Policy

The Industrial policy statement of July 24, 1991, which observes that while freeing the Indian economy from official controls, opportunities for promoting foreign investment in India should also be fully exploited has liberalised the Indian policy towards foreign investment and technology.

As pointed out earlier, in the pre-liberalisation era, foreign equity participation was restricted normally to 40 per cent and foreign investment and technology agreements needed prior approval. As against this, the new policy has allowed majority foreign equity with automatic approval in a large number of industries.

The new policy has also made the import of capital goods automatic provided the foreign exchange requirement for such import is ensured through foreign equity.

Salient features of initiatives under the new policy includes the following.

Foreign investment in most of the industries is now eligible for automatic approval route (*i.e.*, no prior approval of the government/RBI is required).

Until December 1996, only 36 industries as mentioned in the Annexure III of the Industrial Policy Statement of July 1991 were eligible for automatic approval of FDI up to 51 per cent of the total equity. The automatic route has subsequently been expanded very significantly and now there are different categories of industries on the basis of the ceiling of foreign equity participation, viz.

1. Industries in which FDI does not exceed 26 per cent.
2. Industries in which FDI does not exceed 50 per cent.
3. Industries in which FDI does not exceed 51 per cent.

TABLE 38.3 : FDI AS PERCENTAGE OF GDP

Country	*1989*	*1999*
Argentina	4.0	11.3
Brazil	1.1	6.7
China	0.6	2.4
Indonesia	0.4	2.4
South Korea	3.3	9.1
Malaysia	4.2	7.1
Mexico	1.4	4.5
Pakistan	0.6	1.4
Thailand	3.8	4.9
India	**0.3**	**0.6**
USA	7.4	13.4
UK	37.6	66.1
Switzerland	34.4	139.2
Japan	11.1	30.9
Germany	10.4	36
Canada	7.8	15.1

Source: World Development Indicators, 2001 (Cited by "Fact File: India and the World"), *The Hindu*, September 10, 2001.

FOREIGN INVESTMENT BY INDIAN COMPANIES

Until 1991, Indian companies made very little investment abroad. Although Government of India's policy had been one of encouraging foreign investment by Indian companies, subject to certain conditions, several factors like the domestic economic policy and the domestic economic situation were deterrents to foreign investment by Indian companies.

By restricting the areas of operation and growth, the government policy seriously constrained the potential of Indian companies to make a foray into the foreign countries through investment. Added to this was the attraction of the protected domestic market which was, in many cases, a seller's market and this made the Indian companies to ignore the foreign markets.

Indian companies have established subsidiaries and joint ventures in a number of countries in different manufacturing industries and service sectors.

The new economic policy of India is expected to encourage foreign investments by Indian companies. The curbs on growth, even by mergers and acquisitions, have been removed, financing restrictions have been eased, areas of business opened to the private sector companies have been substantially enlarged and foreign tie up policies have been liberalised. Further, domestic market is becoming increasingly competitive. All these factors should encourage the Indian companies to invest in other countries and take advantage of the economic liberalisation in many countries.

The investment limits for automatic clearance are too small and there is an urgent need for a substantial upward revision.

In light of the economic liberalisation and the growing competition at home, many Indian companies have been planning for a major thrust abroad.

Recent reports indicate that many Indian companies are eager to invest abroad. Several companies have also been relocating production facilities abroad or prefer foreign countries to India for further expansion. This, perhaps, is an alarm bell. See Box 38.4.

BOX 38.4 : GLOBALISATION OR CAPITAL FLIGHT?

If you are positively inclined, you could call this the arrival of the Indian multinational. Indian capital is moving out of the country. At times it is for the sake of globalisation—a strategic shift to come closer to their markets. But more often it is sheer exasperation with the trying business condition in the country—poor infrastructure, obstinate pools of red tape, and sluggish demand throwing up few investment opportunities. Here is the evidence of how capital is moving out of the country. By the end of December '99, 1,021 Indian companies had formed JVs in 91 countries worldwide. By '99-00, another 110 companies had located their manufacturing bases abroad, investing $111 million in hard cash. This outward shift of capital by large companies—and now, by a number of medium-sized companies—comes against the backdrop of an economic slowdown and weak sentiments about the government's ability to act.

Courtesy: Shalini Singh, "Stiffled at home, Indian companies search out happening spots", *The Economic Times*, 11 June, 2001.

SUMMARY

Encouraged by the favourable business environment fostered by the global liberalisation, the international private capital flows have been increasing rapidly. Cross-border M&As have been the major driver of the recent surge in the FDI.

Foreign capital now contributes a significant share of the domestic investment, employment generation, industrial production and exports in a number of economies, including China.

Broadly, there are the following two types of foreign investment;

- Foreign direct investment (FDI) where the investor has control over / participation in the management of the firm.
- Portfolio investment the investor has only a sort of property interest in investing the capital in buying equities, bonds, or other securities abroad. In the case of portfolio investments, the investor uses his capital in order to get a return on it, but has no much control over the use of the capital. The major portfolio investment in the Indian capital market is by the foreign institutional investors (FIIs).

Broadly there are three economic motives of FDI, *viz.*, resources seeking (*e.g.*, exploiting the natural resources of the host country); market seeking (*i.e.*, to exploit the market opportunities of the host countries) and efficiency seeking (like low cost of production deriving from cheap labour).

The presence of any (or even all) of these determinants alone need not attract FDI. Several other factors like the political environment, government policies, bureaucratic culture, social climate, infrastructural facilities etc. are also important determinants of FDI.

The controversial Foreign Exchange Regulation Act (FERA), 1973, required the foreign companies in India to dilute the foreign equity holding to 40 per cent (exceptions were allowed in certain cases like high technology and export oriented sectors).

An often heard criticism is that multinationals drain the foreign exchange resources of the developing countries. However, Aiyar's study indicates that, contrary to the popular belief, foreign companies are less of a drain on foreign exchange reserves than Indian ones. He also points out that the public sector has a higher propensity to use foreign exchange on a net basis than multinationals. In fact, the foreign exchange outgo of the public sector alone is greater than the entire trade deficit of the country.[15]

It is not a right approach to estimate the net impact of multinationals on the foreign exchange reserves by taking the net foreign exchange outflow or inflow. If a multinational is operating in an import substitution industry, the net effect on the foreign exchange reserves could be favourable even if there is a net foreign exchange outflow by the company.

Multinationals in several developing countries make substantial contribution to export earnings. The performance in the case of India has, however, been very dismal. This is attributed mostly to the Government policy. "We have consistently followed policies in India that discriminate against export production and in favour of production for the local market. In this milieu it has not made sense for the Indian private sector or public sector to focus on exports. Naturally, it has not made sense for foreign companies either. In 1947, foreign companies did not have an anti-export image. Indeed, the most prominent ones were engaged in the export of tea and jute manufactures. Only after Jawaharlal Nehru decided to emphasise import-substitution at the expense of exports did foreign (and Indian) companies shun exports.[16]

Although export promotion has been pursued since the Third Plan, the highly protected domestic market and the unrealistic exchange rate made the domestic market much more attractive than exports. However, since the mid 1980s with the economic liberalisation that increased domestic competition and the steady depreciation of the rupee, exports began to become attractive and several foreign companies and companies with foreign participation, as well as Indian companies, have become serious about exports. This was reflected in the acceleration of the export growth.

The new policy is expected to give a considerable impetus for MNC's investment in India. However, foreign companies find the policy and procedural environment in India still so perplexing and disgusting that a multinational, Motorola, even shifted some of the projects, originally earmarked for India, to China where the Government environment is much more conducive.

Since the economic liberalisation ushered in 1991, many multinationals in different lines of business have entered the Indian market. A number of multinationals which were in India prior to this have expanded their business.

SUMMARY

The transnational corporations (TNCs), with their large number of foreign affiliates and a plethora of inter-firm arrangements, spans virtually to all countries and economic activities, rendering it a formidable force in today's world economy.

There is no universally accepted definition of the term, multinational corporation. As an ILO report observes, "the essential nature of the multinational enterprises lies in the fact that its managerial headquarters are located in one country (referred to for convenience as the ("home country") while the enterprise carries out operations in a number of other countries as well ("host countries"). Obviously, what is meant is a corporation that controls production facilities in more than one country, such facilities having been acquired through the process of foreign direct investment. Firms that participate in international business, however large they may be, solely by exporting or by licensing technology are not multinational enterprises."

MNCs have been spreading and growing across the globe very rapidly. Although the MNCs from the developed countries still dominate the scene, more and more MNCs are emerging from the developing countries.

The world's top 100 (non-financial) TNCs, based almost exclusively in developed countries, are the principal drivers of international production. The universe of TNCs, however, is quite diverse, and includes a growing number of small and medium-sized enterprises.

As a result of the liberalizations, MNCs have been spreading fast in the developing countries. Most of the foreign affiliates of the MNCs are in the developing countries are in the developing countries, China alone hosting about one-third of the total number.

MNCs help the host countries to increase domestic investment and employment generation, boost exports, transfer technology and accelerate economic growth.

While the host countries can reap several benefits from the MNCs, these giants pose many problems particularly to the developing countries. They may destroy domestic firms through unfair competition, acquire market dominance through acquisition of domestic firms or other means. The MNC's technology which is designed for worldwide profit maximization may not adapt to the consumption needs, the size of domestic markets, resource availabilities, and the stage of development of many of the developing countries. They may cause fast depletion of some of the non-renewable natural resources in the host country. The transfer pricing may be so designed as to avoid or minimise taxes. All these emphasise the need for a code of conduct for the MNCs and an effective competition policy and law in the host countries. Several MNCs are also accused of political manoeuvering and neglect of human rights.

The liberalization has paved the way for easy entry and growth of MNCs in India. At the same time a number of Indian firms have been becoming multinational.

REFERENCES

1. ILO, *Multinational Enterprises and Social Policy*, ILO, Geneva, 1973, p. 3.
2. Leonard Gomes, *International Economic Problems*, Macmillian Press Ltd., London, 1978, p. 119.
3. Roger Bennett, *International Business*, Addison Wesley Longman, Delhi, 2000, p. 162.
4. Christopher A Bartlett and Sumantra Ghoshal, *Managing Across Borders*, Boston, Harvard Business School Press, 1998.

transnational. According to Drucker, the transnational economy is characterised by, inter alia, the following features.[3]

1. The transnational economy is shaped mainly by money flows rather than by trade in goods and services. These money flows have their own dynamics. The monetary and fiscal policies of sovereign Governments increasingly react to events in the international money and capital markets rather than actively shape them.
2. In the transnational economy management has emerged as the decisive factor of production and the traditional factors of production, land and labour, have increasingly become secondary. Money and capital markets too have been increasingly becoming transnational and universally obtainable. Drucker, therefore, argues that it is management on which competitive position has to be based.
3. In the transnational economy the goal is market maximisation and not profit maximisation.
4. Trade, which increasingly follows investment, is becoming a function of investment.
5. The decision making power is shifting from the national state to the region (*i.e.*, the regional blocs like the European Community, North American Free Trade Agreement, etc.)
6. There is a genuine — and almost autonomous — world economy of money, credit and investment flows. It is organised by information which no longer knows national boundaries.
7. Finally, there is a growing pervasiveness of the transnational corporations which see the entire world as a single market for production and marketing of goods and services.

There are, thus, many factors which tend to promote the transnationalisation of the world economy. The multilateral trade negotiations under the auspices of GATT/WTO have been liberalising trade and investment.

A growing proportion of the world output is traded internationally and the faster growth of trade, than the GDP, is bringing about world economic integration. This economic integration is reinforced by the massive cross-border capital flows. The progress of the regional blocs increasingly integrate the regional economies..

BOX 40.1 : DRIVERS OF GLOBALISATION

In general, globalization represents the increasing integration of the world economy, based on five interrelated drivers of change:

- International trade (lower trade barriers and more competition)
- Financial flows (foreign direct investment, technology transfers/licensing, portfolio investment, and debt)
- Communications (traditional media and the Internet)
- Technological advances in transportation, electronics, bioengineering and related fields
- Population mobility, especially of labor

Each of these drivers of change has accelerated in recent years and each reinforces the other.

Courtesy : John D Sullivan, *"Preparing in the Global Economy", Economic Reform Today, No.1,* 2000.

GLOBALISATION OF BUSINESS

Meaning and Dimensions

Globalisation in its true sense is a way of corporate life necessitated, facilitated and nourished by the transnationalisation of the World economy and developed by corporate strategies. Globalisation is an attitude of mind - it is a mind-set which views the entire world as a single market so that the corporate strategy is based on the dynamics of the global business environment. International marketing or international investment does not amount to globalisation unless it is the result of such a global orientation.

Globalisation encompasses the following:

- Doing, or planning to expand, business globally.
- Giving up the distinction between the domestic market and foreign market and developing a global outlook of the business.
- Locating the production and other physical facilities on a consideration of the global business dynamics, irrespective of national considerations.
- Basing product development and production planning on the global market considerations.
- Global sourcing of factors of production, *i.e.*, raw materials, components, machinery/ technology, finance etc., are obtained from the best source anywhere in the world.
- Global orientation of organisational structure and management culture.

Companies which have adopted a global outlook stop "thinking of themselves as national marketers who venture abroad and start thinking of themselves as global marketers. The top management and staff are involved in the planning of world-wide manufacturing facilities, marketing policies, financial flows and logistical systems. The global operating units report directly to the chief executive or executive committee, not to the head of an international division. Executives are trained in worldwide operations, not just domestic or international. Management is recruited from many countries, components and supplies are purchased where they can be obtained at the least cost, and investments are made where the anticipated returns are the greatest."[4]

A truly global corporation views the entire world as a single market - it does not differentiate between domestic market and foreign markets. In other words, there is nothing like a home market and foreign market - there is only one market, the global market.

As Kenichi Ohmae observes in his well known book *The Borderless World,* a global corporation develops a genuine equidistance of perspective. That is, managers with a truly global orientation consciously try to set plans and build organisations as if they view all key customers equidistant from the corporate centre. *For example,* the managers of Honda, which has operations in several parts of the world, do not think or act as if the company were divided between Japanese and overseas operations. Indeed, the every word "overseas" has no place in Honda's vocabulary because the corporation sees itself as equidistant from all its key customers. At Casio, the 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.[5]

Multinationals develop integrated international production logistics and marketing system. The *production sharing* between various units in different countries. *For example*, about two thirds of Toyota's total business is outside Japan. More than half of its vehicles sold overseas is

In the fifth stage, the company moves toward a genuinely global mode of operation. In this context Ohmae points out that a company's ability to serve local customers in markets around the globe in ways that are truly responsive to their needs as well as to the global character of its industry depends on its ability to strike a new organisational balance. What is called for is what Akio Morita of Sony has termed *global localisation*, a new orientation that simultaneously looks in both directions.

Getting to stage five, however, means venturing onto new ground altogether. Ohmae argues that to make this organisational transition, a company must denationalise their operations and create a system of values shared by corporate managers around the globe to replace the glue a nation based orientation once provided.

Ohmae further observes[7] that today's global corporations are nationalityless because consumers have become less nationalistic. True global corporations serve the interests of customers, not Governments. They do not exploit local situations and then repatriate all the profits back home, leaving each local area poorer for their having been there. They invest, they train, they pay taxes, they build up infrastructure and they provide good value to customers in all the countries where they do business. IBM Japan, for instance, has provided employment to about 20,000 Japanese and over the past decade has provided three times more tax revenue to the Japanese Government than has the Japanese company Fujitsu.[8]

Many firms across the world has ambitious plans to become global.

ESSENTIAL CONDITIONS FOR GLOBALISATION

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

Business Freedom: There should not be unnecessary Government restrictions which come in the way of globalisation, like import restriction, restrictions on sourcing finance or other factors from abroad, foreign investments etc. That is why the economic liberalisation is regarded as a first step towards facilitating globalisation.

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

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

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

Competitiveness: The competitive advantage of the company is a very important determinant of success in global business. A firm may derive competitive advantage from any one or more of the factors such as low costs and price, product quality, product differentiation, technological superiority, after sales service, marketing strength etc. Sometimes small firms may have an edge over others in certain aspects or times of business.

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

FOREIGN MARKET ENTRY STRATEGIES

One of the most important strategic decisions in international business is the mode of entering the foreign market. On the one extreme, a company may do the complete manufacturing of the product domestically and export it to the foreign market. On the other extreme, a company may do, by itself, the complete manufacturing of the product to be marketed in the foreign market there itself. There are several alternatives in between these two extremes. The choice of the most suitable alternative is based on the relevant factors related to the company and the foreign market.

In some cases, the alternatives available may also be limited. *For example*, the policy of some governments may not be very positive towards foreign investments. Several governments have a definite preference for joint ventures over complete foreign ownership. In some cases, the government may prefer foreign investment leading to import substitution to perpetual import of a product. Thus, in some cases, government policies may rule out the best alternative if the environment were free.

Important foreign market entry strategies are the following.

1. Exporting
2. Licensing / franchising
3. Contract manufacturing
4. Management contract
5. Assembly operations
6. Fully owned manufacturing facilities
7. Joint venturing
8. Countertrade
9. Mergers and acquisitions
10. Strategic alliance
11. Third country location

Exporting

Exporting, the most traditional mode of entering the foreign market, is quite a common one even now. International trade has been growing much faster than the world output resulting in greater world economic integration.

Exporting is the appropriate strategy when one of more of the following conditions prevail.

1. The volume of foreign business is not large enough to justify production in the foreign market.
2. Cost of production in the foreign market is high.
3. The foreign market is characterised by production bottlenecks like infrastructural problems, problems with materials supplies etc.
4. There are political or other risks of investment in the foreign country.

small scale sector is much lower than in the large scale sector for many products because of the lower wages, lower overheads, and tax concessions. More over, if excess capacities are available with existing units, it may even be possible to get the product supplied on the marginal cost basis.

5. Contract manufacturing also has the advantage that it is a less risky way to start with. If the business does not pick up sufficiently, dropping it is easy; but if the company had established its own production facilities, the exit would be difficult. Moreover, contract manufacturing may enable the international firm to enlist national support.

Contract manufacturing, however, has the following disadvantages.

1. In some cases, there will be the loss of potential profits from manufacturing.
2. Less control over the manufacturing process.
3. Contract manufacturing also has the risk of developing potential competitors.
4. It would not be suitable in cases of high-tech products and cases which involve technical secrets etc.

Management Contracting

Under the management contract, the firm providing the management know-how may not have any equity stake in the enterprise being managed. In short, in a management contract the supplier brings together a package of skills that will provide an integrated service to the client without incurring the risk and benefit of ownership Thus, as Kotler observes, management contracting is a low-risk method of getting into a foreign market and it starts yielding income right from the beginning. The arrangement is especially attractive if the contracting firm is given an option to purchase some shares in the managed company within a stated period."[11]

Management contract could, sometimes, bring in additional benefits for the managing company. It may obtain the business of exporting or selling otherwise of the products of the managed company or supplying the inputs required by the managed company.

Management contract enables a firm to commercialise existing know-how that has been built up with significant investments and frequently the impact of fluctuations in business volumes can be reduced by making use of experienced personnel who otherwise would have to be laid off.[12]

Management contracts, obviously, have clear benefits for the clients. "They can provide organisational skills not available locally, expertise that is immediately available rather than built up, and management assistance in the form of support services that would be difficult and costly to replicate locally."[13]

Management contracts have disadvantages under certain conditions. As Kotler observes, the arrangement is not sensible if the company can put its scarce management talent to better use, or if there are greater profits to be made by undertaking the whole venture. Management contract may prevent a company from setting up its own operations for a particular period.

One possible risk from the point of view of the client is overdependence and loss of control. The client should enable itself to steadily develop its own capabilities.

Some Indian companies – Tata Tea, Harrisons Malayalam and AVT – have contracts to manage a number of plantations in Sri Lanka. Tata Tea also has a joint venture in Sri Lanka namely Estate Management Services Pvt. Ltd.

Turnkey Contracts

Turnkey contracts are common in international business in the supply, erection and commissioning of plants, as in the case of oil refineries, steel mills, cement and fertilizer plants etc; construction projects and franchising agreements.

"A turnkey operation is an agreement by the seller to supply a buyer with a facility fully equipped and ready to be operated by the buyer's personnel, who will be trained by the seller. The term is sometimes used in fast - food franchising when a franchiser agrees to select a store site, build the store, equip it, train the franchisee and employees and sometimes arrange for the financing".[14]

Many turnkey contracts involve government/public sector as buyer (or seller in some cases)

A turnkey contractor may subcontract different phases/parts of the project.

Wholly Owned Manufacturing Facilities

Companies with long term and substantial interest in the foreign market normally establish fully owned manufacturing facilities there. As Drucker points out, "it is simply not possible to maintain substantial market standing in an important area unless one has a physical presence as a producer."[15]

A number of factors like trade barriers, differences in the production and other costs, government policies etc., encourage the establishment of production facilities in the foreign markets

Establishment of manufacturing facilities abroad has several advantages. It provides the firm with complete control over production and quality. It does not have the risk of developing potential competitors as in the case of licensing and contract manufacturing.

Wholly owned manufacturing facility has several disadvantages too. In some cases, the cost of production is high in the foreign market. There may also be problems such as restrictions regarding the types of technology, non-availability of skilled labour, production bottlenecks due to infrastructural problems etc. If the market size is small, a separate production unit for the market may be uneconomical. Foreign investment also entails political risks.

Fully owned enterprises may not be allowed or favoured in some countries, particularly in low priority areas.

Moreover, this method demands sufficient financial and managerial resources on the part of the company.

Assembly Operations

As Miracle and Albaum point out, a manufacturer who wants many of the advantages that are associated with overseas manufacturing facilities and yet does not want to go that far may find it desirable to establish overseas assembly facilities in selected markets. In a sense, the establishment of an assembly operation represents a cross between exporting and overseas manufacturing.[16]

Having assembly facilities in foreign markets is very ideal when there are economies of scale in the manufacture of parts and components and when assembly operations are labour intensive and labour is cheap in the foreign country. It may be noted that a number of U.S. manufacturers ship the parts and components to the developing countries, get the product assembled there and bring it back home. The U.S. tariff law also encourages this. Thus, even products meant to be marketed domestically are assembled abroad.

in countertrade due to certain specific advantages, although some of the benefits may be purely temporary.

1. Countertrade was very common between the communist countries. It also became popular in respect of trade between the Communist Block and many developing countries because many developing countries were eagerly looking towards this block for increasing their exports, among other things, and this naturally led to the acceptance of the trade practice preferred by these centrally planned economies.
2. Countertrade became popular in the East-West trade mainly due to the foreign exchange problems faced by the East Block. Pepsi Cola is just one example of a multinational corporation which made considerable international business with the USSR by countertrade.
3. When the foreign exchange problem became more severe for the developing countries following the oil price hikes, they began to actively pursue countertrade in a frantic bid to increase their exports by all means.
4. Many companies in the advanced countries have resorted to countertrade for various reasons like selling obsolete products, increasing the sale of capital goods, increasing the aggregate business etc. Countertrade has also been resorted to by several companies to mitigate the effects of recession. Such recessionary situations in the capital goods industries in the advanced countries gave the developing countries an opportunity to push their exports by tying the imports of capital goods with exports by countertrade.
5. The results of the above survey also suggest that countertrade enables firms to penetrate difficult markets, to increase sales volume and to achieve fuller capacity utilisation. It has also been revealed that countertrade enables firms to dispose of declining products, which is particularly important given the very rapid pace of technological advance.
6. Some countries have also made the countertrade a means to increase sales through disguised undercutting of the cartel prices (*for example,* the oil price fixed by the OPEC).
7. Having realised the potential of increasing the business by engaging in countertrade, many international trading corporations became active in the countertrade. Their trading with many countries enabled them even to take up such complex transactions as the case of Daimler Benz cited earlier.

Drawbacks

Although countertrade has several justifications, particularly in the short run, it suffers from a number of disadvantages and problems, particularly in the long run.

Firstly, countertrade encourages bilateralism at the expense of multilateralism.

Secondly, it adversely affects export market development.

Thirdly, although several developing countries regard countertrade as an easy route to export, they often stand to lose in terms of price. For instance, Poland bought Libyan oil at a discount and sold it at a higher price on the Rotterdam spot market.

Fourthly, it very adversely affects competition.

More details of some of the foreign market entry strategies are available in the author's *International Marketing* (Himalaya Publishing House) and *International Business* (Wheeler Publishing).

PROS AND CONS OF GLOBALISATION

While globalisation has several benefits, it has a number of problems.

While developing countries which, in the past, were against globalisation, have wide opened their doors for globalisation, many people in developed countries like U S A are angry against globalisation. American jobs and wage levels are severely affected by the influx of cheap imports and shifting of production to low cost overseas locations. According to a *Business Week*/Harris poll [21] in early 2000, more than two-thirds of Americans believe that globalisation drags down U S wages. A strong majority of the Americans feel that trade policies have not adequately addressed the concerns of American workers, international labour standards, or the environment. The important pros and cons of globalisation according to the above survey are the following. Productivity grows more quickly when countries produce goods and services in which they have comparative advantage. Living standards can go up faster.

- Global competition and imports keep a lid on prices, so inflation is less likely to derail economic growth.
- An open economy spurs innovation with fresh ideas from abroad.
- Export jobs often pay more than other jobs.
- Unfettered capital flows give the US access to foreign investment and keep interest rates low.
- The adverse effects of globalisation according to the survey are:
- Millions of Americans have lost jobs due to imports or production shifts abroad. Most find new jobs that pay less.
- Millions of others fear losing their jobs, especially at those companies operating under competitive pressure.
- Workers face pay cut demands from employers, which often threaten to export jobs.
- Service and white collar jobs are increasingly vulnerable to operations moving offshore.
- U S employees can lose their comparative advantage when companies build advanced factories in low-wage countries, making them as productive as those at home.

True, globalisation can benefit the developing countries in several ways. It is, however, apprehended that unregulated globalisation will cause serious problems for developing countries.

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

The global dominance of industries by MNCs is on the increase. Many countries are indiscriminate in liberalising foreign investment. Pepsi, Coke and "junk foods" are allowed even in countries like China.

A number of countries allow high foreign stake even in industries where that is not really required. This could affect domestic enterprise of developing countries.

There has been a large number of cases of takeover of national firms by foreign firms. In some of these cases, the domestic firms are driven to a situation of having to hand over the majority or complete equity to the foreign partners of joint ventures because of the inability of the Indian partners to bring in additional capital or some other incapability.

POLICY OPTIONS

With a view to minimising the damages and maximising the opportunities of globalisation from the macro socioeconomic point of view, the *Human Development Report 1997* of the UNDP has made to following policy suggestions.

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

The Report also points out that to seize the opportunities of globalisation, the poorest developing countries need the following.

1. *A more supportive macroeconomic policy environment for poverty eradication.* The world clearly needs much more effective macroeconomic policy management at the global level—with more stable sources of international liquidity, better surveillance, faster crisis response mechanisms and a larger multinational lender of last resort. Existing organisations serve these purposes inadequately.
2. *A fairer institutional environment for global trade.* There is an urgent need to treat the products of developing countries on a par with those of industrial countries—and to accelerate the liberalisation of markets of interest to poor countries, such as textiles, and institute a comprehensive ban on dumping agricultural exports.
3. *A partnership with multinational corporations to promote growth for poverty reduction.* An incentive system that, while avoiding excessive regulation, encourages multinational corporations to contribute to poverty reduction and be publicly accountable and socially responsible. Both industrial and developing countries have interests here. Those of the industrial include preventing tax evasion.
4. *Action to stop the race to the bottom.* In a world of cutthroat competition, countries underbid each other in labour costs, labour standards and environmental protection—to produce as cheaply as possible for the international market. Many countries unilaterally try to restrain these races to the bottom. And some may come under external pressure if they tolerate dangerous working conditions and child labour, with human rights issues a basis for unilateral trade sanctions. A more efficient and equitable approach would be to strengthen institutions such as the International Labour Organisation—to support respect for labour right—and to develop similar institutions for international environmental protection. International coordination is also needed to avoid races to attract international investors by offering overly generous tax incentives that erode the tax base.
5. *Selective support for global technology priorities.*
6. *Action on global debt.* The highly indebted poor countries need debt relief now — not at some indeterminate point in the future. Providing effective relief to the 20 worst-affected countries would cost between $ 5.5 billion and $ 7.7 billion—less than the cost of one Stealth bomber and roughly equivalent to the cost of building the Euro-Disney theme park in France.

GLOBALISATION OF INDIAN BUSINESS

India's economic integration with the rest of the world was very limited because of the restrictive economic policies followed until 1991. Indian firms confined themselves, by and large, to the home market. Foreign investment by Indian firms was very insignificant.

With the new economic policy ushered in 1991, there has, however, been a change. Globalisation has in fact become a buzz-word with Indian firms now, and many are expanding their overseas business by different strategies.

This section takes a look at the hurdles to and prospects for globalisation of Indian business and the different globalisation strategies.

Obstacles To Globalisation

The Indian business suffers from a number of disadvantages in respect of globalisation of business. The important problems are the following.

Government Policy and Procedures: Government policy and procedures in India are among the most complex, confusing and cumbersome in the world. Even after the much publicised liberalisation, they do not present a very conducive situation. One prerequisite for success in globalisation is swift and efficient action. Government policy and the bureaucratic culture in India in this respect are not that encouraging.

High Cost: High cost of many vital inputs and other factors like raw materials and intermediates, power, finance infrastructural facilities like port etc., tend to reduce the international competitiveness of the Indian business.

Poor Infrastructure: Infrastructure in India is generally inadequate and inefficient and therefore very costly. This is a serious problem affecting the growth as well as competitiveness.

Obsolescence: The technology employed, mode and style of operations etc., are, in general, obsolete and these seriously affect the competitiveness.

Resistance to Change: There are several socio-political factors which resist change and this comes in the way of modernisation, rationalisation and efficiency improvement. Technological modernisation is resisted due to fear of unemployment. The extent of excess labour employed by the Indian industry is alarming. Because of this labour productivity is very low and this in some cases more than offsets the advantages of cheap labour.

Poor Quality Image: Due to various reasons, the quality of many Indian products is poor. Even when the quality is good, the poor quality image India has becomes a handicap.

Supply Problems: Due to various reasons like low production capacity, shortages of raw materials and infrastructures like power and port facilities, Indian companies in many instances are not able to accept large orders or to keep up delivery schedules.

Small Size: Because of the small size and the low level of resources, in many cases Indian firms are not able to compete with the giants of other countries. Even the largest of the Indian companies are small compared to the multinational giants.

Lack of Experience: The general lack of experience in managing international business is another important problem.

Limited R & D and Marketing Research: Marketing Research and R & D in other areas are vital inputs for development of international business. However, these are poor in Indian business.

Expenditure on R & D in India is less than one per cent of the GNP while it is two to three percent in most of the developed countries. In 1994-95, India's per capita R&D expenditure was less than $3 when it was between $100 and $825 for most of the developed nations.

Growing Competition: The competition is growing not only from the firms in the developed countries but also from the developing country firms. Indeed, the growing competition from the developing country firms is a serious challenge to India's international business.

Trade Barriers: Although the tariff barriers to trade have been progressively reduced thanks to the GATT/WTO, the non-tariff barriers have been increasing, particularly in the developed countries. Further, the trading blocs like the NAFTA, EC etc., could also adversely affect India's business.

Factors Favouring Globalisation

Although India has several handicaps, there are also a number of favourable factors for globalisation of Indian business.

Human Resources: Apart from the low cost of labour, there are several other aspects of human resources to India's favour. India has one of the largest pool of scientific and technical manpower. The number of management graduates is also surging. It is widely recognised that given the right environment, Indian scientists and technical personnel can do excellently. Similarly, although the labour productivity in India is generally low, given the right environment it will be good. While several countries are facing labour shortage and may face diminishing labour supply , India presents the opposite picture. Cheap labour has particular attraction for several industries.

Wide Base: India has a very broad resource and industrial base which can support a variety of businesses.

Growing Entrepreneurship: Many of the established industries are planning to go international in a big way. Added to this is the considerable growth of new and dynamic entrepreneurs who could make a significant contribution to the globalisation of Indian business.

Growing Domestic Market: The growing domestic market enables the Indian companies to consolidate their position and to gain more strength to make foray into the foreign market or to expand their foreign business.

Niche Markets: There are many marketing opportunities abroad present in the form of market niches. (A niche is a small segment of a market ignored or not properly served by large players). Such niches are particularly attractive for small companies. Several Indian companies have become very successful by niche marking.

Expanding Markets: The growing population and disposable income and the resultant expanding internal market provides enormous business opportunities.

Transnationalisation of World Economy: Transnationalisation of the world economy, *i.e.*, the integration of the national economies into a single world economy as evinced by the growing interdependence and globalisation of markets is an external factor encouraging globalisation of India business.

NRIs: The large number of non-resident Indians who are resourceful - in terms of capital, skill, experience, exposure, ideas etc.- is an asset which can contribute to the globalisation of Indian

business. The contribution of the overseas Chinese to the recent impressive industrial development of China may be noted here.

Economic Liberalisation: The economic liberalisation in India is an encouraging factor of globalisation. The delicensing of industries, removal of restrictions on growth, opening up of industries earlier reserved for the public sector, import liberalisations, liberalisation of policy towards foreign capital and technology etc., could encourage globalisation of Indian business. Further, liberalisation in other countries increases the foreign business opportunities for Indian business.

Competition: The growing competition, both from within the country and abroad, provokes many Indian companies to look to foreign markets seriously to improve their competitive position and to increase the business. Sometimes companies enter foreign market as a *counter - competitive strategy, i.e.*, to fight the foreign company in its own home market to weaken its competitive strength.

CONCLUSION

The intent of globalisation is efficiency improvement and market optimisation taking advantage of the opportunities of the global environment. Therefore, in many cases, Indian companies have to globalise to survive and grow in the emerging competitive environment.

The limitations of national markets, the diversity and unevenness of resource endowments of different nations, complexity of technological developments, differences in the levels of development and demand patterns, differences in production efficiencies and costs, technological revolution in communication and other fields etc., mandate globalisation.

The restrictive economic policies of the past severely affected the competitiveness and growth of the Indian Industry in general. The new economic policy, *albeit* suffers from certain defects, is a welcome change.

If the Indian firms have the facility to obtain the latest technology in the world, to raise finance from the cheapest source and procure the materials from the best source in the world, they are on equal footing with the foreign firms in many respects. And if the Indian firms can muster some edge ever the foreign firms in respect of labour cost, productivity, product quality/features etc., that could be a competitive advantage.

In many cases, size is an important factor which influences the competitive power. The economic liberalisation by pruning down the list of industries reserved for the public sector, delicensing and amending the MRTP Act has provided an environment which enables companies to grow fast, both internally and externally. The growth plans of many Indian companies indicate a great leap forward. The increase in the size could keep the companies on a strong footing to make further dent into both the domestic and foreign markets. In short, the Indian industry is where they can make jumps compared to the past situation of limping forward.

Several Indian companies are already leading players. The Ispat group of the Mittals which has units in countries like the U.S., Canada, Indonesia, Trinidad and Tobago is the largest sponge iron producer in the world. The Aditya Birla group is the world's largest player in viscose fibre and carbon black and also the largest refiner of palm oil. The Essel packaging which is already the world's second largest integrated producer of laminated tubes is aiming to climb up to the number one poison. Arvind Mills, one of the world's largest producer of denim cloth, is making further

thrusts. When its ongoing projects are fully implemented, Reliance Industries would be the second largest texturiser in the world to be fully integrated from naphtha to fabrics. India is also a major player in two-wheelers and bicycles. India is the largest producer of several agricultural commodities.

The liberalisation in India and in other countries pose a real challenge to the Indian business to prove its mettle.

SUMMARY

Globalisation may be defined as "the growing economic interdependence of countries worldwide through increasing volume and variety of cross border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology." Globalisation is advancing and is unstoppable so that the challenge is how to live with it and take advantage of the opportunities.

Globalisation may be considered at two levels, viz, at the macro level (*i.e.*, globalisation of the world economy) and at the micro level (*i.e.*, globalisation of the business and the firm). Globalisation of the world economy is achieved, quite obviously, by globalising the national economies. Globalisation of the economies and globalisation of business are very much interdependent.

Globalisation is not a new phenomenon. The period 1870 to 1913 experienced a growing trend toward globalisation. The new phase of globalisation which started around the mid 20th century became very widespread, more pronounced and overcharging since the late 1980s by gathering more momentum from the political and economic changes that swept across the communist countries, the economic reforms in other countries, the latest multilateral trade agreement which seeks to substantially liberalise international trade and investment and the technological and communication revolutions.

There are several similarities and differences between the two phases of globalisation. The current phase of globalisation is characterized by several new features: new markets; new technologies, new actors and new rules and norms.

At the corporate level, globalisation in its true sense is a way of corporate life necessitated, facilitated and nourished by the transnationalisation of the World economy and developed by corporate strategies. Globalisation is an attitude of mind - it is a mind-set which views the entire world as a single market so that the corporate strategy is based on the dynamics of the global business environment. International marketing or international investment does not amount to globalisation unless it is the result of such a global orientation. Normally, a firm passes through different stages of development before it becomes a truly global corporation. Typically, a domestic firm starts its international business by exporting. Later it may establish joint ventures or subsidiaries abroad. From an international firm it may then develop into a multinational firm and finally into a global one.

There are some essential conditions to be satisfied on the part of the domestic economy as well as the firm for successful globalisation of the business. They include the following: Business freedom; required facilities; government support; resources; competitiveness and proper strategic orientation.

There are a number of foreign market entry strategies for going global. The choice of the most suitable alternative is based on the relevant factors related to the company and the environments of the domestic and foreign markets. The important market entry strategies are depicted in Figure 40.1.

Globalisation has both beneficial and hrmful effects. It affects differently different countries, sectors industries and sections of people.