SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION
MBA FA 203
SUBJECT NAME: BUSINESS ENVIRONMENT

UNIT-IV

TOPIC NAME: FOREIGN CAPITAL AND TECHNOLOGY

FOREIGN CAPITAL:

The term 'foreign capital' is a comprehensive term and includes any inflow of capital in home country from abroad. It may be in the form of foreign aid or loans and grants from the host country or an institution at the government level as well as foreign investment and commercial borrowings at the enterprise level or both. Foreign capital may flow in any country with technological collaboration as well. It is interesting to note that even in Russia and East European countries foreign capital has been allowed to flow in. In countries like China, Thailand, Malaysia and Singapore contribution of foreign capital has been extremely encouraging. But in Latin America and African countries foreign capital flow has not been satisfactory. Foreign capital is useful for both developed and developing countries. Advanced countries try actively to invest capital in developing countries. In India, foreign capital has been given a significant role, although it has been changing overtime. In the early phases of planning, foreign capital has been used as a means to supplement domestic investment. Later on there were technological collaborations between foreign and Indian entrepreneurs. But since July 1991, there has been a tremendous change in government's policy (commonly called liberalization policy) about foreign investments. Foreign capital is money entering the country in the form of concessional assistance or non- concessional flows. There are many Forms of Foreign Capital Flowing into India such as banking and NRI deposits. The various Forms of Foreign Capital Flowing into India has helped to bring in huge amounts of FDI into the country, which in its turn has given a major boost to the Indian economy.

NEED FOR FOREIGN CAPITAL:-

1. Inadequacy of domestic capital.
2. Foreign capital can show the way for domestic capital.
3. For speeding up economic activity in a developing country.
4. Financing of projects needed for economic development.
5. Brings in technical know-how, business experience and knowledge.

ROLE of FOREIGN CAPITAL:

In the early stages of industrialization in any country foreign capital plays an important role. Their role can he better understood under the following heads:-

1. Increase in Resources: - Foreign capital not only provides an addition to the domestic savings and resources, but also an addition to the productive assets of the country. The country gets foreign exchange through FDI. It helps to increase the investment level and thereby income and employment in the recipient country
2. Risk Taking: - Foreign capital undertakes the initial risk of developing new lines of production. It has with it experience, initiative, resources to explore new lines. If a concern fails, losses are borne by the foreign investor.
3. Technical Know-how:- Foreign investor brings with him the technical and managerial know how. This helps the recipient country to organize its resources in most efficient ways, i.e., the least costs of production methods are adopted. They provide training facilities to the local personnel they employ.
4. High Standards: - Foreign capital brings with it the tradition of keeping high standards in respect of quality of goods, higher real wages to labour and business practices. Such things not only serve the interest of investors, but they act as an important factor in raising the quality of product of other native concerns.

5. Marketing Facilities: - Foreign capital provides marketing outlets. It helps exports and imports among the units located in different countries financed by the same firm.
6. Reduces Trade Deficit: - Foreign capital by helping the host country to increase exports reduce trade deficit. The exports are increased by raising the quality and quantity of products and by lower prices.
7. Increases Competition: - Foreign capital may help to increase competition and break domestic monopoly. Foreign capital is a good barometer of world's perception of a country's potential. It is rightly said that a satisfied foreign investor is the best commercial ambassador a country can have. To sum up, foreign capital helps three important areas that are necessary for the economic development of a country.

These three areas are savings, trade and foreign exchange and technology. Foreign capital performs three gaps filling function, i.e.

1. Savings gap,

2. Trade gap, and

3. Technological gap in the recipient country's economy. It encourages development of technology, managerial expertise, and integration with other economies of the world, export of goods and services and higher growth of country's economy.

TYPES OF FOREIGN CAPITAL:

Foreign capital can be divided into two types:-

1. Foreign Aid.

2. Private Foreign Investment.

Foreign aid may consist of loans and grants. Private foreign investment takes two forms:-

1. Foreign Direct Investment (FDI).

2. Foreign Portfolio Investment (FPI).

In India Foreign Direct Investment may further take the form of:-

1. Wholly owned subsidiary.

2. Joint-venture.

3. Acquisitions.

Foreign Portfolio Investment may be:-

1. Investment by Foreign Institutional Investors (FIIs) including Non-Resident Indians (NRIs).

2. Investment in a: a) Global Depository Receipts (GDRs). b) Foreign Currency Convertible Bonds (FCCB"s).

FOREIGN DIRECT INVESTMENT:-

It is also known as 'direct business investment'. Foreign direct investment (FDI), according to IMF manual on 'Balance of Payments' is "all investment involving; a long term relationship and reflecting a lasting interest and control of a residual entity in one economy in an enterprise resident in an economy other than that of the direct investor. Such investment involves both initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates". Foreign affiliate means a subsidiary company or an associate in which investor owns a total of at least 10%, but not more than half of shareholder's voting power or branches. The WIR02 defines FDI as „an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the FDI enterprise, affiliate enterprise or foreign affiliate. FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transaction between them among foreign affiliates, both incorporated and unincorporated. Individuals as well as business entities may undertake FDI.

From the above definition we notice the following characteristics of FDI:-

1. It is an investment made by a foreign company in a home country.

2. The foreign company may make an investment either by opening its branch or by having a subsidiary or foreign controlled company in home country. It may have wholly owned subsidiary or joint venture or may acquire a stake in the existing business.

3. Profit is the prime motive of such an investment. It may be in the form of a royalty and dividend payments.

4. Investor retains control over investment and management of the firm concerned. In FDI investor may obtain effective voice in the management through other means such as sub- contracting, management contracts, turnkey arrangements, franchising, licensing, trade- marks and patents and product sharing.

5. On the winding up of the firm, the assets may be repatriated to the country of origin.

FOREIGN TECHNOLOGY:

The foreign technology is transferred from foreign sources such as research and development agencies, foreign parent companies, and other sources to the Indian counterparts. The transfer of foreign technology takes places by the means of foreign direct investments and foreign technology collaboration agreements.

TECHNOLOGICAL ENVIRONMENT:

1. Macro environment which includes factors like machines, materials & knowledge for producing various goods & services.
2. Technology is a major driving force in international marketing.

FACTORS AFFECTING TECHNOLOGICAL ENVIRONMENT:

- Level of technology: The extent of technology employed by an organization whether it is labour- based or capital-based.

1. Labour-based: - Human labour &mechanical labour is used for performing the operations.
2. Capital-based: - Utilization of machineries.

FACTORS AFFECTING TECHNOLOGICAL ENVIRONMENT:

1. Technology transfer: Technology gets transformed from technologically advanced countries.
2. Research & development: Innovation requires efficient R & D.
3. Speed of technological change.

SIGNIFICANCE OF TECHNOLOGICAL ENVIRONMENT IN INTERNATIONAL BUSINESS:

1. Telecommunication
2. Transportation
3. Globalization of production
4. E- Commerce
5. Technology transfer

TRANSFER OF TECHNOLOGY

Technology gets transferred from countries which are technologically advanced to countries which are not technologically advanced.

REASONS FOR TRANSFER OF TECHNOLOGY

1. Selling technology provides profit.
2. Companies will find benefit in moving their locations where labour & raw materials are cheap.
3. Due to grants & subsidies providing by the government to promote growth of technology.
4. For expansion of operations companies move beyond their countries & technology transfer.

5. Through technology transfer the potential of foreign subsidiaries can be improved.

TYPES OF TRANSFER OF TECHNOLOGY

1. International technology transfer
2. Regional technology transfer
3. Cross industry technology transfer
4. Inter-firm technology transfer
5. Intra-firm technology transfer

PROCESS OF TRANSFER OF TECHNOLOGY

1. Planning & acquisition phase
2. Absorption phase

PLANNING & ACQUISITION PHASE

1. Selection of technology
2. Select the mechanism used to transfer.
3. Consider all social and cultural factors
4. Identify the financial aspects.

ABSORPTION PHASE

1. Handling of issues during the transfer process.
2. 3 steps in the absorption phase are information transfer, adaptation & adoption.

METHODS OF TRANSFER OF TECHNOLOGY

1. FDI
2. Licensing
3. Franchising
4. Turnkey arrangement
5. Contract manufacturing
6. Joint venture