

INTERNATIONAL BUSINESS TOPICS

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989, 990, 991, 992, 993, 994, 995, 996, 997, 998, 999, 1000~~; *De Telegraaf*, pages 76 and 78; *Costas International Ltd*, page 84; Frank Snook, page 85; London Express Pictures, pages 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136 (photograph by Walter Nurnberg); *The Sunday Times*, page 138; Georg Sessler/Bildhuset, pages 143 and 144; Dick Jordan/Bronze Records Ltd, page 151; Australian Information Service, pages 152 and 154 (photograph by Michael Jensen).

The Language Practice exercise on page 67 is extracted from an article 'Hamish McRae talks to Robert MacNamara' by Hamish McRae, printed in *The Guardian*. The Language Practice exercise on page 88 is extracted from an article 'Expatriate Life' by Bryn Williams printed in the *Financial Times*, March 1977.

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Introduction

What is 'International Business Topics'?

This book comprises a selection of reading texts dealing with topical, and often controversial, business issues. The word 'international' is a true reflection of the wide-ranging content of the material. Some of the topics relate to problems of a particular country. In this category are texts with titles such as: *Construction Contracts in Saudi Arabia*; *The Japanese Approach to Business: Venezuela's Oil Revenues*; *India versus Coca Cola and IBM*. Other articles are, by their very nature, international in scope. One thinks of such titles as: *Multinationals*; *The World Bank*; *Bribery*; *National Stereotypes*.

Taken as a whole, the texts give the student a great deal of information about what is really happening in the business world — the significant trends, the important new ideas — and they encourage the reader to examine critically business practices and institutions in his or her own country.

Those people who already have a good command of English will probably gain most benefit from the book. That is why *International Business Topics* has been graded as advanced level. However, an intermediate-level student who is intelligent and interested in business can cope with the topics, especially if a teacher is present to give guidance. Although the texts are designed principally for class-instruction, some students will wish to use them for self-instruction. To meet the need of this group, a key to most of the exercises is provided at the back of the book.

The main aims of *International Business Topics* are:

- a) to develop reading skills and give practice in the comprehension of business texts;
- b) to improve the student's command of vocabulary, specialist terms and idiomatic language commonly used in business;
- c) to provide students with an opportunity to practise their spoken English, and above all, to encourage them to analyze and discuss ideas by presenting them with intellectually-challenging material;
- d) to offer other language activities, for example, grammatical exercises and writing assignments, which will help those studying at high-intermediate and advanced levels to improve their language skills.

Organization of the book

Each topic contains: (i) preparation for the text; (ii) the text; (iii) language notes; (iv) exercises linked to each passage, giving practice in the various language skills.

In the Preparation section, there are two or three questions about the subject matter of the text. The purpose of these is to start the student thinking about the topic and to generate some preliminary discussion. While reading the passage, the student will be looking for the answers to the questions he or she has been asked.

The extent of the Language Notes depends on the number and type of terms that need to be explained or commented on. Generally, the items consist of expressions which may not be in the student's dictionary — they may, for example, be too specialized — or of colloquial language whose meaning the student may not readily understand. Grammatical difficulties or problems of usage may also be discussed in this section.

Exploitation of the ideas and language of the texts is organized in sections. These are:

Section A	Comprehension
Section B	Vocabulary
Section C	Language Practice
Section D	Oral Work
Section E	Writing Exercises

The wide margins provide some space for students to write down their answers and/or notes for most sections.

Section A Comprehension

Generally, this comprises about 6–8 questions which test how well the reader has understood the main ideas of the text.

Section B Vocabulary

This concentrates on vocabulary development. Some exercises are based on words and phrases in the text itself, and they test whether the student has grasped the precise meaning of these terms; other exercises introduce new vocabulary which is in some way related to the topic. The section also includes work on idiomatic expressions. In order to provide variety, several different types of vocabulary exercises are used: multiple choice, filling blanks, finding synonyms, changing the form of words, etc.

Section C Language Practice

In this section, there are exercises which give practice in areas of grammar and usage. These are not presented sequentially according to some arbitrary standard of difficulty. The aim is simply to give the student practice with the kind of language work which is often useful at high-intermediate and advanced levels. Thus, some exercises deal with difficult verb tenses, verb patterns and modal auxiliaries; others focus on conjunctions, use of the article, prepositions or phrasal verbs.

Section D Oral Work

Here, students are given the opportunity to discuss ideas in the text, and also to defend their own point of view concerning an aspect of the topic. In most of the sections, one or two debating themes are given. These are deliberately worded to evoke controversy and to encourage the student to speak persuasively for or against the motion in question. In addition to the themes, there are discussion topics and role-playing exercises.

Section E Writing Exercises

In most of the texts, there are some essay topics of the traditional type. The student is required to write discursively on given subjects closely related to what he or she has just read. However, there are a number of other written assignments involving the writing of letters, reports, telexes and press releases. In most cases, there is also the opportunity for the student to practise writing a summary.

How to use the texts

The experienced teacher will obviously adopt whatever approach is most suited to the needs of the class and the teaching time available. The suggestions which follow are intended as a guide only.

Advanced-level classes

1. Invite students to select topics which they think would interest them.
2. Having chosen a topic, complete the Preparation section in class.
3. Ideally, the reading of the text and sections A and B (Comprehension and Vocabulary) should be carried out as a homework assignment. If this is not possible, these sections can be done in class time under the guidance of the teacher.
4. The teacher takes up points in the Language Notes and discusses these with the class.
5. Either section C (Language Practice) or section D (Oral Work) should now follow. In practice, classes often wish, at this stage, to discuss the topic. In this case, section D will precede Section C.
6. Section E should now be dealt with. Because of limitations of time, the teacher may choose one particular written assignment for the class. Alternatively, some teachers may prefer to let students choose themselves.

Intermediate-level classes

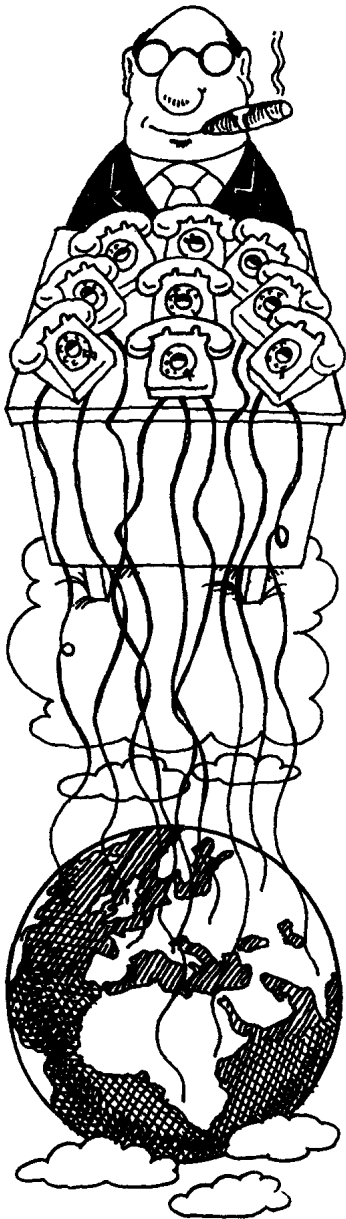
The same approach as that outlined above may be used, but the teacher may find it more useful to read the text with the class and deal with language difficulties as they arise.

Final comments

International Business Topics is meant to be the kind of book which will not only be used by teachers and students in the classroom but which will also be read with enjoyment by those who are studying privately at home.

In selecting texts for inclusion in the book, the author has searched for topics dealing with important activities and events in the business world. He has then tried to encourage the reader to think about and discuss the ideas in the texts. As a result, this book is designed not so much for readers possessing a certain level of language competence, but rather for any intelligent student who is genuinely interested in business and is therefore willing to make the effort to understand the material which is presented.

Multinationals



Preparation

- 1 What is a multinational company?
 - 2 Which multinationals have subsidiaries in your own country?
 - 3 Why do the governments of some countries encourage multinationals to set up production or sales facilities in their midst while others discourage this type of foreign investment?
-

The term 'multinational' is used for a company which has subsidiaries or sales facilities throughout the world. Another expression for this type of business enterprise is 'global corporation'. Many of these giant organizations are household names such as Coca Cola, Heinz, Sony, Hitachi, IBM, Akzo and General Motors. Companies like these control vast sums of money and they operate in countries with widely differing political and economic systems.

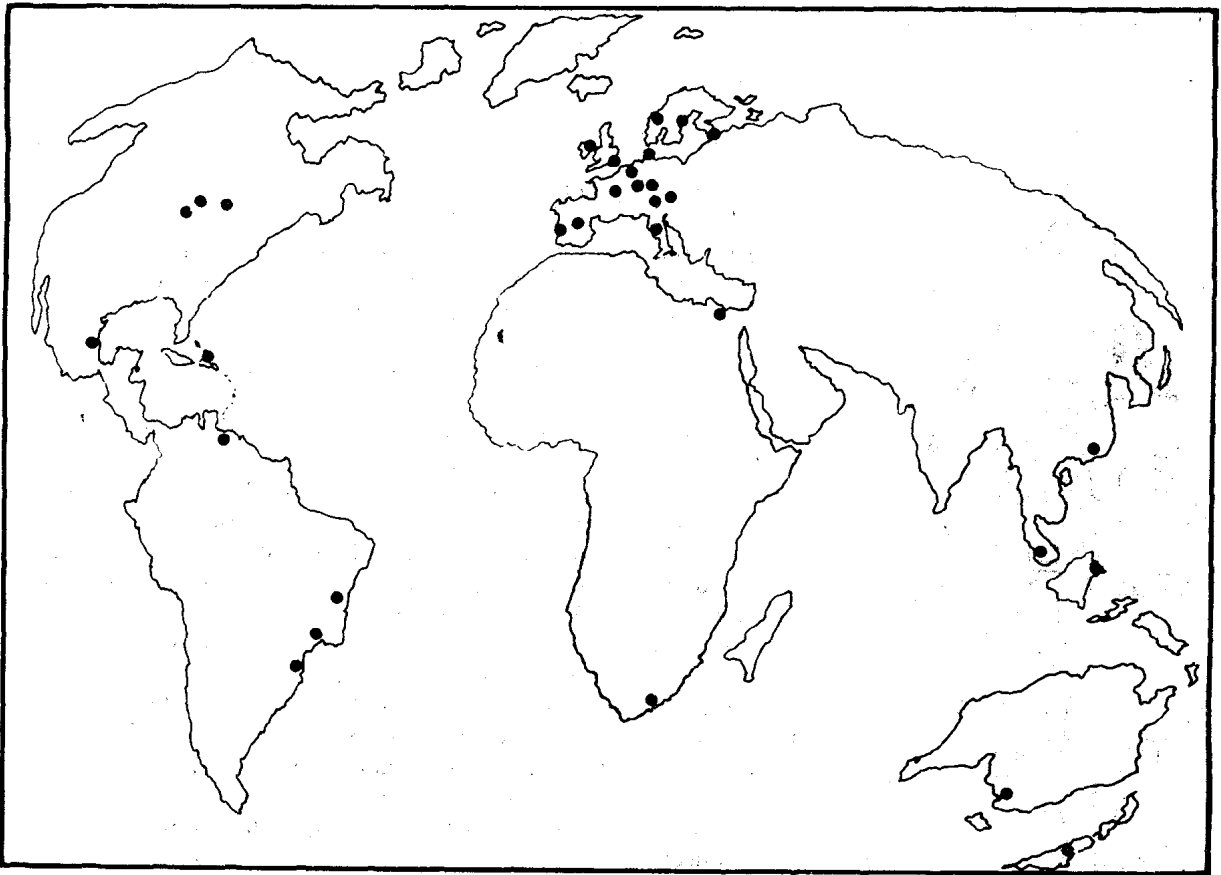
Looking back into history, we can find two main reasons for the development of multinationals. Firstly, when companies found that their national markets had become saturated, they realized that they could only increase profits by setting up subsidiaries abroad. Secondly, if a country set up trade barriers — usually tariffs or quotas — against a company's products, then the only alternative for the company was to establish a factory or sales organization in the country concerned.

More recently, the economic boom of the 1960s led to a rapid growth of globe-trotting enterprises. In the highly industrialized countries rising incomes attracted the multinationals; in the developing countries, the availability of cheap labour lured many companies into building new factories and assembly plants.

In earlier times, most countries gave the multinationals a 'red carpet' welcome because they saw such foreign investment as creating much-needed employment, stimulating the business sector generally, and possibly earning foreign currency if the company's products were exported. More recently, however, the tide has turned against the multinationals. They are now viewed by many with suspicion; once heroes, they are now villains on the international business stage.

For reasons outlined below, host countries are now restricting the activities of their guests, the multinationals. Many developing countries will only allow new investment if it is on a joint-venture basis. This means that local entrepreneurs, or state agencies, must participate in the ownership and even management of the foreign enterprise. Other countries, e.g. India and Nigeria, are forcing foreign companies already well-established to reduce their shareholdings to a certain percentage, say 60% or 40% of the total equity of the company.

At international level, various attempts have been made to regulate the activities of the multinational. The most gentlemanly of these has been the OECD's guidelines on multinationals: a kind of book of



The extent of only one company's operations is indicated on this map: each dot marks a subsidiary of the parent company, the Ford Motor Company.

etiquette advising companies how to behave in public. The code, being voluntary, is not legally enforceable.

Tension between host country and multinational is inevitable in many cases because multinationals do pose a threat to national sovereignty.

The multinational is big and rich. It often operates in industries which are difficult to enter and of vital national importance, e.g. the computer, chemical and automobile industries. Most important of all, the main objective of the multinational is to organize its activities around the world so as to maximize global profits and global market shares. Each subsidiary is part of an international network of affiliates. These all interact with each other. Each part serves the whole. The centre controlling the network — the multinationals' headquarters — is not under the control of the host government. It is frequently thousands of miles away from these subsidiaries.

To illustrate this principle of interaction between affiliates, we can take the example of the Canadian company, Massey Ferguson. It can make tractors in the USA for sale in Canada that contain British engines, French transmissions and Mexican axles: all products of the company's subsidiaries. IBM is another company which is transnational in scope. A typical 360-series computer may include components from four or five countries.

To show how a multinational plans and operates internationally, let us take the case of SKF², a Swedish ball-bearing manufacturer. When

2. Aktiefolaget Svenska Kullagerfabriker.

65 it took over its Italian affiliate RIV in 1965, RIV was entirely
dependent on the Italian market. It was also near collapse because it
had overestimated demand for its products and was suffering from
overcapacity. SKF immediately started feeding it with export orders
and continued until the domestic market picked up again. RIV then
70 concentrated on the domestic market and the export orders were
reduced.

Increasingly, in recent years, governments have had to ask
themselves whether multinationals are harming their national
interests. In highly industrialized countries, a major source of worry
75 has been that these foreign giants will take over smaller companies
and gradually dominate an important industry. If this happens, vital
decisions affecting the economic interests of the country may be
taken in boardrooms thousands of miles away from that country.

The danger of this kind of domination is perfectly exemplified by a
controversial takeover which occurred in France. In 1966, the French
80 computer company Machines-Bull had 66% of its stock bought up by
General Electric. This meant in effect that France no longer had its
own computer industry. As a result, the French government felt
bound to set up its own data processing and computer concern which
85 cooperated closely with the German company Siemens and the Dutch
company Philips.

Undoubtedly, governments are uneasy when they feel that
decisions affecting plants and employment in their countries are
being made by remote control. Furthermore, unions often feel that
90 their bargaining power is weakened when they have to deal with
people operating from remote decision centres.

Developing countries, in particular, have become concerned about
their dependence on foreign investment in key sectors of their
economy. They have become aware that foreign subsidiaries often
95 take most of their profits out of the country rather than reinvest them
in the company. Sometimes, the flow of funds causes disastrous
fluctuations in the exchange rates of their currencies. Certain
countries have accused the multinationals of political interference.
The classic case of this is, of course, the intrusion of ITT
100 (International Telegraph and Telephones) in the political affairs of
Chile. This huge conglomerate, involved in every area of industrial
and banking activity, was ready to finance attempts to overthrow the
Marxist government of the Communist leader, Salvador Allende.

To gain greater control over their industry, some countries, as
105 already mentioned, are beginning to insist on joint ventures. The
disadvantage of this tactic is that the foreign subsidiary may then be
treated less favourably, in terms of technical assistance and capital
investment, by the parent company.

Another strategy used by governments is to limit the amount of
110 profits that a foreign subsidiary may repatriate in a given period.

Arguing against multinationals, critics cry in shrill tones that these
organizations engage in anti-competitive activities, insensitively shut
down plants, make huge bribes to gain contracts, interfere politically,
destabilize currencies, underpay their workers and so on. Those
115 speaking for the defence see these corporations almost as
international agencies, promoting peace, providing better, cheaper
products, and bringing much needed resources, expertise and
employment to the host countries.

Language Notes

- Line 4 *Household names*: names familiar to almost everyone.
- Line 7 *Economic*: note the different meanings of *economic* and *economical*.
 Examples: 'The economic situation of our country is good.' (Material prosperity)
 'She is an economical housewife.' (Not wasteful, thrifty)
- Line 11 *Set up*: a company sets up or establishes subsidiaries/factories/plants abroad.
- Line 16 *Economic boom*: a sudden increase in business activity. When business activity declines sharply, the term used is *slump*.
- Line 21 *Red carpet welcome*: more usually 'to give someone the red carpet treatment'. To welcome warmly and to give lavish hospitality. Presidents and Prime Ministers, when travelling abroad, are usually given the red carpet treatment.
- Line 61 *Scope*: range, e.g. 'The scope of his thesis is very wide'.
- Line 65 *Took over*: took control of. In this context, note the phrase *takeover bid*, i.e. an offer by one company to buy the stock of another and so control it, e.g. 'Company X made a takeover bid for Company Y.'
- Line 69 *Domestic market*: home market. Contrast this term with a company's *foreign* or *overseas* markets.
- Line 81 *Bought up*: the sense of *up* is *all or as much/many as possible*.
- Line 84 *Bound to*: an obligation to.
- Line 92 *Concerned about*: worried about. Note the difference in meaning between: *concerned about* (worried about), *concerned in* (involved in).
 Examples: 'I am concerned about my health.'
 'He was concerned in many financial ventures.'
- Line 99 *Classic case*: perfect example.
- Line 111 *Critics*: a critic is a person who criticizes or judges someone or something. He writes criticism.
- Line 113 *Interfere*: interfere in someone's business or affairs, but interfere *with* something.
- Line 117 *Expertise*: expert knowledge. *Know-how* is an alternative expression.

A Comprehension

1. What are some of the main characteristics of multinational companies?
2. Host countries used to look upon the multinationals as 'heroes'. Why?
3. The writer describes the OECD guidelines to multinationals as a *gentlemanly* attempt to regulate their activities. Why does he use the word *gentlemanly* and what tone does he employ? (1.39-42)

4. Multinationals have been described as having an organic structure. In what sense is this an appropriate expression for the way they are organized?
5. What point is the writer trying to make when discussing the case of SKF's Italian affiliate RIV? (1.63-71)
6. Complete this sentence. The French government felt it had to set up its own data processing and computer concern because (1.79-86)
7. Multinationals have been accused of decision-making by *remote control*. What does this phrase mean? State briefly some of the problems that can arise from this practice.
8. Some governments have begun to insist that foreign companies can only operate in their country on a joint venture basis. What can be gained and lost by such a policy towards foreign investment?

B Vocabulary

1. Find an appropriate word for each blank space. In all sections the initial letter of each word is provided.
 - a) Most multinational companies are vast enterprises with networks of s..... or a..... throughout the world. Originally they expanded overseas because trade barriers such as t..... and q..... had been set up against their goods.
 - b) When incomes are rising and business is thriving, in other words, when there is an e..... b..... in a country, a multinational may decide to establish a subsidiary there. Later, however, the government of the country may only allow the company to operate on a j..... v..... basis, in which case it will compel the company to reduce its s..... to a fixed percentage. It could even restrict the subsidiary by allowing only a fixed proportion of profits to be r.....
 - c) The OECD code gave g..... on how multinationals should behave. None of its provisions were l..... e....., and therefore some say it lacked legal teeth.
 - d) A factory whose production resources are not being fully utilized is said to be suffering from o.....
2. Complete each sentence using an appropriate form of the word in *italics*.
Example:
profit This is one of our most *profitable* product lines.
 - a) *enterprise* What we need at the moment is an manager.
 - b) *differ* The two products look, taste and feel the same. It is impossible to between them.
 - c) *basis* She needs more experience, but she is a first-class buyer.
 - d) *tension* When I asked for an increase in salary, the atmosphere here became somewhat

- e) *threaten* The leaking of the results of our market survey poses a serious to company security.
- f) *rich* The oil of certain Arab states are known to all.
- g) *market* Our sales director doubts whether this ingenious but complex toy is really
- h) *worry* The lack of job opportunities for young people is very
- i) *decision* Hesitant! Vacillating! Never making up his mind! What an chairman.
- j) *remote* It is not possible that I shall become head of this department.
- k) *intrusion* A good chairman in a meeting should not be too
- l) *involve* Unfortunately, our in this deal has now become public knowledge.
- m) *strategy* This area is of great importance in our promotional campaign.

3. Circle the number next to the most appropriate answer.

- a) When a market becomes *saturated* (1.10):
 - (i) it allows a new company to enter easily and quickly.
 - (ii) it offers no potential for a company to develop its sales.
 - (iii) it immediately begins to attract foreign investment.
- b) *Globe-trotting enterprises* (1.17) are those which:
 - (i) prefer to operate in foreign markets rather than domestic ones.
 - (ii) seek to expand their business activities by setting up organizations abroad.
 - (iii) believe that greater profits are to be earned abroad than in their own countries.
- c) The best definition of a *developing country* is that:
 - (i) it is at a very high level of economic and social development.
 - (ii) it is still in the process of becoming a highly industrialized nation.
 - (iii) it is still at a stage well below its maximum economic potential.
- d) One difference between a *conglomerate* and an *affiliate* is that the former:
 - (i) usually has a more complex organization and engages in diverse business activities.
 - (ii) is always more stable financially and more profitable.
 - (iii) is a large organization which only engages in international trading.
- e) If multinationals *insensitively shut down plants* (1.112):
 - (i) they have no intention of compensating the workers of these plants.

- (ii) they make such decisions without consulting the government of the host country.
- (iii) they pay little attention to the interests of those in the host country.

C Language Practice

1. Use the groups of words in their given order and make meaningful sentences.

Example:

Many/these corporations/household names/Heinz, Coca Cola

— *Many of these corporations are household names such as Heinz and Coca Cola.*

- a) Companies/national markets/become saturated/often decide/subsidiaries abroad.
- b) Economic boom/1960s/led/rapid growth/multinational activity.
- c) In earlier times/multinationals/considered/heroes/but now/view/suspicion.
- d) Many countries/only allow/foreign investment/joint-venture basis.
- e) Some people regard multinationals/threat/national sovereignty.
- f) Some developing countries/concerned/dependence/foreign investment/key sectors/economy.
- g) ITT/American conglomerate/accused/interfering/political affairs/Chile.
- h) The principle/interaction/well exemplified/company/Massey Ferguson.

2. Rewrite each of the following groups of sentences as **one** complex sentence. Do **not** use *and*, *but* or *because*. Make any necessary changes or additions.

Example:

Multinationals should be prevented from bribing government officials. A code should be devised to achieve this aim. This is vital.

— *It is vital that a code should be devised to prevent multinationals from bribing government officials.*

- a) Multinationals were once considered heroes. They are now regarded as villains. This is somewhat surprising.
- b) Foreign companies may have good intentions. They may have bad intentions. Their activities will inevitably be closely scrutinized by host governments.
- c) General Electric bought up the French company Machines-Bull. France no longer had a computer industry. This worried many Frenchmen.

- d) SKF took over the Italian company RIV. It immediately started feeding RIV with export orders. The aim was to help the Italian company recover financially.
- e) Governments are not happy about decisions being made by remote control. These decisions often affect plants and employment. Unions also are not pleased. They fear their power may be weakened.

D Oral Work

1. Role Play

A television broadcasting organization has invited a *small group of multinational executives* to participate in a panel discussion. They are to start the ball rolling by speaking in support of the following debating theme:

‘Multinationals are, on balance, a force for good in the world and strong restrictions on their activities are unnecessary.’

A *critical studio audience* has been assembled to challenge the views of the executives.

A *neutral chairman* will guide the discussion. An *eminent politician* will listen to the debate, sum up at the end, and choose the most effective group — executives or studio audience.

A *studio manager* will organize the debaters and will have the right to speak when necessary.

Enact this television debate.

2. Discussion Topics

- a) What are the advantages of working for a large multinational company rather than for an organization which operates in one country only?
- b) Choose two or three world-famous multinational companies operating in your country. What kind of reputation does each of them enjoy? Could the ‘image’ of any company be improved?

E Writing Exercises

- 1. ‘Multinational companies may possibly have some part to play in the economic life of underdeveloped and developing nations. It is highly doubtful, however, that in developed, highly industrialized countries, these companies bring enough benefits to offset their harmful activities.’
Discuss this statement, illustrating your arguments with examples.
- 2. A foreign magazine specializing in current affairs has asked you to send a short article about a multinational company which operates in your country. Write this article, including any information that you think might interest the foreign reader in the country concerned.

India versus Coca Cola and IBM

Preparation

1. What are some of the similarities and differences between the two companies, Coca Cola and IBM (International Business Machines)?
 2. In what ways might India benefit from the presence of these two companies in the country?
 3. What types of foreign investment might be useful for a country like India?
-

In an ideal world, most multinational companies, and especially American-owned ones, would prefer to retain 100% control over their subsidiaries throughout the world. Full ownership enables them to plan and manage operations on an integrated basis, to maximize economies of scale, and to move components across national borders without having to be sensitive to the special needs of local shareholders.

Some countries, especially in the developing world, have taken measures to compel multinationals to enter into partnership with local investors. In Nigeria, for example, the government's 'Indigenization' decree has forced many foreign companies to accept increasing Nigerian participation in the ownership of their companies. In India, a similar policy towards foreign investment is being followed, and the 'Indianization' of their industry is being achieved by means of the Foreign Exchange Regulation Act of 1973.

It was this act which, in 1977, led to a dramatic confrontation between the Indian government on the one hand, and the two multinationals Coca Cola and IBM, on the other. After tough negotiations, the trial of strength resulted in both companies pulling out of India.

The act requires foreign companies to dilute their foreign equity shareholdings to 40%, this process being carried out in stages. The foreign company, therefore, has to reorganize its Indian operations to allow majority local ownership.

In the case of Coca Cola, the dispute arose because of the company's refusal to fall into line with the Foreign Exchange Regulation Act (FERA).

The main point of issue concerned the formula for making coca cola. For over 91 years, this has been a closely guarded secret. Also, the Coca Cola company had had a long-standing policy of supervising the manufacture of the concentrate from which the drink was made, and this had applied to plants in the US and overseas.

If the Coca Cola company had complied with the act, it would have had to divulge the secret formula of its concentrate. At that time, the Indian bottling plants imported the concentrate through a Delhi-based company which received supplies from the parent company.

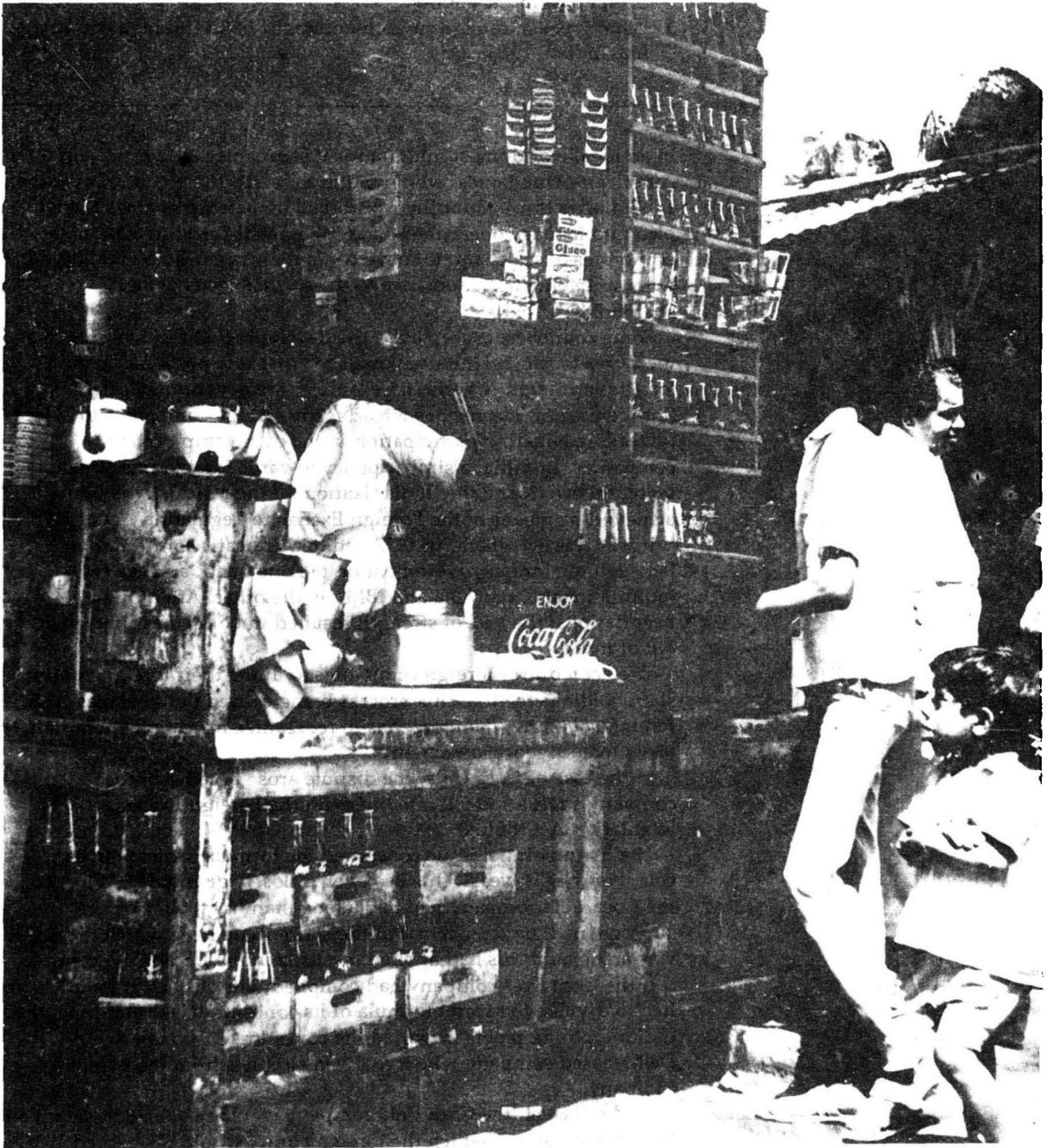
Under the act, the Coca Cola company would have had to set up an Indian company in which the foreign equity would not exceed 40%.

This new firm would have taken over all Coca Cola's operations in India — including the supply of the concentrate.

45 During the protracted negotiations, Coca Cola offered to increase its exports of other commodities from India to make up for the foreign exchange that it spent on the concentrate. Nevertheless, the government insisted that Coca Cola transferred to the proposed Indian company all its activities, including the technical know-how and blending operations of the concentrate.

The closure of the Coca Cola plant left 22 Indian-owned bottling

A well-stocked stall . . .





... but in spite of the advertisements,
the water-pipe remains the most
important source of refreshment.

50 factories idle and thousands of workers unemployed. To remedy this
situation, the government planned to manufacture a Coca Cola
substitute which was being developed by its food research
laboratories. This would be supplied to manufacturers. One idea was
to call it '77' to mark the year that Coca Cola fell from grace! While the
55 Indian government was optimistic about the potential of the new soft
drink, most experts took the view that it was impossible to duplicate
exactly the ingredients of coca cola, since minute quantities of these
affect its taste.

IBM fell out with the Indian government for different reasons. This
company has a global policy that all its subsidiaries in other countries
60 must be fully US owned; also, it does not establish factories in
countries where it is not allowed to market its products.

To get round the provisions of the Foreign Exchange Regulation
Act, IBM tried to bargain with the Indian government. IBM wanted to
retain 100% ownership of a plant which would export all the
65 computers which it manufactured in India. It also agreed to set up
another Indian majority-owned company to service existing IBM
machines. It continued, however, to demand the right to import
modern IBM machines for its Indian customers. This turned out to be
the major stumbling block to agreement with the Indian government.

70 An important opponent to IBM in India was India's department of
electronics. It argued that no special concessions should be allowed to
IBM. It calculated that if IBM was required to sell in India computers
manufactured in the country itself, rather than import them, there
would be a 40% saving in foreign exchange costs on this item.

75 Another argument used was that other computer companies,
including Britain's ICL, had already toed the line regarding dilution
of ownership.