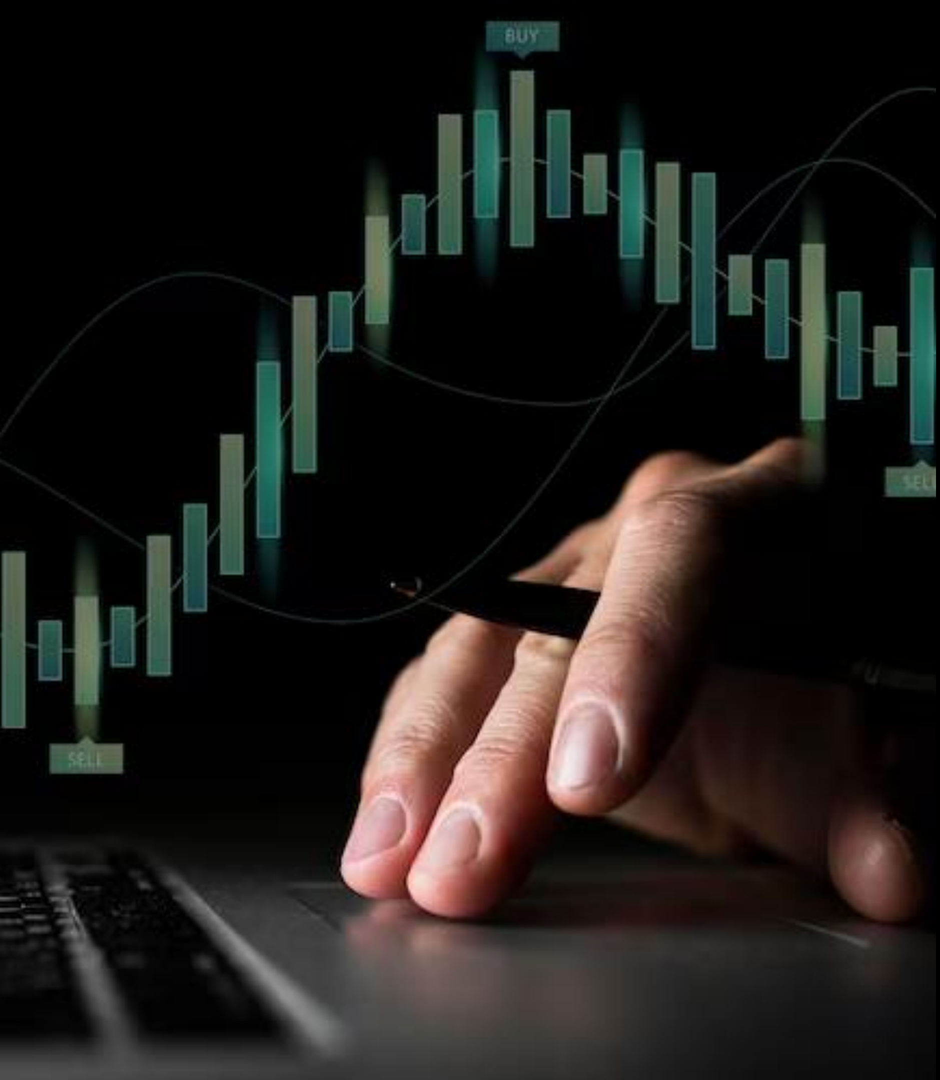


MODULE 6

MANAGING FOREIGN OPERATIONS

Foreign Direct Investment

Foreign Direct Investment (FDI) refers to the investment made by an individual, organization, or government in one country into business interests located in another country. This involves acquiring assets or establishing business operations in a foreign country, and it implies a significant degree of control or influence by the investor over the foreign enterprise.

I. **Ownership and Control:** Implies substantial control and ownership i a foreign business.
II. **Long-term Perspective:** Involves a lasting commitment, reflecting a strategic interest in the foreign market.
III. **Capital and Technology Transfer:** Brings financial capital, technology, and expertise to the host country.
IV. **Mutual Benefits:** Both the investing and host countries benefit economically.
V. **Types of FDI:** Includes Greenfield investments, mergers and acquisitions, and joint ventures.
VI. **Government Policies:** Attraction influenced by policies like tax incentives, trade barrier reduction, and political stability.
VII. **Risks and Challenges:** Involves considerations of political and economic stability, regulatory changes, and cultural differences.
VIII. **Globalization:** Integral to the interconnectedness of the global economy.

Multinational Capital Budgeting

01

Multinational capital budgeting refers to the process that multinational corporations use to evaluate and make investment decisions in different countries. This involves assessing and comparing the potential returns and risks associated with investment projects in various locations.

02

Key considerations include currency effects, political and economic risks, tax differentials, cost of capital, transfer pricing, compliance with local regulations, cultural factors, and the potential for synergy and integration

03

Multinational capital budgeting is a complex process that requires a comprehensive analysis of various factors to make informed investment decisions that align with the strategic goals of the multinational corporation. It involves a careful balance of financial, economic, political, and cultural considerations to maximize returns and minimize risks across a diverse global landscape.

01 Control and Performance Evaluation of Multinational Companies.

Standardization vs. Localization: Balancing global efficiency with local adaptation in decision-making and operations.

Key Performance Indicators (KPIs): Establishing and monitoring metrics like financial indicators, market share, and customer satisfaction.

Information Systems: Implementing effective systems for real-time data collection, analysis, and dissemination.

Budgeting and Planning: Setting financial targets, resource allocation, and aligning strategies with diverse markets.

Risk Management: Mitigating risks from currency fluctuations, geopolitical issues, and regulatory changes.

Corporate Governance: Ensuring transparency, accountability, and ethical behavior across diverse jurisdictions.

Performance Appraisal: Evaluating contributions through comprehensive systems considering financial and non-financial factors.

Communication and Coordination: Facilitating regular communication and coordination to align subsidiaries with corporate strategy.

Adaptability: Responding to changes in the global business environment through flexible strategies and operations.

Cultural Understanding: Incorporating cultural nuances in management styles, communication, and employee expectations for effective global operations.

International Taxation

International taxation involves the imposition of taxes by different countries on cross-border transactions and income. To address issues like double taxation, where the same income is taxed in more than one jurisdiction, countries often enter into agreements and provide relief provisions. In India, these provisions are outlined in the Income Tax Act and various Double Taxation Avoidance Agreements (DTAA). Here are key aspects:

1

Double Taxation Avoidance Agreement (DTAA)

DTAA is a treaty between two countries aimed at preventing the taxation of the same income in both jurisdictions. India has entered into DTAA with several countries, and these agreements specify the rules for the allocation of taxing rights and provide mechanisms for relief from double taxation.

2

Relief Provisions in India

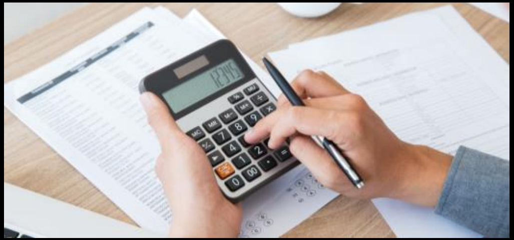
- **Tax Credits**: To provide relief from double taxation, India typically allows a tax credit for the foreign tax paid on income that is also taxable in India.
- **Exemption Method**: In some cases, India may exempt foreign income from taxation if it has already been taxed in the foreign jurisdiction.

3

Special Provisions Relating to Avoidance of Tax

Transfer Pricing Regulations: India has stringent transfer pricing regulations to prevent the manipulation of prices in transactions between associated enterprises, ensuring that they are conducted at arm's length.
General Anti-Avoidance Rule (GAAR): Introduced to counter aggressive tax planning and tax avoidance, GAAR empowers tax authorities to disregard transactions

International Taxation



Advance Pricing Agreements (APAs): India allows taxpayers to enter into APAs to determine transfer pricing methodologies in advance, providing certainty and reducing the risk of transfer pricing disputes.

Tax Information Exchange Agreements (TIEAs): India may enter into TIEAs with other countries to facilitate the exchange of information for the prevention of tax evasion and avoidance.

Minimum Alternate Tax (MAT): MAT is a provision in Indian tax law that ensures that even if a company's taxable income is low due to various exemptions and deductions, it is still liable to pay a minimum amount of tax.

Other Concepts of International Taxation

Goods and Services Tax (GST): While not directly related to income tax, the GST regime has unified indirect taxes in India, impacting cross-border transactions of goods and services.

Multilateral Instruments (MLIs): India is a signatory to the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS). MLIs modify existing bilateral tax treaties to align them with BEPS recommendations.

02 International Debt Crisis

International Debt Crisis:

- **Definition:** An international debt crisis occurs when a country struggles to meet its debt obligations, leading to severe economic and financial challenges.
- **Causes:** Factors contributing to debt crises include excessive borrowing, economic mismanagement, external shocks, and unfavorable global economic conditions.
- **Impact:** Debt crises can lead to economic recession, currency devaluation, financial instability, and, in extreme cases, default on debt repayments.

Banker's Plan: The Banker's Plan refers to a proposal for addressing international debt crises, especially in developing countries. It was developed in the 1980s in response to the Latin American debt crisis.

Key Features:

- **Debt Restructuring:** The plan proposed debt restructuring, including rescheduling and refinancing, to provide relief to debtor countries.
- **International Cooperation:** It emphasized the need for coordinated efforts by international financial institutions, creditor countries, and debtor countries to address the crisis.
- **Policy Reforms:** The plan often required debtor countries to implement economic and policy reforms to address the root causes of the crisis.
- **Market-Oriented Solutions:** The Banker's Plan aimed to involve market-oriented solutions, such as encouraging private sector involvement in debt relief efforts.

Role of International Financial Institutions:

IMF (International Monetary Fund)

The IMF plays a key role in assisting countries facing balance of payments problems, providing financial support, and offering policy advice to restore economic stability.

World Bank

The World Bank provides long-term loans and grants for development projects in member countries, contributing to poverty reduction and economic development.

Sovereign Debt Restructuring Mechanism (SDRM)

The SDRM is a proposed framework to enhance the efficiency and fairness of sovereign debt restructuring processes. It aims to provide an orderly and predictable mechanism for addressing sovereign debt crises.

Financial Depression Effects on International Banking

Impact

Financial depressions, characterized by severe economic downturns, banking crises, and widespread financial distress, can have profound effects on international banking.

Global Credit Crunch

Reduced Lending: Financial depressions often lead to a contraction in credit as banks become more risk-averse and are hesitant to lend. This reduction in lending can affect businesses and individuals globally, as access to credit becomes constrained

Currency Volatility

Exchange Rate Fluctuations: Financial depressions can trigger currency volatility as investors seek safe-haven assets, leading to fluctuations in exchange rates. This can pose challenges for international banks operating in multiple currencies.

Financial Depression Effects on International Banking

#1

Bank Failures and Consolidation

Increased Bank Failures: Economic downturns can lead to the failure of banks due to asset devaluation, insolvency, or liquidity issues. The failure of international banks can disrupt global financial stability.

Consolidation: Surviving banks may engage in mergers and acquisitions as a response to financial stress, leading to consolidation within the international banking sector.

#2

Sovereign Debt Crises

Increased Default Risk: Economic downturns may result in sovereign debt crises, where countries struggle to meet their debt obligations. This can heighten the risk of default on international loans, impacting banks with exposure to these sovereign debts.

#3

Regulatory Changes

Tightened Regulations: In response to financial crises, regulators may implement stricter regulations to enhance financial stability. International banks may face increased compliance requirements and changes in regulatory frameworks across multiple jurisdictions.

Financial Depression Effects on International Banking

#4

Cross-Border Capital Flows:

Capital Flight:
Financial depressions can lead to capital flight, where investors withdraw their investments from riskier assets and countries. This can impact cross-border capital flows and affect the stability of international financial markets.

#5

Impact on Trade Finance

Reduced Trade Activity:
Economic downturns can lead to a decline in global trade, impacting the demand for trade finance services provided by international banks. Trade financing may become more challenging as economic activity contracts.

#6

Multinational Corporations (MNCs) and Working Capital

Supply Chain Disruptions:
MNCs may face disruptions in their supply chains, impacting their working capital and ability to meet financial obligations. This, in turn, affects the exposure of international banks to corporate clients.

Crypto currency

Cryptocurrency is a type of digital or virtual currency that uses cryptography for security and operates on a decentralized network of computers. Unlike traditional currencies issued by governments (fiat currencies), cryptocurrencies rely on blockchain technology to achieve decentralization and security.

DeFi refers to the use of blockchain and cryptocurrency technologies to recreate traditional financial instruments such as lending, borrowing, and trading in a decentralized manner.

Initial Coin Offerings (ICOs) and Tokenization:
Fundraising Mechanism: ICOs were a popular method for startups to raise capital by issuing new cryptocurrencies. However, regulatory scrutiny has increased, and other tokenization methods, like Security Token Offerings (STOs), have emerged.

Mining and Validation:
Proof of Work (PoW): Many cryptocurrencies, including Bitcoin, use PoW consensus mechanisms, where miners solve complex mathematical problems to validate transactions and add blocks to the blockchain.
Proof of Stake (PoS): Some cryptocurrencies use PoS, where validators are chosen to create new blocks based on the amount of cryptocurrency they hold and are willing to "stake" as collateral.

SWOT analysis

Digital Storage: Cryptocurrency owners use digital wallets to store and manage their digital assets. Wallets can be software-based (online, desktop, or mobile) or hardware-based (physical devices).

Trading Platforms: Cryptocurrency exchanges facilitate the buying, selling, and trading of digital assets. Examples include Coinbase, Binance, and Kraken.

Security Concerns: Cryptocurrencies face security challenges, including hacking incidents, fraud, and vulnerabilities in smart contracts.
Regulatory Uncertainty: The lack of consistent global regulations can create uncertainty for users, businesses, and investors in the cryptocurrency space.

Cryptocurrencies operate on decentralized networks of computers, typically utilizing blockchain technology. This means there is no central authority or government controlling the currency.

ADR And GDR

#1

ADR (American Depositary Receipt)

ADRs are certificates issued by U.S. depositary banks representing shares of a foreign company. They are traded on U.S. stock exchanges, making it easier for U.S. investors to invest in foreign stocks without dealing directly with foreign markets.

ADRs can be categorized into three levels based on the level of compliance with U.S. Securities and Exchange Commission (SEC) regulations: Level I, Level II, and Level III. Each level has different reporting and disclosure requirements

#2

GDR (Global Depositary Receipt)

GDRs are similar to ADRs but are issued by international banks and can be traded on multiple stock exchanges worldwide. GDRs allow companies to raise capital in multiple markets and are often denominated in a currency different from that of the issuer's home country.

GDRs can be sponsored or unsponsored. Sponsored GDRs involve cooperation between the issuing company and a depositary bank, while unsponsored GDRs are initiated without the issuer's direct involvement.

Characteristics of ADR And GDR

Purpose

International Investment: Both ADRs and GDRs enable companies to access a broader pool of investors globally by offering their shares on international exchanges.
Investor Access: ADRs and GDRs provide investors with the opportunity to diversify their portfolios by investing in foreign companies without the need to navigate foreign markets directly

Trading and Liquidity

Exchange Listing: ADRs are listed on U.S. exchanges, while GDRs can be listed on exchanges in multiple countries, enhancing liquidity and visibility for the underlying shares.
Currency Consideration: GDRs can be denominated in various currencies, making them more flexible for global investors.

Custodian Banks

Role: Both ADRs and GDRs involve the role of custodian banks, which hold the underlying shares on behalf of the depositary bank and facilitate the issuance and cancellation of depositary receipts.

Thank you!