

### **Question No.4 Comment on the following:**

#### **b) High risks and rising R & D costs have not forced many TNCs to form technology related strategic alliances.**

**Solution:** High risks and rising R&D costs (especially in the area of new technologies) and the rapid obsolescence of new products have forced many TNCs to form technology-related strategic alliances to share development costs, acquire new technologies and make better use of scarce qualified personnel. The substantial number of strategic alliances in existence now is a relatively new phenomenon. There are indications, however, of an emerging trend towards a very high proportion of agreements involving the development of and access to technologies.

The alliances of IBM with several other corporations for the purpose of developing its personal computer are an example: the Lotus Corporation provided the application software, and Microsoft wrote the operating system, for a micro-processor that was produced by Intel. IBM (traditionally reluctant to conclude alliances) has now created alliances with more than 40 partners around the world, pooling technology and customer bases in the telecommunications and related fields. Such alliances are often undertaken for the joint development of new generations of products and to set industry standards. Transnational Corporations from the United States and Europe are the most active participants in strategic alliances, most of which take place in information technologies.

Technological alliances can be viewed as a way of providing collective protection to technological advances among a few partners. The increasing incidence of such alliances combined with the current pace and cost of technological development makes it more difficult for developing countries to acquire technology through traditional non-equity arrangements. Many alliances also involve common actions for setting international standards that increase the barriers to entry (including, for new products from developing countries) in the international market. Some developing countries, have the potential and capability, however, to become partners in technology alliances.

For most developing countries, then, the acquisition of new technologies is likely to rely – at least for the present – on intra-firm transfers by TNCs, rather than on inter-firm alliances between independent firms.