MBA Semester - I

COURSE : 104

# BUSINESS ENVIRONMENT

Lessons 1-10

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# SYLLABUS
## MASTER OF BUSINESS ADMINISTRATION (M.B.A.)
## FIRSTSEMESTER
### 104, BUSINESS ENVIRONMENT

### UNIT-I

1. System Approach to Management, Open Systems Approach, Strategic Planning. Need forEnvironmental Scanning. Different Aspectsof Business Environment;
2. History of Indian Business. Medieval and Modem Era, Contemporary Business Scene in India.

### UNIT-II

3. State and Markets.' Changing Government - Business Relationship, Liberalization and Globalization.
4. Changes in Company, Anti-Trust Foreign Investment and Labour Laws.

### UNIT-III

5. Economic Policy, Industrial, Fiscal and Monetary Policies. Business Support Systems and FinancialStructure of Indian Economy.
6. Social Change.in India, Urbanization, Middle Class Revolution, Cast and Command Tensions, IndianPsyche Gender and Social Inequalities, Indian Cultural Ethos and Global Culture, Westernization andSanskritisation.

### Unit-IV

7. Business and Politics in India, Centre-State Relationships and other Constitutional Problems related toBusiness, Fundamental Rights and Directive Principles.
8. Technological Environment Patenting Laws-National and International R & D. Scene, TechnologyTransfer from Lab. to Industry and Internationally. Information Technology Environment.

### Unit-V

9. Multinational Corporations, Public Sector and Privatization, Attracting Foreign Investment. MNC's andNation States.WTO.
10. Future outlook for society. Polity and Economy Business in 21$^{st}$Century, ecology and SustainableDevelopment.

## LESSON 1

# BUSINESS ENVIRONMENT-THRORETICAL FRAME WORK

**Structure**



## 1.0 Learning Objectives

After going through this lesson the learners should be able to:

1. Assess the theoretical framework of business environment.
2. Discuss the recent developments in political, economic and financial environment.
3. Explain the techniques of scanning the environment.
4. Conduct a SWOT analysis of the Indian economy.

## 1.1 DEFINITION OF BUSINESS ENVIRONMENT

The term 'Business Environment' refers to thetotality of all the relevant forces external, to andbeyond the control of, an individual businessenterprise and its management. These forces,despite being externally located, continue to exercise a significant and meaningful influence onthe life and growth patterns of individualenterprises. They may include diverse constituentssuch as :

the ideological beliefs of the ruling class,

value systems of the society,

rules, and 'regulations laid down by thegovernment, and

themonetary policies of the Reverse Bank ofIndia, and many other.

Some of these constituents may be static,some only relatively so, while others may bechanging every now and then. Similarly, while it may be possible to conceptualise and/or quantifysome elements, cithers may be referred to only in aperceptual sense. In terms of time also, theenvironment may be conceived as having elementsof the past, the present, and the projected future.

The environmental factors vary from country to country, even region to region. The environmentof business, thus, is an extremely complex anddynamic phenomenon.

Business environmental can be classifiedintotwo major categories : the economic environmentand the non-economic environment. The economicenvironment consists of factors like the fiscalpolicy, the monetary policy, the industrial policy,the physical limits on output, the price andincomeequation, nature of the economic system, the paceof economic development etc.

The non-economic environment refers tosocial, cultural, political, legal, technological-factors etc. Despite this segregation, the economicenvironment has non-economic implications justas the non-economic environment has economicimplications.

In today's business environment,considerable skill and dexterity is required inadjusting, coping with and managing theenvironment of business. This becomes more sodue to the changing natureof today's, businesscontext.

It is to facilitate development of these skillsthat study of the critical elements of businessenvironment becomes vital. These critical elementsfacilitate as in understanding this turbulent anddynamic environment help us in decision-making.

## 1.2 THE ECONOMIC ENVIRONMENT OFBUSINESS

A business firm is an economic institution in a market system. Its market behaviour reflects the nature of the economic decisions taken by themanager of the firm. Micro-economic decision-making by the firm has, nevertheless, to be madewithin the broader macro-economic system inwhich a business firm operates.

The present-day economic environment of business is a complex, phenomenon. Businesssector has economic relations, with thegovernment, the capital markets, the householdsector, and the foreign sector. These differentsectors, together, influence the trends and structureof the economy. The form and. functioning of theeconomy varies from country to country. Thedesign and structure of an economic system isconditioned by socio-political arrangements. Sucharrangements are relevant from the standpoint ofmacro-economic decision-making.

## 1.3 CRITICAL ELEMENTS OF THEECONOMIC ENVIRONEMNT OF BUSINESS

From the standpoint of both the corporatebusiness management and national economicmanagement in India, .the following may behighlighted as the critical elements of theeconomic environment of business :

The institutional, framework of theenvironment : The philosophy and practice of a economic system will, toa large extent, determinethe relative roles and responsibilities of the privatesector, the public sector, the joint sector etc.

**The physical framework of the environment:**The level of the economic development and the structure of the economy define the physicalframework of the environment. The level and"composition of per capita income indicate the level of growth and development. Available naturalresources, human resources, and materialresources, *of* a country set limit to its factorendowment which determines its production. Theoccupational distribution of the labour force, thestructure of national output the composition andpattern of foreign trade,the structure of savings,investment and capital formation, the pattern ofincome distribution, the degree of urbanisation etc.bring out the significance of agriculture, industry,and the service sector in the national economy.

**Physical anatomy of national economy :** The national economy is a combination of [hehousehold sector, the corporate business sector, thegovernment administration, the capitalmarketsand the foreign,.sector. The order andstrength of each of these sectors throw light on ourunderstanding of the economic environment.

**Functioning of the economy :** Money is theblood life of business activity and the economicsystem. The flows of consumption, investment,savings; income, employment, and output are allaffected by it. The nature of monetary transactionsaffect the price level, thereby influencing the realvalue of all economic variables. It also providesfurther, insights into the role of centralized planning, administered price system as well as freemarket pricing, and central banking,

**Economic planning and programmes :** Economic planning gives a direction to thechanges in the economic environment. Mosteconomies today function through one kind ofplanning or the other to overcome theirenvironmental constraints, and optimize theirachievements over a period of time.

**Economic policy statements and legislations :** Planning is a programme for action, and an endin itself. It must, therefore, be followed by properimplementation. This calls for economic policystatements affecting both industry and agriculture. RBI works through the instrument of money andcredit policies, while the government exercises itscontrol through fiscal-cum-budgetary policies..

**Fluctuations and trends in macro-economicvariables. :** The functioning, of an economy isreflected in short-term fluctuations, and long-termtrends, in macro-economic variables like income,money supply, price, production, employment, thebalance of trade and payment, foreign exchangeearning etc. These trends decide the courseoftheprevailing economic activity.

**Economic problems and prospects:** Some ofthe economic trends as mentionedabove maydefine the nature and dimensions of various macro-economic problems like inflation,unemployment, recession etc. Economic problemsand prospects in the environment throw challengesto corporate as well as national economicmanagement.

## 1.4 THE SOCIAL CULTURAL ENVIRONMENTOF BUSINESS

**Just** as **business is an economic activity, it**also **has social purpose.** Business must discharge**social responsibility, social** obligations, and social **commitment. Else,** it cannot enjoy social **saction.**

A host of factor, constitute such a socio-cultural environment. They include factors likesocial - values culture, beliefs, traditions andconventions, social attitudes, social institutions, class structure, social group pressure etc. thenature ofsocial objectives and priorities along withthe set of the social constraints, give form andcontent to several social movements. Successfulbusiness managers cannot afford to neglect thesemovements and their underlying ethos. Businessethics are very many influenced by the socialmovements, - social systems, and socialpreferences.

In a broadsense, thus, the socio-culturalenvironment happens to be a culmination of forcesoperating from different platforms such as history,culture, policy, ethics and morality, values andinstitutions, geography and ecology etc. The socialitself has to balance the achievements andaspirations ofvarious individuals, groups andinstitutions.

No business can survive and grow withoutsocial harmony. Different countries may attain thissocial harmony and order through different forms,ways and means. The social-cultural environment.will, thus, differ markedly over space, time, and.method.

## 1.5 CRITICAL ELEMENTS IN THE SOCIO-CULTURAL ENVIRONMENT OF BUSINESS

**These different critical elements include :**Social institutions and systems; Examplesindue the caste system, the jointfamily system,child marriage, the partriarchal family and the likethat have evolved over time through history,culture,and heritage.

The celebrated caste system in India, forexample, till recently, ensured a simple clearlydefined the place of individuals in the familialhierarchy. The position of women and children assimilarly laid down.

**Social values and moves :** Changing socialvalues and moves are beginning to question thebasics of the age old social institutions andsystems. Customs traditions and conventions arenot rigid anymore. Views towards authority,responsibility, and delegation attitudes towardsbusiness as profession; views towardsachievements and work; views towards ownershipand management, are all undergoing rapidchanges.

**Education and culture :** Attitudes towardseducation; need for business education; role ofbusiness schools; spread of business education,and their impact on business,ethics, businessmorality and organisational culture, are againmajor elements of socio-cultural environment ofbusiness.

**The social responsibility of thegovernment :** Growing levels of achievement andaspiration have- to be bridged through a continuousand relentless social effort, keeping in view thesocial welfare and social constraints. This is wherethe role of the government comes in. The \government has to make Jure that the socialprogress is not handicapped by the tyranny of themajority, otherwise, social tensions will mountaffecting business unfavourably.

**Social groups and social movements: In a**society, individuals form groups on the basis of.caste, creed, religion, language, trade andprofession etc. Some of them, e.g. trade unionismand the cooperativemovement have 'directeconomic interests, and pose challenges for business operations.

**Socio-economic order :** In a pluralistic society like burs (with differences in food, dress,language, religion and sub-cultures); a dualeconomy (the traditional co-existing with themodern); technological dualism (bullock cartsalong with airbuses). These reflect a unique socio-economic order in India. From them to time, thissocio-economic order gets disturbed, modified orchanged, hopefully for the better, through social movements and social policy formulation on'subjects like science and technology, econology and forestry, family planning, animal husbandryetc.

**Social problems and prospects :** These areoften offshoots of a changing socio-economicorder. As society moves from "pre-industrial" to"post-industrial" stage of development, poorhousing and sanitation, urban congestion,pollution and increasing incidence of anti-socialactivities. What is therefore, needed is a socialcost-benefit analysis of industrial development.

## 1.6 THE POLITICO-LEGAL ENVIRONMENTOF BUSINESS

In this sub-unit, the politico-legal aspects ofthe business environment are discussed.The government is a political institution. A discussed earlier it also has a social purpose **it** enacts and executes social policies and exists withsocial concept, providing ways and means of maximising social benefits and minimising socialcosts. In other words, the government and itsstructure and style have a definite impact onbusiness, and is of immense social value.

More so in the modern world, where businessof any type and size is affected by the governmentpolicies, programmes and legislations. We seethat, very often, depending on the nature of thegovernment at work, businessmen define andreorient their business strategy and tactics.

Quite a few of the government policies areexecuted through legislations. These legislations,enactments, rules and regulations, directives andguidelines, issued by the government, constitutethe politico-legal' environment of business. For asuccessful manager it become necessary to takestock of the relevant politico-legal environment ofbusiness and then capitalise on the opportunitiesoffered by it.

## 1.7 CRITICAL ELEMENTS IN THEPOLITICO-LEGAL ENVIRONMENT

The form and structure of the government :The form of me government can be democratic,communist, capitalist or a mix ? Eachof thesechoices will imply a corresponding relationshipbetween business and the government.

The ideology of the ruling party may itselfinfluence the ownership, management, structureand size of business. As a reaction to this ideology,businesshouses adopt pro-Government oranti-Government stance.

The strength of the opposition in legislature :A strong, fair, firm and consistent, opposition mayensure constructive criticism of the existinggovernment policies affecting business.The will also prevent "the government fromacting irresponsibly with regard to business.

**The role and responsibility of thebureaucracy ;** Ministers may change from time totime but the government's administrativemachinery must run without a break. Bureaucracy,thus, maintains continuity in the system; its rolebecomes especially powerful when thegovernment controls and regulates businessextensively.

**The direction and the speed of thegovernment policies and programmes :** Policies may be formulated with tremendous "speed".They may come one after another though their"direction" may not be clear. Sometimes, policiesmay have a clear direction but may be evolved at asnail's pace. Either way it is unfavourable forbusiness.

**Socio-economic legislations :** Business laws are numerous in number and diverse in form. Theyare enacted toProtect the interests of variousgroups in society. Thus, there are laws to protectthe consumers, workers, owners, shareholders, andthe society at large. It is through these legislationsthat order is maintained in the industrial economy.Laws not only protect business they also createbusiness.

**The politico-legal Institutions :**Thefunctioning of the legislative, executive, andJudicial organs of the government affect businessenvironment directly and indirectly. All theseorgans functionthrough organisations andinstitutions. For example, the judicial systemfunction through the Supreme Court, the HighCourts and the lower courts. Unless these courtsfunction efficiently, implementation of businesslaw like other laws will be at stake.

**Macro-Environment of Business :** Businessis an organisation which does riot exist in avacuum. It lives with its environment whichprovides resources and which lay down limits onits activities. An organisation can survive and growonly when it continuously adapts and responds intime to the changing environment. We are living inthe dynamic world which is undergoing a rapidchange with the coming up of new ideas,economic changes, political changes and newtechnology.

An organisation is an integral part of itsenvironment and both are mutually interdependentinteracting with one another continuously. Theenvironment provides resources and opportunitiesto the organisation needed for its existence. In turn, the business is expected of offer goods andservices tothe people living in its environment sothat the needs and desire of the people are dulysatisfied and their life styles are maintained as pertheir expectations. When the organisation isconducting its producing and marketing activities,they should not create undesirable affect and affectthe interest of the community adversely. Forinstance, monopolisticcombinations, killingcompetition and exploiting consumes, cannot beaccepted by the environment and public reactionsmay create a threat of nationalisation. Throughfeedback of information, the environment reacts tothe goods and services produced by and theactivities of business. The environment evaluatesthese and decides the future resources that it maycontribute and restrictions that it will place on theaffairs of the organizations.

Business is an open, adapative system havingits own environment consisting of uncontrollableeconomic, social, technology and political factorsgoverning the success or failure of the businessorganisation.

**Defining the Environment :** The first problemfacing the manager wishing to adopt an opensystem perspective is defining the environment.The world after all is large and it would behopelessly confusing to attempt to consider everyfactor in it. Management clearly must limit itsconsiderations of the environment to these aspectsof the outside world of major importance to thesuccess of an organisation. According to GERAIDBELL:

"AN ORGANISATION'S EXTERNALENVIRONMENT CONSISTS OF THOSETHINGS OUTSIDE AN ORGANISATION SUCH AS CUSTOMERS, COMPETITORS,GOVERNMENT UNITS SUPPLIERS,FINANCIAL FIRMS WHICH ARE RELEVANTTO AN ORGANISATION'S OPERATIONS." INCIDENTLY, HIS DEFINITION LIMITSITSELF TO' IMMEDIATELY MICRO-ENVIRONMENT OF BUSINESS; IN THISLESSON, WE LIMIT OUR DISCUSSION TOTHEBROADER .MACRO ENVIRONMENT,AND THE WAY ORGANISATION RELATES TO IT.

**The Macro-Environment :** Traditionally, theconstituents of the 'Macro-Environment' havebeen social, political, economic and technological.Over a period of time, authors have added areaslike knowledge/information, regulations, and geographic considerations as constituents of themacro-environment.

**Technology :** From the viewpoint of corporate strategy, as stated by Andrews,technological developments not only unfold fastestbut they are they most far-reaching in expanding or constracting opportunities for an organisation. There is no evidence of decline in the pace of technological advances which have ubiquitous impacts on all the constituents of the environment.An idea of this pervasiveness and rigidity of developments can be had from a few examples.**The** overwhelming majority of all materialsconsumed today in our daily lives had beendeveloped within the present century. Theproliferation and rapidity or product development**is** not limited to a industry like electronics or bio-technology but has extended even to stable industries like.food and textiles. Moreover, electronics and bio-technology are enabling the production ofsubstitutes or new aids to the traditional industries.It is being speculated that the future is likely to seemore inventions and faster pace of technologicaldevelopments. According to some authors this wiltoccur due to the presence of a large number ofscientists and engineers in the decadesa bead.Thirty years back, seven major areas fortechnological advances had been identified. Theseare :

- Transport
- Energy,
- Communications,
- Materials,
- **Bio-Life,**
- Mechanisations of physical activities, and
- Mechanisation of intellectual processes.

Most of the above have become realities inthe affluent and developed economies. In India,however, the pace and impact of technologicaldevelopments which have so far beencomparatively slow, are likely to pick up in thenext few years. Increasing popularity of personalcomputers, industrial electronics, electronisation oftelelcommunication system are a few examples ofthe current phase of information technologyrevolution in India.

The Indian government's new "technologymission",is likely to heighten the impact totechnology in India in recent years. Thesemissions are oriented to solve the problems ofteeming millions. The time bound missions are :

(i) Providing drinking water,

(ii) Promoting literacy,

(iii) Child immunisation,

(iv) Production of oil seeds, and

(v) Expanding country's telelcommunication network.

Considerable success has been reported inmissions no. (ii) and (v).

An intelligent response to the ever increasingtechnological advances should be entrepreneurialrather than reactive. This would require a differentoutlook and risk-taking capabilities. Failure to doso may have serious implications on survival andgrowth of business. This, failure to modernise andinclude in its product mix the clothes made fromman-made- fibres have been identified as one ofthe reasons for the decline and sickness of thetextile industry in India. An alternate source couldbe enriching natural polymers to create thequalities of synthetic polymers. It is, therefore,important that certain minimum technologicalconsiderations should always be incorporated inthe environmental analysis for strategic decisions.The future product group; processing technologyand raw, materials have to be identified by thefirms.

## THE SOCIAL ENVIRONMENT

Unlike technology, changes in social fabricoccur gradually. Further, it is not' easy topredictthe timing as the when changes in the social-environment would have substantial impact on thecorporate strategy. Some areas where socialchanges may have strategic implications especiallyfor business in the foreseeable future are ;

(i) Demography,

(ii) Urbanisation,

(iii) Joint and Nuclear family systems,

(iv) Skill upgradation and literacy,

(v) Health and quality of life,

(vi) Inequalities in income, and

(vii) Social values and ethics.

Social values play a prominent role instrategy formulation of firm. Since organisationsexist in society, they must modify or change theirgoals as society demands. Unfortunately, insteadofconforming to the desired values of the society the general ethical stands in our country are fallingrapidly.

Corrupt business practices lower ethicalstandards and generate severe stress andfrustrations for the honest, law abiding, sociallyresponsible businessmen. They challenge the basictenets and long cherished, values of hones. Thedilemma is whether to use unethical means forbusiness gains or to stand by the values and go outof business. As can be sensed, lower ethicalstandards can become a threat to a businessorganisation which wants to be honest.

Besides ethical standards, other factorslikepopulation characteristic, attitude of people,income distribution, spread of literacy also throwup never opportunities and threats. Thus, increasedconcern for health is opening up neveropportunities for service organisations likeallopathic and alternatemedicine centres.

Similarly, the fact that half of our population isbelow twenty years of age provides tremendousopportunities for products and services of use toyouth and children.

**THE ECONOMIC ENVIRONMENT**

Continuous monitoring of the economicenvironment is vital for strategic decision making.A close look on some commonly used economicindicators like G.N.P. and its growth rate proposedgovernmental planned outlays, capital outputratios, money supply, balance of trade movementof wholesale and retail prices, interest rates, percapita income and its growth can give a good ideaabout the investment-worthiness of the economy.Today, there are several organisations like CMIEare involved in analysing and publishinginformation relating to the Indian Economy. Whatis important from the viewpoint of anorganization is to compile and process the relevant informationwhich may aid in the identification ofopportunities or threats, the environment of adevelopment country like India is full ofopportunities which to a large numberof peoplemight appear as bottlenecks. With entrepreneurialtact these problems can be converted intoopportunities. The last decade has seen theemergence of new entrepreneurs who virtually hadno business exposure. Recent articles in *The Economic Times* and other business periodicals of 1994 narrate tales of these new multimillionaries. In India, a critical aspect affecting businessdecision relates to the government's economypolicies and regularity mechanisms. The model ofmixed economy and its root in the desire to createa welafe state. Certain areas were .reserved forgovernment organizations and also restricted entryof big and large business houses in certain areas.These restrictions and reservations constraint the flexibility and choice for strategic decisions, anymay prevent business form becoming efficiencyand affective. Off late, however, the list of thesereserved industries is getting shorter due to thetwin phenomena of liberalisation andglobalisation.

**THE POLITICAL ENVIRONMENT**

Political environment, for a country like Indiastarts with our constitution, the directive principlesof State Policy, the fundamental principles and thedemocratic process to maintain a parliamentaryform of government. But from the viewpoint of abusiness organiation the regularity and legalprovisions which affect its day-to-day as well aslong-term operations are perhaps more relevantthan the provisions of laws of the land. For acorporate strategist what are most important aretheactions of the functionaries of the political system rather than the provisions of the written laws andconstitutional provisions. The nexus betweenbusiness and political and general influence shouldalso be studies closely.

## AN INTERGRATED SYSTEMS VIEW

Our discussion of the environment assupersystem was fragmentaryin the precedingtext. The classification attempted in terms oftechnological, economic, political and social was to enumerate the components of the suprasystem of which the firm was 19 a subsystem. Ourconcept of a flew also assumes the same multipledimensions of its behaviour as an economic entity.Let us to sure first that as individuals constitute thesociety, they individualise with in the network ofsocial relations. Various institutions also influencethe micro level units and taken together theinstitutional framework constitute the environment.

Systems approach underlines the interactionsof various subsystems/components. Differentaspects of supersystern discussed here are interacting and interdependent as hinted in the sectionon social trends. Thesocial or economic orpoliticolegal or technological in the environmentalanalysis are interlocked. The acceptance ofbusiness as a healthy economic pursuit needssocial sanction. The extent of politicalisation oftrade union movement depends on the partysystem and the democratic nature of a polity.Vocationalisation of education is needed forsupplying skilled personnel to .industry. Politicalstability or disability may be due to eveness orimbalances in economic development. This willdetermine the climate for functioning of business.

We have only emphasised physicalenvironment to the extent, the existing technicalknowhow is able to appropriate the natural wealth,Geographical actors like water systems, forest andmineral available in a particular regions maybecome the basis to their agricultural or industrialdevelopment. Thus environment includes natureand the human systems like economy, society.polity or technology. In fact, for a accommodatingthe environmental influences, the systemobjectives of a firm have to be outlined. Theboundaries of the firm as a system are extended toinclude the relevant trends in the different fieldslike social ortechnological. Once the problem ofbusiness under study in defined, fresh systemsboundaries are demarcated and the conventionalunderstanding of the systems boundaries has to be revised. For example, in case of a selling problem,the consumers who are situated in the economy/ society, otherwise construed as externalities ofbusiness become a part of the business system.Similarly, the government machinery regulatingindustrial relations becomes participant in theindustrial relations scene.

The currents in business environments haveto be singled out depending on the intensity ortheir pressure on the business situation. A productmix or type decision cannot be taken in situationfrom general state of technology and the socialneed for the product. After the sub-systems ofsuper-system surrounding the business system areincluded in the systems analysis. The interaction ofthe business firm with recognised subsystems, hasto undergo a detailed scrutiny. The operationanalysis assume different sets' of values for thevarious, variables under the control of managementwithin the constraints of environmental ofuncontrollable variables. It studies their effect on the value of criterion function selected forevaluating the performance of system. The set ofvalue of controllable, variables which, gives optimum value of the efficiency criteria is chosenand the solution is implemented.

## 1.8 ENVIRONMENTALSCANNING FORSTRATEGY FORMULATION

The management science perspectivereplying on systems approach does vieworganisations as multidimensional and multi-functional entities. But the'flaw with structural-functional analysis is that itis essentially an historical studyoveremphasizing the appearances atthe cost of realities. Thequantitative informationcollected about the internal functioning as well as environment indicates only symptoms or trends. Inthe name of scanning, managers, are apt tounderplay the information which could yielddeeper understanding of the causation of thepresent reality. The economics, politicsand societies develop historically in zigzag patternsrather thanfollowing a linear or even a curvilinearpath. There are discontinuities, abrupt changes orrevolutions. These could be examined if ahistorical perspective aimed at outlining laws ofsocietal evolutions was followed.

In social, norms have come to the presentstage or state intervention has increased to theextern thatis visible in various economies, it is notso, sudden or unexpected a development.Futurologywhich shouldbe treated as the motherscience of environmental analysis for strategicmanagement has a historical underplanning. But any exercise in plotting future only through Delphiexercises or time series analysis of quantitativedata shall be inadequate. Any business in order tosucceed has to anticipate future challenges, be these of competitive threats or demand constraints.Strategy formulation or the outlining of thepattern of major objectives purpose or goals andessential policies and plants for achieving thosegoals stated in such a way as to define whatbusiness the company is in or is to be in and thekind of economy it is or it is to be; is partly anexercise in visualising future. It requires ahistorical perspective not only on the internaldevelopments, of the company but theenvironmental factors too. In fact, strategy aims atbuilding a linkage with the external environmentand the means of preserving it despite futuredevelopments which are outside the control of themanagement. The survival orgrowth of businessdepends upon a coherent, consistent and explicitunderstanding of its strategy.

In order to make a strategy work in abusiness, theenvironmental scanning activity hasto be carried out an going basis. The scanningactivity has to be carried out an ongoing basis. Thescanning activity in order to be meaningful has topercolate the understanding of the environmentalto all levels of management. The informationabout the environment is by its very nature not aamenable to quantification. It is overwhelminglyby unstructed or semi-structured but has to befuture oriented in nature. The relevance ofinformation has to be judged in consultation with :outside professionals arid the external information needs have to worked. Since most of the businessorganisations in India are not able to maintain theirown information systems, for environmentalscanning, they have to rely on secondary sourcesof environment. That is why the present work onenvironmental analysis being takenup.

## 1.9 MICRO-ENVIRONMENT OF BUSINESS

The Micro-Environment is made up ofStakeholders, individuals or groups who aredirectly or indirectly affected by an organisation'spursuit of its goals. Stakeholders fall into twocategories. External stakeholders include suchgroups as unions, suppliers, competitors,customers, special-interest groups and governmentagencies. Internal Stakeholders include employees,shareholders and board of directors. In thisChapter, we focus our attention on the immediateenvironment drawing on international experienceof business.

Before we discuss these two categories. Wemust stress one major point The role theseStakeholders play, may change or organisational,environments evolve and develop. Managers mustbe sensitive to this fact when they are tracing thevarious influences on an organisation's behavior and recommending responses to environmentalchanges.

Boththe internal and external stakeholdergroup of most organisations have changedsubstantially over the past few years. In therest of this chapter, we will outline the stake of each group and now it has shifted.

## EXTERNAL STAKEHOLDERS

External stakeholders, which affect anorganisation activities from outside thsorganisation, include customers, suppliers,governments, special-interest groups, the media,labour unions, financial institutions and competitions.

## CUSTOMERS :

Customers exchange resources, usually in theform of money, for an organisation's products andservices. A customer may, be an institution, such asa school, hospital, or government agency; oranother firm, such as contractor distributor, or manufactures; or an individual. Selling tactics varyaccording to customer and market situations.Usually, a marketing manager, analyses thepotential customers and market conditions anddirects a marketing compaign based on thatanalysis.

Consumer is the king in a market economylike India.

The store market may be highly competitive,with large numbers of potential buyers and sellersseeking the most congenial arrangements. In suchmarkets, managers must be especially concernedabout price, quality, service and product availableif they want, to keep old customers and attract newones.

In recent years, as foreign firms have.challenged the dominance of Indian business byoffering customers more choices and setting newstandards of quality, competition has begun tochange customer relationships.

Thanks to improved communications andtransportation, people around and globe are nowexposed to the latest and best products. As a result,people in different countries have becomepotential customers for the same goods.Manufacturers can now think in terms of a worldcar, for example, of a worldwide computernetworking system. The current wave ofglobalisation of business in India has broughtIndian manufactures of auto-parts int*he* globalnetwork. .

## SUPPLIERS

Every organisation appropriates inputs—*raw,* materials, services, energy,equipment, and.labour—from the environment and used them to produce its output. What the organisation brings infrom the environment—and what is does with whatit bring in—will determine both the quality and theprice of its final product. Every organisation istherefore dependent upon suppliers of materials, and labour, and will try to take advantage orcompetition among suppliers to obtain lowerprices, better quality work, and faster deliveries.

Today, as organisationslook overseas for more and more of their raw materials, theirrelationships with suppliers have changedsometimes dramatically. For example; politicalconsiderations can be as important as those ofprice and quality. Witnessthe strategy used by theOPEG nations toquadruple the price of oil in1973-74 and then double it in 1979-80. Fromamanager's standpoint, the power in the relationshiphas shifted irrevocably from the oil- refiners tothepetroleum exporting nations— that is to thesuppliers. This is a good example of theenvironmental complexity facing today's manager. Managers not only have toknowwhichorganisations affect them directly, but whichorganistions affect organisations affecting them.

Advances ininventory control andinformation processinghave alsochanged supplierrelationships. Under the conventional system, themanufactures was usuallyresponsible for all theinventory necessaryfor production capability.Today, however, some companies keep zero,inventory, necessary for production capability.Today, however, some companies keep zero inventory, relying on several"just intime" deliveries each day.

Finely, we should note the increasinglyimportant/role played by a .particular group ofsuppliers called vendors. Vendors supply materials•and services necessary toan organization specific production activities (for example, partseitherfinished or ready for assembly or generaloperations. A company that produces automobileswith contact witha vendor that specializes in thedesign and production of engines or other auto-part. Automobile 'manufacturers also' rely onvendors for such items as windshields and tyres. Purchasing mangers must develop firmrelationships with vendors and maintain constant,careful control over those relationships. Shortages,untimely deliveriesand fluctuating prices are only a few of the variables that can develop in anorganisation relationship with its vendors.

## GOVERNMENT

The doctrine of laissez-faire, developed in•the eighteenth century, holds that governmentshould exert no direct effects on business, butshould limit itself, to preserving law and order,allowing the free market to shape the economy. By the beginning of the twentieth century, however,abuses of business power led the IndianGovernment to take on the rote of "watchdog", regulating organisations to protect the publicinterest and ensure adherence to free-marketprinciples. Indian Government has passed manylaws creating regulatory agencies, which establish and enforce the ground rules within which business must operate Inaddition. Court decisionshave played a major role. in shapening the strategies and policies of the modern business organisation. State and local governments, loo,have assumed the role of watchdog and passed laws concerning, the operation of business within their boundaries.

The scope of government intervention in theeconomy has expanded since Independence. Andas Government intervention has grown, it hasbecome increasingly controversial One the onehand, it promises genuine social benefits, such ascleaner air and. water, safe automobiles, and ageneral increase in the standard of living it can-also be argued that regulation benefits and protectsthe regulated industries themselves. On the otherhand, regulation is costly and may inhibit freeenterprise. This was the logic of relaxing controlsduring the nineties.

Whatever the merits of regulation as a specific government policy, managers must dealwith a complexweb of localstate, federal, foreign and international governments, each with thepotential to affect an organisation throughlegislative initiatives, judicial action, and executive regulation. For example, they must cope with contradictory regulations by different agencies.The upcoming Indian multinationals also have to understand by working of foreign governments,which may be deliberately placing obstacles in their path to protect domestic organisations. They must deal with conflicting state laws, such as tax and packaging, requirements. They have to fight,product-liability, equal opportunity, and intitrat suits in court. They must weigh state incentive plans when deciding on plant locations and plantclosing. They even have to cope with citizeninitiatives such asbottle deposit laws. Obviously,the cumulative effect of all this governmentalactivity is enormous. The reservation policy'adopted by Indian, government, may be forced on India business in matters of employment.

Government also act to aid and protectindustries. Large number of public financinginstitutions like IDBI. IFCI, UTI and LIC are case in support. Moreover,the state in India has asizeable presence in India through PSUs. Thepublic sector is a major buyer and supplier ofprivate business.

## SPECIAL INTEREST GROUPS :

"Special-interest group" (SIGs) use thepolitical process to further their position, on soils particular issue such as econology, religiouspractices and gender discrimination. Managers *can*never be sure that an adhoc group withmost form to oppose the company one some issue.

While special-interest politics is hardly *a* newphenomenon, modem communications technologyand election financing have allowed SIGs toflourish in our time. The media can give suchgroups instant national attention, and [he politicalaction committees (PACs) of the groups usecompaign contributions an vote-banks to influencelegislators. Managers must take both present andfuture special-interest' groups into account whiledeciding organisational strategy. Among the mostimportant special-interest groups are consumeradvocates and the environments.

Dissatisfied consumers can choose either toexist—that is, to take their business elsewhere—ortovoice their complaints; the customer's loyalty tothe organisation will determine which option isused. Exit, of course, can cripple anorganization by removing its customer base without givingmanager time to make changes. Voice, in contractis a political strategy designed to seek redress forgrievance. Filling lawsuits requesting theintervention of a regulatory agency and lobbyinga law-making body are examples of the exercise ofvoice.

In its use of voice, the consumer movementcan be constructive: rather than adversarial.Recognizing the costs of government intervention,consumer leaders often prefer negotiation, whiteprogressive managerswelcome voice as anopportunity to understand customer's needs and tolearn about changes in the market-place. In fact,many multimationals such as Procter & Gamble,make handling consumer complaints a highpriority. AT & T has even formed consumeradvisory panels (CAPs) to gain an understandingof consumer reactions to proposed changes inrates, products and services.

The environmentalist movement also from the1960s, when the public became aware of the threatsome new technologies posed to the environment.The Union Carbide case and Narmada BachaoAndolan are two outstanding examples of SIGsinfluencing business.

Not surprisingly, environmental regulationshave imposed extra burdens on business. Emissionstandards, for example required the developmentof the catalytic, converter as part of the automotiveexhaust system, reduced engine performance byeliminating the use of leaded gasoline, and ofcourse, added to the overall purchase price of acar. In the chemical industry, the cleanup costs forgenerations of neglect have become -staggering.Still, managers have no choice but to take intoaccount the current climate of broad and genuine.concern for the environment. The pollution controlmeasures are catching up in our country underglobal influence.

## MEDIA;

The economy and business activity havealways been covered by the media, since thesetopics affect so many people. Today, though, mass-communications allow increasingly extensive andsophisticated coverage, ranging from generalnewsreports to feature articles to indepth investigativeexposes. The coverage is also more immediate,due to the increasing, use of communicationsatellites. Consider Bhopal in India, this was thesite of a984 industrial accident at a

Union Carbideplat, which released clouds of poisonous gas overa poor neighbourhood. The nightly news carriedsome-day coverage of the accident and its victims,making it, much than a mere news story about onecompany's safety policies in a remote part of theworld.

Today, most large organisations realise they in a fishbowl, where every action may be thesubject of media scrutiny. To help themcommunicative with both internal and externalaudiences, they have developed sophisticatedpublic relations and marketing departments. Inaddition, executives who regularly deal with themedia often seek professional coaching, with thegoat of presenting information and opinionsclearly and effectively.

## LABOUR UNIONS :

Personnel specialists generally deal with anorganisation'slabour supply, sometimessupplemented by other managers with specifichiring and negotiating responsibilities. They usemultiple channels to locate workers with thevarious skills and experience the organisationsneeds. When an organisation employes labourunion members, union and managements normallyengage in some form of COLLECTIVEBARGAINING to negotiate wages, workingconditions, hours, and so on.

There have been dramatic changes in labourrelations in recent decades. Both personnel andunion management have been profationalized.Also, employers generally acceptthe collectivebargaining process andco-operate with me uniontо increase worker responsibility and participation.

The sit-down striker violence that so often-characterized the union's early days for the mostpart over. Instead, unions urge stock-ownership,profit-sharing, and gain-sharing programmes that give the workers a stake in the organisation, andquality of worklife programmes that give themmore control over that do and how they do it. Theproblem of dealing with multiple unions is verypeciaiiar toIndia.

## FINANCIAL INSTITUTIONS :

Organisations depend on a variety offinancial institutions, including commercial banks,investment banks and insurance companies, tosupply funds for maintaining and expanding theiractivities. Bot new and well-establishedorganisations may rely on short-term loans tofinance current operations and onlong-term loansto build new facilities or acquire new equipment.Because, effective working relationships with'financial institutions are normally the jointirresponsibility of the chief financial officer aridthe chief operating officer of the organisation. That responsibility has been made considerably harderby the enormous changes that have taken place inthe financial industry. In India, most of the financial institutions are in public sector and thusrole of the government increase furtherinregulating business.

One change, is that large full-serviceinvestment houses are replacing older partnershiparrangements. Recent insider-trading changesagainst investment bankers caused turmoil in theindustry, as did the 1991 stock market crash—which was linked in part to fraudulent tradingprogrammes. Moreover, deregulation of thebanking industry is increasing competition at thesame time that many banks have been weakend byloan failures here and abroad.

## COMPETITORS :

To increase its share of the market a firmmust take advantage of one of two opportunities :(1) it must gain additional customers, either bygarnering a greater market share or by fundingways to increase the size of the market itself; or (2)it must beat its competitors in entering andexploiting an expanding market. In either case, thefirm must analyse the competition and establish aclearly defined marketing strategy in order toprovide superior customer 'satisfaction.

The' world petroleum crisis that stared in the1970s drew attention to the competitiveinterrelationships in the energy industry, In theinternational oil market though Texco, Mobile, andExxon compete against one another in the sale ofpetroleum, they share the common problem ofcompetition from the coat, nuclear, solar andgeothermal industries, all of which provideenergy-producing substitutes.

In India, competition is limited. In anoligopolistic market, where relatively few sellersconfront large numbers of buyers, the sellers mayinformally divide the market up among themselvesand set prices. In a monopolistic market, everycustomer must buy from one available sources,such as an electric utility. Sometimes a firm enjoysa temporary monopoly, as Xerox did whenit introduced the electrostats copier.

In recent years, the competition has been'increasing in India market dueto opening up ofthe economy. Foreign competition poses a specialproblem. As long as all significant competition isdomestic, everyone must play by 'the same rules.Each competitor bears .the burdens and shares thebenefits of the same government, 'the same fickleconsumer population, and same special-interest'groups, firms within an industry can implicitly orexplicitly co-ordinate their response to variousissues, the theoretically ho one is at a competitivedisadvantage. No only does foreign competitionupset this balance, but it is much more difficult toanalyze, because that entails learning aboutanother culture.

## OTHER STAKEHOLDER GROUPS ;

Each individual organisation will have a host of different stakeholders.For instance, a hospitalwill have to consider the American HospitalAssociation, groups of doctors, nurses, and othercaregivers, and of course, patients. Everyorganisation will have a particular stakeholder map that will in essence be a picture of the direct actioncomponent of its external environment.

## INTERNAL STAKEHOLDER :

**Even through, strictly speaking, internal**stakeholders are not part of the organisation'senvironment, **they** are a part of the environment forwhich an individual manager **is** responsible.

**Employees ;** The nature of the work force ischanging in most organisations, partly, because ofdemographic factors. At the same time the skills needed by employees are changing. As companiesfind it necessary to experiment with qualityprogrammes, team approaches, and selfmanagedwork groups to face foreign competition they needemployees who are better educated and moreflexible. In a labour surplus market like Indiadeciding on an EXIT POLICY is proving to be very difficult on account of the resistance from employees.

## SHAREHOLDERS AND.BOARDS OFDIRECTORS:

The government, structure of large publiccorporations allows shareholders to influence acompany by exercisingtheir voting rights. Traditionally, however, shareholders have beeninterested primarily in the return on theirinvestment and haveleft the actual operation of the organisation to its managers.

In recent year, however, certain groups ofsocial activists have began purchasing smallquantities of stock for the purpose of forcing voteson controversial issues at annual corporatemeetings. Although merges and/hostile takeovers are often spurred by the legitimate need to reorganise Indian manufacturing, they involvelarge expenditures of capital that, are usuallyjustified by cutting back operations and liquidating assets. In the recent years, many managerswereon the defensive; sometimes they harmed the longterm health of the organisations in their efforts to keep profitsand stock prices up so as to discourage takeover attempts. Buying back their own company's stock is not a very healthypractice in the Corporate Sector.

A further impetus to societal marketingconcept has been provided by increasing. competition. When seller's market give waytobuyer's markets, companies will be compelled to pay concerted attention to the consumer desiresand altitudes.

Although the consumer and environmentalmovements are not powerful in India vis-a-vis theadvanced countries, they are growing. So are theGovernment regulations. The competitiveenvironment is also changing. Further, the foreignconsumers also bother about the environment isalso changing. Further, the foreign consumers alsobother about the environmental effects of theimports in the producingcountries. Governmentsare becoming increasingly concerned about theenvironmental implement the production of theirimports, for example, the U.S. law-P.L. 101-162prohibits the import of shrimp harvested withcommercial fishing technology which mayadversely affect the endangered on threatened, seaturtles unless the President certifies the country hasa turtle conservation programme comparable tothat of the USA, The European EnvironmentalBureau has launched an appeal for a more seriesconsideration environmental impacts when,fisheries agreements are drawn up by the memberstates and other countries with third worldcountries.

In short, timehas come in India too to takethe sociatal marketing concept seiously. Preventionis better than cure and it and it will be in theinterest of the business to accept this marketingphilosophy voluntarikly before it is thrust of themby the external forces.

There is a growing demandfor productswhich econmise resource use, environmentally andphysiological safe deterents, lead-free petrol,ozone friendly aerosols, toxic-free food-items andso on, A socially responsible company will notwait for the government regulation to eliminatetoxic elements from food preparations will notmarket automobiles orany other product which donot satisfy safety requirements. The limits togrowth and cost of growth have taken the world tosuch a situation that acceptance ofthe societalmarketing concept, inter alia is a mustto maintainthe ecological balance, for the welfare of humanity.

## 1.10 ENVIRONMENTAL CHANGE

Business 'environmental is dynamic. Mayelements in the environment undergo changes,Technological changes are frequent. Tastes and thepreferences, of the people change. The competitivesituation changes. Demographic factors, includingpopulation size, change. Attitudes and value system undergo changes. Economic factors, likeincome, change continuously. Government policies and regulations also changes to cope withthe changing environment.

All these factors indicate that a businesspolicy should in dynamic enough to besuccessfully adaptable to the changing.environment. The successof a business depends onits ability to foresee the environment changes and**to** modify its business strategies appropriately.

An exact prediction of the future events it, ofcourse, very difficult. However,reasonablyreliable forecasts are possible in many areas. Forexample, if therelevant data areavailable, it ispossible to forecast the demand for a product.There are a number of forecasting techniques. Anappropriate technique, or techniques can be used,depending upon the characteristicfeatures of thesituation.

Similarly, forecasts can be made of suchfactors as demographic factors, income levels,technology, etc. Such environment Glucckmentions the following techniques, tor environmental analysis.

(i) Verbal and written information.

(ii) Search andscanning.

(iii) Spying;

(iv) Forecasting and formal studies.

As these techniques are quite well known, wedo not intend to explain them here.

## 1.11 STRATEGIC MANAGEMENT

An analysis of SWOT (i.e., strengths andweaknesses of the company and the opportunitiesand threats in the environment) playsa veryimportant role in the strategic management processor the formulation of business policy. A look at thestrategic management process would make theimportance of the external-internal factors nexusmore clear.

Glueck defines strategy as a "unified.comprehensive and integrated plan relating thestrategic advantages of the firm to the challengesof the environment. It is designed to ensure that the basic objectives of the enterprise areachieved." Strategic management is defined as"that set of decisions and actions which leads tothe development of an .effective strategy orstrategies to help achieve corporate objectives."

Chandler describes strategic management asthe determination of the basic long-term goals andobjectives of an enterprise and the adoption ofcourses ? action and allocation of resourcesnecessary to carry out these goals" According topaise and Naumes, "Strategic managementinvolves the decision-making andthe activities inan organisation which (1) have widerramifications, (2) have a long time, perspective,and (3) use critical resources towards perceivedopportunities or threats in a changing environment.

Strategic management or business policy isthe means to achieve the objectives. Strategicmanagement process involves ascertaining theobjectives, analysis of the environmentalopportunities and threats and appraising thestrengths and weaknesses of the firm to tap theopportunities, or tocombat the threats, formulatingstrategies to achieve the objectives on the basis ofthe SWOT analysis,choosing the most, appropriatestrategy, implementationof the strategy andreformulation of the objectives or strategy, ifneeded.

## FORMULATION OF OBJECTIVES

Ascertaining/formulatingthe companyobjectives is the first step in' the strategicmanagement process. A strategy is, in fact, ameans to achieve the ends or objectives, it should,however, be noted that objectives should not bestatic, they should be dynamic. That is changes onthe environment and/or changes in theorganisational strengths and weaknesses maycallfor modifications to the objectives. As Kotlerremarks, "objectives can grow obsolete because ofthe continuous changes occuring in the company'objectives are the most appropriate, given theenvironment and the company resources. It is such appraisal and the resultant reorientation ofthebusinesswhich have enabled many companies toachieve remarkable successes which, are oftenreflected in ten prudent diversification and fastgrowth of business.

To formulate clear objectives, it is essential toget definite answers to certain questions, viz."what business the company is in ?" "What shouldthe company's business be ?" "What will thecompany's business be ?"

As Gluek aptly remarks, "objectives help define the organisation in its environment"Environmental' analysis will help find answer to thequestion whatshould the company's business be. ?If what should be the business, thereiscertainlya needfor redefining the business/matchingthecompany resourcesto the environment. Thequestion what 'what will the company's businessbe ?' exposes another dimension of businessobjectives, namely 'the longerm perspective. AsDrucker succinctly pust it, 'what will the businessbe" is related to "what changes in the environmentare already discernible that are likely to have highimpact on the characteristics, mission, and purpose of our business ? and how do we now build theseanticipationsintoour theory of business, into itsobjectives, strategies and work assignments ?"

Mostcompanies have multiple objectives.Multiplicity of objectives normally calls forassignment of relative priorities.

A company which has multipleobjectivesnormally pursue some objectives in the short-runand others in the long-run. A short-run objectivemay be a means to achieve a long-run object. Forexample, the short-run objective of marketpenetration may be a strategy to help achieve thelong-run objective of market dominance or profit.For instance, a key characteristic of the Japanesecompanies' strategy of entering the foreign.

## 1.11 Self-check Questions

1. What is business environment?
2. Discuss critical elements of economic environment of business
3. Define the concept of strategic management

## 1.12 Summary

Environment literally means the surroundings, external objects, influences orcircumstances under which someone or something exists. The environment of anyorganization is the aggregate of all conditions, events and influences that surround andaffect it. The framework of business environment can be divided into three broaddimensions: Internal Environment, Macro Environment and Micro Environment. Internalenvironment is internal to the organization and it is controllable. The important internalfactors are as follows: culture and value system, Human resource, mission andobjectives, and nature and structure of management. External or Macro or GeneralEnvironment consists of factors external to the industry that may have significant impacton the firm's strategies. It consists of six broad dimensions: Demographic, Socio-cultural, political/legal, technological, economic and global.

Globalization has also enabled India to become the software superpower of the world.All global organizations now have a new and vast market, as well as cheapmanufacturing hub, which have compelled them to change their global marketing andmanufacturing strategies. The environment is constantly changing in nature. Due tomany and varied influences operating there is dynamism in the environment causing itto change its shape and character continuously. The economic environment constitutesof economic conditions, economic policies, and the economic system. Which isimportant to the external factors of business

## 113 Glossary

**Business Environment:** Aggregate of all conditions, events and influences thatsurround and affect a business

**Micro environment:** Micro environment of business enterprise refers to the study of asmall area or an immediate periphery of the business organisation.

**Environment Scanning:** Process by which organization monitors their relevantenvironment to identify opportunities and threats.

**External Environment:** Factors external to the industry having significant impact on thefirm's strategies

**Internal Environment:** Internal to the organisation and can be controlled

## 1.14 Answers: Self-check Questions

1. Seesection no. 1.1, lesson-1
2. Seesection no. 1.3, lesson-1
3. Seesection no. 1.11, lesson-1

## 1.15 Terminal Questions

1. "The relation between a business and an environment is not a one way affair".Comment.
2. Discuss the major changes that have taken place in India's political scenario over theyears. Has the situation improved or worsened? Give reasons.
3. How do the demographic variables decide the marketing mix of the organization ?Explain with detailed example of any two companies from different industries.
4. "Environment is dynamic and multi-faceted". Discuss.
5. Do a SWOT analysis of the Indian Tourism industry?

## 1.16 Suggested Readings


1. Aswathappa, K., (2009). *Essentials of Business Environment.* Global Media.
2. Dave, B., (2009). *Business Environment in Modern Era.* Global Media.
3. Cherunilam, F. (2009). *Business Environment,* Global Media


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**LESSON-2**

# HISTORY OF INDIAN BUSINESS

**Structure**



## 2.0 Learning Objectives

After going through this lesson the learners should be able to :

1. Understand the origin of the management of agency system
2. Discuss the Indian business in post-independence era

## 2.1 Introduction

India remained a centre of attraction for the entire world right from the ancient period. Number of foreign invaders, travellers etc. used to come toIndia because to, its rich natural resource and highlevel of technology. In other words, history ofIndia's enterpreneurship is many thousand yearsold India was known for its handicrafts, Muclimof Dhalea etc. for many hundred years through outthe world, Kautilya's **Arthshastra** provides veryvaluable informations for India foreign trade during ancient period.

Enterpreneurship continue to flourish even inthe medieval period. The survey of works on theeconomic history of this period provides an almostcomprehensive coverage in the published,literature. The nature of knowledge available onagricultural production, village society evenue system, commerce, inland trade, foreign trade, handicrafts, technology, monetary system, prices,credit etc. Scholars like Irfan Habib have muchnotable contribution, to the study of tradetechnology, agrarian system etc. During this periodIndia's level of economic development was almostequal to Europe.

During colonisation, Indian enterpreneuship has suffered a lot Colonisation on the one handhelped great Britain to get cheap raw materials from India and on the other hand a readymademarket for the manufactured goods of GreatBritain which was the major reason for IndustrialRevolution. Colonisation gave a major jolt to theIndian enlerpreneurship however, come with thesetting up of a modern factory system in the 2nd half of 19lh century, new class of entrepreneurshipagain started to emerge.

## 2.2 THE ORIGIN OF THE MANAGINGAGENCY SYSTEM IN INDIA

The managing agency system has been thedominant form of business organization in Indiafor over a century, yet no one has described thecircumstances surrounding its first emergence. It isnot difficult to understand why an aura of mysteryenshrouds the early years of the system. Studentsof managing agency have invariably beeneconomists. Although they feel obliged in makesome reference to its historical origins, theyneglect the sources where the evidence abounds, Atypical statement from a recent official Indianstudy of managing agency reads ; 'Little is knownabout the early twilight zone of the history of ourindustrial development in which the managingagency system and the joint stockscompaniesplayed a great part. A British authority on thesystem writes : ‘It.is unfortunate that the sourcematerial on which the economic historian wouldnormally rely for the study of the genesis of a great institution is, in the case of managing agency,scattered and fragmentary.

Other writers attribute' its origins to the m**ercantile** agency **houses'** which flourished inCalcutta from 1793 until their failure in the 1830sor to their successors, the agency houses of 1834-47. Without citing specifics they skip to the periodafter 1860, by which time thesystem had fully**matured.**

Itwas, in fact, in the period from 1834-47that a type of businessorganization recognizableas a managing agency took form. A mercantileagency housefirst assumed the duties of amanaging agent in Calcutta in 1836. OtherCalcutta agency houses followed their example andundertook the management of joint stockcompanies in the 1840s. Simultaneously, thesystem appeared in Madras, and by the 1850s. British houses inCalcutta, Madras and Bombaywere employed increasingly as local agents ofcompanies Organized in. the British Isles. Thereafter, until they reached their apex of powerimmediately before World War I, British managingagents managed both the sterling and rupeecompanies that dominated the tea, jute and mining'industries. In the meantime Indian firms,beginning in 1858; adopted the managing agencysystem when they established textilemills inBombay and Ahmedabad. Although the system isnow declining in importance, managing agencycontrol still prevails among the larger industrialunits and in the more technologically-advancedindustries of the private sector. As late as 1955 managing agents controlled public companieswhose paid-up' capital accounted for over senvetyper cent of the total for all India public companies.

The managing agency system came intoexistence when an agency house first promotedand then acquired the management of a Joint-stockcompany. This combination of events occurred initially in 1836 when Carr, Tagore and Company'promoted and assumed the management of the Calcutta Steam Tug Association. In thisarrangement Carr, Tagore and Company followed certain, precedents - organizational formsdeveloped by the defunct mercantile agency houses in the period before 1834. Originatingin the late eighteenth century, the old agency houses were private partnerships capitalized by the savings of civilandmilitary employeesof the East-India Company. The houses advanced moneytoindigo manufactures and then received themanufactured dye on complement for sale inEurope. They also invested in governmentsecurities, - shipping, docking and sugarproduction. The bulk of the country's trade,including the shipping of opium to China, and theprivate trade between Bengal and Europe waschannelled through their hands. In their time theagency houses held unchallenged control of thecommercial life of Calcutta.

The agency houses also conducted thehandful of joint-stock associations founded before1834. Though the joint-stock form was limited, toinsurance and laudable societies, the employment of agency houses a managers provided the organisable model for the latermanaging agencysystem. In the financial crisis of 1829-33 all of theold agency houses failed, and their place wastaken by a new set of agency houses. Theseperformed many of the same functions especially, that of advancing money to indigoplanter's- but relied on the hypotecatlon of goodsimported from Britain for the greater partof theircapital.

Carr, Tagore and Company, founded inOctober 1834, was the most energetic, though bynon means the largest, of these new houses.Dwarkanalh Tagore, one of the wealthiestmerchants in Calcutta, joined' in a partnership withWilliam Carr, a respected indigo trader, in the firstequal business partnership between an Indian andEuropean. When Carr left, for England in 1836.Tagore brought into his firm an insolventmerchant, William Prinsep, member of aprominent British-Indian family. In time Tagorebrought other, new, partners into his firm, amongthem Captain T.J. Taylor, reformer of the Indianpostal system, and two young merchants who.would succeed to the firm's enterprises-DonaldMcLeod Gordon and James Stuart. Tagore'sfortune had been founded on landholding andmoneylending, and among his business interestswere the import and export trade, indigo and silkmanufacture, sugar refining, ocean shipping,docking, newspapers, insurance, and the UnionBank. As the only continuing partner and as theprovider of capital, he was, undoubtedly, the chiefentrepreneurial spirit behind his firm's activities.

The managing agency system, as it emergedin the decade 1836-46, had yet to prove 'itssuperiority as a form of business organization.' Carr, Tagore and Company's management, thoughby no means entirely unsuccessful, exhibitedmany of the defects currently associated with themanaging agency system. They frequentlyoperated joint stock enterprises for their ownadvantage rather than for the benefit of theshareholders, in particular, by exploiting theircontrol of purchasing for their own profit.

On the other hand, Carr, Tagore andCompany exhibited most of the characteristics ofthe mature managing agent. They acted 'asentrepreneurs in promoting joint-stock companies,provided the initial capital, and in some casessupported an enterprise for a considerable timebefore opening its shares to the public. When theyconverted an enterprise into a public company,they retained control, by purchasing as manyshares as necessary, placing their partners on theboard of directors, and negotiating a long-termmanagement contract with the company. Theyintegrated their industries vertically andhorizontally, in this way developing their ownsources of raw materials and their own markets,and permitting more efficient utilization ofoverhead facilities, they pioneered in steam tugsand river steamboats, tea, bridging 'the Hughli, coal mining, and, later it should be mentioned, railway promotion. Three of the Companiesoriginally promoted by Can, Tagore — coal, teaand the steamboat—are still in operation.

Carr. Tagore performed another importantmanaging agency function - that of encouraginginvestment and channeling capitalinto industry. Just as later managing agents attracted capital bytheirown reputations for business success, so didDwarkanath Tagore. This was especially true in thecase of Indian investorswho provided a substantialamount of the capital for Tagbre's enterprises.Carr, Tagore's chief innovation was to harness thecommercial experience of the agency house to the greater financial resources of the joint-stockcompany. Thus they led in the trasition frominternational trade to the development of domesticindustry in India.

## 2.3 THE ORIGINS OF PARSI ENTERPRISE

The Parsis played an outstanding role in thegrowth of - Indian industry in the nineteenthcentury. They pioneered the cotton textile industryin western India; and in all types of industrial andtrading activity in the Bombay Presidency theirparticipation was quite out of proportion to theirnumbers.

The Parsis' success has invited a number ofexplanations. It has been attributed to their spiritof enterprise, their, lack of caste, their foreignorigin, etc. Some evidence can be found for theseexplanations but their significance cannot beassessed unless various contributory factors areconsidered together. Further, such explanations donot take into account the historical character of theParsi achievement. They Parsis played a smaller and diminishing role in the industrial development inthis century, but that cannot be attributed to theirbecoming less enterprising, or their developing acaste - system. Many of the old Parsi concerns,founded in the nineteenth century, continue toexist, but their growth in recent decades has beenless rapid than the overall growth of industry in thecountry.

Thus, it is necessary to put Parsi enterprise inits historical context. Fortunately the documentary basis for doing so is fairly firm. With their strong sense of community, the Parsis have writtena great deal about themselves. Community news wasreported extensively in their newspapers. Hence the record is quite, complete for most of thenineteenth century; fragmentary information, isalso available for the two previous centuries. Theobject of this paper is to review the evidence andexplore the origin of the entrepreneurial activitiesof the Parsis.

The Parsis came to Gujarat inthe year 697A.D. to escape persecution by Mohammedans inPersia. Nineteen years later, they moved to Sanjan, whichwas then a port in the Gulf of Cambay.Nothing is heard of them in the following 700years, and it is likely that they were substantially assimilated in the indigenous-population and tookup the native occupation of farming. Right up tothe nineteenth century the Parsis showed the greatinfluence of India ways and manners. Some ofthem hadHindu names, and their rituals at birth, marriage, etc. alsoincorporated Hindu customs.

Sanjan was overun by the Muslimsin I3!5,and apparently the Parsis were uprooted. They are next found settled in the Surat-Navsari area in thefifteenth century; by then they were no longerconfined to agriculture, but had extended their activities to lax faming,shipbuilding,shipping andtrading. The growth of occupational and economicdifferentiation *was* probably/behind the theologicalcontroversis that began toarisein the fifteenthcentury. We hear of leading Parsis getting worried aboutthe adulteration of their religion andexchanging notes with the Parsis in Persia regarding correct procedures.

In the Seventeenth, and eighteenth, centuriesthere weresome famous shipbuilds among theParsis of Surat. There is a reference in East IndiaCompany recordsto a Pars; 'shipbuilder in Surat,Cursett, who built warships around 1672. Whenthe Bast India Company wanted a ship in 1735, its agent was sent to Surat, and he placed an orderwith one Dhunjibhoy, was engaged by the Company to set up a shipyard inBombay. He setup the Mazagaon Dock which built over 350 shipsin the next century and a half.

Besides building ships, the Parsis were alsoengaged, in foreign trade and in textilemanufacture. They were particularly active in thetrade with the Persian and Arabian Gulfs, they alsoexported opium to China.

The major export ofSuratwas cotton and silktextiles and the Parsis were actively engaged intheir manufacture. Some Parsi families werefamous for their skills and at least one of them the Chhois continued to manufacture into thetwentieth century." By the eighteenth century, theParsis were almost entirely urban residents only afew of them were engaged in farming, But some ofthem were rewarded with Jagirs (estates) by MogulKings, Thus, Meherji Rana, a priest who educatedAkbar in Zoroastrianism.was given a heritableestateof eighty acres by him; his son was given afurther forty, acres. The Dordi family also receiveda Jagir from Jehangir, the son of Akbar. A Parsinamed Sorabji Kavasji (1697-1760) repaired aclock belonging to the Mogul Emperor in 1744; inreturn he was given the title of Nek Sant Khan aswell as a number of Jagirs in Surat District and theright to farm the customs of Surat. His sons, whowere awarded titles of Beheremandhkhan andPaiyarkhan, took, up trade in cotton piece-goodsand silk, besides their inherited activities.Beginning with Changa Asa in 1419, many Parsisbecame tax farmers.

Thus, the Parsis in the eighteenth centuryengaged in manufacture, shipbuilding, exports,imports and revenue collection. They weretherefore in a very favourable, position for capitalaccumulation.

Yet the Parsis were not the onlypeople whohad opportunities for capital accumuation. TheMoguls systematically farmed out taxes in theirentire empire, and created hundreds of Jagirdars.The same practice was followed by other kingsalso. And trade and handicrafts were not themonopoly of Parsis, In the Surat region itself weknow of some extremely rich Hindu and Muslimmerchants.

The reason for the later success of the Parsis and the failure of other rich people must be lookedfor **in** the Parsis' close contacts with the BritishEast India Company. The East India Companiesfrom the sixteenth to the early eighteenth centurywere not traders in the same sense as the 'country'traders of Surat. The traders of that time were acombination of merchants and tramp shippers: theships which they owned travelled between numberof prots, picked up the specialities of the ports andunloaded them where they were valued most. The English, French and Dutch East India Companiesthat traded in India at that time did a very differentkind of business: they were interested primarily in taking a small range of commodities, especiallytextiles, to Europe, where they fetched very highprices. The range of European goods they couldsell at a profit in India was limited, and they paidfor the ward in bullion mainly. Thus, they wereinterested only to a limited extent in building up a marketing organization in India; and since theyearned a handsome profit just by transportinggoods from India to Europe, they were interestedonly to a limited extent in manufacturing and buying goods sheaply in India, The lack of interest, as well as, perhals, unfamiliarity withlanguages **and** customs, led the Companies to relyon locally-based brokers, agents, and shippers,both Indian and European, in each post. On theother hand, local traders came to rely on the Companies for protection on the sea. By 1750Parsi traders were entirely dependent on the Britishand the Dutch for protection on the seas.

The P»rsis in Surat also acted as agents forthe Companies. The ancestors of the Frenchmanfamily acted as agents for French and Dutchtraders. The Modis (literally, grocers) wereoriginally priests, and got their new surname whenone of the them became the house steward andgeneral agent of the East India Factory at Surat.Another Parsi, Rustam Manak Selh (1635-

1721),was broker; banker and money-changer to the EastIndia Company, and travelled to Delhiin 1660 tomake representations for the Company against theNawab ofSurat.

Hence when the East India Company gotpolitical power, the Parsis came to share in it.Before Bombay was coded to the British in 1668,it was ruled by the Protuguese. They employedDorabji Nanabhai as their broker. The British, oncoming into possession of the island, continued touse his services.. They imposed a poll tax on thepopulation, and entrusted Dorabji with itscollection. Thus he became the first Patel (taxfarmer) of Bombay; His son Rustamji (1667-1763) raised a force to defend Bombay against theSidis of Janjira in 1692. Rustomji's son Kavasjibecame Patel of Thana and Bassein, Portugueseoutposts near Bombay, when the British look them,in 1774. He was alsoa shipper; and his son Hirjihad anextensive Chinatrade. His brother Dorabjisupplied cotton, timber, saltpetre, etc., to theCompany government. In Surat, in the earlynineteenth century, two brothers who aredescendants of Beheremandkhan 'entered theservice of the Company, and one of them, ArdeshirDhanjishaw Kotwal Bahadur, was made thewarden *(Sadar Amin)* of Surat castle and townwhile the other, Pherozsha, became a politicalagent of the East India Government in variousdistricts of Gujarat.

When the Maratha empire succumbed to theCompany, in 1802, the latter was as unprepared toadminister the new territory as in Bengal and theNorth-west provinces earlier; as in those areastherefore the Company farmed out the tax revenues of the empire. Two Parsi trader brothers, Pestohji and Vikaji Merji, were made farmers ofthe land and sea customs of Konkan and the landcustoms of Poona, Ahmednagar andpan ofKhandesh. They doubled the revenues in sevenyears. They also engaged in the collection ofcotton for export, and later extended their cottontrading to the state of Hydrabad. They madeadvances to the Nizam in return for privilege of taxfarming and currency issue. Ultimately their firmfailed in 1851 owing to the refusal of the Nizam torepay certain loans.

Traders, brokers, shippers, shipbuilders,financiers, industrialists, tax farmers which ofthese people went into industry ? Curiously, thepioneers in the Bombay textile industry camealmost entirely from among the Parsi traders,shippers and financiers of Bombay, CowasjiNanabhoy Daver, the founderof the BombaySpinning and Weaving Company, the first cottontextile mill in India, was the son of a rich merchantwho had agencies of a number of English firms.

## 2.4 GROWTH OF MARWARI FIRMS

No institution has been as important intraditional Indian commerce, or in traditionalcommerce in general as the familyfirm. Thevarying contours of that firm in the pre-modernperiod determine to a considerable extent the development of the firms that emerge to take panin modem economic activities, especially industry.The varying types of thetraditional firm are inthemselves crucial institutions in the traditionaleconomy. Because of the persistence of features of thateconomy into the present, they even help in understanding aspects, of the presentday Indianeconomy.

Material for this particular study areprimarily the individual Marwari family firm histories, more than 1000'in number, which I gathered for use in my doctoral disscration. TheMarwaris whom these histories represent, were anemigrant group, numbering perhaps 300,000 by1921, composed, of the members of several commercial casics originally domiciledinNorthwestern Rajasthan and its environs. Theyspread throughout India at an accelerated pace' inthe eighteenth and nineteenth century, andconstituted one of the major elements in thetrading class in that period and today. It can furtherbe argued that, the organized details of all themajor North Indian commercial communities, andtheir historical experience are sufficiently similar,that the Marwaris may illustrate manycharacteristics of other segments of the Indiantrading class as a whole.

Some parts of this considerationsappeared inmore extended form in an earlier issue of thisjournal and the section onSpeculators andIndustrialists' was presented in somewhat differentform at the March 1971 session of the Associationof Asian Studies in New York City.

## 2.5 THE FAMILY FIRM

The traditional family firm takes deposits andmakes loans, culelcts and transfers governmentfunds, engages in retail and whole sale trade as theopportunity offers itself, opens first processing(ginning, milling), then manufacturing factories,'transfers funds for its clients to distant cities, andopens branches as thenumber of sons, nephewsand trustworthy clerks permits. A single day'stransactions may include futures, large-scaleencashment or bills of trade, insurance,commission purchases for export, and household expenses. Gadgil quotes from Morcland, ahistorian of the Mughal era (1525-1775).

Virji Vora was eminently a merchant, that is tosay a buyer and seller of commodities, and hisbusiness extended to any class of goods in whichthere might be hopes of profit; and at the sametime he frieghted ships, he acted as a banker, hereceived deposits and he arranged remittances bymeans of bills or letters of credit tohis branchhouses. Theactivities of thefirm of Malaya wereequally multifarious, and I have not noticed anyrecord of a banker as distinct from a merchant, orof a prominent merchant confining his transactions to a particular line of goods.

Those whose primary business was'shroffing' narrowly defined, i.e banker on theindigenous model, also served, as intermediariesfor the joint-stock banks, taking their money, asthey did that of the general public, as demanddeposits. All enterprises, however, involvedelements of moneylending. The family firm readilytook on the function of 'peak’ firm in an industrialcombine, of the managing agency for newlyfounded industries. The 'peak' firm services acentral function analogous to that of the managing, agent for a wide variety of subordinate enterprises. Its legal relationship to them may be that of a banker or consultant, managing agent, selling or purchasing agent, large stockholder, or simplyprotective aegis.

Though the family firm appears at first undifferentiated. I will suggest three types ofMarwari firms—the 'great' multi-branch trading firms, the banians and brokers.in the major-exportand import markets, and the speculators in futures.

The following sections show that the activityof each of these types of firms, though multi-faceted, usually had one or another central thrust,or function, which played a different part inaccelerating the progress of the Marwari emigrant community as a whole and in determining thefuture evolution of the firms themselves.

## A. GREAT FIRMS

Of the three 'ideal types’ of firms we will consider, the 'great firms' are the first inpoint oftime. I dealt at length with these great firms in aprevious article in this journal and need now onlysummarize their functions.

"The Great Firms', were possessed of largeresources disposed of through a large number ofbranches' scattered through India, and occasionallyabroad, and involved simultaneously in a large number of lines of trade and economic endeavour.They were important to the other Marwaris ascustomers, commission agents, bankers,employers, and principals as well as providingmuch/of the commercial infrastructure on whichmigrant Marwaris relied.

It is perhaps best not to think of them assingle firms, since typically they were aconglomerate of interacting firms belonging toclosely-related members of one family. Just asBhagoti' Ram Poddar, the founder of TarachandGhanshyamdas (the main 'great firm' dealth within rny previous article) had many descendants, andhis descendants spawned many large related firms,so/also was the case with many otherlarge firms. The descendants of Sargandhas Dadda of Phalodi(who lived in the mid seventeenth century) inJodhpur, also founded numerous firms. Like thePddars in Ramgarh, the Daddas created amerchant's city state in Phalodi. The senior branchwas connected with the Bikaner court from 1767onward. Another branch, had, a firm, UdaymalChandmal, with branches in Hydrabad, Deccanand Calcutta and yet another was a leading bankerinIndore.

Many of the largest firms were primarilybankers, With headquarters at Ajmeror in Bikanerthey were initially moneylenders to the Rajputanarulers. The Daddas were especially prominent inJodhpur, Bikaner, Indore, Hydrabad and Jaisalmer,the Bapnasof Pundua in Indore, Kotah andJaisalmer; that Lodhas in Jaipur, Jodhpur,Kisnengarh and Shahpura; and the Pittys andGaperiwalas in Hydrabad. Bhagoti Ram, too wassupposed to have been treasurer to a Nawab, andhis. descendants,. (Mirzamat's) business includedmoney lending to the rulers of Bikaner and thePunjab. Like Tarachand Ghanchyamdas, too, theowners of the large firms often remained at theirheadquarters in Rajasthan long after the bulk oftheir business was conducted through their chainof branches outside, and the leading branches weoften operated through clerks. However, theproprietors of most of these firms 'were more'actively involved in their management than those of Tarachand Ghanshyamdas and more likely tosend their sons put to actively run their branches.

Bankers with headquarters in Rajasthan like,the Foddars and Daddas bargained for andreceived from the princelystate rulers, criminaland civil jurisdiction over their own employees both to protect the employees from harassmentand to strengthen their own' control over theirfirms. Returning clerks might be closelyquestioned or even imprisoned in the proprietor'sdungeons for suspected embezzlement. These twoconcerns - for control over the firm's personneland autonomy from vexatious harassment - seem to have been keynotes of great firm organization.

Some of the great firms, like BansilalAbirchand of Nagpur and Tarachand Ghanshyamdas tried to have each branch operate independently, and balance its hooks on its own. These naturally had more rudimentary centralbooks. The branches of Bansilal Abirchandby the1880s sent only semi-annual statements to the proprietors. This lackof centralized control issomewhat unusual in Marwari firms and especially contrasts with the practice of Seth GoculdasMalpani of Sevaram 'Khushanchiiiiel of Jabalpur.Goculdas would spendnine months of the year onthe road meticulously, checking, the books of his clerks. He transferred the clerks frequently andwithout warning, so that they would not have lime to'cook' the books before they left. He made apolicy of never putting relatives together in thesame branch firm.

To secure their, headquarters from vexations many of the larger banking firms decided to shift them tosafer ground. For the Poddars and Daddaswith their protected merchants' city states—therewas no need to move. But other firms found Ajmer,an enclave of British territory, provided a physicalsecurity still lacking in the princely stales. TheMuhnots of Riyan (the famed Riyanwala Seths-who were reputed by folk-saying to own 'TheMaharajaand half of Marwar'), and a branch ofthe ! Daddas moved to Ajmer." Two otherprominent firms of bankers - the Lodhas and theSonis - made their fortune in Ajmer as it became anational centre for state banking and an entrepotfor trade.

The early gazetters indicate that because ofthe Maharajas' protection equal important bankingcentres had emerged in Bikaner and Jaipur.Jaipur's leading bankers were reported to have acapital of seven million pounds sterling in 1879.Bikaner's bankers were supposed to have 55million rupees in capital in 1930.

As Marwari businessmen moved out ofRajasthan, the great banking firms extended theirbranches to serve them. The Jorawarmal Gambhirchand Soni firm of Ajmer was founded byJorawarmal (died 1858) on the proceeds of somesuccessful opium speculations in the late 1820s.By 1850 it opened an office in the banking centreof Jaipur. In 1855, another branch followed in theopium mart ofMandsourin Malwa, followed byanother, in 1862 in nearby Kolah and finally byabranch in 1866 in Calcutta.

The murauding armies of the late eighteenthcentury, too, often, funds moved from one activityto another, and the manner in which cash flowswere controlled. It will certainly take a whilebefore one can produce a Chandierian piece onbusiness practices in eastern India, let alone Indiaasa whole.

Nevertheless, it is clear that entrepreneurialactivity was far more complex than has beenrecorded in the past. These were often different instrategy, in design, in the instruments used, and inimplementation. The Marwaris integratedtransactions from a massive, geographicallywidenetwork of trade, commerce, moneylendingspeculation, underwriting, and other 'constituentsof a 'bazaar' economy with the modern factorysector - first jute mills and collieries and thenactivities that werefar removed from thebazaar.Non-Indian managing agencies, so successful untilthe end of World War I, failed to come to gripswith the complex postwar era. Bengalis attemptedto start out as technocrats and succeeded brieflybefore being butcompeted by better professionals.And the MNCs continued their expansion in India,as elsewhere, by introducing novel marketingmethods and standardized products; they soonovercame their unfamiliarity with the terrain andbecame major players in India.

Given such a rich diversity of facts, the timehas come for economic historians to eschewdiscourse that speaks only of colonialfirms to theexclusion of all else. This article is a modestattempt at such a revision. Such revisionism doesnot imply that the colonial epoch should beexplained without reference to colonialism.Ideally, it should do just the opposite :-enrich ourunderstanding of the dynamics of capitalistdevelopment in the imperial era.

**CONCLUDING REMARKS'**

There is an important unanswered question.Tea plantations were dominated by Europeancompanies up to the i960s. Since the Marwariswere so adept at buying the stock ofjule and coalcompanies, why did they ignore tea plantations ?Unlike jute and coal, alt major tea plantations weresterling companies registered in the London StockExchange. By the 1920s the Marwaris were veryimportant players in the Calcutta Stock Exchangeand accounted for the majority in every successivemanaging committee. But whatever' theirendowments, they were still non-entities inLondon, In the late-colonial era Marwaris wereable to take over Europeancontrolled rupeecomanies in Calcutta, but it would have beenimpossible for them to carry out similar takeoverbids in London.

Our knowledge about different kinds of entrepreneurial activity in eastern Indian still hasmajor gaps. We need to know quite a bit more about Bengali entrepreneurs and the managerial hierarchies that operated among MNCs. We alsoneed to know more about the financial transactionsof Marwari Firms, how

## 2.6 INDIAN BUSINESS IN POST-INDEPENDENCE ERA

Indian business noted both quantitative and,Qualitative changes inpost independence 'era. Inthe mid 1940's it was almost certain that India isgoing to be an independent country shortly, theblue print of its futuredevelopment was designedeven before independence by the captains of theIndian industry in the Bombay Planin 1944. InBombay Plan it was decided that Indian industry isnot in a position to make huge long-terminvestment in infrastructure projects like power,steel railway, sea parts, airports etc. Therefore, public sector should make investment in suchinfra-structure projectsand other sectors should bekept open for private sector. In post independenceera. India followed, a path of mixed economywhere public and private sectors operated Jointly,on the pattern of Bombay Plabn. Huge publicsector v/as created which helped. Indian privateentrepreneurs in a heig way. Number of areaswhich were dominated by British capitalists liketea plantation etc. were snatched by Indiancapitalists in the post independence era. Similarly, Indian enterpreneurs are further consolidatedthemselves not only in the Indian market but also started to link itself with global capital through,joint ventures, turn by projects, etc. The peoplemigrated from Pakistan also emerged as leigenterpreneurs in number of newly emergedbusiness centres apart from traditionalcommunities like Parsis, Marwaris, Punjabi etc.Although, at the time of independence. India wascontrolling 2 percent of world trade to which declined to 6.4 percent in the 1970s. This ismainly because number of third-world countriesexpanded at a very fast pace and from primarygoods exports. India emerged as a semimanufactured exporting country.

Till 70's, public sector consolidated itsposition over India's economy to a reasonable extent. This is mainly because large number ofsectors kept reserve exclusively for public sectorand number of industries were nationalised andbrought under state's control like banking,insurance, oil etc.

During 1981, India went for ever biggest loanfrom IMF amounting to $ 5,68 billion which washighly conditional and India forced to open itseconomy. A large number of auto multinationalsstarted to invest in India like Suzuki, Honda,Mazda, Mitsubisi etc. This can be considered as a turningpoint in the history of India's business,where it started to collaborate with global business.This laid the basis for full-pledged opening ofIndia's economy during 1990's.

## 2.7 INDIAN BUSINESS IN POST-REFORMSERA

India made drastic reforms in its economyduring early 1990's This was mainly because Indiawas facing an acute shortage of foreign exchangeand balance of payment crisis reached at newheights, The Licence Raj came to an 'end andnumber of areas which were kept reserve forpublic sector, were opened to private and foreigncapital. Indian rupee was made fully convertibleon current account. Number of areas were openedto foreign investment through automatic route.India signed free trade agreements with numbers ofcountries arid custom duties were reduced drastically. At one time peak custom duty in India was 300 percent which reduced to around 35percent loy 2005-06. It is expected that within 5years, duty structure in India will be around 10 to15 percent which is equal to global standards.

During this period, there has been tremendous expansion in India's stock market. Ihas emerged as -10th largest stock market of inworld. FII have been allowed to invest in India' stock market and number of Indian companies have been listed in global stock exchanges.

During this period size of the Indian market expanded at a very fast pace. India has emerged athe biggest market of the worked in gold and tuttwheeiers. India has emerged as the 3rd largesmarket formobile phones only after China and USA. In TV sets, Washing machines and other consumer goods it is amongst the 5 largesnumbers of the world.

### FASTEST GROWING BUSINESS

According to World Bank, India's economyin the 4th largest in the world only after USA, Chinaand Japan if its GDP iscalculated on PPP basis.B, 2030, it is likely to Surpass Japan and it willbecome a third largest economy. Presently it is the fastest, growing economy of the world only after China. In the era of reforms, in number of sectorsIndia has made a remarkable progress.

### SOFTWARE INDUSTRY - INDIA'S BRAND AMBASSADOR

The fasthest growing industry in India has been a software industry where more thanpercent rate of growth has been noticed which unprecenaential inthe history of any countryInfosis, Wipro, TCS, Patni Computers etc. have become global, brand names. At onelime AzinPremji became world's richest person outside America who is the owner of Wipro. Similarlyowner of Infosis Mr. Narayana Murlhy has been an ideal of new generation of enterpreneii India.

Apart from software, pharmaceutical Textile automobile, and petro-chemicals - are other industries which have shown their presence in the global market, Ranbaxy, Cipla Or.. Ready's Lab.Maruti, Tata's Reliance etc. are the; leading hours inthese industries.

Major Problems :— India is far behind than china in number of areas. Poor infra structure interms of roads, railway, seaports; airports, poweretc. has creatinga major hurdles. Apart from Indra-structure,influency, terrorism, corruptiontapism of Indian bureaucracy, environmental and ecological crisis also creating major hurdles inpromoting genuine class of enterpreneurs. Last putnot least, the hostile political relations with theneighbouring countries, has also become a majorjurdeto making India a strong player in the globalmarket.

## ANNEXUREI

## A PROFILE OF THE INDIAN ECONMY SINCE INDEPENCE

| | **Unit** | **2004-05** | ***1996-97*** | **1950-51** | **GARG(%)** |
|---|---|---|---|---|---|
| **Demography #** | | | | | |
| Population...... | (Mn.) | 1,091 | 946 | 359 | 2.1 |
| Females per 1.000 | | | | | |
| males............. | (No.) | 934 | 927 | 946 | -- |
| Urban Population.... | (Mn.) | 303 | 250 | 62 | 3.0 |

| | | | | | |
|---|---|---|---|---|---|
| Birth rate ...„.,. | (Per, 1000) | 25.0 | 27.4 | 39.9 | -0.9 |
| Death rate'..;... | (Per-1,000) | 8.1 . | 8.9 | 27.4 | -2.2 |
| Expectancy of life | | | | | |
| at birth | | | | | |
| Total............ | Years | 65.4 | 61.0 | 32.1 | 1.3 |
| Male..;........... | Years | 63.9 | 60.2 | 32.4 | 1.3 |
| Female...;....... | Years | 66.9 | 61.4 | 31.2 | 1.4 |
| National Income | | | | | |
| GDP (At factor cost) | | | | | |
| At current prices.... | (Rs. crs) | 2,830,465 | 1,243,546 | 9,547 | 11.1 |
| At 1993-94 prices.. | (Rs. crs) | 1,529,408 | 970,083 | 140.466 | 4.5 |
| Share in RealGDP | | | | | |
| Agriculture,..... | (%) | 22.8 | 31.5 | 55.4 | -1.6 |
| Industry....... | (%) | 24.8 | 24.9 | 16.1 | 0.8 |
| Services.....;. | (%) | 52.4 | 43.6 | 28.5 | 1.1 |
| Net NationalProduct | | | | | |
| (At factor cost) | | | | | |
| At current prices „.... | (Rs. crs) | 2,535,627 | 1,230,464 | 9,142 | 11.0 |
| At 1993-94 prices...,. | (Rs. crs) | 1.354,599 | 959,360 | 132,367 | 4.4 |
| Per Capita Income | | | | | |
| At current prices....... | (Rs.) | 23,241 11.564 | 255 | 8.7 | |
| At 1993-94 prices.... | (Rs.) | 12,416 | 9.007 | 3,687 | 2.3 |

## 1. A PROFILE OF THE INDIAN ECONOMY SINCE INDEPENCE (CONIC.)

| | Unit | 2004-05 | 1996-97 | 1950-51 | CARG (%) |
|---|---|---|---|---|---|
| Agriculture | | | | | |
| **Index of agricultural** | | | | | |
| production...... | (1981-82=100) | 168.6 | 175.7 | 46.2 | 2.4 |
| **Foodgrains** | | | | | |
| Production…. | (Mn. tonnes) | 204.6 | 199.4 | 50.8 | 2.6 |
| Rice...,....;. | (Mn.tonnes) | 85.3 | 81.3 | 20.6 | 2.7 |
| Wheat..... | (Mn. tonnes) | 72,0 | 69.3 | 6.5 | 4-6 |
| Per capita n*et* availability per day | | | | | |
| Cereals& pulses..... | (Grams) | 436.3 | 475.2 | 394.9 | **0.2** |
| Sugar …………. | (Grams) | 44.7 | 40.0 | 14.0 | 2.2 |
| Edible Oil#.......,,. | (Grams)) | 20.0 | 22.0 | 7.0 | 2.0 |
| Tea# ......:..;.. | (Grams) | 1.6 | 1.9 | 1.0 | 0.9 |
| Industry | | | | | |
| Index of Industrial | | | | | |
| Production...... | (1993-94=100) | 204.8 | 130.8 | 18.3 | 4.6 |
| Production of | | | | | |
| Finished steel.... | (Mn;tonnes) | 38.3 | 23.0 | 1.0 | 7.0. |
| Cloth.,.......;., | (Bn.sq.meters) | 44.3 | 34.3 | 4.5 | 4.3 |
| Commercial vehicles... | ('000s) | 350.0 | 327.3 | 8.6 | 7.1 |
| Passengercars ......... | ('000s) | 1209.7 | 483.0 | 7.9 | 9.8 |
| Cement,.;;...:. | (Mn. tonnes) | 125.3 | 76.2 | 2.7 | 7.4] |
| Fertilizers (N+P),.. | (‘000 tonnes) | 25,957 | 11,567 | 18.0 | 14.4 |
| Electricity generated.. | (Bn.kwh) | 666.0 | 436,7 | 5.1 | 8.6 |
| Crude oil........... | (Mn. Tonnes) | 34.0 | 32.9 | 0.3 | 9.2 |
| Refinery throughput' | (Mn, tonnes). | 73.2 | 62.9 | 0.3 | 10.7. |
| Small Scale Units# | | | | | |
| No. of units................ | (000s) | 11,395 | 2,803140 | **8.5** | |
| Output ....................... | (Rs.crs) | 357.733 | 411,85.8 | **2,603** | 9.5 |
| Employment .__.......... | (Mn.) | 27.1 | 20.6 | 1.7 | 5.3 |

## 1. A PROFILE OF THE INDIAN ECONOMY SINCE INDEPENCE (CONTD.)

| Unit | | 2004-05 | 1996-97 | 1950-51 | CARG (%) |
|---|---|---|---|---|---|
| Railways | | | | | |
| Route kms"...,.. | ('000 kms) | 63.1” | 82.8 | 53.6 | 0.3 |
| Electrified .... | (“000.kms) | 16.3* | 12.7 | 0.4 | 7.1 |
| **Revenue earning** | | | | | |
| freight...;.. | (Mn.tonnes) | 561 | 409 | 73 | 4.0 |
| Passenger traffic .......... | (Mn.) | 5,500 | 4,153 | 1.284 | 2.5 |
| Passenger fare | | | | | |
| per km .„..„. | (Paise) | 24.3# | 18.5 | 1.5 | 5.3 |
| **Shipping** | | | | | |
| Tonnage capacity .,.. | (‘000 ORT) | 7.701@ | 6,915 | 391.0 | 5.7 |
| Cargo handled# | (Mn. tonnes) | 297.8 | 227.1 | **19.2** | 5.2 |
| Telecommunications | | | | | |
| Telephone connections | (Mn. iines) | 92.9® | **15.4** | **0.1** | **12.8** |
| External Sector | | | | | |
| Exports ..,.... | ($ Bn.) | 79.2 | 33.5 | 1.3 | 7.9 |
| As % of World | | | | | |
| exports ........ | (%) | 0.9 | 0.6 | 1.9 | 1.4 |
| Imports ..,;..... | ($Bn.) | 107.1 | 39.1 | 1.3 | 8.5 |
| Current Account Deficit | | | | | |
| As % of GDP.... | (%). | -0.9 | -1.2 | -0.4 | 1.5 |
| Forexreserves....... | ($Bn.) | 142.0 | 26.0 | 1.9 | 8.3 |
| Prices & Exchange Rate | | | | | |
| WPI „....,........ | (1993-94=100) | 187.3”” | 127.2 | 7/3 | 6.2 |
| CPI (Indl. workers) | (1982=100) | 520* | 342 | 7.0 | 8.3 |
| Price of gold | | | | | |
| (Mumbai)....... | (Rs. per 10 grams) | 6.170 | 4.695 | 113 | 7.7 |
| Exchange rate of the rupee | | | | | |
| (Annual average) ... | (Rs. per US $) | 44.93 | 35.5 | 4.8 | 4.2 |

## 1. A PROFILE OF THE INDIAN ECONOMY SINCE INDEPENDENCE (Contd.)

| **Unit2004.05** | | | **1996-97** | **1950-51** | **CARG%** |
|---|---|---|---|---|---|
| Banking& Capital market | | | | | |
| Aggregate deposits | (Rs.crs)1,700.198 505,59,9 | | | 881 | 15.3 |
| Aggregate credit | (Rs.cra)1,100,428 | | 278,401 | 547 | 15.4 |
| Scheduled | | | | | |
| Commercial banks | (No.) : | 285 | 295 | 93 | 2.1 |
| Branches | (No.)68.251 | | 65,485 | 2.335 | 6.6 |
| Stock Markets | (No.) | 23 | 22 | ? | 2.3. |
| BSE Market | | | | | |
| capitalisation | (Rs. crs)1,386,740 | | 485,785 | 635 | 15.6 |
| Public Debt | | | | | |
| Govt. of India | (Rs. crs) | 1,324,632 | 675,676 | 2.865 | 12.3 |
| Labour# | | | | | |
| Total workers | (Mn.) | 402** , | .387 | 142 | |
| Organised, sector | | | | | |
| employment | (Mn.) , | 27.0 | 28.3 | 12.1 | 1.5 |
| Regd. Job-seekers | (Mn.) | 40.9 | 39.1 | 0.3 | 9.7 |
| Social sector# | | | | | |
| Primary& middle | | | | | |
| schools | ('000s) | 896.7 | 775.2 | 223.3' | 2.7 |
| Enrolments | (Mn.) | 169.2 | 157.2 | 22.3 | 3.9 |
| Secondary& high | | | | | |
| schools | ('000s) | 137.2 | 102.2 | 7.4 | 5.7 |
| Enrolments | (Mn.) | 33.2 | 24.9 | 1.5 | 6.0 |
| Colleges | (No.)13.758 | | 8,529 | 578 | ' 6:2" |
| : Universities | (No.) | 304® | 228 | 27 | 4.7 |
| Literacy rate | (%) | 64.8 | 52.2*. | 18.3 | 2.4 |
| Male | (%) | 75.3 | 64.1: | 27.2 | 1.9 |
| Female | (%) | 53.7 | 39.3 | 8.9 | 3.4 |

## 2. KEY STATISTICS OF THE INDIAN ECONMY

**N.B. Figures for 2003-04 and 2004-05 are not final in all cases.**

| National income and population | National income* | Per Capital income* | Population |
|---|---|---|---|
| | Rs. crores | 'Rs./- | Mn. |
| 1950-51 | 9,142 | 255 | 359 |
| 1960-61 | 15,204 | 350. | 434 |
| 1970-71 | 38.968 | '746 | 541 |
| 1980-81 | 118.233 | 1,741 | 679 |
| 1990-91 | 450.145 | 5,365 | 839 |
| 1995-96 | 941.861 | 10.149 | 928 |
| 1996-97 | 1.093,962 | 11,564 | 946 |
| 1997-98 | 1,224.946 | 12.707 | 964 |
| 1998-99 | 1,415,093 | 14,396 | 983 |
| 1999-00 | 1,564,048 | 15.625 | 1.001 |
| 2000-01 | 1,686,995 | 17.823 | 1,037 |
| 2002-03 | 2,008.770 | 19.040 | 1.055 |
| 2003-04 | 2,252,070 | 20,989 | 1,073 |
| 2004-05 | 2,535,627 | 23,241 | 1.091 |

| Agriculture | Agricultural production index | Agricultural productivity index | Foodgrains production |
|---|---|---|---|
| | 1981-82 = 100 | Mn. tonnes | • ' |
| 1950-51 | 46.2 | 62,4 | 50.8 |
| 1960-61 | 68.8 | 77.1 | 82.0 |
| 1970-71 | 85.9 | 92.6 | 108.4 |
| 1980-81 | 102.1 | 102.9 | 129.6 |
| 1990-91 | 148,4 | 133.8 | 176.4 |
| 1995-96 | 160.7 | 139.9 | 180.4 |
| 1996-97 | 175.7 | 149.& | . 199.4 |
| 1997-98 | 165.3 | 141.4 | 192.3 |

| | | | |
|---|---|---|---|
| 1998-99 | 177.9 | 148.4 | 203.6 |
| 1999-00 | 176.9 | 149.6. | 209.8 |
| 2000-01 | 165.7 | 144.4 | 196.8 |
| 2001-02 | 178.2 | 153.1 | 211.9 |
| 2002-03 | 150.7 | 137.6. | 174.2 |
| 2003-04 | 179.5 | 156.4 | ^12.0 |
| 2004-05 | 168.6 | n.a. | 204.6 |

Source Tat's Statistical Outline of India 2005-06

## 2.9 Self-check Questions

1. Discuss the origin of management of agency system in India.
2. Write short note on family firm

## 2.10 Summary

A Business is nothing more than a person or group of persons properly organized toproduce or distribute goods or services. Business principally comprises of an all profitseeking activities of the organisation which provide goods and services that arenecessary to economic system. Business may be defined as "the organised effort byindividuals to produce goods and services, to sell these • goods and services in amarket place and to reap some reward for this effort." Business is to provide goods andservices to the people. It provides the public with the things it needs and wants • inorder to survive, enjoy life and improve in a material sense. Commerce has beendefined as "the sum total of those processes which are engaged in the removal of the hindrance of persons (trade), place (transport and insurance), and time (warehousing)in the exchange (banking) of commodities." India remained a centre of attraction for theentire world right from the ancient period number of foreign travellers used to come toIndia because for its rich natural resources and high level of technology.

## 2.11 Glossary

**Commerce**

Commerce has been defined as "the sum total of those processes whichare engaged in the removal of the hindrance of persons (trade), place (transport andinsurance), and time (warehousing) in the exchange (banking) of commodities".

**Extractive industries**

Extractive industries are those industries which are concerned with the extraction ofwealth from the surface of the earth, soil, forest, and water; for instance agriculture,mining, etc.

**Genetic industries**

Genetic industries are those industries which are concerned with reproduction andmultiplication of plants and animals for the purpose of making profit by their sale. Forexample, Nurseries, cattle building and poultry farming.

**Manufacturing industries**

Manufacturing industries are engaged in the conversion and processing **of raw**materials through separation, combination and transformation into finished goods.Examples such as machinery and plants of all types- iron and steel, sugar, paper,cotton cloth, electrical appliances, zinc ore, paper pulp, water power, etc.

### Construction industries

Construction industries are concerned with the construction of roads, railways, dams,canals, buildings, bridges. There are mainly concerned with the manufacture of non-moveable items.

## 2.12 Answers: Self-check Questions

1. See the section no. 2.2, lesson 2
2. See the section no. 2.5. Lesson 2

## 2.13 TerminalQuestions

1. Discuss Indian business in post-independence era.

4. Explain Indian business in post reform era.

5. Write short note on Marwari firms and Great firms.

## 2.14 Suggested Readings

1. Aswathappa, K., (2009). *Essentials of Business Environment.* Global Media.
2. Dave, B., (2009). *Business Environment in Modern Era.* Global Media.
3. Cherunilam, F. (2009). *Business Environment,* Global Media
4. Jain, T. R., Trehan, B. & Trehan, R., (2010). *Business Environment.* FK Publications.
5. Goyal, A. & Goyal, M., (2010). *Business Environment.* FK Publications.

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**LESSON-3**

# REGULATORY ROLE OF THE STATE

**Structure**



## 3.0 Learning Objectives

After going through this lesson the learners will be able to:

1. Understand the different forms of the government regulation
2. Discuss the economic system
3. Understand the current state of Indian economy
3. Describe the consequences of economic reforms

## 3.1 INTRODUCTION

The relationship betweenthe state **andthe**economy has undergone almost a revolution sincethe days of the planner economist, Adam Smithswere the days when the doctrine of *lafssez faire* was widely accepted as a guiding principle of theeconomic activity. The **State** was expected toconcern itself only with, problems relatingto themaintenance of law and order. It scrupulouslyavoided interference in the working of the privatebusiness enterprises. Rightly, then, 'the age of*lafsset faire* was the era "free enterprises." Thedoctrine of *laissw faire* was based on theassumption "that every individual, acting as arational being tries to get the great satisfactionfrom life for himself and, in this processcontributes towards the greatest possiblesatisfaction to the society. Thus, the classicaleconomists believed that the principle of non-interference with unoriganity led "to what Bentham called the,greatest good of the greates number." The later,developments, particularly those which followedin the wake of industrial Revolution, shook thepublic faith in the rather idealistic doctrine rudely.*Laissez faire* theretened to push society on a roadthat led to the greatest good of a small number ofthe people in whose hands got concentrated tocontrol and ownership of industrial empires. Thedevelopment of monopolies, the exploitation ofthe consumer andworking classes by industriallords, sacrifice of the general good for private,gain, all these developments led the economists,and the Stateto revise theirideas about the role ofthe State in relation, to the economic activity. It began to be realised that the State could not longerallow itself the luxury uncontrolled andunregulated business enterprises., It could notlonger be a passive spectator to the unjustdomination of the economy by a few **who** virtuallyheld society to rank.

After the outbreak of the Past World Ware,political scientist like Laski, economists likeKeynes declared the end of of *lafssez faire* as asystematic principle." The State has since beenassigned a more attractive role in the economicaffairs of the country. It has not merely to act asthe guardian of peace and order in country butalso has to serve as a regulator of the economicactivity in the broader interests of the communityat large. The desirability of the State interference ineconomic affairs is virtually unchannelged thoughthere are certain, difference of Opinionabout itsextent. Inmost of the capitalist countries (says theU.S.), the industries, though the ownership andcontrol vest mostly in private entrepreneurs. Incertain othercountries which have chose thedemocratic way of life but we not capitalisticwhich have ideology the stale take over thecontrol, and ownership of certain segments in theeconomy and leaves the rest to private enterpriseswhich works, under proper regulation by the Statein public interest. The pattern of economy hascome to be known as "mixed economy and has been adopted by most of the democratic countries ofthe world, including India. In fact, it is generallyargued that even in USA(which is avowedly acapitalist country) a similar system of mixedeconomics prevails." Huge public corporations have been set up there too, to socialise control andownership or certain, vital sectors of the economy.

In totaliarian countries, however, the Stale hasgone to the extreme extend of taking overcomplete control of economic activity. The communist nations of the world, led by SovietRussia, have adopted the communist pattern of theeconomy under which the ownership and control of productive resources 'has been socialised andplaced in the hands of the State. Economic activityhas been completely regimeted there in the sensethat neither production nor consumption goesaccording to individual decisions by producersand consumers, but is determined by the State.Private enterprise has been totally, abolished andthe whole economy constitutes the public sector.

In a mixed economy, where 'privateenterprises co-exists with State enterprise, the statelays a dual role in relation to private business. Onthe one had it acts as an instrument to aid andbenefit industry with the object of inducing *and*Accelerating, the growth of the economy. In thisrole, the state 'provides finance and facilities toindustrial entrepreneurs, and tries to look after the further their interest through policies likeprotection and export promotion. Some aspect ofthis have already been examined in the sectionon Company Finance. In the second role, the Stateacts as a restraining force business, curbing theantisocial aspects of business, laying down theside - raise within which private business mustfunction, and pulling up private enterprise (in fact,'sometimes, even superseding and taking overcontrol of an individual enterprise or a wholeindustry), .This way well be described as theregulatory role of the government. It is primarilywith this role of the government that we areconcerned here in this block. The question ofnationalism involving the conduct of business a particular line by the government and the,problems of nationalised enterprises as well asenterprises initially started in the public sector areimportant issues today.

## 3.2 FORMS OF THE GOVERNMENTREGULATION

As has been pointed out above, the object ofthe government regulation of private enterprises isto steer the wheel of the economy in the directionof maximum social good withoutreplacing it. Thiscane be achieved through "regularly action allimportant points; to the economic system. Themore important forms or regulation of privateenterprise by the government are a follows :

General direction and regulation ofinvestment activity in private enterprise. Thisisachieved through economic planning at thenational level and industrial policy.

Regulation of investment, location, size andexpansion of individual enterprises, and specificindustries through industrial licensing.

Regulation of price of commodities andindustrial products through legislative authorityand systematic investigations into cost structures,and mark - ups.

Regulation of monopolies and unfair ofrestrictive trade practices through legislation.

Regulation of wages and bonus forexemployees. in private sector tominimize exploitation, ensure reasonable standards of livingand maintain peace and harmony in industry.

Regulation of corporate management.

Regulation of specific forms of businessactivity like speculation in shares and commoditiesor imports / exports etc.

## 3.3 CONTROL AND REGULATION OF PRICES

An important part of the regulatory power ofthe government iminging on the freen of privatebusiness enterprise is the power of the governmentto fix, control and regulate prices of materialsemi-finished and finished products. The generalauthority in this regard is given by the industries (Development and Regulation) Act, 1991. The Actempowers the government to order investigation if there has been or is likely to be an unjustifiable fallin the volume of production in the industry or theundertaking, or when there is a markeddeterioration in quality or an increase in prices notjustified by proper reasons. In exercising or anincrease in price not justified byproper reasons. Inexercising this power, the government may advicethe industry concerned to fix the prices reasonablekeeping the interests of the consumers in view.'Failing this, the government may exercise indirectpressure on the firms concerned but cannotstalutority enforce its advice. Sometime back,when the manufacturers of the Standard Hereld,Fiat and Ambassador models of cars wanted toraise the pries of their respective models, thegovernment advised them not togo ahead with theprice increase. It hasfelt that the government musthave statutory powers of price controls in suchsituations. The government does enjoy the powerof fixing and regulating prices of essentialcommodities and drugs. Price control's in case ofsugar, wheat and similar commodities, and basicdrugs isin exercise of this authority.

## TARIFE COMMISSION

Perhaps the most important components of the price fixing machine of the government is theTariff Commission. It was on January 21, 1992 thatthe Government of India, acting on therecommendation of the Fiscal Commission,appointed a Statutory Tariff Commission under theCommission Act 1991, consisting of threemembers with one of them as Chairman.Essentially the

Commission is concerned with the question of granting, protection to certain home industries against competition from foreignmanufacturers. Itis empowered to enquire intoclaims business Legislation **is** being usedincreasingly for this, purpose as other measuresprove too soft for the problem. It was used wayback in 1892 by the Government of the USA whenthe Sherman Anti - Tust Act was placed on the Statue Book and since then it was beentried inmany other countries.

If may be pointed out that thoughgovernments in the USA and the Continent, havebeen attempting to curb and monopoly, they havealso grown conscious of some of the advantagesof such organisation. In the UK, the commissionon Monopolies' has been concerned mainly withrestrictive practices in particular trades. In thisprocess of investigation into various trades, theCommission came out with a proposal to abolishthe policy of re-sale price maintenance i.e., thefixation of the final price by the producer orsupplier. The Commission didnot contemplte anybreak up of monpolistic combines of producers.Use attempts in this matter as directed towards theimposition of penalties on nearly all combines and practices in retraint of markets, In theunderdeveloped countries, too, monopolies, arecausing some serious thinking among theadministrators and the economists. Although theeconomists assign monopolies a special role in thiscountries vis-a-vis foreign competition yet thegovernment are anxious to emove some of thegross abuses connected with the undueconcentration of wealth, and economic power.

## 3.4 ECONOMIC SYSTEM

The scope of private business and the extentof government, regulationof economic activitiesdepend to a very large extent on the nature of theeconomic system, which is an important part of thebusiness environment. This chapter is intended toprovide an outline of the general features of thebroadly distinctive economic systems.

## 1. CAPITALISM

"The capitalist system is one characterised by the private ownership of the means of productionindividual decisionmaking, and the use of themarket mechanism tooarry out the decision ofindividual participants and facilitate the flow ofgoods and services in markets".

"In a capitalists economy, households andfirms are the basic production units. Eachindividual household is the owner of productivefactor. These factors include the household's ownlabour and may also include land, capital and rawmaterials. Each household sells the services of itsfactors to the basic production unit, the firm.Private firms, organised by individuals, combinethese production factors to produce goods. Thedifference between revenues and cost constituteprofits, which then form the income of the firm's organizers. The income it to purchase the finished products of the firms".

The capital system is also known as free enterprise economy and market economy.

Two types ofcapitalism may bedistinguished, viz.

(i) The old, laissez-fair capitalism, wheregovernment interevention.in the economy isabsent or negotiable, and

(ii) The modern, regulated or mixed capitalism,where there is a substantial amount ofgovernment intervention.

## FEATURES

The principal characteristics of a "Pure"capitalist system are : .

(i) **Private Ownership :** In a capitalist economy,the factors of productionland, labour andcapitalare privately owned, and productionoccurs at private initiative. Individuals havetheir property rights protected and are usuallyfree to use their property as they like as longas they do not infringe on the legal propertyrights of others. Private property, however, is'protected, controlled and enforcedby law.

(ii) **Free Enterprise :** Free enterprise, an essential feature of the capitalist system, is merely an extension of the concept of property rights.The term free enterprises implies that privatefirms are allowed to obtain resources, toorganise production and to sell the resultantproduct in any way they choose. In otherwords, there will not be any government or other artificial restrictions on the freedom andability of the private individuals to carry outany business.

(iii) **Customer's Sovereignty :** Consumer'ssovereignty is at its best in the capitalist system where consumers have complete freedom ofchoice of consumption. The production decisions in the free market economy arebased on the consumer desires which arereflected in the demand pattern. FredericBenham remarks : "Under capitalism/the consumer is the king".

(iv) Freedom **of Choice of Occupation** : In acapitalist economy, the individual is free tochoose any occupation his is qualified for This freedom of choice enables the workersto make the best possible begin for his labour.The implies that he employers have tocompetitively bid for labour. Freedom ofoccupational choice, however, does not mean guarantee of the job a worker opts for ; the choice is practically limited by the extend ofavailability of the jobs.

**(v) Freedom of Save and Invest :** The freedomto save is implied in the freedom of consumption, for saving depend on the income and consumption. The termsavingimplies the sacrifice of consumption. AsGeorge Halm observe ; "The right to save is support by the right tp save is supported bythe right to transmit wealth, so that the choicebetween present and future consumption isnot limited to the adult life of one person. The freedom to save, inherit and accumulatewealth is, therefore,a right which is perhapsmore typical for the private enterprise systemthan is free choice of consumption and–occupation."

**(vi) The Market System :** The market mechanism'is the key factor dial regulates the capitalisteconomy. A market economy is one inwhichbuyers and sellers express their opinionsabout howmuch they are willing to pay for orhow much they demand'of goods andservices. Prices guide the purchase decisionsof the consumers. At the same time; whilethey decide to buy or not to buy a product,consumers vote for against the product byusing their money. Thus, market prices,which reflect the desire of minions ofconsumers, provide guidance to investorsand other, business persons. The market.system, also called the *price system,* may,therefore, .be regarded as die organising force in a capitalist economy.

***Competition*** **:** Competition among sellers andbuyers is an essential feature of an ideal capitalistsystem. Competition reduces market imperfectionsand associated problems. Therefore,in a freemarket economy, a sufficient, amount ofcompetition is considered necessary if the wholeproduction and distribution processis to beregulated bymarket forces. Competition on alert,to protect the consumer, and to maintain, asufficiently flexible price system".

**Absence of a Central Plan :** As is clear from the feature mentioned above, the capitalistsystem is/essentially characterised by the absenceof 'central'-'plan. That is the activities of me numerous economic units in a capitalist system arenot guided, co-ordinated or controlled by a centralplan. Freedom of enterprise, occupation andproperty rights rule out the possibility of a centralplan. Resource allocation and investment decisionsin a free market economy are influenced by*market forces* rather than by the State;

***Limited Role of Government:***The absence ofa central plan doesnot mean that the Government does not plan any role in a private enterpriseeconomy. Indeed, Government interference isnecessary to define and protect .property rights, ensure freedom of entry and exist, enforcecontractual agreements among privateentrepreneurs, ensure the satisfaction of certain community wants, etc.. However, Governmentinterference in, the system is comparatively very'**limited.**

The *Pure* capitalist system which has been described above is a highly indealised system. There is hardly any pure capitalist or freeenterprise system in the real world today. Thecapitalist economies of today are characterised byState regulation in varying degrees.

## 2. MODERNCAPITALISM

Modern capitalist economies are *mixed or*regulated system. Such, regulated capitalist or market economies include the United States,Canada, Australia, the United Kingdom, Finance,Italy the Federal Republic of Germany (West'- Germany), -Japan, 'Spain, New Zealand, theNetherlands; Belgium, Denmark, Sweden,Switzerland, Norway etc. The principal reasons forGovernment intervention in the modern capitalist economies have been mentioned in the chapter 6,*Economic Roles of Government.*

## 3. SOCIALISM

Within the wide spectrum of socialism thereis indeed, a variety of systems. At one end there arethe communist countries characterised by Statecapitalism, and at the other, there are democratic, socialist nations with a dominant private sector. Itis, therefore, very difficult to clearly define thesocialist system. Socialism, however,is, generallyunderstood as an economic system where themeans of production are either owned orcontrolled by the state, and where the resourceallocation, investment pattern consumption incomedistribution*etc.* are directed and regularized by.

## FEATURES

The silent feature's, of a socialist system are :

**(i) Government Ownership Control :** Insocialist countries, .the major means of productionare either owned by theGovernment or their use iscontrolled by the Government. In communistcountries like the USSR and China, the means ofproduction are mostly owned by the State. In somesocialist economics. the private sector also playsavery important role.In such case, the Government'directs and regulates investment allocation.

## 3.5 CURRENTSTATE OF INDIAN ECONOMY

India is a country with a population of 1000millions, Gross Domestic Product. (a) currentprices) in the vicinity of Rs. 7.000 billions. The average per capita income at current prices works001 to around Rs. 5500, according to the latestavailable statistics. After independence,India has.increased in population terms by a coefficient ofaround 2.7 whereas, real per capital, income hasalmost around 0.7 whereas, real per capital availability of food has not changed significantly and has gone up by onlyfrom 400 gms. per day to 500 gms. per day. Interms of absolute, numbers, the number ofilliterates, the total number of infant deaths and thetotal number of malnourished or partially hungryhave all risen in 1992-

92 ascompared with the eveof our Independence. The Indian population shallcross the1 billion mark by the turn ofthe century,Theaverage inflation in the lastfive years hasbeen running in double digits. The economicgrowth rate during the same periodhas not beenmore than 3.5 percent per annum. We have arrivedat Rajkrishna's averageannual "Hindu" growth'rate after a period of relatively higher growth, ratein the mid eighties, the import intensity of growthrate has been very high during that period and assuch problem of unemployment persists.

Globalisation is in the process or firmlyintegrating Indian Economy: to the globaleconomy. So it is essential to understand the worldeconomic scene. Asyou know, the world isdivided into rich North American. European andnewly emerging Asian tigers on one side and thepoor Asia, African and Latin American countrieson the other. The rich nations have their owneconomic groupings thus Organisation of EconomicCo-operation for Developed' O.E.C.D. the socalled third world is not so well organized economically.

Regional, Economic Groupings and/tradingzones are a new, configuration in the world economy. NAFTA is the free trade zone ofAmerica, Mexico and Canada, European Union orEuropean Economic community (EEC) wasbasically an organisation of **12 rich** Europeancountries Which was **joined** by many smallerEuropean neighbours after the Maastricht treaty.These nations are planning' to **have** a commoncurrency and cross-border business, alliancebesides tariff-free trade.

E.U. and NAFTA jointly command 50% ofthe world economy and normally co-operate witheach other. ASEAN countries Singapore.Indonesia, Malaysia, Taiwan, Thailand and Bruneiallow more active trade within thus region and helpeach other in upgrading technologies. Japan andChina are the two mighty economic power of Asiawho are not strictly a part of regional alliances.The newly APEC of Asia Pacific region is thenewly emerging regional alliance oftwelvecountries which includes pastoral' economies of Australia, New Zealand, and U.S.A., besides newly industralised economies of Asia.

The regionalisation of economies isaccompanied with the emergence of global worldmarket. The UN System had a number of agenciesfor ensuring global co-operation an economicfront. UNDP (United Nations DevelopmentProgramme), UNDO (United NationsDevelopment organisation) and UNCTAD(lookingafter trade and development) were a fewof them. ILO (International Labour Oraganisatiori)tried to sortout economic problems of toilingmasses. But offlate, we are watching the eclipseof these organisations by the Trettenwood Twins ofWorld Bank and International Monetary Funds.These two prominent multilateral financinginstitutions and regulators of the World FinancialSystem are admitting W.T.O. (the newlyestablished World Trade Organisation) which hasbecome functional from January... 1, 1905.

There are number of development assistanceprogammes being run by World. Bank and itsassociates like IBRD (International Bank forReconstruction and Development) World Bankfinances development projects in all the threesectors ordevelopment economies in the spirit ofNorth-SouthCo-operation.

I.M.F. is primarily an institution facilitatingglobal 'financial exchanges. It regulates financialmarkets, offers stablisatiori loans for overcomingbalance of payment difficulties and also allowssoft loansas extended: facility to overcome theproblems associated with the .AdjustmentProgrammes proposed by it; India has also availedIMF loans and facilities with their purchase *of*structural reforms.' The current liberalisation andopening up of Indian Economy has been a resultof such conditional assistance 'extended by IMF.World Bank and IMF function together: to promotemarketisation ofthe World Mailers.

General Agreement on Trade and Tarrifsin itseighth round has promoted W.T.O. (World TradeOrganisation, an agency overseeing the cross-border trade world over. After the MarakeshAgreement, this body has a major say' in tarrifsimetress and non-tarrif barrier to the trade inagriculture, services as well as manufacturedgoods. WTO is allegedto have transgressed thedomain of national sovereignty in proposingPatent Laws, regime of reduced subsidiesanddo's and does't for national governments in governingtheirdomestic economies.

WIPO, World Intellectual PropertyOrganisation is the International Patenting Agencyfor new innovations; It proposes the rules of thegame for technology transfers and foreign directinvestments. Taken together the multilateralagencies W.T.O., World Sank. I.M.F. and WIPOare emerging as the regulators of the nationaleconomies andare laying, down the controlswithinwhich macro-economic policy, formulation,isto be taken up. Right now the industrial,agricultural, telecom, civil aviation policies as, wellas monetary and fiscal regime of, India isfunctioning as per the ground rules laid by theseinternational agencies.

Delicencing, red-carpet welcome to foreigncapital, reduction in export, agricultural and public distribution, system/subsidies, nearly fullconvertibility of rupees, across the boardreduction in import tarrifs, bids to scrap monopoly laws, PERA, 1973 and Indian patents Act are a fewmeasures under the influence of multilateralagencies enumerated in the earlier paragraph.

### 3.6 SECTORALANALYSIS

According to live register of employmentexchanges, there are around 40 million unemployedof whom 60% are educated. In sectoral termsAgricultural sectoraccounts for 2/3rd of ouremployment whereas G.D.P. emanating from thisis approximately one-third. The secondary orthemanufacturing sector is not employing more than'5% our population after 45 years of economicdevelopment. The contribution of the second.sector to G.D.P; is slightly more than 28%. Thefastest growing sector of our economy is 'services'sector or the tertiary' sector which accounts forabout 40% of our national income and itscontributions to the employment is around 20%ofthe total employmentin the country. The health ofthe main employment oriented sector i.e.Agriculture is soil dependent on Rain Gods. Ourentire, focus in the 90s is directed towards thesagging industrial sector and over blown servicessector. The primary sector has recorded, a growth of only around *2% per* annum during the eighties,whereas the secondary and teriary sectors havegrown, the average rate of 4% and 6%. In theIndian model of mixed economy the state (or government sector accounts for one-fifth of thetotal G.D.P.whereasthe private sector account for therest.

However, serious doubtshave beenexpressed about theNational Accounts: Statistics in India and it is felt that there is a black economyheit as big as the onereflected in the officialstatistics. The existence of this unaccounted sectorof National Income is also the breeding ground forthe social ills of the society.

The transition of Indian economy **in** sectoralterms, thus depicts avery sad spectacles. Thetertiary and unaccounted urban informal sectorhas eclipsed the growth of the productive andemployment-providing sectors of agricultural andindustry. This has continued despite the claims, of"highly regulated" economy made by theinternational experts. The inter-regional, inter-persona! and social inequity,has grown the lot ofan average Indian is hardly better despite theclaims about planning for economic development. The state of India has been too big and tooineffective" to meet the serious socio-economic- problems. Like, all other economies of the world,Indian economy too is a mixed one;

We shall turnour attention on the recent institutional reformbeing attempted **to** usherin an era of liberation and global integration.

The process of global integrationset inmotion recently has its own implications for allsocial processes. The emergence of marketeconomic all over the world (with a fewexceptions) shall give credence to universality ofmanagement, Management is a social engineeringtechnique'may be standardised. There is everypossibility however of oversimplification. As has**been** the experience social sciences, an urge toportray social reality in terms of models hasresulted in limiting the applications of socialanalysis. The behavioral scientists inclination todevelop a ideological and a historical modes ofthinking, to address concrete problems ofproduction and productivity, is notalways the mostsatisfactory method of management.

**The** emergence of monetarist and marketoriented approaches as the keys to economic problems **is** undisputed. But one has to temper themanagerial analysis, by accommodating variedsocial contexts over various sectors andgeographical territories. In India, we have the copycat syndrome afflicting all developmentalexercises. In Japan or that matter China were abletofare better than Indian in many ways, theessential difference lies in the two-Asian giantsdeveloping their own models of socialengineering. The Japanese capitalism cannot betermed as a result of American sermons onmanagement. Similarly Chinese socialism can alsonot be termed as a copy of the blueprint proposedby the erstwhile socialist block. U.S.S.R is no moreas an administrative unitor a political entity.Despite all talk of Pan-American the U.S. economyis passing through a phase of recession which has challenged the position of that country as theundisputed economic later.The undertakable lessonfor the underdeveloped world from these twoexamples is that you have to be more inward looking when **it** comes to solving the economicproblems of thepeople invarious parts of theworld.

Our history and our tradition is a predominantvariable in determining our national psyche.Despiteall talk of information and electronicrevolutions, it has to be conceded that humanbeings are at the centre stage of all economic andsocial endeavours.Their mention make up outlook and attitudes are conditioned not only by their immediate - context, but fay their socialcustoms, development experiences and politicalprocesses over a long period oftime. It is peopleas social, political and economic events whotransform realities, produce wealth and consume it. Despite the way of possessive individualism as"the ideology", noone candeny the fact thatmanis a social animal. The drivingforce for humanbehaviour is not the organic composition ofdifferent-persons but their behavior is not theorganic composition of different persons but their behavioural disposition and mind processes. The latter, of course are conditional by tile socialcontext.

The plea for not treating individuals immuneto external environmental influences applies toinstitutions also. In fact, the micro-macrodichotomy has to be resolved at the level ofindividuals, organisations' and countries. Opening up of Indian economy means free entry ofmultinationals and influences of world economy.All the companiesin manufacturing, trading andservice sectors shall be influenced by this inintensified international interaction. The structuraladjustment programmesproposed by World Bank,IMF, GATT shall not onlyaffect the industrialsector but even the agricultural and service sector.The national government has also agreed to theplan for lesser state intervention. For thisliberalisation drive to 'succeed,' the domestic,market, human psycheshould be attend to this shock treatment. The reduction of welfareactivities, temporary displacement of labour due toexit mechanism for public sector and reduction inthe regulatory powers of the traditional elite are theinternal features of. Indian Society which willhinder the progress of the recent economic reform.If the people in Indian are not prepared to receivethis profit maximisation capitalist orientation, thereform is bound to fail in the long run. But in theshort and medium run the inflationary pressuresand growing unemployment shall also affectthedaily life of all the Indians. All the levels ofindividuals, institutions and the national economyshall comeinto, relationship with hisnew processof internationalisations.

The New Industrial Policyresolutionvirtually discarding 1956 resolution, regime of freetrade with promises of rupee convertibility, virtualabolition of controls on monopoly houses, andMMCs accompanied with sweeping "monetary andfiscals policy changes may appears to create amarket of laissez faire era in India. This has to besupplemented with privatisation of public sector,setting up on National Renewal Fund, promises oflower tariffs and plans to seel the controversialDunkel draft of GATT giving, a burial to IndianPatent's act. It seem’s that old policy of importsubstitution is being substituted by exportledgrowth. However, the changed economic policypackage, is already meeting assistance. Doubledigit inflationary pressures, stagnation in industrialeconomy and the trade union protest againstimpending threats of unemployment are alreadythere with a fear of prolonged recession.

Major economic policy reforms taken up inthe latter half of the year 1991 include devaluationof rupees accompanied with trade, reformsmonetary, interest rate and credit policy reforms,new industrial policies for large, export-orientedunits, foreign 'companies and small scaleindustriesabolition of various subsidies onexports, fertilizers and food item. Thedisinvestment in public enterprises was initiatedwith divesting 20% of equite of 31 PSUsto mutualfunds and setting up of a National Renewal Fundfor retrenched workers. The full convertibility ofRupeeson trade account, broadrange relaxation inimport, dudes and import barriersboost to formexports are measures which are supposed tofacilitate integration of the national economy withthe international economy. These measures navebeen proposed in the budget of 1993-94.

In two does rupee was devalued by I7 to 19percent against international currencies. Thisfollowed the depreciation of rupee by about 55%during the eighties. Devaluation was ostensiblytaken up to push up exports of manufacturedgoods arid for making exports less attractive. Besides, the stated aim was also tocheck the flightof NRI funds from India. But since the devaluationwas taken up in t*wo* doses, the apprehensionsabout flight of NRI deposits, continued. All thesemeasures were also taken upto satisfy IMF andWorld Bank conditionalities because IMFmakeavailable extend facility loans to make up for thefalling reserves of foreign exchange. The shortterm foreign exchange problem basedon account of IMF loan. The IMF prescription, has guided mostof the economic policy measures of devaluation ofrupee, deflation of domestic economyderegulation and denationalisation in the industrialsector. It is feared that the process of devaluationof our currency will further aggravate with fullfloat ofRupee.

The general subsistence-level economy ofIndia whichhas sofar been rather isolated and in away, eveninsuklared, started undergoingsignificantstructural changes, Recent governmentpronouncements and actionshave notonlyaccelerated the processes of liberalisation but alsoemphasised the paramount need to be competitiveat theglobal level —-a scenario which is notundergoing dramatic change, India, in fact, will now the entering, after almost a decade of falsealarms, into thereal take-off stage, provide thepolitician bureaucrat- Industrialist strengthold of the economy cases. This is now simple. Thesedevelopments would result in chain reactons, withbusiness and industrial management complexities,similar to those experienced earlier by westernsocieties.

The emerging economic and businessenvironments are thus posing serious challenges tothe business and-industrial managers. They wouldneed help both inorder to understand the full implications of these changes and to reparethemselves for meeting the threats and takingadvantage of the opportunities arising from thesechanges. Therefore, new .knowledge and skillswould be needed.

Five areas of environmental changes are particularly striking. It is proposed to deal with them here as there may offer opportunities to, manger andacademics, in Management for theirreorientation. These **five** areas are : Emergence of competitive business andindustrial environment. This change has a wide impact and touches everymanagerial functional area. Of particularimportance in this context are areas like industrialmarketing, marketing strategies andlaunching ofhew products.

- Emergence of significant Changed financial environment. **This** has shearing; not only onthe financing method used by business andindustrial enterprise but also on the management **of** financial institutions.
- Shift in import substitution and exportpromotion strategies, On account of thegrowing realization that import substitution strategy does not lead to efficient development emphasis had been rightly laidon exportpromotion.
- Technology information revolution — India has been a latentrat, but will have to catchupfast if it is not to remain behind other nations in the economic race.

Rising importance of managing people—While the problem of managing people is nothingnew, the complexities of the problem are distinctly changing, because the composition of employees in many large organisations has significantlychanged.

Women employees are also, becoming morenumerous and women's share of employment willgrow further.

To sum up, there is every need for giving anew took to a variety of old problems — namelymotivatingpeopleleadershipcommunication,counselling, selection and performance appraisal',emerging trends in industrial relations; conflictreso!utionmanaging organisation, culturalsuccessionplanning productivity linked remunerationsystems and creativity management.

These are really challenging and will need allpossible human intenuity and imagination, if theeconomy is to grow and the measures tostrengthen the market forces have to succeedIMFLoan and its Implications :

India has both short-term stand by loans aswellas medium termextended finance facility(EFF) from IMFIndia has already received US $2billion under state by arrangement. The short termsforeign exchange crises has eased considerably. Tosatisfy the cond-clonalities of EFF, the Bank'sCountry. Economic Memorandum lists five areas :Expenditure reduction aimed at reducing the fiscaldeficit to less than 4% of ODP; Tax reform aimedatreducing incidence of custom duties and exciseduties; Trade reform implying import liberalisation;Industrial policy reform, the main issue being exitandlabour policy andfreedom for private sectorboth national andinternational; mended byNarashiman. Committee; and lastly PublicEnterprise reformincluding closure of sickenterprises, privatisation, elimination of budgetary support and similar other, reforms' guided by theethos of market economy.

A part from these changes, we also witness adrive to woo Foreign Direct Investment as an alternative to debts from multilateral, financinginstitutions. The government hasalreadysuspended operation of the provisions 26, 28, 29.and 31. In the guidelines issued by RBI, theforeign companies have been allowed, to acceptdeposits from public." Even onepriority area a partfrom 38 areas identified for automatic licences and51% foreign equity. Use of foreign trade market has been allowed and foreign companies have alsobeen permitted to acquire real estate in India.

## 3.7 CONSEQUENCES OF ECONOMICREFORMS

The most vocal supporters ofStructuralAdjustment Programme of the nineties have someworries. It is agreed that too many bureaucraticcontrols on industry were unhealthy, yet thiscannot be construed to be main constraint on newentries, Technological dependence reflected in theimport-intensityof our industrial growth maybecome a constant feature of our industry. Pioneers of rural industrialisation are apprehensive that successfulco-operative initiates in the primarysector may suffer from unequal competition ofMNC's. This will not only result in rising prices ofgoods of common consumption but also destroythe economic viability of farm enterprise in thelong run. Industrial licensing had ensured checkson polluting industries, helped promotionof smallindustries and ensured regional dispersal of theindustry. The exclusive reliance on market, forces andprofit maximisation motive as the drivingforces can negate all these benefits. In fact, it issuggested that what Indian industry needs is notderegulation but new type of regulations to copeup with the new problemswhich have arisen atthis stage. No regulations can be valid for all times. The regulatory mechanism has to be'dynamic. We may need a SEB to substitute theclearance for from Controller of Capital Issues.More reliance on financial controls rather thanphysical controls, has been suggested by many pro-liberalisation analyses.

Concern for quality and consumersatisfaction which is the determinant of success ofour exports in international markets cannot beinculcated by dismantling controls. ConsumerProtection (COPRA) may be the way to do it.Consume be fosteredthrough a to be fosteredthrough a vibrant consumers movement may makeIndian entrepreneurs more qualityconscious andcustomeroriented. This will help in exportmarkets, especially services were humanized interaction for better consumer satisfaction is thehallmark of success.

**An** effort on to **build an** environmentconducive to entry of MNCs by relaxing MRTP,FERA and plans for privatising large public under-takings. It is feared that this will underminedomestic research and development basedinitiative like C-DOT. CMC. It is feared that even,otherwise, economically viable BHEL, HMT and L& T may go out of business in faceof MNCs. Thefears to smallsector are sought to allayed bymaintaining that competitive strength is notdependent on size and sophistication oftechnology. The competition from MNCs mayforce Indian entrepreneurs to attempt managerialand technological innovations.

Competitionand consequent exit of somenew entries may be useful in conditions of “over-supply" in the West, in India it can mean loss ofresources and employment. Sometimes, in name ofincreasing competition, we may create morecapacities in industries like automobiles whichmay not be very desirably given the currentbalance of payment situation and roadways inIndia. Sudden-emphasis on more imports, inplaceof earlier import substitution strategies may resultin dislocation of already intensive industrialgrowth but shall certainly lead todeindustrialisation in some sectors.

In order to make private sector the driving force, we have prepared plans to do away withpublic ownership. Public enterprises have little tohope from all talk of MOUs and autonomy. Thedemoralisation induced by ampubli sectorcompaign may further demoralise these units andlakhs of crores of investment may record furthertower returns leading to deinduslrialisalion.

The rears of deindustrialisation arenotmisplaced. Ramaswamy R. Iyer, a leadingsupporter of reform has voiced his apprehensionsin the following words.

“In conclusion, **let** us try to visualise whatwill happen in a decade or two if some of thetendencies implicit in new policies are allow toproceed to their logical conclusion. Theindustrialbase in the country may thus deteriorate. If thishappens, this can be described as a process of'deindustrialisatibn, this could be one consequenceof globalisation' ...There may be a prosperity of ashort; we may happily settle down to the role of aprosperous economic colony of the west."

## 3.8 INDIA - A DUALISTIC ECONOMY

The Indian economy presentlyischaracterised by dualistic economic structure — amodern economy existing side by side with atraditional primitiveeconomy.ADutch economist,J.H.Boeke has propounded a theory of socialdualism which asserts that dualism implies thepresence and conflict of does not reveal suchclash; However, there *is* a clever evidence oftechnological dualismin Indian society.Technological dualism implies the use of differentproduction functions in the advanced sector andthe traditional sector. In this form, dualism is asituation in which productive employmentopportunities are limited, not because of lack ofeffective demand, but because of resource andtechnological restrain's in the two Sectors."

Like in other less developed countries, thetraditional rural sector in the possesses offollowing characteristics : It is engaged in peasantagriculture and handicraft or very small industries :**it has variable technical** co-efficients **of** production**so that the commodities can be produced with awide** range **of** techniques and **alternativeof labour**and capital **(which is** so defined as **to include improved l**and; **and** factor endowment **is** such that**labour is the relatively** abundant **factor** ofproduction so that techniques of productionarelabour intensive. In contrast, the modern sector iscomposed of large scale industries, mine,coalfields and plantations, In this Sector, thereisvery limited degree of substitutability of factors, sothat production is characterised by fixed technicalco-efficients and the production processes arerelatively capital intensive.

In India, since Independence there, has been issignificant declined in the mortality fates while birthrate has failed to decline correspondingly. As aresult there is population explosion in the country. However,due to fixed technical co-efficients in theindustrial sector, employment opportunities havefailed to grow rapidly: This explains why theabsorption of increased labour force in industrieshas been rather small. The increased population isforced, to seek a livelihood in the agriculture sector, which because or variable technical co-efficients is able'ito absorb them. Until he mid1960s this absorption could be facilited bybringing additional and under cultivation and prevented ratio of labour, and becoming farmoreadverse. In course, of time and became scarce and much scope, was not left for bringing additionalland under cultivation. In this situation the rate of labour to both, land and capital in agricultureshowedtendency to rise. This; obviously did notallow introductionof capital technology on a bigscale. Mechanisation thus could be possible, onlyon a limited scale. In this country, it seems that wehave now reached a stage that all availablecultivable land is already: cultivated by highlylabour intensive techniques and the marginalproductivity of labour had declined to zero. Underthese circumstances and increase in populationand its absorption its absorption in agriculture forfarmers or small scale enterprises to makeunemployment of capital in the labourintensivesector even if they have capital to invest. Nor willthey be interested in introducing labour savingtechniques even if they know about them andcould finance them. However, the fact stands that there is "no technology designed as yet to raiseoutput per man is also not interested in increasing its efforts. Thus while methods of productionremain labour intensive, levels or technology, manhour productivity and economic, and social welfareremain low.

it seems that the problem of disguised unemployment In the rural sector has tended to become more and moreserious in recent yearsbecause technological progress took a formfavouring the capital Intensive, sector.

While technological progress was, slow inpeasant agriculture and handicrafts, the industrialsector including mining and petroleum aspectacular technological development. 'Further,since Independence trade union activity, and, directgovernment intervention in me labour market haveIncreased and this has led to artificially high wagerates in the organised industrial sector. However,these policies had no effect on realwages in thesector and contributed a great dealto theemergence of technological dualism.

The, Indian economy presently faces thefactor proportions problem, as discussed byRichard Eehaus. Eehaus begins with a simple andabstract case where only one good is produced inthe economy, national product, with the help oftwo factors, labour and capital. Assuming that thefactors must be used in fixed proportions, Eckausfinds that the relatively abundant factor labour, isbound to face structural unemployment'. Even onintroducing a relatively more labour – intensiveprocess of production, he observes thatstructuralunemployment of labour still exists. Echaus, howeverdoes not consider this assumptionasnecessary for his conclusion.

In the next step, he divides national post of into two goods — output of Western enterpriseswhich are relatively capital - Intensive and outputof local enterprises which are relatively labour. intensive. Once. again heargues thatin spiteof avery high labour-capital ratio, structural unemployment of labour willpersist and this cannot be eliminated by price adjustments or by creation by increased effective demand. This general conclusion in unchanged even if variablecoeffcients replace the fixed coefficients in themore labour intensive, field of employment.Echaus demonstrates that structuralunemploymentis, aggravated under any of thefollowingconditions.

1. If trade union activity, or the governmentpolicy successfully pushes up the wages.
2. If technological **lakes** a form that favours the capital - intensive sector.
3. If the rate of population, growth is higherthan the rate of capitalaccumulation to the labourintensive Sector.

## 3.9 INDIA - A MIXED ECONOMY

The Indian economy is a mixed economy. Ithas acquired this form with the growth of a largepublic sector since Independence. Bhabatosh Dattaasserts,in examining the Mixed Economy thusintroduced, one has to remember that no economy haseven been completely unmixed. Even beforeIndependence, India/had a, fairly important publicsector, the most important component of which *was* the railway system. There, may be variousgrades of mixture betweenthe impracticableextremes of one hundred per cent- laissez – faireand tine hundred per cent socialist production." InIndia, the Second Five Year Plan summed up to objectives of the planned development in thephrase 'socialist pattern of society', implying that"the basic criterion for determining lines of advance must not be private profit, hut social gain...... "andyet the character of the economy that has emergedasit resultof planned development does notresemble and such other measures may create onillusion that the economy has advanced towards social ism but in fact socio-economic relations have not undergone any such change as to warrant theconclusion that the Indian economy has drifted away from its capitalist form. According to Sukhainoy Chakravarty, ".„.... as of now, there is no evidence that despite the growth of a largepublic sector India has moved to any significant extent closer to a 'socialist society', in anymeaningful sense of the term. If the present trendsare not going to be reversed, it Ispossible thatIndia will witness in the closing decade of this century aconsiderably enlarged private sector withfurther erosion of the role of planning in thetraditional sense of

## 1. APROFILE OF THE INDIANECONOMY SINCE INDEPENDENCE

| | Unit | 1999.00 | 1950-971950-51 | CARG | |
|---|---|---|---|---|---|
| | | | | (%) | |
| Demography | | | | | |
| Population” | (Mn.) | 1.027 | 936 | 59 | 2.2 |
| Males” | (No.) | 933 | 927 | 945 | -0.03 |
| Urban | (Mn.) | 285 | 250 | 62 | 3.2 |
| Birthrate | (Per 1..000)' | 27.2 | 27.4 | 39.9 | -0.8 |
| Death rate | (Per 1.000) | 8.9 | 8.9 | 27.4 | -2.3 |
| Expectancy of life | | | | | |
| at birth | | | | | |
| Total | (Years) | 63.0 | 61.0 | 32.1 | 1.4 |
| Male | (Years) | n.a. | 60.2 | 32.4 | 1.4 |
| Female | (Years) | n.a. | 61.4 | 31.7 | 1.4 |
| National Income | | | | | |
| GDP (A factor cost) | | | | | |
| At current prices | (Rs. crores) | 1,786,459 | 1,243,546 | 8,979 | 11.4 |
| At 1993-94 Prices | (Rs. crores) | 1,151,981 | 970,083 | 140,466 | 4.4 |
| Share in GDP | | | | | |
| Agriculture | (%) | 29.2 | 31.4 | 35.8 | ….. |
| Industry | (%) | 23.9 | 25.2 | 15.2 | ….. |
| Services | (%) | 46.8 | 43.4 | 29.0 | ---- |
| GND (At factor cost) | | | | | |
| At current prices | (Rs. Crores) | 771,0281,<br>230,464 | 9,506 | 11.3 | |
| At 1993-94 prices | (Rs. Crores) | 140,38995<br>9,360 | 139,912 | 4.4 | |
| For Capital Income | | | | | |
| At current prices | (Rs.) | 16.047 | 11,601 | 255 | 8.8 |
| At 1993 – 94 Prices (Rs.) | 10,264 | 9,036 | 5,687 | 3,687 | 2.2 |

**Note. :** Since India's. Independenceon. August t5, 1947 coincided with **the** partition of the country; dataremained unadjusted for severalyears. Comparable data are available from 1950-51 onwards.

Compound annual growth rate (CARG) has been calculated between the **two** terminal points.

As per 2001 Census

**Source :** Tata's Stasticalonline of India.

## 1. A PROFILE OF THE INDIAN ECONOMY SBSCE INDEPENDENCE

| | Unit | 1999-00 | 1996.97 | 1950-51 | CARG (%) |
|---|---|---|---|---|---|
| Road Transport | | | | | |
| 'Total road length' | (000 kms.) | n.a. | 2,466 400 | 4.0. | |
| Surfaced | (000 kms.) | n.a. | 1,394 157 | 4.9. | |
| Regd. Vehicles | ('000) | 48,001 | 37,231 | 306 | 10.9 |
| Railways | | | | | |
| Route ims | ('000 kms.) | 62.8 | 62.8 | 53.6 | 0.3 |
| Electrified | ('000 kms.) | 15.0 | 12.7 | 0.4 | 7.7 |
| Revenue earning | | | | | |
| frieght | (Mn. Tonnes) | 456 | 409 | 72 | 3.8 |
| Passanger traffic | (mn.) | 4,585 | 4,153 | 1,284 | 2.6 |
| Passenger fare per km | | (paise) | 18.3 | 1.5 | 5.7 |
| Shipping | | | | | |
| Tonage Capacity | ('000 CRT) | 7,641 | 6,915 | 391.0 | 6.3 |
| Cargo handled<br>Telecommunication | (Mn. Tonnes) | 224.6 | 227.1 | 19.2 | 5.1 |
| Telephone connection | (Mn. Lines) | 27.4 | 15.4 | 0.14 | 11.4 |
| External sector | | | | | |
| Exports | (SBn.) | 36.8 | 33.5 | 1.3 | 7.1 |
| As % of world exports | | (%) | 0.7 | 0.6 | 1.9 |
| Imports | (SBn.) | 49.6 | 39.1 | 1.3 | 7.7 |
| Current account deficit as % of GDP | (SBn.) | 35.1 | 22.4 | 1.9 | 6.1 |
| Price & Exchange Rate | | | | | |
| WPL…(1993-94-100) | | 145.3 | 127.2 | 17 | 6.8 |
| CPL (Indl. Workers) | (1982-100) | 428 | 342 | 17 | 6.8 |
| Price of gold | | | | | |
| (Mumbai)….. | (Rs. Per 10 | 4,040 | 4,695 | 113 | 7.6 |

| | | | | | |
|---|---|---|---|---|---|
| | (grams) | | | | |
| Exchange rate of Rupee | | | | | |
| (Annual average)….. | (Rs. Per US $) | 44,96" | 35.5 | 4.8 | 4.71 |

Annual average for 2000

Rate of depreciation :- 87.1

Source : Field

## 3.7 Self-check Questions

1. What is modern capitalist?
2. Define the term tariff commission
3. What is economic system?
4. Discuss the features of socialism.

## 3.8 Summary

The impact of business is so pervasive that besides judicial and administrative the thirdimportant work any government has to perform is to regulate business in the nationalinterest. From the late 1940s, many countries started a new beginning towards growthand development, but almost all of them followed different paths to achieve the goal ofwelfare of their people. We see that different countries began their journey towardswelfare, growth and development in late 1940s by adopting different routes. The Indianeconomy is mixed economy. It has acquired this form with growth the of a large publicsector since independence. The countries that adopted mixed capitalist structure had aremarkable rise. India has a slowly developed a multiple mechanism of dual prices,ceiling prices, floor prices, subsidized prices, statutory prices, retention prices,procurement prices, levy prices, and free market prices. After liberalisation in 1991, thevery face of Indian economy has changed. There is growth in national and per capitaincome, new opportunities in employment have been generated in telecom, software,call centers, biotechnology, pharmacy, tourism, education, etc.

## 3.9 Glossary

**Economic System** : An economic system is a means by which societies **or**governments organize and distribute available resources, services, and goods across ageographic region or country.

**Mixed Economic System:** A mixed economic system is a system that **combines**aspects of both capitalism and socialism.

**Sectoral analysis:** sectorial analysis, is a statistical analysis of the size, demographic,pricing, competitive, and other economic dimensions of a sector of the economy.

**Dualistic Economy:** A Dualistic economy is the existence of twoseparate economic sectors within one country, divided by different levels ofdevelopment, technology, and different patterns of demand.

## 3.10 Answers: Self-check Questions

1. See the section **no. 3.4,** lesson 3

2. See the section no. 3.3, Lesson 3
3. See the section no. 3.4, Lesson 3
4. See the section no. 3.4, Lesson 3

## 3.11 Terminal Questions

1. What is capitalism? Explain its features.
3. Discuss the role of government in regulation of prices.
4. What are the consequences of economic reforms?

## 3.12 Suggested Readings


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**LESSON-4**

# FINANCIAL INSTITUTIONS AND VARIOUS POLICIES

## Structure



4.0 Learning Objectives

After going through this lesson the learners will be able to:

1. Understand the role and function of development financial institutions.
2. Discuss foreign capital and its regulation.
3. Discuss Reserve Bank of India its Functions and credit control measures.
4. Explain monetary policy, fiscal policy and industrial policy.

## 4.1 Introduction

Finance **is** a pre-requisite to mobilise realresources for organising production. In adeveloping economy, lack of finance is not theonly deferent to economic development. Evenwhen finance is available, other important factorslike imperfections in the information flow anddeath of entrepreneurship may come in the way ofindustrial and economic development. Hence, it isnecessary to make finance and other developmentassistances in a package to take off stage. Thepresent trend; therefore, is to set lip 'DevelopmentBanks' rather than institutions which merelyprovide finance.

"A Development Bank in multipurposeinstitution which shares enterpreneurial risk,changes it approach in tune with the industrial,'climate and encouragesnew industrial, projects, tobring about speedier economic growth. Theconcept of development banking is based on theassumption that mereprovision of finance willnothelp to bring about entrepreneursial development.Successful entrepreneurial banking should includethe discoveryof investment projects; undertakingto preparation of project, reports, provision of technical, advice and management services andfinally assisting the management of industrialunits"

After Independence, starting with theestablishment, of theIndustrial FinanceCorporation of Indian in 1949; a number, ofdevelopment banks have been set up at all Indiaand State levels for assisting the development oflarge, mediumand smallindustries by providing financial and various other promotionalassistances.

There are three all - Indian DevelopmentFinancial Institutions' (DFIs). viz.; IndustrialDevelopment Bank of India (TDBI). IndustrialFinance Corporation of India (IFC) and IndustrialCredit and Investment. Corporation of India(ICICI). The Industrial Reconstruction Corporationof India (IRCI) established in 1971 with the main objective of revival and rehabilitation of viablesick units was converted into the IndustrialReconstruction Bank of India (IRBD) in 1985 withmore powers.

Besides the/four institutions referred toabove, the all - India financial institutions (AIFIs)provisingindustrial finance aresome investmentinstitutions, namely the Unit Trust **of** India (UTI).Life Insurance Corp6rati6n of India (UC), and theGeneral Insurance Corporation ofIndia(GIC) andits subsidiaries.

Development banks have been established atthe State, level too. In1987there werel8StateFinancial Corporations (SFCs) and 26 StateIndustrial Investment /Development Corporation(SIDCs).

Financial assistance is provided, directly orindirectly, also by National Small IndustriesCorporation, (NSIC), State small IndustriesDevelopment Corporation. (SSIDCs) and Khadi**and** Village Industries Commission (KVIC),although financing in only an ancillary function ofthese organisations.

The IDBI is the apex institution whichco-ordiantes the activities of various institutions.

A very important source of industrial financeis commercial banks.

Provision of rupee and foreign currencyloans, subscription to shares and debentures,underwriting of shares and debentures,guaranteeing of deferred/payments 'and loans arethe important, types of financial assistanceprovided by these, institutions, (some of the institutions do not provide some of theseassistances).

Development activities, of **the**OFTs includeidentifying industrial potentials ofdifferent areas development ofentrepreneurship 'through trainingandmotivation ;assistancein projectidentification, feasibility studies and preparation ofproject reports ; technical and managerialconsultancy; seed / risk capital assistance, etc.

Direct assistance from the all – Indiadevelopment banks is normally confined toprojects costing over Rs. 3 crores; various statelevelinstitutions and certain special institutionslike the National Small Industries Corporation(NSIC), State Small Industries DevelopmentCorporations (SSIDGs), Khadi and VillageIndustries Commission (KVIC) and banks assistsmall-scale (including Khadi and village) units andmedium-scale units involving - investment of lessthan Rs. 3 crores. However, these institutionsparticularly the IDBI, assist the small-scale sector indirectly, through schemer of refinancing,rediscounting of bills, resource support ofinstitutions assisting' small-scale sector,efc.

The limit of direct subscription by the all India DPis equity of companies has recently beenraised fromRs. 50 lakhs to Rs, 1 crores.

Projects involving very large investment areassisted by all India financial institutions through,consortium financing (i.e., the project is jointly financed by a group of financial constitutions). Inconsortium financing, one of the institutions plays the lead role. TheAIFIs have beentrying !o makethe single window concept more effective and toexpedite the process of sanction and disbursementof assistance.

The DPIs have sponsored a number oftechnicalconsultancy organisation (TCOs) andsome institutes for entrepreneurial/managementdevelopment.

The assistance sanctioned by all financial institutions (ARs)* increased very substantiallyfrom Rs. 118.1 crores in 1964-65toRs. 70,594. Croresin 1995-96.

The share of the AIFI's in the total sanctions ismore than 90 per cent and of the state level development banks is one tenth, IDBI, the premier institution, alone accounts for, more than*27* per cent about of **the** total assistance by the*APIs.*

About three - fourths of the cumulative,assistance sanctioned by the APIs have gone to the private sector about 14 per cent has gone to the public sector, 77 per cent to the joint sector and the .co-operative sector received 33 per cent.

## 4.2 INDUSTRIAL DEVELOPMENT BANK OF INDIA

The IDBI was establishedon July 1,1964under the Industrial Development Bank of IndiaAct, 1964, as a wholly owned subsidiary of thereserve Bankof India. **In** terms of the PublicFinancial Institutions Laws (Amendment) Act,1975, the ownership of IDBI has been/transferredto the Central Government with effect fromFebruary 16,1976.

The most distinguishing feature of theIDBI** statue is that hasbeen assigned the role ofthe principal financial institutions for co-ordinatingin conformity with the national priorities, theactivities of the institutions engaged in financing,promotingor developing industry. IDBI has beenassigned **a special rote** to **play in** the matter **of :**

(i) planning, promoting and developingindustries to fill vital gaps in industrialstructure;

(ii) providing technical and administrative assistance forpromotion, management or expansion of industry; and

(iii) undertaking market and investment research and surveys as also techno-economic studiesin connection with development of industry.

IDBI is also expected to co-ordinate, guideand monitor the entire range of credit, facilities offered by the other institutions for the small andcottage sector.

IDBI is empowered to finance all types of industrial concerns engaged or to be engaged inthe manufacture, processing or preservation ofgoods, or in mining, shipping, transport, hotelindustry, generation or distribution of power,fishing or providing shore facilities for fishing orin the maintenance, repairs, fishing or servicing ofmachinery or vehicles, vessels etc., or for thesetting up of industrial estates. The Bank canalsoassist industrial concerns engaged in the research anddevelopment of any process or product or inproviding specialor technical knowledge or other services for the promotion or industrial growth.

TheIDBI Amendment Act, 1986 hasenlarged the definition of industrial concernseligible for assistance from IDBI to coyer diverserange ofindustrial activities including theactivitiesof services sector of industries like informatics, healthcare, storage and distributing of energy and other services contributing, to value addition.TheAct has also widened the scope of business of theBank so as to cover consultancy, merchantbanking and trusteeship activities. The range offinancing instruments has been further enlarged toinclude lines of credit and letters and IDBI hasbeen permittedto grant loan and advances to individuals for investment in industrial concerns.

Further, the authorised capital of IDBI wasraised to Rs.1,000 crpres and it can be raisedfurther uptp **Rs.** 2,000 crores by, the CentralGovernment by a notification in the 'officialgazette.

As an apex development bank, the IDBI hasbeen playing a leading role in the field ofindustrial finance and promotion. Over the last twoand a half decades, the bank has evolved newareasof promotional activities to meet the mergingneeds for development of industry. It has alsostrengthened the institutional structure of industrialfinance in thecountry with effectiveandappropriate linkages among the developmentfinancing institutions based on co-ordinatedpolicies and practices. It provides resource supportto state level .institutions by way of refinancefacilities and certain special schemes.

Although the direct financing by the IDBI isconfined, by and large, to the medium and large-scale units, it has been assisting thesmall scalesector through its contribution to, several specialschemes andresource support to the State level institutions.

The IDBI provides the following types offinancial and promotional assistance :

(i) Term loans (both rupee and foreigncurrency).

(ii) Underwriting of and subscription to sharesand debentures.

(iii) Financial guarantees for deferred credits and,loans raised from other sources.

(iv) Softloan assistance for modernization.

(v) Under the Technical Development FundSchemes, matching rupee, resources, by wayof direct loans to industrial units which arerecipients of import licences under T.D.F.Scheme of Governmentof India.

(vi) Under the Equipment Finance Scheme, loanassistance for import of capital goods orequipment by existing industries against IDBIcredit or for imports coveredby T.D.F.licences.

(vii) Under the Technical Assistance Fund Scheme.

(a) Assistance of Entrepreneurship Development Programmers.

(b) Assistance for self - employment of blind and handicapped.

(c) Subsidyfor turnkey arrangements entrusted to approved technicalconsultancy organisation (TCOs);

(viii) Seed capital assistance through SFCs: and SIDCs to new entrepreneurs who do not haveadequate source of their own for setting **up**industrial projects.

(ix) Refinance facilities to State level financial institutions and banks forprovidingassistance to small and medium industrial,**projects.**

(x) 100 per cent refinance in respect of composite term loan upto Rs. 25.000.sanctioned to artisans, village and cottage,industries and SSI units in tiny sector andprojects promoted by SC/ST and physically handicapped.

(xi) Special scheme of concessional refinanceassistance to small scale units covered Underthecredit guarantee scheme.

(xii) Refinance against loans upto **Rs.** 2 lakhsgranted to technician entrepreneurs bySFCswithout insisting on promoter's contributionand at concessional rate of interest.

(xiii) Concessional finance for industries in menotified backward areas.

(xiv) Under the Textile Modernisation FundScheme, assistance for modernisation onconcessional terms to spinning and compositetextile and woolen mills.

(xv) Under the VentureCapital Fund Schemefinancialassistance for 'projects involvingdevelopment and use of indigenoustechnology, as well as foradaption and use of imported technology.

(xvi) Under the Technology,Upgradation Scheme,assistance for selected capital goodsIndustrial.

(xvii) Scheme for providing Automatic Stand byCredit for payment of enhanced customs dutyon project imports.

IDBI provides financial assistance to cottage,tiny, small and medium enterprises though :

(i) refinance of industrial loans granted by SFCs,**SIDCs** commercial-/co-operative and regionalrural banks;

(ii) rediscounting of bills arising out of scale ofiondigenous machinery ;

(iii) seed capital assistance to new entrepreneur;

(iv) resource supporttoSFCs. SSIDCs andNSICbyway of subscription to shares and bonds.

In order 'to step up to the flow of assistance tothe small sector and to provides afocal point to co-ordinate at the apex level the availability ofbothfinancial and non-financial inputs required for theorderly and healthy growth of this sector, the IDBIestablished in May 1985 Small IndustriesDevelopment Fund (SIDF). In fulfillment *of* these objectives, the Bank took a variety of measures toincrease the flow of assistance to this sector.Besides liberalising the terms of existing schemesnew schemeswere introduced in favour of such special target groups as women entrepreneurs and,exservicemen. Assistance is also made availablefor such purposes as financing in house qualitytesting facilities, common quality testing centres,setting up of Training - cum Development Centresin north - eastern states of the country, etc.

## 4.3 INDUSTRIAL FINANCE CORPORATION

The Industrial Finance Corporation of Indiawas established in 1948 under the IFCI Act, withthe object of making medium and long – termcredit more readily availableto industrialconcernsionIndia. Today. IFCI's role extends to the entire industrial spectrum of the country. While itcontinues to be one of the important purveyors ofdirect financial assistance to eligible industrial concerns, no less important is its promotional rolewhereby it has been helping and developing thesmall and medium - scale industrial entrepreneurs ;by providing them much needed guidance-throughits specialised agencies in project identification,formulation and implementation, development of ancillaryand small scale 'industries, encouraging the adoption of indigenous technology, etc;

As in the case of the recent amendments of the IDBIAct, the amendment tothe IFCI Act hasbroadened the scope of business of the Cooperation and enlarged the, list of industrialactivities eligible for assistance by inclusion of informatics, health care etc.

Direct, financing is die Corporation's mainbusiness, the assistance under which can take anyone or more of the following forms :

(i) Rupee loans,

(ii) Sub - loans in foreign currencies out of .theforeign exchange lines **of** credit made available to it;

(iii) Underwriting ofand / or direct subscription to the shares and debenturesofpublic limited companies ; and

(iv) **Gurranteeing of -**

- (a) Deferred payments of machinery imported from abroad or purchased'within the country ;
- (b) Foreign currency -loans raised byindustrial concerns from –foreigninstitutions; arid
- (c) Rupee loans raised by industrialconcerns from scheduled banks or StateGo-operative Banks or the market.

Like the other all India development bank's,IPCI, also provides concessional finance toindustrial units in notified backward areas.

IFCI has been designated as the modalpointto administer the Jute Modernisation Fund set upby the Government of India and which becameoperative from November, 1986, with a view torevitalising the jute industry and giving thrust to itsmodernisation programme.

Further IFCI has been appointed as agent ofthe Government of India for making disbursement of loans from the Sugar Development Fund forrehabilitation and modernisation of sugar units andmonitoringthe end **use** of loans and affectingrecoveries.

Beiriga development bankthe IFCI has beenundertaking anumber of development activities.These include the following.

(i) Guidance to newtiny, small - scale andmedium-scale entrepneurs in project identification formulation, implementation,operation etc.

(ii) Help to new and small entrepreneurs bySubsiding the, cost of Feasibility/ProjectReprois, market studies, diagnostic studies,revival of sick units, development of technology and in house R & D efforts.

(iii) The Risk Capital Foundation (RCP)sponsored by the IFCI (established in 1976)provides risk capital assistance on soft termsto the first generation entrepreneurs *to* makegood the shortfall in the requirement ofpromoters contributionto the equity capita!of the medium and medium - large industrialprojects promotedby them in the cost – range of Rs. 2 crorestoRs. 15crores, No interest ischarged on the loansgiven by RCF, except, anomina service charge. The assistance isnormallylimitedto 50 per cent of thepromoter's contribution excluding thecontribution from SIDC and / or other similarpublic sector financial institutions to theequity of aproject.

During 1986 - 87, the Corporation introducedthe Scheme of Interest Subsidy for EncouragingQuality Control Measures in Small Scale Sector.

Recently, IFCI has set up aMerchant BankingDivision (MBD) with its head office atDelhi andbureau in Bombay, the MBD undertakesassignments forcapital, restructing, merger andamalgamation, loans syndication with otherfinancial institutions, and trusteeship assignments.It guides entrepreneurs in project formulation andraising resources for meeting projectcosts.

## 4.4 INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA

The Industrial credit and Investment Corporation of India. Limited (ICICI) was set up in 1955 to encourage and assistindustrial development in India.

Its objectives/intervals include:

(i) providing assistance,in the creation,expansion and modernisation of industrialenterprises;

(ii) encouraging and promoting the participationofprivale capital, both internal and externalin such enterprises; and

(iii) encouraging andpromoting industrialinvestment and, the expansion of investmentmarkets.

In pursuit of its objective of promotingindustrial development, ICICI provides financialassistance in various forms such as—

(a) Underwriting of public andprivate issues andoffers to saleof industrial securities —ordinary shares, preference shares, bonds anddebenture stock;

(b) Direct subscription to such securities;

(c) Securing loans in rupees,repayable over periods upto 15 years,

(d) Providing smaller loansinforeign currencies forpayment for imported capita) equipment andtechnical, services;

(e) Guaranteeing payments for credits made byothers;

(f) Providing credit facilities to manufacturer forpromoting sale of industrial equipment, on deferred payment terms.

ICICIsells securities from its own portfolio toinvestors whenever its can get a reasonable pricefor them. Itdoes so for the dual purpose ofrevolving its resources for new investment and for,encouraging the investment. habitin others,thereby promoting widespread distribution of private securities. Thus, unlike the normal investor,ICICI does not retain successful, investmentsmerely because they are profitable. On thecontrary, dissemination, ofprofitable investments isin accord. With its broad objectives and the form ofICICI's own investment in a particular enterprisesis often influencedby the prospect of selling iteventually.

The primarypurposefor which assistance is extended is purchase of capital assets inthe form of land building **and** machinery. **Of** the alternativetypes of assistance provided by ICICI, the one best calculated to assure the success of enterprises ischosen in eachcase.

A significant, feature ofICICI's operations isthe relatively high share of foreign currency loansin it assistance portfolio compared **to** other all.**India**development banks.

Towards thenational objective ofdevelopment of backward regions. ICICI has beenextending financial assistance on concessional **terms** to new projects located in backward areas.

ICICI played an active role in the techno-economic surveys of various States under theinitiative of the allIndia financial institutions. Thesurveyswere carried out to determine theindustrial potential of the selected States and tosuggest measures for realising such potential. Theeffort was 10 identify specific projects based onlocal resources, which would be of maximum benefit to the economy.

ICICI, in consortium with IDBI and IFCI,operates. Soft loan Scheme for modernisation ofindustrial concerns in cement, sugar, cottontextiles, jute andcertain industries.

Consistent with itscorporate philosophy andits role as an experienced development bank.ICICIprovides promotional, assistance toworthwhile projects. The Corporation hasprovided. On a formal basis since 1973, promotional assistance like identification of newprojects oh the one hand and location, of suitableentrepreneurs on the other. In selecting projects forthis purpose, presence is given to those with apotential to cover immediate andemergent gape inthe economy. Special consideration is also give tonew products and process. **It** providescomprehensive guidance to entepreneurs onselected projected for their formulation on soundlines and expeditious maturing to a bankablestage. In suitable cases a small fee is charged for these services. The regional officers of the • Corporation also contribute to these activities and serve as convenient contact points forentrepreneurs.

ICICI started a Merchant Banking Division in1973 for advising clients, on a selective basis, onraising finances in suitable forms and on restructing of finances in existing companies.It also advices clients on amalgamation proposals. Assistance is provided in preparing proposals for submission to financial institutions and banks for negotiations with them for loans and underwriting. The Division act as Managers, to the Issue of Capital, Assistance is provided for completion ofFormalities for raising loans. ICICI charges asuitable fee for these services.

The Corporations lias taken some initiatives in the field of rural developmentsince 1076. It hasassisted, on an experimental basis, projects of landscaping, agricultural research and fits irrigation.

The Corporation's interest and initiative inrural development activity was enlarged during1977 and Rs. 25 lakhs were earmarked for projectsof rural development to be taken up in associationwith industrial units and voluntary social serviceorganisations.

ICICI considers financial assistance on liberalterms to suitable rural development schemesinitialed, either by voluntary organisations orcorporate bodies. The scheme should have ademonstration value and be replicable in otherrural areas. Theyshould aim at improving living conditions of the rural population and their impact should be measurable. For bankable ruraldevelopment schemes, ICICI extends financialassistance in the form of seed money / margionmoney or suitable interest rate subsidy. For otherdeserving but non-bankable, schemes, ICICIextends financial support depending on their meritand requirements.

ICICI hasbeen instrumental in setting up theInstitute for Financial Management and ResearchatMadras. The Institute has been conductingspecialised courses and carrying on research in the field of financial management.

An important development initiative taken byICICI resulted in the formation of HousingDevelopment Finance Corporation Limited(HDFC) in 1987. HDFC provides long-term loanson reasonable terms, primarily for lower andmiddle income group housing.

The ICICI with commenced leasing operating in 1983, provides leasing assistance forcomputerisation, modernisation/replacementschemes, equipment for energy conservation,export orientation, pollution control, balancing andexpansion. The industries assisted under leasinginclude textiles, engineering, chemicals fertilizers,cement sugar etc. ICICI has made significantefforts in promoting investments in informationtechnology, service industry like hotels and agro-sectors like hatchery and poultry.

In 1987, ICICI launched its Venture CapitalScheme under which long term financial' assistanceis extended to projects involving development, andor commercialisation of new technologies, forwhich entrepreneurs, due to inherent high risks,may not be able **to** raise funds throughconventional lending mechanisms. The assistanceis provided in the form of participation' in sharecapital, conditional loans and normal loans.

The Corporations is administering and managing the Programme for the Advancement ofCommercialTechnology (PACT) which commencedwith a grant of US $ 10 million from the UnitedStates Agency for International Development(USAID). Theprimary emphasis of PACT is onmarketoriented R &D activity from which Indiaand USA would derive economic benefit.

ICICI provides special assistance totechnology development projects based on,indigenous R. & D efforts.

In order to broad - base technologydevelopment oriented activities, the Corporationhas promoted a new company called TechnologyDevelopment and Information Company of India Ltd. (TDICI) the major functions of TDICI wouldbe technology financing and technologyinformation. Technology financing will includefinancing ofcommercial R & D schemes throughgrants and conditional loans, venture capitalfinancing and technology upgradatipn financing.

The Credit Rating Services of India Limited(CRISIL) promoted by ICICI became, operationalin 1987, CRISIL, in whose equity banks andfinancial institutions have participated, is anindependent organisation managed professionally.

## 4.5 INDUSTRIAL RECONSTRUCTION BANKOFINDIA

In 1971,the Government of India establishedan institution, namely. Industrial ReconstructionCorporation of India (IRCI) with the mainobjective of reconstruction and enabalisation ofindustrial units which were closed down **or** werefacing the risk of closure but which could be madeviable with suitable assistance.

The need for a more powerful institution todeal with the problem of industrial sickness wasfelt on March 20, 1985, the IndustrialReconstruction Bank of India (IRBI) wasestablished as per the provisions of the IndustrialReconstruction Bank of India Act, 1984, and theerstwhile Industrial Reconstruction Corporation ofIndia was vested and transferred to the IRBI onthat date.

In 1997, IRBI was converted into a companyand transformed it into a full pledged financialinstitutions. The Bankwas moved into business oriactivities from simple revival of sick units.

The IRBI gives loans for, modernisation,diversification, expansion and renovation as also for meeting supplementary needs, such as bridgingliquidity gap and for working capital requirements.The other forms of assistance include lines ofcredit, I equipment leasing, hire purchase, etc. TheBank extends assistance to sick small - scale unitsunder its line of credit scheme which is operatedthrough various State level agencies.

To arrest sickness at is incipient stage or toprevent any unit from falling to sickness, the IRBIhas been emphasizing the need to obtain economicsize of operation, modernisation diversification technological ungradation etc. of its assisted units,either singly or jointly in consortium with other allIndia financial institutions. The IRBI alsoprovides 'consultancy services to banks' andfinancial institutions on,selective basis and'merchant banking services foramalgamation/merger and reconstruction.

## 4.6 STOCK HOLDING • CORPORATION OFINDIA

A new company, namely, the Stock HoldingCorporation of India Ltd, (SHCI), was recentlyestablished with its registered office in Bombay, inorder to secure efficient post - trade processing'services for transactions in securities-carried out bythe all - India financial and investment, institutions(IDBI, IFCI, ICICI, IRBI, **LIC,** VTIand GIC), SHCI is owned at the outset by the sevensponsoring institutions. It would hold custody of securities of the sponsoring institutions and handle transfer of securities as alsocollection of dividend/interest in respect of such securities; on theirbehalf. After setting uptheinfrastructural facilitiesand gaining experience in the filed. SHCI wouldextendits services to other such as stock-brokersand individual investors when it would makea public issue of share capital.

## 4.7 DISCOUNT AND FINANCE HOUSE OFINDIA

The Reserve Bank of India, together withpublic sector banks and financial institutions, hasrecently setup a company called the Discount andFinance House of India Limited (DEHI), to deal inshort - term assets in order to provide liquidity in the money market.

## 4.8 STATE FINANCIAL CORPORATION

The State Financial Corporations Act, 1951,has enabled the State Government to Set up StateFinancial Corporations (SFCs) to function as regional development banks, making a significantcontribution to the industrial advancement of theirrespective States.

The SFCs are meant to finance small andmedium-scale industries.

A part from their share capital, the SFCs depend for financial resources on repayment *on* loans and, income from investments, issue ofbonds refinancing of loans from the IDBI and to alimited extent on - borrowings from the RBI,deposits from the public and occasionally loansfrom the Slate Government.

The SFCs do not normally leadmore than Rs.60 lakhs to a single concern. The prohibition isintended to ensure that the SFCs do not deviatefrom the rain objective of these creation, namely,catering, to the requirements of the small andmedium - scale sectors. The large concerns canapproach the all India financial institutions - IFC,IDBI andICICI.

Loans or advances are granted primarily forthe establishment of new industries or, forexpansion and development of existing industrialconcerns. Loans to the new industrial concerns willbe considered where a feasible scheme hasbeen prepared, and the initial capital has been collected by the prospective-industrial unit. In caseof existing industrial concerns of loans are grantedfor the purpose of expansion or renovation ofunits. In both the cases, loans are granted for thepurpose of acquiring tangible assets in the form ofloans are granted for importing plant andmachinery, other accessories and machine tools and technical knowhow,in special cases. Wit theexception of shipping; SFCs are now emowered toassist all industrial-activities, including mining,transport .by rope ways and development ofindustrial areas.

## TYPES OF ASSISTANCE

Financial assistance from State FinancialCorporations takes the following forms :-

(i) Granting of loans or advances andsubscribing to the debentures of industrial,concerns, repayable within a period of notexceeding twenty years,

(ii) Guaranteeing, loans raised by industrialconcerns in the capital marketor fromscheduled banks Or sate co-operative banks.

(iii) Guaranteeing deferred payments due, fromany industrial concern in connection with its purchase of capitalgoods within India.

(iv) Underwriting issues of stocks, shares, bondsor debentures by industrial concerns.

(v) Subscribing to the stocks, bonds or debentursof an industrial concern out of the fundsrepresenting the special class of share capitalsubscribed by the State Government and IDBIin accordance withthe provisions of Section 4Aofthe SFCsAct.I.951.

The main activity of the SFCs is providingloans and some of them alsounderwrite sharesofIndustrial concerns. The **SFCs** grant loans mainly for the acquisition offixed assets like land,buildings and plant and machinery. Sometimesthey also provide loans for working capital' margin is combination with loans for acquisition of fixedassets.

SFCs are also providing foreign currencyloans small and medium - scale industrial units forimport of plant and/or technical know - how underthe IDA - World Bank Credits to IDBI.

## 4.9 STATE INDUSTRIAL DEVELOPMENT CORPORATIONS

Since I960, many States and UnionTerritories have set up State IndustrialDevelopment Corporations (SIDCs) / StateIndustrial Investment Corporations (SIICs), with the main object of acceleringthe industrial developmentof the respective Slates, and Union-territories.

The SIDCs/SIICshave been promotedby theState and Union Territories as promotional, bodies entrusted with the major, task of promotingindustries and ensuring balanced regional growthwithin each state.

For efficientlycarrying out the functions of promotion, improvement and development ofindustries, these Corporation are empowered toplan, formulate andexecute industrial undertaking, project or enterprise which is likely toaccelerate industrial development. Further, they promotemedium/large industrial' ventures as joint sectorunite in collaboration with private entrepreneurs,or as wholly owned subsidiaries arid-provide riskcapital to new generation entrepreneurs. Variousincentive schemes of Central / State Governmentare also administered through them.

TheseCorporation undertake a wide rangeof functions. The important functions are :

(1) Grant of financial assistance, to industrialconcerns in the form of :

(a) direct investment

(b) loans

(c) extension of guarantee tor loans anddeferred payments, and -

(d) underwriting and subscription, to the is sue of shares, bonds and debentures;

(2) Promotion and management of industrialconcerns:

(3) Provision of industrial sheds/plots; and

(4) Promotional activities such as identification ofproject ideas, selection and training ofentrepreneurs, provision of technicalassistance during project implementation etc.

The Corporation in State in like Karnatakaand Bihar, are empowered to undertake specialactivities like establishing and managing industrial estates, development of industrial areas,generation transmission and sale of electricity etc.

Out of the 26 Corporation in operation in thecentury in 1986-87nine were also functioning asSFCs.

## 4.10 FOREIGN CAPITAL

The government has decided to considerapplications, for direct foreign investment by NRIsupto 100% ion areas other than the 34 itemsmentioned in *Annexure III* of the industrial policy.

However, there will be no automatic clearance forsuch proposals.

Even in areas still reserved for the PublicSector (telecommunication,. hydrocarbons, coal,railways and postal services) the Government now has a more liberal approach towards privateinvestment, including: foreign, investment.

In 1994-95, foreign investment was openedfor NRI and persons of Indian origin in a widerange of construction and real estate, relatedactivities. Foreign investment was also allowed inconstructing and operating highways, expressways and bridges on a toll tax system, generatingelectricity on build-operate own (BOO) basis, telephone services and certainoperations inrailways on build-operate - ease-transfer BOLT basis. Without prior approvals, foreigninvestorscan now own upto 24 per, cent equity in anyIndian, firm and upto 20; per-cent in new privatebank.

The government will also considerapplicationsfor direct foreign investment by NRIsupto 100 per cent in areas other than the industriesmentioned *Annexure III*of the industrial Policy. However,there will be no automatic clearance for such proposals.

In 1996-97, the following changes have been effectedin respect offoreign, investment.

1. The list of industries eligiblefor automaticapproval upto 51 per cent foreign equity hasbeen expanded from 35 to 48,

2. Three industries relatingtomining activityhave been made eligible for automaticapproval upto 50 per cent foreign equity.

3. Automatic approval for foreign equity participation upto 74 per cent has been allowed in 9 categories of industries including key infrastructuresectors (such as electricity;generation and transmission, non-conventional energy generation and distribution ; construction and maintenance of roads, bridges, waterways, tunnels, pipelines, industrial power plants ports,

runways, andharbours ; exploration, production of POL. Andgas ; manufacture of iron ore pellets, pig ironand steel; etc.).

4. ForeignInvestmentPromotionCouncil (FIPC)has been set-up 16 prepare project reports inselected thrust areas and thereby to facilitate theflow of foreign investment to the country.
5. Foreign Investment Promotion Board (FIPB)has been exampled for making rules andregulations pertaining to forcing investmentmore transparent.
6. The first **ever** guidelines have beenannounced by the Government forconsideration of foreign investment/proposalsby the FIPB which are not covered under theautomatic. route and priority areas forfollowing 100 per cent foreign equity has been spelt out.
7. Foreign Institutional Investors (FIIs) have been allowed to make equity, investments inunlisted companies and the limit ofinvestment of 5 percent of total equalities in asingle company by, an individual FII has been raised; to 10 per cent. The guidelines for Euroissues **and ECB** have **been liberalised to** ease the **access** of **Indian companies, toInternational capital markets.**

## GUIDELINES, FOR FOREIGNINVESTMENT

In January, 1997, Government of Indiaannounced the first ever guidelines for foreigninvestment, with a view to *interalie,* facilitatingexpeditious approach of FDI in areas not caredunder automatic approval. The salient featureofthe Guidelines are the following.

(i) Priorityareas for FDI include infrastructures export potential largescale employment potential, particularly for rural areas; items with linkages width he farm sector, socialsector projects like hospitals, health careandmedicines; and proposals that - lead to induction, of technology and infusion ofcapital.

(2) FDI approvals will be subject to sectoral caps[20 per cent (40 per cent forNRIs) inthe banking sector **51,** per cent in non – banking financial companieswithout any special conditions, (100per**cent** with specified minimum levels offoreign investment);.100 per cent in power, roads, ports, tourism, andventure capital funds ; 49 per centin the telecommunications; 40 per cent (100 percentof (NRIs) in domesticair-taxi operation/airlines; 24 per centin small – scaleindustries; 51per cent in drugs / pharma industry forbulkdrugs; 100 percent in petroleum; and 50per cent in mining except for gold, silver, diamonds, and precious stones.

(3) Hundred per cent equity may be allowed in those cases where the foreign company has expressed inability to find asuitable Indian Joint venture partner, subject to the conditionthat the foreign investor will divest at least 26per cent of its equity in favour of Indianparties within 3 to 5'years;

(4) Foreign companies may be allowed to set- up100 per cent companies on the basisof thefollowing criteria,

    (a) Where only holding operation is involvedand all development investmentsto be earned out need prior approval.

    (b) Where proprietary issought to be protected of sophisticated technology is proposed to be brought in.

    (c) Where at least 50 percent ofproduction is exported.

(d) Consultancy proposals.

(e) Projects in power, roads, ports and industrial towns and estates.

(5) Permission may also be given toproposals for100 per cent trading firm for exportsbulkimports, cash-and-carry wholesale tradingand other import of goods and services,provided at least 75 per cent is forprocourement and sale of goods and servicesamong group firms.

## 4.11 FII INVESTMENT

The Indian stock market was opened up toFII Investment in 1992-93 and since then there hasbeen a significant increase in the portfolioinvestment by FIIs.

TheRegulation of Foreign InstitutionalInvestorswhich were notifiedon November 14,1995, contains various provisions relating todefinition of general obligations andresponsibilities ofFIIs.

(a) Securities in the primary and Secondarymarkets including shares, debentures andwarrants of companies listed on a recognized stockexchange **in** India and;

(b) Units **of** scheme floated by domesticmutualfunds including Unit Trust of India. Whetherlisted on a recognised stock exchange or not.

Joint ventures between a variety of domesticand foreign securities firms have been approved inthe stock - broking, merchant, banking, assetsmanagement, and other non-bank financial servicessectors. The overall effectto **FII** investment andfinancial joint - ventures has beenthe introductionof international practices andsystems to the IndianSecurities industry.

FIIsare permitted toinvest in a companyuptoan aggreate of 24 per cent of equity shares.According to the modification announced in theunion Budget 2000 -21, it can go upto 40 percent subject to the approval of the Board ofDirectors of the company, and a special Resolutionofthe General Body.

## EURO ISSUES

As mentioned earlier, since1992-93. Indiancompanies satisfying certain Conditions, areallowed to access foreign capital markets by Euro-issues of Global 'Depository Receipts (GDRs) andForeign Currency Convertible Bonds (FCCBs).

"A Depository Receipt is basically anegotiable certificate, denominated is US dollars,that represent a non- US company's publicly traded local currency (Indian Rupee) equityshares. DRs are treated when the local currencyshares of an Indian company (for example) aredelivered to thedepository's local custodian bank, against whichthe Depository Bank (such as theBank of New York)issues DRs in US dollars. TheDepository Receipts may trade freely in the overseas markets like any other dollardenominated security, either on a foreign stock exchange, or in me river — the counter market, oramong a restricted group such a qualifiedinstitutional buyers.

The prefix global impliesthat the DRs aremarketed globally rather than in a specific, countryor market.

Companies with good track record of threeyears may avail ofEuro issues for approvedpurposes. According to the raised guidelinesissued in November, 1995 companies investing ininfrastructure projects, including power, petroleumexploration and refining, telecommunications,ports, roads and airports are exempted from thecondition ofthree-year track record, It is expectedto help companies in the infrastructure sectors to access cheap overseas funds.

According to the changes in the ECBguidelines announced inJune, 1996, allinfrastructure and greefield project have been,permitted to avail of ECB to the extend of 35 per cent of total project cost. However, greaterflexibility is allowed on merit to power projects. InJanuary, 1997, the ECB limit fortelecommunication sector was raised to 50 per cent of the totalproject cost.

In 1999, Government announced a policy toallow Indian companies to raise funds throughissue of ADRs/GDRs without prior governmentapproval 50 per cent to these proceeds can beused for acquisitions abroad. Software companiesmay be acquired abroad through stock step option upto $100 million on an automatic basis.

In 2000, this celling was increased to $ 50million from $ 15 million for Indian Corporates inother sectors.

## FISCAL POLICY AND GROWTHPERFORMANCE OF THE ECONOMY

Fiscal policy influences growth performanceof an economy mainly in two years. In the firstplace, it affects growth by influencing themobilisation of resources for developmentSecondary, it exercises its influence by improvingthe efficiency of resource allocation.

## FISCAL POLICY AND RESOURCE MOBLLISATION

India has done extremely well in terms of theeffort in 1950-51 when the planning process wasinitiated the taxGDP ratio was as low as 6.0 percent. Since then itrose steadily for four decadesand stood at 16.6 per cent in 1991-92. During the1990s the tax - GDP ratioregistered a decline andws 14.2 per cent in 1999-2000. For a poor countrylike India which started its development effort witha very low per capita income and has recorded anextremely modest rate, of growth (that is around2.06 per cent per annum increase; in NNP" percapita). This record in mobilising tax revenue isgood by any standard. In India, allthe major 'axes,except personal income tax and land revenue,have recorded buoyancy greater than unity. Inrecent years buoyancy of Union excise duly andsales tax has been as high as 1.51, and 1.41respectively. Obviously this has enabled far greatermobilisation of resources through taxation thanwhat one would normally expect in the conditionsprevailing in India. However, it .has not beadmitted that there still remains some scope for raising additional tax revenue inthe country. **In**India, revenue collection from direct, taxes tointernal debt. The resources for this purpose canbe raised by disinvesting in public enterprises andselling' a part of vast real estate that thegovernment .owns in the country.

Non-interest expenditure, In India, there is not much scope for raising tax revenue. According to Chelliah neither, **it** is fassible nor desirable toplan for a buoyancy in tax-revenues of more than1.1 or so. Therefore, is fiscaldeficit isto bebrought down the growth of all the major categories of non-interest expenditure has to beslowed down considerably. In some cases itis bothdesirable and feasible to effect reduction in theexpenditure. From its point of view experts nowparticularly mention subsidies, capital assistance tonon-viable and inefficient enterprises,governments consumption: expenditure related tostaff and defence expenditure.

In 1990-91 major subsidies added upto Rs. 9,581 crore. In principle though the governmentdecided to cut down subsidies, "in practice it failedto do that, as they rose fromRs. 9,581 crore in1990-91 to Rs. 23, 160 crore (R.E.) in 1999-2000.The government has reduced the export subsidlybut is finding it difficult to cut down the fertilizer and foodsubsidies due to "resistance from the bigfarmers' lobby. Infuture the government will haveto muster thepoliticalwill be etimite fertilizer subsidy.

As far as the food subsidy isconcerned. Itshould be drastically pruned and in any caseshould be provided to the weaker, sections of thesociety only. The government has reducedbudgetary support to the plan investment by publicenterprises. In future non-viable public enterprisesshould be closed down and other loss makingenterprises should be advised to revise' theirpricing policies to wipe out (heir process.Regarding the government's consumptionexpenditure related to staff, there seems to be nochoice except to reduce **it. Over** the years thegovernment will have to **find** ways and means toshed the surplus staff. Meanwhile, austeritymeasures must be imposed onall governmentpersonnel. Containment of the growthconsiderablescope to enhance the cost effectiveness of the defence expenditure. In case his task is undertaken earnestly, then thee is notreason, why at least in die short run defenceexpenditure on revenue account cannot be keptconstant in realterms.

## THEMES OF THE 'NEW FISCAL POLICY*

In the broad framework of the economicliberalisation approach of the recent years, themajor themes of the fiscal policy have beenconcertised **in** this country. There is broadagreement' on these themes, and they can besummarised as follows.

1. A systematic effort to *simplify* both the taxstructure and the tax laws ;
2. a deliberate, shirt to aregine of *reasonabledirect tax rates, combined with betteradministration and enforcement,* to improvecompliance,and raise revenues;
3. The fostering of a *stable and predictable* taxpolicy environment;
4. Greater recognition and weight given to be*resource allocation and equity consequences of taxation.*
5. More reliance on*nondiscretionaryfiscal andfinancial instruments'* in managing theeconomy, as comparedto adhocdiscretionary physical controls;
6. Concerted efforts to *improve taxadministration* and reduce the scope for arbitrary harassment;
7. Growing appreciations, of the *links between.fiscal and monetary policy;*
8. Fresh initiativeto *strengthenmethods* ofexpenditure control.”

## FISCAL REFORMS PROGRAMME FORSTATES

The main, objective of Fiscal ReformsProgramme forStates was to improve that Balanceon Current Revenues and reduce revenue deficit inthe medium term. ThirteenStates——;AndhraPradesh, Assam; Himachal Pradesh, JammuandKashmir, Madhya Pradesh, Manipur, Mizoram, Nagaland, Orissa, Punjab, Rajasthan, SikkimandUttar Pradesh evolved and undertook their own Fiscal Reform Programme and also entered into an agreement with the Central government in 19992000:

The Fisca] Reforms Programme and Fiscal Reforms. Facility, was one-time programme whichas implemented in 1999-2000, Under the Fiscal Reform Facility extended, ways and meansadvance of **Rs.** 2,570 crore was provided to theseStates. In addition, seven states were also allowedadditional market borrowing of Rs. 1,920 crore.The Eleventh Commission has suggested aminotorable fiscal, reforms programme for the States in its supplementary Report.

## FISCAL RESPONSIBILITY AND BUDGETMANAGEMENT BILL

The committee of Fiscal ResponsibilityLegislation was constituted on January 17,2000 tolook into various aspects of fiscalsystem andrecommend adraft legislation offiscalresponsibility, of government. It was also announced in the Budget 2000-2001that thegovernment intended to create a stronginstitutional mechanism embodied in FiscalResponsibility and Budget Management Bill 2000was introduced in Lok Sabha in December, 2000.

The proposed law attempts to fix upresponsibility, on the government to strengthen theinstitutional framework for adopting a prudentfiscal policy and pave the way foradopting aprudent fiscal policy and pave the way foraccomplishing macro-economic stability. Theproposed legislation ion operational terms aims ateliminating revenue deficit and progressiveredaction of the fiscal deficit to not more than 2per cent of GDP within five years of thepromulgation of the law. However, the proposedlegislation ...will ensure flexibility in fiscalmanagement under - extraordinary circumstancessuch as war and natural clamities. Regardingpublic debt it is proposed that total liabilities,including external debt, are to bebrought down toless than 50 per cent of GDP in a period of tenyears. Moreover, the proposed legislation providesfor .prohibiting certain types of borrowing from theRBI. Thus the proposed Fiscal Responsibility andBudget Management legislation in essence anattempt to deny freedom to futuregovernments inrespect of fiscal management. The proposedlegislation binds future to governments to a pre-specified fiscal policy framework which is an entirely anti-democratic measure undertaking ofARDC. Though development, of institutionalindustrial finance is hot a statutory obligation of theRBI, yet in the context of planned economicdevelopment it has assumed great importance. In abackward economic me importance of industrialdevelopment can be recognised from the fact thatoften the level of its 'economic development,capital is of crucial is of crucial, importance.Normally commercial banks avoid giving long-term credit. For, meeting this financial requirement of the industrya country must have specialised institutions of industrial finance. Unit India gotIndependence, there was no such institution of thecountry. Thus at the initiative of the Centralgovernment the RBI actively participated in the establishment of various specialised institutions ofIndustrial finance. Including the Industrial FinanceCorporation of India and Stale FinancialCorporations. The Industrial Development Bank ofIndia was set up *as* subsidiary of the RBI. However, later on it *was* made an autonomousinstitution.

We have earlier pointed out that the RBI,besides being a controller of credit, is also andadviser to the government. The significance of theRBI's advisory function has considerablyincreased in the context of government's attempts**to** accelerate, the development process in thecountry. Now the Central much, it now plays useful role in the planning process of country.

## 4.14 MONETARY POLICY OF THE RESERVE BANKOFINDIA

The monetary policy : often refers toa'regulatory policy whereby the central bankmaintains its control over the supply for money forthe realisation of general economic goals. Theconcept of monetarypolicy, may be rightin thecontext—ofdeveloped economies, but in lessdeveloped countries like India, monetary policycannot remain confined only to controlling thesupply for money.In other words, monetarypolicy, if it does not play any positive role willserve only a limited purpose. 'Viewing the ReserveBank's monetary policy in this framework we findserve only a limited purpose. Viewing theparticular requirements of India’s developingeconomy. Aptly summarising the RBI's monetarypolicy a growing economy there has to be acontinuous expansion, of money supply and bankcredit find the in the circumstances in mainly tomoderate the expansion of credit and moneysupply, in such a way as and speculative purposes.That is why the Bank has rightly called its creditpolicy in recent, years as one of controlledexpansion.

The Chakravarty Committee has emphasized that price stability, growth equity and socialjustice, promoting and nurting new monetary andfinancial institutions have been importantobjectives of monetary policy in India. Thedifficult in formulating and implementing on acontinuous **basis.** This cannot be done independently**by** the **RBI's** monetary 'policy has to subserve thenational economic, and on the monetary policyoptions of the RBI. The inflationary pressures inIndia have often warranted acheck on a growth ofmoney supply, but the need to prevent the adverseeffects of restricting the flow of bank desired stability **in** prices. Thus in a country like India the**thrust** of monetary, policy cannot berestricted toregulation of money supply atone. Nonetheless, ithas to be admitted that the price stability andmoney supplyis necessary to achieve these objectives.

Y, Venugopal Reddy has however remarked,In India monetary policy has always emphasized the objectives of price stability and growth. What this, in effect has meant in practical policy settingis formulating a balance between the twoobjectives depending on the situation but in the broad context as such cannot, to be objective ofmonetary policy. He in fact, emphasises the pointthat the RBI at best should attempt to maintain therate of inflation within a reasonable limit whichaccording to C. Rangarajan is 5 to 6 per cent perannum.

In order to ensure RBI's complete controlover the supply of money and credit, it has beengiven exclusive power to issue currency notes. Forjudging how far the RBI has succeeded inachieving this objective, one has to know therelative importance of various types of money incirculation in the country. In certain countries, thelegal tender money (coins, and paper money) is thepredominant medium of exchange. In othercountries 'the place of legal tender money isrelatively secondary and most payments are madethrough cheques. Whereas the former type ofmonetary system is to be fond in Franch the latteris to be found in England and UnitedStales. The nature of the monetary system in India due topredominance of legal, tender money thus resembles the French monetary system rather thanthe British or the American.

In India, presently both currency notes andcheques are used for payment purpose—coinsconstitute a very small part of money supply in thecountry and they are now used, for making smallpayments. OnDecember 29, 2000 the total money supply ($M_1$) in thecountry was Rs, 3,64,781 crore.$M_1$is money supply in the narrow sense. It includes (i): currency with the republic with thepublic, (ii) demand deposits with banks, and (iii) other deposits with the Reserve Bank of India. The last one is a very small component or $M_1$and isthus not considered in any mattery analysis. OnDecember 29,2000 the amount of currency withthe public was Rs. 2.04,492 'crore and demand deposit and amounted to Rs. 1,57,727crore. Thecurrency with the public and the demand depositswith the banks thus accounted for 56.1 per centand 43.2. Nowadays a broader concept of moneysupply, that is $M_1$is used $M_2$ includes $M_3$and timedeposits with, banks. On December 29, 2000 the amount of $M_3$ was **Rs.** 12,61,770 crore of whichtime deposits with the banks were Rs. 8,96,989**crore.**

In monetary economics, control of moneysupply usually refers of the supply of currency anddeposit money.

## 4.15 NEW INDUSTRIAL POLICY, 1991 :

In line with the liberalisation measuresannounced during the eighties the governmentannounced New Industrial Policy on July, 24,1991.The new policy de-regulates the industrialeconomy in substantial manner. The majorobjectives of the new policy are to build on thegains already made, correct the distortions orweakeness that might have crept, in maintain asustained growth in productivity the gainfulemployment, and attain internationalcompetitiveness. In pursuit of these objectives, thegovernment announced a series of initiatives aseries of initiatives in thenew industrial policy asoutlined below:

Abolition of industrial licensing. In a major move to liberalise the economy, the new industrial policy abolished all industrial licensing irrespective of the level of investment, except for18 industries related to security andstrategicconcerns, social reasons, concerns related to safety and over riding environment issuesmanufactureof products hazardous nature and articles of elitist consumption; However, of these 18 industries,three industries (motor cars, white goodsand raw hides and skins and leather) were delicensed in April 1993 entertainmentelectronics industryand asbestos - based products, plywood and other wood andpaper and newsprint) in July 1997; andthree industries (coal and lignite, petroleum -products and sugar), in 1998-99. Thus, at present only 6 items of .health strategic and security considerations, remain under the preview ofindustrial licencing, (listed in Annexure II of thepolicy). These are alcohol, cigarettes, hazardous.chemicals, electronics aeroscape and defenceequipment, industrial explosives, and drugs andpharmaceuticals (excepting bulk drugs, which have been delicensed).

In respect of delicensed industry, no approvalis required from the government. However, entrepreneurs are required to submi an industrialEntrepreneur Memorandum (IEM) to theSecretariat for industrial Approvals (SIA) which acknowledges receipt. Since the announcement ofnew industrial policy till November 2000,40,890 IEMs involving an estimated investment of Rs. 8,52,190' crore and employment of more than 69lakh persons were filed. During the same period3,556 -LOIs (letters of intent) involving a proposedinvestment' of Rs. 1,05,534 crore and proposedemployment of 8.02 lakh were filed.

Public sector's role diluted. The 1956Resolution had reserved 17 industries for thepublic sector. The 1991, industrial policy reduced,this number to 8 : (1) arms and ammunition, (2)atomic energy, (3) coal and lignite, (4) mineraloils, (5) mining of iron oremanagehese are,chorme ore, gypsum,sulphur, gold and diamond(6) mining of copper, lead zinc, tin, molybdenumand use order), 1953, and (8) railtransport. In1993, item 5 and 6 were deleted from the reservedlist. In 1998-99items,3 and 4 were also taken outfrom the reserve. On May 9,2001, the governmentopened up arms and ammunition sector also to the private sector. This now leaves only 3 industries reserved exclusively for the public sector.

**The new** industrial **policy also** states that the government will undertake review of the existing public-enterprises in low technology, smallscaleand non-strategic areas so as also when there is low or nil social consideration or public purpose. Sick units will be referred - to the Board for industrial, and financial Reconstration (or a similar body) for advice about rehabilitation andreconstruction. Forenterprises remaining in thepublic sector, it is stale that they be provided itmuch greater degree of management autonomythrough the system of, MOU (memorandum ofunderstanding).

The government has also announced itsintention to offer a part of governmentshareholding in the public sector enterprises tomutual funds, financial institutions, the general'public and the workers. A beginning in thisdirection was madein **1991-92** itself, bydivestingpartor equities of selectedpublic sectorenterprises. Over the period **1991-92** to **1999-**2000, the government has raised **Rs.** 18,638 cropethrough this means. The new industrial policyindicates the government's intention to invite agreater degree, of participation by the private sectorin important areas of economy.

MBTP limit goes. Under the MKTP Act, allfirms with assets a certain size (Rs. 100 crpre since1985) were classified asMRTP firms. Such firmswere permitted to enter selectedindustries onlyarid this also an a case by case approval basis. Inaddition to control through industrial licensing,separate approvals were required by such largefirms in their plans for growth and diversification. Thenew industrial policy therefore scrapped, thethershold limit of assets in respect of MRTP anddominant, undertakings. There firms will now be atpar with others, and required prior approval fromthe, government undertakings. These firms willnow be at par with others, and not require priorapproval from the government for investmentinthe declinesed industries. The MRTP Act hasecnaccordingly amended. The now amended. Actgives more emphasis to the prention and control ofmonopolistic, restrictive and unfair the practices sothat consumers and adequately protected fromsuch practices.

Free entry to foreign investment, andtechnology. As in the case of domestic industrialinvestment, foreign investment has also beentraditionally regulated in India. Inthe case of bothforeign technology agreements sought by Indianfirms as well as foreign, investment, it wasnecessary to obtain and government interferenceand also happened business decision-making. Therefore, die new industrial policy prepared aspecified list of high technology'and high-investment priority industries (listed in Annexure III) where in automatic permission was to be madeavailable for direct foreign investment upto 51 percent, foreign equity. The industries in whichautomatic approval was granted was included awide range of industrial activities in the capital goods and metallurgical industries, entertainmentelectronics, food processingand the servicessectors having significant export potential.Besides, these included a number of otherindustries which are important for the rapid growthof the company.

In January, 1997, the government alsoannounced the first ever guidelines for foreigndirect investment for expeditious approval offoreign, investment in areas and covered underautomatic approval Priority areas for foreign-directinvestment proposals as mentioned in the guidelines included infrastructure, export potential, large-scale employment potential particularly forrural areas, items with linkages with the firmsector, social sector projects like hospitals, healthcare and medicines, and proposals that lead to induction of technology and infusion of capital.Foreign direct investment approvals willhowever,be subject to sectoral caps ; 20 per cent (40 percent for NRIs) in the banking sector 51 per centin non-banking-financial companies; 100 per centin power, roads, ports, tourism and venture capital funds; 49 per cent in telecommunications; 40'per cent (100 percent for NRIs) indomestic air taxioperations airlines ; 24 per cent in small – scaleindustries ; 51 per cent in drugs pharma industryfor bulk drugs ; 100 per cent in petroleum ; and 50per cent in mining except for gold, silver,diamonds and precious stones.

The list of industries aligible for foreign directequity investment under the automatic approvalroute by Reserve Bank was further expanded in 1997 in 1998-99. In1997-98, equity investmentup to 100 per cent by NRIs/OCBs (OverseasCorporate Bodies) was permitted in high priorityindustries. These included 9 high priorityindustries in metallurgical and infrastructuresectors and 1.3 other priority industries, hitherto eligible for 7.4 per cent and 51 per cent equity investment respectively. Foreign equity investment in mining (3 categories of industries) wasalsoallowedupto 100 per cent for NRIs/OCBs.During1998-99, the scope of foreign direct equityinvestment under the automatic approval route ofReserve Bank was enchanced. In a major drive 16simplify foreign direct investment procedures,Indian companies were permitted, to acceptinvestment under automatic approval route withoutobtaining prior permission from Reserve Bank of India. Foreign equity upto 100 per centhas been permitted in electricity generation, transmissionand distribution (excluding, atomic reactor powerplants) and in construction and maintenance ofroads, highways, vehicular bridges, tool roads, vehicular tunnels, ports and harbours. However, foreign equity in projects or these industries underthe automatic approval routewas notto exceedRs. 1,500 crore,

During 1999-2000, the government decided to put all times under the automatic, rout of foreigndirect investment/NRI andOCB investment except;for a small negative list. *The* negative list includes all proposals requiring industrial licence under the Industries, (Development and Regulation) Act, 1952cases having foreign investment morethat 24 percent in, the quity capital; of unitsmanufacturing items requiring industrial licence interms of the locational policy notified under the New Industrial Policy, 1991. Many decisions were taken in 2000-01 also to further liberalise foreign direct' investment Policy. Some of the important decisions include : (i) 100 per cent foreign direct investment permitted for Business to e-commerce (ii) removal of cap in investment in the powersector, (iii) 100 per cent foreign direct investmentpermitted in oil refining ;(iv) 100 per cent foreigndirect investment allowed in Special Economics Zones (SEZs) for all manufacturing activity ; (v) 100 per cent foreign direct investment allowed intelecom sector for certain activities withsomeconditions ; (vi) offshore VentureCapital Funds/ Companies allowed, route subject only to SEBI (Securities and Exchange Board of India); regulations and sector specific caps on foreigndirect investment ; (vii) Existingcompanies withforeign direct investment are eligible for automatic route to undertake additional underautomaticroute in the Insurance Sector, as prescribedin the Insurance Act, 1999, subject to obtaining a licencefrom the Insurance Regulatory and Development Authority (IRDA), (ix) automatic route is availableto proposals in the Information Technology sector,even when the applicant company has a previous joint venture or technology transfer agreement, inthe same field, etc.

On May 9,2001, the government announceda number of concessions and incentives to foreigndirect investment (FDI). The main incentives are asfollows : (i) in the pharmasectors, 100 per centFDI has been allowed through the automatic route(earlier on the limit was 74 per cent; (ii) 100 per cent FDI has been allowed in airports against theprevailing 74 per cent ; (iii) For the. hotel andtourism industry the FDI limit has been raised, to100 per cent through the automatic routfrom theprevailing 51 per cent; (iv) 100 per cent FDI hasbeen allowed in two fresh-areas:— courier servicesand Mass Rapid Transport System (MRTS) ; (iv)100 per cent FDI hasbeen allowed in township development; (vi) In the telecom sector.FDI limithas been raised to 74 per cent from the existing 49 per cent for Internal Service Providers (ISPs); (vii)Subject to Reserve Bank guidelines, the foreigninvestment limit in the banking sector has beenhiked from 20 per cent to 49 per cent; and (viii)FDI upto 26 per cent has been allowed in defenceproduction.

Industrial location policy liberalised. Indeparture from the locationat policy for industriesthe new industrial policy provided that in locationsother than cities of more than 1 million population,there will be not requirement of obtainingindustrial approvals from the centre, except forindustries subject to compulsory licensing.In citieswith a population of more than 1 million,industries otherthan those of anon-pollutingnature, were required to be located outside 25 kms. of the periphery.

Major amendment in the industrial locationpolicy was effected during 1997-98. Therequirement of obtaining industrial approvals, fromthe Central government (except for the industries under compulsory licensing) for establishing unitsat locations not falling within 25 kms of theperiphery of cities having a population of morethan 1 million was dispensed with. However,notified industries of a non-polluting nature suchas electronics, computer software and printing, may be located within 25 kmsofthe periphery ofcities with more than 1 million population. Other industries are permitted only ifthey are located indesigned industrial areas setup prior to July, 25,1991. **Zoning** and Land Use Regulations as well asEnvironment Legislation continue to regulate industrial locations.

Abolition of Phasad ManufacturingProgrammers for new projects. To force the paceof indigensation in manufacturing. PhasadManufacturing Programmers have beenin force ina number of engineering and electronics industries.The new industrial policy has abolished suchprogrammers in future as the government feels thatdue to substantial reforms made in thetrade policyand the devaluation of the rupee, there is no longerany need for enforcing the local contentrequirement on a case-by-case, administrativebasis. Various incentives that are currentlyavailable to manufacturing units with existingphasad Manufacturing Programmers will continue.

Removal of mandatory convertibility clause.A large part of industrial investment in India isfinanced by loans from banks and financialinstitutions. These institutions have followed amandatory practice of including a convertibilityclause in their lending operations for new projects.This has provided them an option of convertingpart of their loans into equity if felt necessary bytheir management; Although this option has notgenerally been exercised, it has been interprised asan unwarranted threat to private firms of takeoverby financial institutions. The new industrial policyhas provided that henceforth financial institutionswill not impose this mandatoryconvertibility clause.

### APPRAISAL OF NEW INDUSTRIALPOLICY

We have mentioned in the chapter on'Industrial Development During Planning Period'that the period of eighties was marked by industrial recovery after a phase of industrialdeclarationspanningover almost a decade andhalf. Some economists have argued that a majorfactor accounting for this industrial recovery wasthe sereis of liberalism measures announced by thegovernment in the eighties. If one - accepts thisposition then the logical conclusion is that moreliberalisation will result, in still faster industrialgrowth. If one sees the new industrial policy in thiscontext, one can argue that it will pave the way forhigher rates of industrial growth in a sustained wayin future. .

According to J.C. Sandesara, the newindustrial policy seeks to raise efficiency andaccelerate industrial production in five differentways.

## 4.8 Self Check Questions

1. Define development financial institution.
2. What is foreign capital?
3. Discuss the functions of IDBI.
4. What is Monetary Policy?

## 4.9 Summary

Finance is a prerequisite to mobalise real resources for organizing production in adeveloping economy, lack of finance is not the only deterent to economic development.A development bank is multipurpose institutions which share entrepreneurial risk,changes its approach in tune with the industrial climate and encourage new industrial.projects to bring about speedier economic growth. Monetary policy is about supply ofthe currency in the country, regulated by the RBI. Though the RBI does it in the light ofthe fiscal policy and macro objectives of the government, it is in this sense that fiscalpolicy and monetary policy are complementary. There are various factors affectingmoney supply in India. Some of them are as follows: net bank credit to the bank, bankcredit to the commercial sector, net foreign exchange assets of the banking sector,government currency liabilities to the public, non-monetary liabilities of the bankingsector. There is a direct relationship between supply of money and inflation. As thesupply of money increases, it value goes down and inflation increases. Supply of moneyhas also an impact on the interest rate and level of investment.

## 4.10 Glossary

**Bank Rate:** The bank rate, which is also known as discount rate, is the rate at which thecentral bank discounts advances to the commercial banks.

**Cash Reserve Ratio:** The CRR refers to the cash that banks have to maintain with theRBI as a certain percentage of their demand and time liabilities.

**Liquidity Adjustment Facility (LAF):** In LAF the amount of REPO and reverse REPOare changed on a daily basis to manage liquidity.

**Monetary Aggregates:** These are two basic measures of money globally.

**Open Market Operations:** The open market operation involves the sale and purchaseof government securities by the RBI.

**REPOs:** A REPO is purchase of one loan against the sale of another.

**Selective Credit Control:** Selective and qualitative credit control refers to regulations ofcredit for specific purposes or branches of economic activity.

**Foreign institutional investors:** Foreign institutional investors (FIIs) are thoseinstitutional investors which invest in the assets belonging to a different country otherthan that where these organizations are based.

**Foreign Direct Investment:** A foreign direct investment (FDI) is an investment in theform of a controlling ownership in a business in one country by an entity based inanother country. It is thus distinguished from a foreign portfolio investmentby a notionof direct control.

## 4.11 Answers: Self-check Questions

1. See the section no. 4.1, lesson 4
2. See the section no. 4.10, Lesson 4
3. See the section no. 4.2, Lesson 4
4. See the sectionno. 4.14, Lesson 4

## 4.13 Terminal Questions

1. Discuss the factors which influence the supply of money in the country.
2. Discuss how Monetary Policy influences inflation.
3. Discuss the relation between inflation and interest rates.
4. "Monetary Policy and Fiscal Policy are complementary." Discuss the statement.
5. Describe, in brief, the function of IDBI.
6. Discuss how the RBI regulates the supply of money in the country.

## 4.12 Suggested Readings


1. Aswathappa, K., (2009). *Essentials of Business Environment.* Global Media.
2. Dave, B., (2009). *Business Environment in Modern Era.* Global Media.

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**LESSON-5**

# SOCIAL AND CULTURAL ENVIRONMENT

**Structure**



## 5.0 Learning Objectives

After going through this lesson the learners will be able to :

1. Understand the traditional and modern society.
2. Describe corporate social responsibility of business.
3. Discuss consumerism and consumer protection act.

## 5.1 Introduction

Society means all the people who influenceus whether they are living in our country, or in theoutside world. Society is very important to humanbeings for the following reasons.

It fulfils all our needs whether of food,clothing, housing, education etc.

It enables us to exchange our ideas andknowledge with others and thus to further developculture and civilization.

- ♦ It provides us an opportunity *to*developvarious virtues through personal experience.Without these virtues a man cannot be calleda man.
- ♦ From times immeomorial society hasprovided protection and sheller to man.

## 5.2 SOCIAL INTERDEPENDENCE

Social interdependence, means that everyperson has to depend on society for the fulfillment of his needs. This will be clear from the followingexamples.

- ♦ We need clothes to protest our bodies. To getthese, one has to depend on the cooperation ofsomany other people, A present growscotton, a merchant buys it and sends, it to thefactory, where many workers weave it intocloth. From the factory it goes to the handsof some merchants and then finally comes tothe customers. So to fulfil the need of clothesa person has to depend on so many othermembers of society.
- ♦ A man need a house to live in. For this heneeds bricks, cement, iron, wood etc. He has to take the help of carpenters, masone andworkmen. So the fulfil the need of a house,one has to depend up so many other people.

## 5.3 DIFFERENCES BETWEEN THE MODERNSOCIETY AND THE TRADITIONAL PRE-INDUSTRIAL SOCIETY

Following are the two main differencebetween the modem society and the traditionalsociety:

- ♦ In the modern society, industries havedeveloped rapidly along with the progress ofscience. So, the modern society has manyfacilities (e.g. modem means ofcommunications, entertainment, etc.) whichwere not available in the traditional society.
- ♦ he structure of the modern society isdifference from that of the traditional society.There used to be small states in the traditionalsociety but in the modern society states arequite big, they are now nation states.

## 5.4 THE INDUSTRIAL REVOLUTION

The revolution which changed the wholesystem of production and laid the foundation offactories is often known as the IndustrialRevolution, it has greatly affected urban life,especially in. the following spheres :

- ♦ As a result of the Industrial Revolution manynew industrial towns came into being.
- ♦ A large number of people started migrating tobig cities after leaving old villages.
- ♦ The Industrial Revolution gave rise to newproblems, it created fifty slums where peoplebegan live like cattle. With the rise ofunplanned cities there airose the problems ofhealth, housing and sanitation.

## MAIN POSITIVE EFFECTS OF THEINDUSTRIAL REVOLUTION

The Industrial Revolution had many goodpoints:

- ♦ As a result of the Industrial Revolution manynew inventions were made which resulted inthe setting up of huge factories wherehundreds of men and women began to worktogether.
- ♦ The use of machines enabled man to producea great variety of things in large number andat a faster pace.
- ♦ As a result of the Industrial Revolution a largenumber of people began to work in factories,as an alternative to agriculture thus reducingpressure on land cultivation.

- Many new cities came into existence and theirpopulation demographic, shifts happenedwhich helped in developing various parts ofthe concerned country.

## MAIN EVILS OF INDUSTRIALISM

Following are the three main evils ofindustrialism:

- The condition of workers in early days ofindustrialisation became deterioate due toexploitation.
- The population of cities increase at such arapid speed that they son becomeoverpopulated and overcrowded.
- Along with overcrowding of cities come theproblems of health, housing and sanitationcome along,

## 5.5 SOCIAL RESPONSIBILITIES OF BUSINESS

One of the most revolutionary changes incapitalism over the last 50 years has been thedevelopment of 'conscience'. Private businesswhich is thehard core of this economic system, hasrealised and has been made to realise by severalsocial economic and political forces that it hassocial obligation to fulfil besides ensuring its ownexistence through profitable activity. There is no denying the fact that part of this realisation is notgenuine and takes the form of mere lip service which is thought necessary to ensure the survivalof private enterprises. But it cannot be denied alsothat private business does partly realise andrecognise the hard reality that a privately ownedfirm cannot meet the challenge of socialism andallied doctrines unless it sets its house in orderchanges its outlook and is prepared to play itslegitimade role as an organ of society. Itwill beuseful here to go to some of the forces and factorswhich have persuaded businessmen to considertheir responsibilities and he conditions which werefavourable to the development of businessmen'sconcern with social responsibilities. Some of themore important among them are :

The threat of public regulation of privateownership.

The pressure of the labour movement.

The development of moral values and socialstandards applicable to businessmen.

The development of business, education andcontacts with the government and its problems.

Recognitionof human factors contributing tothe long-term interests of busienss.

The development of a professionalmanagerial class with a different motivation andpoint of view due to the separation of ownershipfrom management, in the corporate enterprise.

The increased complexity of the decision-making processes in which many personsparticipate and in which various points of viewand diverse interests are expressed.

The change in public opinion about the roleof business in modern society.

These and a number of other social, ethicaland economic forces have combined together tomake businessa socio-economic activity, 'Business-is no longer a mere occupation, it is an economicinstitution, operating, in social environment, aninstitution that has to reconcile its short-termand long range economic interests with the demands ofthesociety in which it functions; Essentially, itisthis which gives rise to the general and specificsocial responsibilities of business.

While there is rib denying the fact that business is an economic performance (as judgedagainst the objectives listed' in the foregoing sections), it is also true that business is an organ ofsociety and as such it must justify its continuanceby fulfiling its role and responsibilities to society. One may even go to the extent of assetint that abusiness enterprise is a trust of the communitywhich must discharge its obligations: towards thevarious sections of the community. Some ofthespecific responsibilities of business may be outlines as under :

The enterprise and the shareholders ; In thefirst place, corporate, business must provide a fairreturn on capital to shareholders and must provide -them with regular, accurateandfull informationabout the working of the enterprise. Theshareholders should also meet their obligations byevincing keen interest in company affairs.

**The enterprise and the workers.**It istheresponsibility of the management to provideopportunities to the workers for meaningful work.Also, the management of a business should try towin the cooperation of the workers by creation theright conditions in the enterprise. The businessenterprise owes it to the workers to providerecognition lo the workers unions, accept theworkers right to associate, and to help them todevelop their own leadership in the union througheducation. Social security, profit sharing, fairpromotions, proper grievance settlement; andemployee welfare are some of the other wellrecognised 'responsibilities of business firms totheir employees.

**The enterprise and the consumers :** Abusiness 'enterprise has the responsibility ofproviding the goods and other services needed bythe community at the most reasonable possibleprices. It must guard against adulteration, poorquality, lack of service and courtesy of customers,misleading .and dishonest advertising, etc. Theconsumers also need protection against monopolyand restrictive trade practices. Such protection can be provided best if business learnt to play its part with fairness and liberalism.

**The enterprises and the community:** Anenterprise must respect the law and pay taxesregularly and honestly. It must behave as a good citizen and take care to avoid bad effluents,smokey chimneys, ugly buildings, and devoteattention to housing and workers living conditions. It has the responsibility of maintaining properrelations with the continuity through the press andits meetings.

It is not enough for a business firm to beconscious, of the need for the discharging of itsresponsibilities towards differentsegments of the community. Management of a business, firm has tomake conscious efforts towards the establishmentof proper relations' with each of these segments.This function of establishing proper relation with all those agencies arid person with whom thebusiness firm has to deal goes by the name ofpublic relations, basically, the public relationsfunctions of management is concerned with theestablishment of sound and mutually, fruitfulrelations with the different publics whichcontribute towards the growth and prosperity ofthebusiness firm. These publics include theowners of propriety concerns the shareholders of acompany or the members of cooperative societythe employees,consumers the government bankingand other financial institutions the other firms inthe business and the community at large. Inperforming the public relations functionmanagement of i affirm hasto develop andmaintain a proper liason with each of these so as toearn their good will and partinage and secure theirhelp and cooperation in making the firm moreeffective in realising its objectives.

## 5.6 SOCIAL ENVIRONMENT IN INDIA

### Demographic Characteristics:

India supports her 1000 millions on a totalland area of 2-4 percent of this world 3,000Indians are born every hour despite familyplanning measures and addto theone-sixth of theworld population. Population in India is growing atthe rate 2.13 percentyear adding 16 millionspeople every year and by the end of millennium population may cross one billion mark. Thus, India is richer in man power rather than othernatural resources.Birth rateper thousand is about27v at present. The death rate is about one-third ofthe birth-rate at present and in planned to slidedown at 6.88 by the end of the century. Density of population was 267 in 1991, Kerla havingdensity and Sikkim the lowest.

The size of labour force can be gauged fromtheage distribution. About 544 percent were inthe age group' of 15-60 in 1991 census. Femalepopulation constitute about 93 percent of the malepopulation. Thus, in a labour force of around 45.5crores, 23croreare females. The overall illiteracyrate was 6.5%, On an average, only one out ofthree people in working population may be literate. Life expectancy of a child born in India is61 yearly by the turn of nineties and shall go up to67 by 1994. About 6 crore adults enter our labourmarket every year. Factory sector in India absorbsonly 3 lakhs of these entrants annually. Rest haveto seek jobs in services sector of a agriculture. One third of our existing labour - force inagriculture is already underemployed. Thenumber of unemployed registered in employmentexhanges is around 45 millions but the actualunemployed may be thrice the number. As suchthe level of consumption of daily calories is round2,000 as compared to biological minimum ofaround 3,000. Government claims that the peoplebelow poverty line who were half the populationbu mid-seventies have gone to 37. percent mid-eighties and shall be reduced to one-fourth by1990.

All India Debt and, investment Survey of1971-72 concluded' that 76 percent of rural household owned assets which were 1 percent ofthe total rural household owned assets, 4 percentof rich household in rural India own 30 percent, ofthe total assets. The incomestatistics alsoreveral asimilar picture, 90 percent of the population inrural India has shared only one-third totalincremental income in the forty-five years sinceindependence.

There are round 4,000 towns and around 6lakhs' villages in India the urban population isabout one-fourth of the total population. The rateof urbanisation may appear to be satisfactory because the urban population has increased from15 percent during the last forty year. But thephenomenon of urbanisation is not directly related.with development inIndia due to what ischaracteristics as*aver* urbanisation underindustrialisation. There is shortage of housing inurban areas and about one-fifth of the populationlives in urban slums andis closely related withrural nexus they have; Thus there have beenpauperisation rather than proeletrianisation, ofpotential industrial labour force after release frombondage of landlordism in rural India and theshortage in urban areas is touching 0.6 crore mark. There are about 12 cities having a populationabove one million but most of these are havinglarge slums.

## Caste and Kinship in India :

The sociologists have widely discussed theethnic, communal and caste divide in IndianSociety. There are dominant castes andcommunities on the other, there is also a divide onreligious regional and language lines, Hinduism isthe dominant religion of India's accounting formore than 80, percent of the population. The nextimportant religion is Islam with 'around 7.5 croresofadhetrentsofthisfaith in the country. Besides,there, are Christians, sikhs, based on the ancientsocial division of labour. Brahmins were teacherreligious guides ad preachers. Kshatriyas were therulers and warrious. Vaishyas were traders businessmen and moneylenders and Sudras were assignedthe mental jobs of producing material wealth asmanual labour. The adivasis or vanbsis **were**outside the caste system and formed the reservedlabour force. To perpetual caste divisions anarrangement had been worked put in villagecommunity to rewards the artisan/servicerendering segments of the community. This systemwasknown as Jajmani in Northern India andBaluta system in Maharashtra the system evenextend to cultivation and there used to be jajmanicultivators, who sometimes by tilling large areasemerged to be very powerful. Due to protection ofhereditary, occupations, this system resulted inconflicting certain skills only to artisan,priestly orservice rendering castes. Thoughmonetisation ofeconomy has wrecked this social division oflabour rural industrialisation programmes have toreckon with Jajmani based distributions of skillsamong rural folks. Commodity production hasbrought into being a contractual relationship whichmakes service rendering castes free to move tourban areas. However, remants of Jajmani stillkeep certain artisanstted to village despitethe fact remuneration for their services is poor and thetechnology employed by them remain primitive.

The priestly class, has been able to transfer theJajmani system to traditional unfamiliar domainwhich have resulted in an unequal relationshipbetween the donor and acceptor families in matrimonial alliences. In traditional businesscommunities, the parent/family of daughter hasgifted away even industrial into business whichwas not their hereditary occupation. Shau jainsmatrimonialalliances with Dalmais who becameJajmanis are the newmanifestation of thissystem.

Dalits of schedule tribes were normallyoutside the caste, system of were maintained as areserve army of labour to discipline Sudras.According to 1981 census, there are 10,48 croresSchedule caste and 5,16 crores schedule tribes. With the passage of the time the caste system has grown more complex. There are so called'backward classes' who are above sudras in castehierarchy but do not fall exactly in the first there hierarchical, orders of caste. **In** fact, taken togetherconstitute the bulk of Indian population.

Itis argued that caste and class overlap and atleast two-third of manula labur comes from 'theunder-privilleged classes enumerated above. Thisis also the official rationalisation for reservations ineducation state patronage for 'reservations ineducation state, patronage and jobs on caste basisrather than following an economic basis. There is astatutory, reservation of around one-third seats inacademic by bank/financial institutions, MandalCommission has recommended to these backwardcastes, of late the policy of reservation hasbecome a main bone of contention among thesocially mobile has resulted in states competitingwith increasing the quota which is around 80percent in some stales.

The Social fabric of India is sought to becharacterised as two Indians the global andperipheral,the classification outs across thetraditional formulations of class analysis, or casteanalysis. Articulate social observes like RajniKothari are taking in terms of two Indian's createddue to the particular model of social changeadoption in India. The divide is among those whohave access to power and those who aremarginalised due to a model of nation buildingwhich tries to dissolve all diversitiessocial,political regional and cultural, to create one great monqpolith. Among the marginalised section Kothari includes the poor, the untpuch the poor,the untouchables, the tribals the backward classes, the lower castes, religious or linguistic minoritiesand woman. Another variant of model owes itsorigin to the rise ofKisan power which talks ofrural and urban divide. Of course, there are other,studies which point that cultural tradition of Indiamay blend with the demands ofindustrialization and may not prove a stumbling block. In fact it issuggested that the rise of an enterprenetirial classin India is closely connected withcaste divisions.'It has to be noted here that with the onset ofgbbalisation of culture divide have also gainedmomentum setting in motion a number of divisemovements. On weighing the merits and demeritsof caste system, it appears that caste has been abiginhibiting factor in industrialisation andmodernisation of Indian, society. It obstructs the mobilityand utility of labour creates bottlenecks in creating, as free labour market. Caste inhibitionsdeter the higher casts from taking, to manual jobs. Due to the caste inhibitions optium productivity ofhuman resources become, impossiblesupportedsystem provided by the kinship and caste networkgets limited to trading caste and the Brahmins andkshatriyas to material prosperity. Thus theenterpreneurisi state narrows down. The theory of karma dictated, by birth, kills the initiative andenterprise.

The influence of cultural values based on caste system could have a salutory on the social division of labour resulting in - specialisation inhandicrafts and cottage industry but it is certainlydetermental to the development of modernbusiness organisation based on detailed division oflabour. The human resources drawn from – castebased societies to their traditional identities andthey do not internalise the organisational, secularor democratic culture. Universal outlook neededby the business system operating in such a diversesociety as India is also hindered because traditionoutweights the heeds for modernisation ofoutlooks, attitudes and aspirations. Hierarchicalstructure based on case in the societymterferos with the organisation structures of modembusiness and makes the latter disfunctional.

Caste and community division endagerthesociety stability of India. Communal and casteriots couplewith the ethnic and linguistic crisesdisturb the normal economic and businessactivities. Moreover, caste may impose restrictionson consumption habits of the adherents of thesystem and may restrict the industrial market. Theparticipation of womenfolk in industrial labourforce or prfessions is also adversely affected bythe caste and community based value: systems. Happily, however, industrialisation and the growthof the tertiary sector in Indian economy has madesome dent on traditional social fabric of the, societyand it is hoped, that by the turn of century wheneducation and industry spread the caste andcommunity based value system. Happily,however,industralisation and thegrowth of the tertiarysector in Indian economy Has made some dent ontraditional social fabric of the society and it is hoped that by the turn of century when educationand industry spread the caste barriers will startcrumbling.

### The Structure of Work Forces :

The labour supply in an economy depends to the labour force participation rate and number ofpeople who are willing to work and the skill levelsof the workers. In India thee is around' 24.46crores working population available. Of theseabout 73.456 lakhs are working in factories, 77 lakhs are working in -household industries. Manworkers who are engaged for at least 183 daysofproductive activity are 22.25 crores, Of these morethan 68 percentare engaged in agriculture as'peasants, of cultivators, If we also include marginalworkers, 70.6 per cent of working population isengaged in the 'primary sector, 12.9 per cent are employed in thesecondary sectorand 16.5 per cent in the tertiary sector. The percentage breakupof population's employment has undergone a negligible change since 1901. In other words, thestructure of the society seems to are undergoneonly a marginal change over last eighty years.

Organised scoter accounts for about 2.5 croreworkers forming about 10 per cent of the totalworkingpopulation. Of this 70 per cent oforganised sector employment is on account of thepublic sector. In large establishment privatesector, employments is in fact going down. In thegovernmental sectoralso disproportionate growthof the services sector is the major source of employment. Thus, productive secondary sectorhas ceased tobe a source of creating employment.

Unemployment statistics talks of theoccupational preferences of the labour force. Theeducational and skill levels of working population are increasing but the employment available is riotcommensurate with their qualifications. About 10crore pupils are receiving primary education; 2.5 **crores** stay **till** the middle-age, 50 lakhs– **receive**secondary education and about 30 lakhs get higher education/technical/professional training. As perthe registration on employment exchanges around4.5:percent of job seekers are either professionallyor technicallytrained. Clerical or related servicesare preferred by around 5 per cent. Productionworkers are around 8 per **cent.** About 37 percent**of job seekers** are either illiterate **or have** studiedbelow **matric** and about 43 per cent have generaleducation **of** graduation or above.

According to the Economic Census carriesout in 1979-80, there were 183.6 lakh enterprisesin India (except Assam). These employed 536.7lakh persons. Among these enterprises 92 per centwere non-agricultural. Rural areas accounted for61 per cent of the total enterprises. Hired workersin these enterprises were numbering around 290lakhs whichconstituted 54 per cent of totalemployment. Thus wage labour is spreadingevenin me unorganised sectors.

From the discussion reported above, it isobvious that there is an ample supply of skilled as well as unskilled manpower in India. Theproductive sector are not expanding fast enough to absorb me job seekers. The pressure foremployment seems to be low on account for everylow participation rate of women workers in wagelabour. Only 16 percent of rural women workersand 7.3 per cent of theirurban counterpartsparticipate in organised production or work in the'service sector. The dimension of underemployment can be estimated from this fact, if all the women inage group 15-60 opt for work, there will be at least15 crores more jobs seekers. Right now, thesewomen are engaged in household jobs. The ironyof situation however, is that whereas such a largenumber of adults are unable to participate in work,childlabour is not uncommon in India.

Per capita income inour country is increasingata slow pacebecause only a few adult in thehousehold are able to gainfully employthemselves. A percapita income of Rs. 711, asreported in 1985 in not sufficient for subsistence.So on the consumption front, the market whichcould be 80 crore million units shrinks due tononavailability of purchasing power.Capitalintensive production isnot a solutionto theIndian employment problem, production has toberelatively labour intensive. But the lattercalsl forless sophisticated technologies and protection oftraditional modes of production which, may keepthe occupational Structure intact.

While managing business in India, we shouldbe aware that though a single national market,India is a multinational country. Religion has astrong grip on the minds of people and oursecularism is skindeep. Even in conductingbusiness affairs,out caste, communal or regionalprejudices come to the fore. Scientific temper isnot prevalenteven amongour educated elite. Theyeat, drink, and dress as per the eligious taboos onsupernatural beliefs aste origins prevent somepeople from undertaking non-traditionalprofessions. Business is stiil treated to be apreserve of Vaishyas or Vanias despite entries intovarious business lines by people from,non-traditional castes, Material prosperity is not considered all that important and the philosophy of contentment' blunts (he achievement notion of anaverage India.

Women are treated badlyby their malecounterparts and ehavy downries in matrimonialatlainces are not uncommon. Though women arenottreated to be equal partners in their parent'sincome.

Sometimes, factories are handed over asdowries, Quarries in joint families can put thefunctioning of wellrun business establishments injeopardy. Caste or kinship network invade workor places. Informal groups coma into being on theregional or caste basis. Indian worker is the firstgeneration factor worker and is not able to developwork commitment expected out of him. It iscontended by a few sociologist, (hilt Indians aremore loyal to their primary groupslike caste andfamily, than to their organisation. Along withmodernising influences ofindustrialisation process of Sanskritisation is going on in the Indiansociety. Secularism, democraticliving havebecome, a part of our society at a very superficiallevel only. Paternalistic or authoritarian socialstructures are more prevalent and our sectarianprejudices refuse to die even in factory for urbansort of setting. In fact irrational rituals which were till early of this century confined to only highcastes are taking roots among Shudras. Thereligious fundamentalism among these productive but ill-educated castes assumes dangerousproportions as was witnessed inNovember riots of1984 in Delhi, Even the tribes and dalits regardthereligious orthodoxies, limited to high castes till recent times as a sign ofcivilization.

A number of religion based organisationshave come up in the country, which are creating social strife and even the political stability ofIndian union is threatened, All these seeminglyremotely connected 'phenomena'have a direct-bearing on management of business, as anybusinessmen inPunjab can vouchforMigration of labour- from rural areas to urban areas and inter-state migrations, is another social phenomenonwhich we are witnessing in India. Though,normally studies on migrants after partitionofIndia have shown that they have flourished in business and brought material prosperity for theirnew habits yet the social tension which thisphenomenon creates is detrimental to smooth functioning of the regional economics. Theinterference of churches, of various religions insocial life of India also underminesthe authority of the state and rule of law. Such chaotic conditions may not he conducive to the smooth functioning of any economic entity. Industrial relations are alsogoverned by wider socio-cultural currents.

It is ve*ry* difficult to encapsule all the social problems of India except observe that India is a country of social contrasts and every 'articulatemanager has to be very receptive tosocial trendsin such a volatile society where people arestarvingto death. The socalled welfare stale keeps ontalking of a number ofsocial welfare programmes;but the advantages of these programmes is not reach the poorest. The rates of crime starvation death, epidemics and natural disasters are alarmingand Indian society is sometimes, characterised asa functional anarchy.

Business in India till date is not very responsive to social obligations. TheUnion. Carbide tragedy, however, stirred the masses inIndia and a strong environmental movement is emerging. The population pressure, has forced the government to enact anti-pollution laws. The non-governmental 'organisations areresistingcommercial feelings of trees or weekless mining**of** minerals for providing raw materials to industry.Similarly, supplyof substandard quality **of**consumer, items which was the normal practice in the Indian market is no longer; all that easy.Though, there **are** no Ralph Nadars in India, 'yet consumer movement has made a beginningRestrictive trade : practices 2nd adulteration ofedible production are being resistedby manyvoluntary consumer' organisations.

## 5.7 CONSUMERISM

Consumerism is a term which' is oftenmisused' and misunderstood. Several times itiswrongly usedto refer to consumer affluence, conspicuous consumption etc. The true meaningto consumerism is quite different from these.

*Consumerism is a collective endeavour of theconsumers and social institutions to protect therights of the consumers.*

It is a social force :

(i) to educate the consumers,

(ii) **to** pressurise the government to adoptnecessary measures to protect the consumer interests by guaranteeing their legitimate rights, and

(iii) to makethe business more honest, efficient,responsive and responsible.

Philip Koder, the world renowned professorof marketing, defines consumerism as a socialmovement seeking to augment the rights andpowers of the buyers in relation to sellers.

**Utility of Consumerism:**

Wellorganised and dynamic consumerismmay be expected to produce the following results :

(i) Producers and sellers will not take theconsumer for granted. When consumers arestrong enough to protect their rights, thebusiness will be compelled to shun unfairtradepractices.

(ii) Consumerism will provide feedback for thebusiness. It will enable the producersunderstand, consumer needs and wants.Thiswill assist in the more effectiveimplementation of the marketing Concept orthe societal marketing concept, dependingupon the nature of consumerism.

(iii) Producers will be able to enlist the support of consumers to minimise the imperfections onthe distribution front. Several, times the supply position ismade worse by hoarding andbackmarketing by traders. Further, manysellers have a tendency *to* charge a pricewhich is'higher than the actual by givingoneor other reason. There is no reason why the consumer and producer should not co-operate to get rid of the unscrupulous traders.

(The above points indicate that consumerism is an opportunity for honest and dynamic business firms. In, fact quite a few leading businessmen, view it so).

(iv) Consumerism will make the government more 'responsive to consumer interests, prompt it to take necessary statutorymeasures, and make the required institutional,arrangements to safeguard consumer rights.

(v) Philip Kotter, "What Consumerism Means for Marketers ?" *Harboard Business Review,*May-June, 1972, p. 49.

## 5.8 CONSUMER PROTECTION IN INDIA

Government' have taken a number ofmeasures for consumer protection. These include development of public distribution systemandgovernment involvement in several industries and public utilities. However, the performance of thepublic sector in several, sectors is farfromsatisfactory.

There are a number of laws with provisions for consumer protection.

Government of India has armed itself with anumber of statutory weapons -to control theproduction, supply distribution, price and quality of a. large number of goods and serves. It isempowered to regulate the terms, and conditions ofsale, the nature of trade and commerce etc.

Important legislations in the respect includethe MRTP Act, Industries .Development and Regulation Act, Essential Commodities: Act, Prevention of FoodAdultertion Act, Prevention ofBlackmarketing and Maintenance of Supplies of Essential Commodities Act, Trade.Marks andMerchandise Marks Act, Indian Sale of Goods Act,Indian Patents and Designs Act, Agricultural- Products Grading and Marketing Act, Drugs Actand Drugs Control Act, Indian Standard Institute'sCertification. Act, Standard Weights and MeasuresAct, Imports and Exports Control Act, PackagedCommodities Order, Price and Stock DisplayOrder,, etc.

There are thus, a good number oflawstoprotect, consumer interests. But a commoncomplaints is that these laws are not effectivelyimplemented.

The Monopolies and Restrictive Trade Practices Act; 1969, contains provisions to deal with monopolistic, restrictive trade practices thatare prejudicial to public interest.

## 5.8 Self-check Questions

1. What is social interdependence?
2. What is difference between modern and traditional society?
3. Discuss the corporate social responsibility of business.
4. Explain the term consumerism.

## 5.9 Summary

Society means all the people who influence us weather they are living in our country orin the outside world. Society is very important to human beings. The socio-economicobligation of business refers to its responsibility in preventing to prevent economicconsequences of business from adversely affecting public welfare. The primaryresponsibility of business is to increase shareholders' wealth, to give good returns oninvestment, to give dividends at the proper time, to protect the interests of even smallshareholders, to listen to and respect shareholders, to regularly invite shareholders toparticipate in decision-making. Industrialisation is doing much irreparable harm to theenvironment. It is therefore an obligation on them to not only morally, but also legallyundo the damage by taking serious and responsible steps to protect the environmentand to keep it healthy condition.

## 5.10 Glossary

**The social environment, social :** The social environment, social refers to theimmediate physical and social setting in which people live or in which somethinghappens or develops. It includes the culture that the individual was educated or lives in,and the people and institutions with whom they interact.

**Cultural environment:** A cultural environment is a set of beliefs, practices, customsand behaviors that are found to be common to everyone that is living within a certainpopulation

**Corporate Social Responsibility** : Corporate Social Responsibility is a managementconcept whereby companies integrate social and environmental concerns in theirbusiness operations and interactions with their stakeholders.

**Consumerism:** Consumerism is the protection of the rights and interests of the generalpool of buyers, or an obsession with buying material goods or items.

## 5.11 Answers: Self-check Questions

1. See the section no. 5.2, lesson 5
2. See the section no. 5.3, Lesson 5
3. See the section no. 5.5, Lesson 5

4. See the section no. 5.7, Lesson 5

## 5.12 Terminal Questions

1. What is social interdependence. Differentiate between modern and traditional society.
2. Discuss industrial revolution in detail.
3. Describe consumer protection act 1986 briefly.
4. "Society and culture primarily govern the lifestyle of an individual". Comment.

## 5.13 Suggested Readings

1. Aswathappa, K., (2009). *Essentials of Business Environment.* Global Media.
2. Dave, B., (2009). *Business Environment in Modem Era.* Global Media.
3. Cherunilam, F. (2009). *Business Environment,* Global Media
4. Bedi Suresh (2006). *Business Environment,* Excel Books.
5. Mishra, Puri (2006). *Economic Environment of Business,* Himalaya PublicationsHouse,

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**LESSON 6**

# POLITICAL ENVIRONMENT

**Structure**



## 6.0 Learning Objectives

After going through this lesson the learners will be able to :

1. Discuss the basic principles of Indian constitution.
2. Understand the federal system of the Government.
3. Describe the fundamental rights and duties.

## 6.1 INTRODUCTION

Before knowing the features of the IndianConstitution, it is essential to know about itsPreamble. The constitution ofvery country in theworld 'ha its own preamble. The preamble reflects'the views and the objectives ofthe constitution-makers and also the basic values of the countryand the constitution: We waged a long battle forfreedom. The makers of theconstitutionhad adream of a ideal society which was stated inthefollowing words.

We, the people of India,having solemnlyresolved to constitute India into a Sovereign,Socialistic, secular Democratic Republic and to secure for all its citizens, Justice, social, economic and political.

Liberty of thought, expression, belief, faithand worship; :

Equality of status and opportunity, and topromote among them all Fraternity, assuring thedignity of, the individual and the unity and integrity of the Nation.

In our Constituent Assembly this, 26th day of November, 1949 do hereby adopt, enact, and giveto ourselves this. constitution.

ThePreambleas given above clearly statesthat ourcountry is now sovereign in all matters.The ultimate source of all power **is**the people.

## 6.2 BASIC PRINCIPLES OF CONSTITUTION

Democracy, secularism, and socialism are thebasic principles of our constitution. There are alsosome other features of our constitution.

**Sovereignty :** This is the main feature of theIndian Constitution. India is completely anindependent state now. We are not subordinate toany country in external or internal matters. We theIndians run our own government. Our governmentis no capable of marking, its own decision ininternal and foreign affairs.

**Democracy :** Democracy means agovernment which is run by representatives whoare elected or the basis of adult franchise. Thismeans that each adult man and woman, elects arepresentative of his or her own choice. Therepresentatives are elected after, every five years.These representatives, together form thegovernment.

**Secularism ;** The State gives equal treatmentto all religious. It does not favour any particularreligion. The constitution gives complete freedomto its citizens to/practice and preach their ownreligion.

**Socialism :** The achievementof socialism,based on economic and social equality, is the chiefgoal of our constitution. In provides equalopportunities in education, employment, justiceetc, to all Special facilities have been given to thebackward and the downtrodden people. Thedirective principles, have been incorporated for theestablishment of a Welfare Suite. Economicdisparities, establishment of a Welfare State. Economic disparities, especially create unrest inthe country : under such condition the country cannot make any **progress. Therefore efforts have** been made to create a society **based on** social **and**economic equality; Socialism is one of our national goals.

## 6.3 FEDERAL SYSTEM OF THE GOVERNMENT

The federal system of the government is thatsystem where the powers of the CentralGovernment and the State Governments are welldefined in the constitution. Our constitution sets upa federal system of the government. In our country, there are 25 states and 8 union terrorless.These are separate governments at the Centre and in the states. Thedivision of power between the Central and the State Government has been madeaccording to the three lists in the constitution.

**The union list :** Railways, posts andTelegraph, armed Forces, External Affairs etc. aresome of the subjects included in this list.

**The state list ;** The Subjects of localimportance like the Police, Jails, Education, Agriculture, Health etc. are enumerated in this list.

**The concurrent List :** Both the Parliamentand the State Legislatures can make lawson thesubjects given in this list.

**Single citizenship :** Our constitution providesfor a singlecitizenship of this country. The citizenof each state is a citizen of India. 'We do not have the system of double citizenship in India. A personmay be living in Madhya Pradesh or Maharashtra but he is called only a citizen of India.

The **parliamentarysystem :** Like Britain, there is also parliamentary systemof Governmentin India. Real power is vested in the Parliament.The Ministers in the Central Cabinet are membersof the Parliament. The Prime Minister and other Ministers are answerable to the Parliament for theiractions.

## 6.4 THE DIRECTIVE PRINCIPLES OF THESTATE POLICY

To bring about economic and social welfarein the country, the directive principles of the Statepolicy have been stated in our constitution. Theprinciples purpose is to bring social equality in the country, special directions have been given for theuplift of the backward communities and weakersections of our society. There is a provision tomake special laws for women. The directive principles direct the government to work for thesocial well-being, security, economic and social prosperity of the nation, There isa DirectivePrinciple which aims at, achieving tree **and**compulsory education for all children up the ageof 14 years. The directive principles, also provide equal pay for equal work for both men andwomen.

## 6.5 THE FUNDAMENTAL RIGHTS ANDDUTIES

The fundamental rights are the necessary condition of the development of the personalityofan individual.' These help in promoting democratic values. There are **six** fundamental rights,guaranteed in the constitution, so necessary for the development of the personality of the citizens.

Rights and duties are interrelated. One man's'duty is another man's right. Neglect of duties is acurse for humanity and it hampers the growth of the society. When citizens forget their duties thereis law lessness in society. Therefore, a proper balance should be maintained between the rights andtheduties.

The Indian Constitution hasguaranteed some important rights. Even the Parliament or the legislative Assemblies cannot make any law which encroaches upon these rights. Any law which interferes with fundamental rights can beaside, by the Supreme Court. It is only during anemergency, that the fundamental, rights can besuspended.

Our constitution has guaranteed six typesofrights to the citizens as described below :

## OUR FUNDAMENTAL RIGHTS

**Right to equality:** Our constitutiongiveequal treatment to the citizens. The State cannotdiscriminate onthe basis of religion, caste, creed. sex, language, place of birth etc. The state givesequal opportunities to every individual, on the basis of abilities, in the fields of education, employment, profession; and earning & livelihood. Untouchability. has been abolished Scheduled castes. Scheduled tribes and other backwardclasses havebeen given special facilities. Due to their backwardness, some seats have beenreserved for them in schools, colleges andgovernment serves, so that they may come to part, with other sectionsof society. All the titles awardedbefore Independence have been abolished. In freeIndia such distinctions as ‘Bharat Ratna' andPadmashri' areconferred for outstanding serviceto the country.

**Right to freedom : Every** citizen has the rightto read and write, speak, hold public meetingpeacefully and form any association or/union. Acitizen **is free** to go to any part of the country and'settle there. He can take up any job or tradeanywhere inIndia, he **is** also, free to acquire anypropers anywhere in the country.

**Right against exploitation :**The purpose ofthis right is to prevent any exploitation in thesociety. It is an offence to buy or sell men, women,and 'children. The constitution prohibits forcedlabour or 'beggar. Nobody can be asked, to workagainst his wishes. No child under the age to 14years can beemployed to work in any factory or mine.

## 6.10 Self-check Questions

1. What is a federal system?
2. Discuss the basic principles of Indian constitution.
3. Briefly explains the directive principles of state policy.

## 6.11 Summary

The constitution of every country in the world has its own preamble. This preamblereflects the view and objectives of the constitution makers and also the basic values ofthe country and constitution. We the people of India having solemnly resolved toconstitute India into a Sovereign, Socialistic, secular democratic republic and to secularfor all its citizens, justice, social economic and political; liberty of thought, expression,belief faithand worship; equality of status and opportunity and to promote among themall fraternity assuring the dignity of the individual and the unity and integrity of thenation.

## 6.12 Glossary

**Constitution:** A constitution is a set of rules that guides how a country, state, or otherpolitical organization works.

**Fundamental Rights:** The Fundamental Rights are the basic human rights **of all**citizens. These rights, defined in Part III of the Constitution, applied irrespective of race,place of birth, religion, caste, creed, or gender.

**Democracy:** Democracy is a system of government that bases its legitimacy on theparticipation of the people.

**Secularism :**Secularism is a belief system that rejects religion, or the belief that religionshould not be part of the affairs of the state or part of public education.

## 6.13 Answers: Self-check Questions

1. See the section no. 6.3, Lesson 6
2. See the section no. 6.2, Lesson 6
3. See the section no. 6.4, Lesson 6

## 6.14 Terminal Questions

1. Discuss the basic principles of Indian constitutions.
2. Discuss in detail federal system of the government.
3. Write a short note on directive principles of state policy.

## 6.15 Suggested Readings


1. Aswathappa, K., (2009). *Essentials of Business Environment.* Global Media.
2. Dave, B., (2009). *Business Environment in Modern Era.* Global Media.
3. Cherunilam, F. (2009). *Business Environment,* Global Media

4. Bedi Suresh (2006). *Business Environment,* Excel Books,

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**LESSON-7**

# TECHNOLOGICAL ENVIRONMENT

**Structure**



## 7.0 Learning Objectives

After going through this lesson the learners will be able to :

1. Understand the fundamental effects of technology.
2. Discuss the technological status and policy of India.

## 7.1 INTRODUCTION

Business is an institution through which manexpects new discoveries to be convened intogoods and services. Managers of businessorganisation pool the necessary resources andworks on the new discoveries to covert them intouseful products. New discoveries would remainmere ideas in mind, sketches on paper or mock,models but for business institution.

Printing housing education, and television areall dependent on business activities to make them work productively. Society depends on business tokeep the stream of discovery flowing into usefulgoods and services for all mankind. Developingcountries have learnt that scientific, discoveriesmean very tittle to them unless they gave'competent business units to produce for peoplewhatscience has discovered. Developed countrieshave learnt that their progress, stops unless, theyoperate a business, system which contributes todiscovery and uses discovery, to produce for theirpeople.

## 7.2 FUNDAMENTAL EFFECT OF TECHNOLOGY

The most fundamental effect of technology is,greater' productivity in terms of both quality andquantity.This is the main reason that mosttechnology is adopted. In ahospital the objectivemay be qualitative, such as maintains life with electronic' monitoring equipment regardless ofcosts. In a factory, the objective may bequantitative in terms of more production at lesscost.

As a result of productivity improvements, realwages of employees tend to rise **and** prices ofsome products decline, which spreads thebeneficial economic, effects of technology throughout, the whole social system. The result isthat employees and citizens are motivated to wantmore technological advancement, thereby placingon business major business responsibilities tointroduce it with due concern for its socialand environmental effects.

Though business organisations are theineuns through which new innovations are given practicalshape, it is the business which has to spend lots of money on discovering new technology. Businessshould not sit pretty and wait for someone else to discover new .ideas, It is heartening **to** learn thatcompanies in industrialised nations ate spending;staggering sums on Research and Development.

Phillips, for example, spent, 6.9 **per** centof its total turnover of Rs. 1,300 crores on **to** R& ***D*it** 1981. Similarly, .Seimens spent nine per cent of its world sales, Bayer AG spent six per cent of itsdomestic sales of **Rs.** 280 crores, and Bosch groupspent 6.7 per cent of its sales.

Governments everywhere spend vast sums onR & D: The Government of India, for example, accounts for 90 per cent of the total expenditure on R & D, the rest being constituted by the privatesector, Similarly, the U.K. spends twoper cent ofits GNP (Gross National Product) on R & D, Japan allocates 1.96 per cent of its GNP to R & D and**the** U.S.A. spends **more** than 2.3' per, **cent of its**GNP on R & D. In addition to the amounts spentto private industries and governments ohdeveloping indigenous technology, it often,becomes necessary to import technology, from outside. Where it is imported, the foreigntechnology must be ably absorbed by the userindustries in the buying countries.

## FAST CHANGING TECHNOLOGY

Enormous spending on. R & D' by,governments, and private-industries all over the world has resulted in thefast development andchange in technology. Many of today's AbrahamLincoln did not know of automobiles, airplanes;phonographs, radio.the electric light. WoodrowWilson did not know of telelvision, aerosol cans,home freezers, automatic dishwashers, room airconditioners, antibiotics, or electric computers.Franklin Delano Roosevelt did not knowxerography, a synthetic detergents tape recorders,birth control pills, or earth satellites. And JohnKenedy did not know of personal computers,digital wristwatches, video recorders, or worldprocessors. Nor Mahatma Gandhi did know ofpersonal computers, word processors or syntheticFibers.

More ideaare begin worked on the time gapbetweenidea and implementation is falling rapidly,and he time between introduction and peakproduction is shortening considerably. Expertshave estimated that 80 to 90 per cent of all thescientists, who ever lived are still alive today.Business units and their managers must alwayswatch out for changes and developments takingplace around. Now developments must be adoptedand new ideas explored lest the business unitswould expire early.

Managers must also realize that apart fromindustry there are other users of technology alsothey are agriculture, infrastructure, and services.All these sectors complete with industry for absorbing new technologies. Agriculture,supposed to be still under the yokes of illiteracy,ignorance, and conventional tools, has beenabsorbing high doses of technology, including bio-genetics. This competition for technologyabsorption from, 'other sectors of economy is aphenomenon of far reaching import to themanagers.

## RISE AND DECLINE OF PRODUCTS ANDORGANISATIONS

Change of technology, therefore, is a normand not an exception. This poses another problemto business. A new technology may spawn a majorindustry but it may also destroy anexisting one.Transistors, for example, hurt the vacuum-tubeindustry and xerography hurt the carbon-paperbusiness. Telelvision hurt radios and movies andsynethetic fibers reduced demand for optionfabrics. It is for this reason that Suchumpeter saw'technology as a force for 'creative destruction'And it, is precisely for the same reason that thesaying. 'Today's growth produce is tomorrow'searthen pot, becomes relevant. Products, likemortals, have lifecycles. A typical product, today,is subject to the following cycle; introductiongrowth, maturity declineandabondoment.

Anorganisation that is associated withaparticular technology is influenced by it and willhave the same life pattern of that technology. Suchan organisation will go in sequence through theintroductory, growth,maturity and decline phases.The life of such an organisation may be' composedof the following stages : (i) birth, (ii) growth, (iii)policy, (iv) procedure, (v) theory, (vi) religion,(vii) ritual, and (viii) last rites. In this eight-stepsequence, an organisation is born and these arecarried out through procedures. These proceduresare refined and made more efficient with thetheories of a religion, it may worship the way itdoes things. Performance is by ritual; things aredone by habit without questioning. The death andbecome bi-modal, as shown by the second top onlast rites of the organisation will ordinarily follow.

## HIGH EXPECTATIONS OF CONSUMERS

That the business should keep changingisreinforced by yet another fact, a fact which is thecause and consequence of technology. Technologyhas contributed to the emergence of affluentsocieties. Affluent citizens want more of manythings than more of samethings.New varieties ofproducts, superior in equality, free from populationmore safe and more comfortable, are to beproduced and supplied to the affluent sections. This calls for a massive investment in R.& D. Oneimportant compulsion for investing in technological advances in Japan is its customer'shigh expectations, regarding design sophistication,quality, delivery schedules and prices. Industry-owners in Japan swear by the dictum-the customerIs aGod who is always right. High expectations ofconsumers, pose a challenge, and an Opportunity to the owners of business institutions.

## JOBS TEND TO BECOME MOREINTELLECTUAL.

With the advent of technology, jobs tend tobecome more intellectual or upgraded. A job hither to handled by an illetrate and unskilled workernow requires the serves ofan educated andcompetent worker. A clerical post in an office nowdemands the services of an expert in computers.Fig. 31.2 demonstrates the change in the type oflabour now required to work on machines.

Decades ago, the typical factory had a range of skills resembling', curve A. This curve wasshaped like the normal curve of intelligenceamong people. Being matched to people, itsuggested that anadequate supply of labour wouldbe available at all levels of business in the long-run In moder business, stress Davis andBlomstrom, the curve has moved towards theright, higher is skill as shown in curve 6. And inmany organisations the skill distribution hasthe curve. Many scientific and professional peopleare required in research, development, planningand other specialised work, creating the secondary bulge towards the skills end of the scale.

Curve C .represents the skill distributionwhich is developing to firms oriented towards researchand development. Though these firmsmanufacture products for sate, much of their effortis devoted to development and buildingprototypes. **In** some of these, the number ofengineers, scientists college' graduates, andspecialists exceeds the total member of other employees.

Introduction of new technology dislocatessome workers unless they are wellequipped towork on new toachines. This makes it obligatoryon the part of business to retrain its employeesandto rehabilitate those displaced and untrainable. Equal is the responsibility of the government toprovide training and educational facilities to Itscitizen. Government and 'businessmen shouldboldly demonstrate and convince the people thateconomic growth is more an insurance againstunemployment than opposition to technologicaladvancement.

But for those who pick up and acquaintthemselves with new technology, the job will berewarding. The new job will be more, challengingand rewarding.Working class, ingeneral stand togain through, increased productivity, reducedprices and increases real wages-all byproducts totechnological advancement.

(i) Along with upgrading jobs, technology has its impact on human relations. Technologyays down the requirements for much of thehuman interaction in organisations. Thearrangement of a production set-up be to the. liking to the organisational men. Theresistance to change is purely Psychological.

(ii) A typical businessman is opposed to newtechnology. He does not encourage newtechnology. Reasons are not purelypsychological. Adopting hew technology isexpensive and risky. When he is makingenough-money with Obsolete technology, whyhem ust worry about new technology ? Takethe case of Telco for example. Telco's trucksare still antiquated models only found indeveloping countries. But the turnover ofTeloc was **Rs.** 1,969 crores during 1989-90. Another example is Bajaj Auto Ltd., Thecompany claims to be number two in theworld in the manufacture of two-wheelers.But during the last two decades the companycould not develop a self-starting scooter. **Or**take the case of Indian Telephone Industries(ITI) which still manufactures strowgercrossed switching equipment that becameoutdated 10 years ago with the developmentof electron switching system.

(iii) Assuming the management of an organization wants to import and absorb new technology.It is hot a smooth affair, basic infrastructuralfacilities like training of technicians andsupervisors, testing facilitiesfor rawmaterials, replacement parts, and the like arenot easily available.

(iv) There are also problems relating to choosingaright collaborator and obtaining clearancefrom government. Despite the existence of several research establishment in our countryinteraction between them and industry is notencouraging. The management is forced tolook for a colaborator for hew technology.Getting a right collaborator is **hot** an easytask. Similarly, tall talkabout streamliningand simplifying licensing procedure not withstanding, it takes minimum one year for anentrepreneur to obtain final clearance fromgovernment.

## PROSPECTS

While problems connected with newtechnology are only a few, the opportunitiesavailable are almost countless. The technologiesare developing and making in roads at breakneckspeed. What was not achieved in 100 years priorto 1950's isbeing accomplished in a decade.According to prophets of technology, there will be10 times this progress in the next decade.Particular mention, must be made of computers,biotechnology, nuclear energy, compositeselectronics, informationcommunication technology and fibre optics. These are only bignames in the field of technology. Technology hasmade its presence felt in every activityfrom asimple function like washing of clothes to themanufacture of robotics.

Opportunities available for today's managerare therefore, innumerable. Problems not withstanding the manager must adopt new technology,otherwise he will simply pushed behind by hiscompetitors. This requires that today's managermust be a technocrat. Commerciallyorientedmanager will find himself a 'stranger in the fairyland of technology.

## 7.3 STATUS OF TECHNOLOGY IN INDIA

India, like any other, third world country;attended political independence after prolongedcolonial rule and exploitation. The country enteredthe modern would in a state of economicbackwardness and poverty of a large section ofpeople. It is obvious that technology must attendto the basic problems food, clothing, health andhousing of people. At the same time rapid industrialdevelopment through latest technology isnecessary to catch up with the advanced countries.

With these objectives in mind Government ofIndia set-up 'series of R& D establishment, spaceresearch centres, medical research centres,agricultural research establishments, oil exploration centres, power development projects,and the council of Scientific and IndustrialResearch, Beside, several universities and instituteshave been set-up to provide higher education in science, technology and management. Then thereis the Department of Science and Technology, anadministrative wing.of the government to co-ordinate the activities in the country.

The government also came out with a policy on technology spelling out its aims and the thrustareas. The salient, features of technological policyare the following.

## 7.4 TECHNOLIGICAL POLICY

***Preamble*** : Frontiers ofknowledge are beingextended atan incredible speed, opening up wholly new areas and introducing new concepts.Technological advancesare influencing life-stylesas wellas social expectations.

India, is known for its diversity. Technologymust suit local needs andto make an impact on thelives of ordinary citizens, must give constant throughto even small improvements which could make better and more cost effective use of existingmaterials and methods of work.

**Aims :** The basic objectives of theTechnology Policy will be the development ofindigenous technology, and efficient absorptionand adaptation of important technologyappropriate to national priorities and resources. Itsaims are to :

(a) attain technological competence and self-relience to reduce vulnerability, particularlyin Strategic arid critical areas, making themaximum use or indigenous resources

(b) provide the-maximum gainfuland satisfyingemployment to all strata of society

(c) use traditional skills andcapabilities makinguse commercially competitive;

(d) ensure the correct mix between massproduction technologiesand production bythe masses.

(e) ensure maximum development with minimum capital outlay.

(f) identify obsolescense of technology in useand arrange for modernization of birthequipment and technology;

(g) develop technologies which areinternationally competitive particularly thosewith export potential;

(h) improve product speedily through greatefficiency andfuller utilization of existingcapabilities, and enhance thequality andreliability of performance and. output

(i) reducedemands onenergy, particularlyenergy from nonrenewable sources;

(j) ensure harmonywith environment, preservethe ecological balance and improve theequality of the habitat; and

(k) recycle waste material andmake fullutilisation of by products.

***Strengthening the Technology Base*** **:**Research and Development together with sconceand technology education and training of a high order, willbe accorded pride of place. Specialattention will be given to the promotion and strenghening of the technology base in newly emergingand frontier areas such as informationand material science, electronics and bio-technology. Education and training to upgrade skills arealsoof utmost importance. Basic researchand the building of centers of excellence will be encouraged.

Skills and skilled workers will be accordedrecognition. The quality and efficiency of the technology generation and belivery system will becontinuously monitored and upgraded.Technologies relevantto thecollage, village andsmall industries sector will be upgraded. In allsector, the potential impact on employment will is an important criterion in the choice oftechnology.

Energy constitutes and expensive andsometimes scarce input. Therefore, therequirements both of a nature for each product andeach production activity and the associatedtechnology employed will be analysed. Measureswill be devised to avoid wastage to non-employedwill be energy. Necessary fiscal measure will beintroduced to ensure these. Research, andDevelopment in the energy sector will aim atimproving the efficiency of its production,distribution and utilization, as well andimprovement of efficiency in process andequipment.

Technology already employed will beevaluaed on a continuing basis to realize maximum benefits in terms of increasedproduction and lower costs, especially in thepublic enterprises.

***Some Specific Areas :*** In technologydevelopment special emphasis will be focused onfood, health housing, energy and industry.In particular, stress will be laid on

- agriculture including dry-land farming;
- optimum use of water resources, increasedproductionof;

- provision of drinking water in rural areas,improvement in nutrition, rapid reduction inthe incidence of blindness, eadication ofmajor communicable diseases (such asleprosy and tuberculosis);
- low cost housing;
- development and use of renewable non-conventional sourcesof energy; and
- industrial development

***Technology Development*** **:** Fullest supportwill be given to the development of indigenoustechnology to achieve technological self-relianceand reduce the dependence on foreign inputs,particularly in critical and vulnerable areas andhigh value-added items in which the domestic basein strong Strengthening and diversifying thedomestic technology base are necessary to reduceimports and to expend export for whichinternational competitiveness must be ensured.

In view of the cost of technologydevelopment and the to time necessary forsuccessful marketing, of new or improve product,indigenously developed items are invariably at adisadvantage compared with imported products ofthose based on imported technologies and brandnames. Suitable fiscal mechanism will beestablished to facilitate investment on pilot plants,process demonstration units and prototype – development in order to enable rapid commercialexploitation of technological developed in laboratories. Linkages between scientific andtechnological institutions and development banks will be strengthed. Gaps in technology, will beidentified and suitable corrective measures takenwith adequate allocation of resource. Fiscalincentives will be provided in particular ofpromote inventions; increase the use ofindigeneously developed technology ; enhance inhouse Research and development in industry, andefforts directed to absorb and adopt importedtechnology.

Capabilities in design engineering areessential for the translation of know-how to commercial production. Existing designengineering capabilities will be strengthened andupgraded, and interaction encouraged betweendesign engineering organizations, academic andresearch institutions and industry.

Wherever capability exists, utilisation ofIndian consultancy engineering organisation will be promoted. Even where foreign technical collaboration or consultancy is consideredunavoidable, association of designated Indianconsultancy engineering organisations would bepreferred. Indigenous engineering consultancy. Inbothprivate and public sectors, will be promotedon a sound.professioh.al basis in the context of theoverall nations! perspective of technological self-reliance.

***Mix of Indigenous and ImportedTechnology:*** A policy, directed towards technological self-reliance does riot imply technological self-sufficiency. The criterion must be national interest.Government policy will be directed.

## 7.5 Self-check Questions

1. What is the technological environment of business.
2. Discuss the status of technology in India
3. Describe the technological policy of India

## 7.6 Summary

Business in an institution through which man expect new discoveries to be converted in to goods and services. Managers of business organization pool the necessary resources and works on the new discoveries to convert them in to useful products. Developing countries have learnt that scientific discoveries meas very little to them unless they gave competent business unit to produce for people what science has discovered. Developing countries have learnt that their progress stops unless they operate a business system which contributes to discovery and use discovery to produce for their people.

## 7.7 Glossary

**Technology :** Technology refers to methods, systems, and devices which are the result of scientific knowledge being used for practical purposes.

**Productivity :** measure of the efficiency of a person, machine, factory, system, etc.,inconverting inputs into useful outputs

**Prospects : A** prospect is a potential customer that has been qualified as fitting certain criteria. In most cases, a prospect: Fits your target market.

## 7.8 Answers: Self-check Questions

1. See the section no. 7.1, Lesson 7
2. See the section no. 7.3, Lesson 7
3. See the section no. 7.4, Lesson 7

## 7.9 Terminal Questions

1. Discuss the fundamental effects of technology
2. Explain the technological policy of India
3. Describe the technological environment of business.

## 7.10 Suggested Readings

1. Aswathappa, K., (2009). *Essentials of Business Environment.* Global Media.
2. Dave, B., (2009). *Business Environment in Modern Era.* Global Media.

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**LESSON-8**

# INFORMATION TECHNOLOGY AND KNOWLEDGE ECONOMY

## Structure



## 8.0 Learning Objectives

After going through this lesson the learners will be able to:

1. Understand the concept of Knowledge Economy
2. Discuss the major issues of Information Technology
3. Outsourcing, Nationalism and Globalization

## 8.1 Introduction

Information Technology (TT) is the industry,which through the use ofcomputers aridothersupporting equipment helps in the spread ofknowledge. The term information technologyincludes computers and communicationtechnology along with allocatedsoftware.HannaNand Dugonjic (1993),therefore, are of the viewin IT Industry, "on the supply side the computer hardwareand software, telecommunications equipment, arid micro-electronics-based industries.On the demand side are applications of IT and all economic sectors.

Information technology for some time was used as synonymous to computers. But with the rapid advancement in various information delivery system such as Radio,TV, Telephone, Newspapers, Fax and of course Computers andComputerNeoworks, information, technology refers to the entire gamut ofmedia and devices used to transmit and process information for use by various target groupsin thesociety It has, therefore, been rightly termed as Information and Communication Revolution.

## 8.2 Emergence of Knowledge Economy

Withadvancement in information technology information is being regarded as the fourth factorof production, along with the land, labour andcapital Information has therefore, become an important and distinct input in production. Thus along with threes sector model of primary, secondary and tertiary industries, a fourth sector information-related industries has emerged. Information is therefore used as a raw material ofknowledgejust as iron is a raw material formachinery. Thus, according to. Low (2000). 'Theactivities of generating, processing, transmitting,disseminating. Storing, archiving and retrieving information constitute information industry." The information industry has thus pervadeda wide range ofindustries; viz; manufacturing, education, entertainment, defence, tradecommunicationsetc.

In the knowledge economy, the raw material that matters is intellectual rather than physical.Low, therefore, states : "The knowledge economyimplies shift in the geographical, centre from raw material and capital equipment to informationandknowledge, especially in education and researchcentres and man-made; brain industries. The knowledge economy depicts the automation oflabourintensive manufacturing and serviceactivities, as wellas growthinnew serviceindustries such as health care, distance education software productionandmultimediaentertainment." The pervasive influence ofinformation technology, is so strong that there is nosphere of human life in whichit isnqt able to make aniche for itself.

Information technology has integrated theworld by the use of internet. It is now possible todownload information from any part of theworkafter theintroductionof World Wide Web (www),Internet economyhas become very powerful. In USA, Internet economy accounts for, US $ 270billion in 1998 as against energy (US $ 223billion) and automobiles (US $.350 billion). Thenew knowledge, economy is thus creating highquality employment. If is reshapingthe job market. Many of these jobs did not exist prior **to** 1994-95.

## 8.3 IT IN INDIA VIEWED IN WORLDCONTEXT

Information technology is of recent origin, but it is spreading fast inIndia. However,India hasa long way to go before it can catch up with thedeveloped countries. Table 1 provides some information regarding the use of various instruments of information technology. Take, for instance, radios andTV sets. in 2000, radious accounted for 121 per 1,0,00 persons, in India, as against 2,118 in USA 1,432 in UK and 339 inChina. The position regarding TV sets was 78 per1,000 persons in India as against 854 in USA and293 in China. Telephones accounted for 29 per1,000 persons in India *as* against 1,Il8 in USA, 1,358 in UK, 1,174 in Japan and 248 in China.Inmobile telephones India was far behind andaccounted for 4 per 1,000 population as against398in USA, 526 in Japan and 66 in China.

Personal computers per 1,000 personsaccounted for 4 in India in 2001 as against 625 in USA, 366 in UK; 358 in Japan, 66 in China; Indiais even haying asmall number of personalcomputer users. Regarding Internet, principle agency for acquiring and disseminating information, India had in 200), only 3 Internetusers per1,000 persons,while USA had 501, Canada 467. UK 330 and Japan 384. In otherwords, although information technology ispenetrating in India, it has not accessed the massesand is thus the preserve of only the rich and elitein India society.

## 8.4 MAJOR ISSUES IN INFORMATION TECHNOLOGY

**It** is now **being** increasingly felt thatinformation technology is amajor facilitatorandcatalyst for accelerating growth of the economy. Itis therefore, necessary to remove impedcimentson thepath of growth of IT industry, businessesand services. The Working Group set by theMinistry of Information Technology has identified four categories bf issues.

(i) Infrastructure and Services; (ii) ElectronicGovernance; (iii) Education; and (iv) MassCompaign forIT Awareness.

## (i) Infrastructure and Services

With the development of various, forms ofinformation delivery systems, such as TV,Radio, Newspapers, Telephones, PersonalComputers and Internet into' one unifiedsystem, It is very desirable to improve the reachof the IT services to the common man.In India, nearly 26 percent ofthepopulationlives below the poverty line. 20 per centbelong to the higher and richer classes and 40per cerit form the middle class.The government should, in the first instance, aimat 400 millionstrong middle class on the one hand who provide a very large potentialmarket for IT products and services, who canin the near future be enabled to make use ofthe benefits of IT in their day-to-day lives. On the other hand for 40 per cent of the peopleliving below the poverty line government should initiate steps so that IT could providenew opportunities to enable them to loveabove the poverty line Presently, the ci. Nivyis, highly deficient in enabling access of IT services to the masses. The present situation in2002 is an under :

**TABLE I: COMMUNICATION AND INFORMATION STATUS IN SELECTED COUNTRIES**

**. Per 1,000 persons**

| Radios (2000). | Television Sets. (2000) | Telephones Mainlines : (2001) | Mobile Telephones (2000) | Personal Computers . (2001) | Internet users (2001) |
|---|---|---|---|---|---|
| USA 2,118 | 854 | 1,118 | 398 | 625 | 501 |
| UK, 1,432 | 652 | 1.358 | 727 | 306 | 330 |
| Prance 950 | 628 | 1.179, | 493 | 329 | 264 |
| Japan 956 | 725 | 1,174 | 526 | 318 | 384 |
| Canada 1,047 | 715 | 1.038 | 285 | 413 | 467 |
| Russian Federation 418 | 421 | 296 | 22 | 50: | 29 |
| China 339 | 283 | 248 | 66 | 19 | 26 |
| India 121 | 78 | 44 | 4 | 6 | 7 |
| Pakistan105 | 131 | 29 | 2 | 4 | 3. |

**Source :** Compiled from 'Work Bank, *World Development Indicators (2002) and UNDP, HumanDevelopment Report* (2003).

For providing IT infrastructure and servicesto the common man the working group set up bythe Ministry of Information Technology in May, 2000 was of the view that three conditions arenecessary.

(i) Availability and affordability of accessdevices.

(ii) Establishment of communications andnetworking infrastructure – includingtelecommunication network. Internet enabledcable TV network; and

(iii) Development of IT services.

The major issues tobe dealt with are thefollowing:

1. The cost of sophisticated access devices toInternet, such as PCs, Set-top boxes forconnecting TV with Internet, cable modem,etc. is very high and unaffordable for thecommon man.
2. The cost level of telephone is not affordableto more than 2 to 3 per cent of the usersin the country. In the rural areas, the cost ofinstallation continues to be very high.
3. The cost of installation of Internet facilities atthe district level in the country is presently ofthe order of Rs: 85 lakhs for a private serviceprovider. This makes the provision of servicein large parts of the country completely unviable.

The market share of non-branded (assembledPCs has become fairly large in recent years. This segment of the market should berecognised and made quality conscious withadequate incentives.

The presenttime-frame taken by theDepartment of the Telecommunications(DoT) to make data circuits available toInternet services provider (ISPs) is too longand has log of uncertainties in delivery andquality of services.

The establishment and operationalisalion **ofinternational** gateways continues to take toolong due **to** involvement **of** number **of**agencies in the present **process of** clearanceof such gateways.

There is an urgent need to evolve a nationalpolicy on Right of Way so that theestablishment of .Cable TV/Telelcom networkinfrastructure' can be achieved in minimumpossible time frame.

Some ofthe newer and low cost technologiesfor establishing telelcommunicalions/networking infrastructure in remote parts,such as Wireless in Local Loop (WILL),require to be proactively encouraged insteadof getting them entangled into proceduralissue.

The availability of international bandwidthcontinues to be a major problem in thecountry. Also the domestic cost of bandwidthis much higher than the international cost.

VSAT network continues to be treated as CUG (Closed User Group) in the country.There is a need to allow such networks to beintegrated with internet Services.

Most of IT/Internet services in the country useEnglish as themedium of informationdelivery. For mass spread/use of IT services, it is necessary to develop the use of variousregional languages.

## (II) ELECTRONIC GOVERNANCE

Government and its numerous agencies arethe major serviceproviders in the country. The useof information technology especially computers isbeing encouraged in various ministries,departments of the Central Government, StateGovernments, District Administration, MunicipalServices and at Block/Panchayat level. This is a welcome developments But the working group hasdrawn attention to a major setback in effort. Mostof the applications of IT in government serviceshave been confined to back officecpmputerisation. Consequently, the improvementin the quality of servicehas .not taken place in asufficient measure. This approach should bereplaced by front-office applications as againstback-office use. This will develop enough pressureon government agencies to improve and sustain itservice so as to raise the level of publicsatisfaction. This aspect of e-governanceneeds tobe altered and strengthened.

At present; the Government sector is thelargest consumer of IT services in India. Stategovernments arid the Central Government, haveinitialed the processof computerization

Particularmention should be made of the State governments of Karnataka, Andhra Pradesh and Tamil Nadu formaking vigorous efforts to computerizegovernment departments with a view to offerbetter services to the people. Income Tax and otherdepartments of the Central Government have also inititated steps to computerize their operations.

## (III) EDUCATION

IT education issues may be divided into twocategories :

(i) IT Education and training; and

(ii) Use of IT for education and literacy.

IT education requires the training of humanbeings in various skills associated with the widerange of products and processes. Since quite agood number of high quality jobs exist in the TTsector, it is very necessary to train the requirednumber of personnel to take advantage of thesejob opportunities. Two lands of trained personnelare needed.: (i)for hardware and (ii) for software.

For hardware training, the country needs that development of polytechnics arid engineeringcolleges to impart instruction, and training and forsoftware, the country needs educationalinstitutions which can impart training in the operation of computers to suit the needs ofdifferent, vocations like publishing of books,journals and newspapers, accounting packages forpreparing accounts books, for banks forconducting, banking operations, for railways inreservations, and other associated jobs. etc.

The major problem with the training in ITeducation is the high costs, whether inpolytechnics or in engineering colleges or ininstitutions such as NIIT or APTECH or even inUniversities. Good quality institutions for ITtraining charge fees which the poor and the lower;middle class cannot afford. In India, these institutes charge fees ranging from Rs. 20.000 toRs. 1 lakh for a one-year-course and thus, they price out the poor and themiddle classes. Evenmeritorious students belonging, to certain groups,whichdo not have an economic standing, cannothave access to these courses. At the individuallevel, the access to Internet,the chief instrument of acquiring information and thus, converting it into,knowledge is also beyond the reach of the lower. classes In the society. There is, therefore, thepainfulexistence of skilland 'access' divide in IT education. This has led to thedivision of the society in the knowledge economy oh the basis ofsocio-economic classes and regions - rural andurban. Consequently, the inequality in access to IT education have led to widening inequalities in theearnings of those who are trained in IT educationand skills and those who remain excluded.

The Working Group of the Ministry ofInformation Technology has pointed out **the**following deficiencies in the area of IT education :

(i) There is a major imbalance **in** the facilities forITeducation, particularly engineeringeducation, in different regions of the country.While Southern and Western regions providelarge number, of engineering graduates in IT, the Stales in other regions are highly deficient in the field.

(ii) The quality of education provided by largenumber of institutions is not of adquarestandard. As IT industry is highly qualityconscious, this may become a major-bottleneck in the growth of the industry in the**long run.**

(iii) The facilities for **IT** education at the level ofschools and polytechnics are confined to asmall part of the country. There is an urgentneed to spread IT education facilities inallparts of the country.

(iv) The institutions that offer IT education.particularly at higher level are not able toattract good faculty due to vast gap betweensalaries in academic institutions and ITindustry.

(v) IT infrastructure is highly capital intensivemore so due to rapid changes in hardwareand software technologies. There is a need toregularly upgrade infrastructure in academicinstitutions so that students coming out of theeducation system are provided access to latesttechnologies and toul.

(vi) Fora large country like India, technologies,such as Distance .Learning,need to be used ina major way to deal with the problem oflimited resources and higher demand for ITeducation.

(vii) if institutions, by and large, use Englishlanguage as the medium. This researchthespread of education among the English-knowing population in the country. There is aneed to develop software in regionallanguages so as to increase the spread of ITeducation to the masses.

IT professionals are described : as skilledknowledge workers. From a low base of 6,800knowledge professionals in 1985-86, there numberhas shot up to 6.5 lakh by March 2003. Out ofthem about 2.05 lakhs (about 32%) work insoftware and services export industry, nearly 1.6lakhs (24.6%) are working in IT enabled services,Only 25,000 (4%) are in thedomestic softwaremarket arid over 2.6 lakhs (40%) are in user organizations.

These professionals get their training inengineering colleges and polytechnics andprestigious. ITTs (Indian Institute of Technology). Alarge number universities have also startedcomputer courses. This has resulted in a sharpincrease in the output of trained manpower in IT atthe degree and diploma level. Their annual outputwas of the order of 1.2. lakhs in 2002. A very/large.number of private training instituteswho chargeexorbitant fees *are*also providing computer,education.

### 315. INDICATORS OF MEDIA

| | **Per 1,600 persons** | | | |
|---|---|---|---|---|
| | T.VsetsDaily newspapers | | Radios | Telephone lines |
| | 2003 | 2000 | 2003 | 2003 |
| India | 83 | 60 | 120 | 46 |
| U.S.A. | 938 | 196 | 2,109 | 621 |
| Japan | 785 | 566 | 956 | 472 |
| Canada | 691 | 168 | 1,047 | 629 |
| Australia | 722 | 161 | 1,966 | 542 |

| | | | | |
|---|---|---|---|---|
| U.K. | '950 | 326 | 1,445 | 591 |
| France | 632 | 143 | 950 | 566 |
| Germany | 675 | 291 | 570 | 657 |
| Sweden | 965 | 410 | 2,811 | 736 |
| Italy | — | 109 | 878 | 484 |
| Russia | — | 105 | 418 | 242 |
| Korea, Rep | 458 | 393 | 1,034 | 538 |
| Brazil | 369 | 46 | 433 | 223 |
| Israel | 330 | 290 | 526 | 458 |
| Singapore | 303 | 273 | 672 | 450 |
| China | 350 | 59 | 339 | 208 |
| Mexico | 282 | 94 | 330 | 158 |
| Egypt | 229 | 31 | 339 | *127* |
| South Africa | 177 | 26 | 336 | 107 |
| Pakistan | 150 | 39 | 105 | 27 |
| Philipines | 182 | 67 | 161 | 41 |
| Sir Lanka | 117 | 29 | 215 | 49 |
| Kenya | 26 | 81 | 221 | 10 |
| Bangladesh | 59 | 9 | 19 | 5 |

## INFORMATION TECHNOLOGY

| | Outgoing traffic ; minutes per subscriber | Per 1,000 persons | | Internet (per 1000 (persons) |
|---|---|---|---|---|
| | | Mobile phones computers | Personal users | |
| | | 2003 | | |
| India | 16 | 25 | 7.2 | 17 |
| U.S.A | 217 | 543 | 656.9 | 551 |
| Japan | 37 | 679 | 382.2 | 483 |
| Canada | — | 417 | 467.0 | 513 |
| Australia | 215 | 719 | 565.1 | 567 |

| | | | | |
|---|---|---|---|---|
| U.K. | 258 | 841 | 405.7 | 423 |
| France | 139 | 696 | 347.1 | 366 |
| Germany | 167 | 785, | 484.7 | 473 |
| Sweden | —- | 980 | 621,3 | 573 |
| Italy | 169 | 1,018 | 230.7 | 337 |
| Russia | 34 | 249 | 88.7 | — |
| Korea, Rep. | 45 | 701 | 558,0 | 610 |
| Brazil | 21 | 264 | 74.8 | 82 |
| Israel | 335 | 961 | 242.6 | 301 |
| Singapore | 1,020 | 852 | 622.0 | 509 |
| China | 4 | 215 | 27.6 | 63 |
| Mexico | 134 | 291 | 82.0 | 118 |
| Egypt | 35 | 84 | 21.9 | 39 |
| South Africa | 117 | 364 | 72.6 | 68 |
| Pakistan | 35 | 18 | 4.2 | 10 |
| Philippines | 52 | 270 | 27.7 | 44 |
| Sri Lanka | 58 | 73 | 13.2 | 12 |
| Kenya | 75 | 50 | 6.4 | 13 |
| Bangladesh | 77 | 10 | 7.8 | 2 |

***Source :*** Total's Statistical Outline of India

## 8.5 OUTSOURCING, NATIONALISMAND GLOBALIZATION

Outsourcing implies obtaining goods orservices by contract from an outside source. Firmsresort to outsourcing within the country as well. Producers of cars do not produce all the partswithin the firm, but may outsource some partsfrom the producers who have specialized in them.This helps firms to cut costs.

In the information technology (IT) sector,outsourcing has acquired an internationaldimension. US firms find it more profitable tocontract IT software and services in developingcountries like India and China. The costs for theseservices in developing countries are much lessthan in the developed world. A recent, study byMcKinseyhas estimated' that every dollar spent onoffshoring (outsourcing) implies a cost reductionof 58 cents to US business. Thus, US firms andthose in, the European Union regularly carryoutcontracts with IT firms in India. As per informationcomplied in the*Reserve Bank of India Bulletin*(January 2004), during 2002-03, earnings fromsoftware services for India were of the order of US$ 9.6 billion. Since merchandiseexports accounted for $ *52.5*1 billion, software services represented18.3 per cent of total exports. This was a bigachievement by the Indian IT industry as it provedits competitive strength in the world.

There was an outcry raised in USA thatoutsourcing resultedin export of US jobs to othercountries. One US agency predicted that at leastone out of ten technology jobs in the US will moveout by the year 2004. Another agency estimatedthat at least 3.3. million white collar jobsaccounting for 5 136 billion in the form of wageswill move out of USA to low cost developingcountries by 2015. Obviously, the debate overoutsourcing got directly linked with loss of jobs inUSA in favour of developing countries.

During 2003, severalstates such as,Maryland, Florida, Indian, Michigan, New dersey.New York and New Carolina introduced anti-ouisourcing bills, but noen of bills could bepassed. It was, therefore, field in the developingworld that outsourcing would continues sincebusiness firms were opposed to passing any anti-outsourcing bill, because it impinged on theirfreedom to reduce costs.

But on January 23,2004 the US Senateapproved a legislation that prevents privatecompanies doing subcontracting work for thegovernment departments of treasury andtransportation from outsourcing to companiesoutside America. The law was signed by the USPresident.

Responsing to the impact of the law onIndian software exports. NASSCOM observed thatsince the law covered only two departments; andthe share of the Federal Government contracts inIT software and services is less than 2 per cent, itsimpact on the IT business would be negligible. But the point of worry is whether the law is of ageneral nature covering all departments or isrestricted to only two departments. Ambiguitysurrounds the fat that the law covers alldepartments and thus, its potential to adverselyaffect IT software and services export is quitesignificant.

Another point of worry is that the law passedby the Federal Government can act a pace-setterand thus, prompt various stale governments also topass similar anti-outsourcing legislation. This mayset a chain reaction and state after state may beprompted to do so. Sincethis happens to be anelection year in USA, when all the 435 membersof the House of Representatives and 11 State-Governors have to face election, the probability ofadopting anti-oulsourcing law to woo the voles byavoiding the export of jobs appears to be veryhigh. Around 15 states have voted on laws to bangovernment work being contracted out to non-Americans.

Although John Kerry, who is thecurrentfront-runner among Democrats said that while hewould not ban outsourcing, he will provide taxincentives, to companies to keeptheir Jobs in theUS, and close "every single loophole" thatfacilitates companies moving jobs overseas. Thenet impact of Kerry's proposal is to subsidisecompanies so that in practice, they do not feel theneed for outsourcing and the State compensatesthem in one way or the other, for the loss fornotengaging themselvesin outsourcing.

The basic question which has been raised inIndiaand in several other developing countries iswhereas the advocates of globalization emphasizeremovalof the barriers to trade in goodsandservices, but whever their interests appear to beaffected by global competition they protect their•interests either through, heavy subsidies (as inbeing done by USA for its fanners) or they createother kinds of barriers such as labour standards,patent rights, etc. Inother words, nationalism takesover from globalism. Such being the case, theanti-outsourcing law goes against the spirit ofWTOandgoals of globalization. Mr, Arun Shpurieformer. IT Minister therefore, said Anti-outsourcing law was a move against the spirit ofglobal trade. This was not the way forWashington to advance the cause of multi-lateraltrade negotiations.

Mr. Kiran Kamik, President, NationalAssociation of Software and Service Companies (NASSCOM) said ; "The passage of such. Billswould shut-off a huge opportunity for Indiancompanies to get projects from the US Government,which spends billions of dollars ontechnology every year."

Electronics and Computer Software ExportPromotion Council begin more fortright in its comment stated : **The** new legislation, would send**wrong** signals to the" globalization effortsparticularly of countries like India, which have undertaken a number of liberalization measures ina short span of time garnering political will to pushahead the reform process.”

Thus, it is obvious that Republican Senator,Mr. George Voinovich, die major advocate of anti-outsourcing law has very smartly introduced aclause to ban contracts on the basis of FederalGovernment spending. National interests anddemocratic pressures of an impending election forced the US government to accord its approval.This move has dangerous consequences for Indiabecause as the movement of anti-outsourcingsnowballs in USA, it is likely to produce asubstantial impact in India. Saving of jobs for USprofessionals will mean loss of jobs in the ITsoftware and service sector in India. These aregloomy forebodings, but they signal towards thefuture scenario.

The saving feature at the present movement **is**that the contagion against outsourcing has hotspread to the European Union, the second biggestcustomer of IT services. Mr. Tony Blair, BritishPrime Minister has indicated that there is noproposal to ban outsourcing. But one cannotpredict what is likely to happen in the future. Maybe at some stage, democracy may compel theGovernments in European Union to follow thepath shown by USA. National interests may dictatepopular governments **to take** shelter – behinddemocratic pressure and act in a manner whichsacrifices the WTO rules regarding globalization.History provides us ample examples when nationsabondened free trade and embraced protectionistpolicies to further national interests, and stay inpower. But as indicated by Indian **IT** Minister,these policies are bound to hurt the movement forliberalization and globalization. Instead ofintegrating the world, such blant anti-outsourcingmeasures are likely to generatepressures in Indiaand other developing countries **to** createroadblocks at WTO negotiations and demand theapplication of a uniform policy for all members—whether from the developed or underdeveloped-world. **It** may lead to prolonging the deadlock intrade negotiations at Cancun still further.

Commerce Minister Arun Jaitley in responseto Mr. Roben Zoellick, United States TradeRepresentatives pica to reduce Indian tariffs further brought out in avery forthright manner thecontradiction in US stand, when, he said onFebruary 16,2004 : "It is strange that on the onehand people are talking about opening of markets,and on the other "hand, banning Business ProcessOutsourcing (BPO). Our agriculture is fragile as itis not subsidizedlike in the US". Mr. Zoellick,however, tried to explain that anti-outsourcing lawhad its quota of "sensitive" issue for India, since60 per cent of its population isdependent onagriculture. Indian economists strongly believethat opening up of Indian economy for farmexports may, be beneficial to the US interests, butits bound, to have deep adverse structural impact on the farm sector in India. Such a course wouldbe suicidal for India.

## 8.6 Self Check Questions

1. What is knowledge Economy?
2. Define information technology.

3. Discuss electronic governance.

## 8.7 Summary

Informational technology is the industry with through the use of computers and othersupporting equipment helps in the spread of knowledge. With advancement in thetechnology information is being rewarded as the fourth factor of the production alongwith the land, labour and capital. Information has therefore become an important anddistinct input in production. Thus along with primary, secondary and territory industries,fourth sector information related industries has emerged. With emergence of the variousforms of information delivery system, such as TV, Radio, Newspapers, Telephones,Personal computers and internet into one unified system it is very desirable to improvethe IT services to common **man.**

## 8.8 Glossary

**Information Technology : the** technology involving the development, maintenance,and use of computer systems, software, and networks for the processing anddistribution of data

**Knowledge Economy:A** knowledge economy is an economy in which the production ofgoods and services is based primarily upon knowledge-intensive activities

**Outsourcing: Outsourcing** is the business practice of hiring a party outside a companyto perform services and create goods that traditionally were performed

**Nationalism:** Nationalism refers to loyalty and devotion to a nation, especially a senseof national consciousness, and exalting one nation above all others and placing primaryemphasis on promotion of its culture and interests as opposed to those of other nations.

**Globalisation:** Globalisation is the process of interaction and integration among people,companies, and governments worldwide.

## 8.9 Answers: Self-check Questions

1. See the section no. 8.2, Lesson 8
2. See the section no. 8.1, Lesson 8
3. See the section no. 8.4, Lesson 8

## 8.10 Terminal Questions

1. Discuss the emergence of knowledge economy.
2. Describe the major issues of information technology in idnia.
3. Write short note on nationalism, globalization and outsourcing.

## 8.11 Suggested Readings

1. Aswathappa, K., (2009). *Essentials of Business Environment.* Global Media.
2. Dave, B., (2009). *Business Environment in Modern Era.* Global Media.
3. Cherunilam, F. (2009). *Business Environment,* Global Media

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## LESSON9

# MNCs, WTO AND PUBLIC SECTOR

**Structure**



## 9.0 Learning Objectives

After going through this lesson the learners will be able to :

1. Understand the MNCs and foreign capital
2. Discuss the functions and organisations of the WTO
3. Discuss the public and private sector in Indian economy

## 9.1 Introduction

For a long period of time, private foreigninvestmentwas used, by the colonial powers toexploit the colonies. The sectorsthat received suchinvestment were mostly export sectors and this ledto an 'enclave type' of development — a fewdeveloped sectors co-casting with a large numberof backward arid stagnant domestic sectors. Circumstances have changed rapidly in recentdecades as more **and** more countries have wonIndependence; A Phenomenon of particularimportance in the developing countries of today isthe rapid expansion of the activities ofmultinational corporations (MNCs). MNCs are huge industrial organisations whichextend, theirindustrial andmarketing operations through anetwork of their branches or their Majority OwnedForeign Affiliates (MOFAs). MNCs are also knownas

Transnational Corporations (TNCs). Instead ofaiming for maximization **of** their profits from oneor two products, the MNCs operate in a number offields and from this point of view, 'their businessstrategy extends over a number of products andovera number of countries. There are now some40,000 TNCs whose --tentacles straddle theinternational economy through 2,50,000 overseasaffiliates. They possess staggering resources as would be clear from the fact that the sales of 200top corporations in 1982 were equivalent of 24.2per cent of the world's GDP and have risen to 28.3per cent of world GDP in 1998. This shows that200 colossal corporations of the world now controlover a quarter of the world's economic activity. Infact, the combined sales of these corporationsestimated at $. 7.1 trillion in 1998 surpass thecombined, economies of 182 countries. At the latestcount, the world has 191 countries; If we substractthe GDP of the big nine **economies** — the UnitedStates of America, Japan, Germany, Prance, Italy the United Kingdom, Brazil, Canada and China — the combined GDPs' of the other 182 countries is$ 6.9 trillion which is less than the sales of the 200top corporations. **Of** the world's 5.6 billion people,the poorest 4.5 billion people account for only $3.9 trillion economic activity which is only a littleover half the combined revenue of $ 7.1 trillion ofthe 200 top corporations of the world.Thisshowsthat thetop 200 MNCs have almost twic etheeconomic clout of the poorest four-fifths, of thehumanity. An idea of the giant size of these MMCscan also be had from the revelations made in astudy conducted by the Washington based institute for Policy Studies (IPS) that of the 100largest economies in the world. 51 arecorporations; only 49 are countries. Wal-Mart, thenumber corporation is biggerthan i63 countries,including Israel. Poland and Greece, Mitsubishi islarger than the fourth most populous' nation, on'earth: Indonesia, General Motors is bigger thanDenmark, Ford is bigger than South Africa andToyota is bigger than Norway.

The IPS report also points out the tendencytowards concentration 'in sectors. For instance, over half of the sales of the top 200 MNCs are **in**just five 'economic sectors; and corporateconcentration in these sectors is high. Half of thetotal sales are in trading, automobiles, banking,retailing and electronics. There is also a growingconcentration of a few firms in each of thesesectors. In automobiles, the top five firms accountfor almost 60 per cent of global sales. They alsohave over 30 per cent of global sales in airlines,aerospace, steel, oil, personal computers,chemicals, and the media.

A disturbing finding of the IPS report is thatthe top 200 MNCs have been 'net job destroyers'in recent years. Their combined globalemployment is less than three-fourths of one percent of the world's workers. Not only are thesecorporations cutting jobs but their CEOs havebenefited immensely from these jobcuts. The nineMNCs — A & T, Boeing, Lockheed-Martin, Bell-South, Kmart, hase Manhattan, GTE, Mobil and Texaco not only resorted to massive lay offs; theirCEOs made millions of dollars in the increasedvalue of their stock options after announcing thelay-offs.[3]

The above data reveal the massive controlexercised by the MNCs on the world economy. Infact, because of their huge capital resources, latesttechnology and worldwide goodwill, MNCs are inaposition to sell whatever product they choose tomanufacture in different countries. The above dataalso show that there is extreme 'concentration' atthe top and the MNCs are creating a 'globalapartheid' instead of an 'integrated global village'by reporting to massive lay-offs of workers. (SecBox 40.1 for a graphic account of operations ofMNCs).

## 9.2 ORGANISATION OF MULTINATIONALCORPORATIONS

Subject to legal requirement, internationalagreements and commercial treaties, amultinational company can organise its operationsin different countries through either of thefollowing five alternatives

: (1) Branches, (2)Subsidiary companies, (3) Joint venturecompanies, (4) Franchise holders, and (4) Turnkeyprojects.

**Branches.** The simplest from of extendingbusiness operations is to set up several branches. Legally, the branch is not an independent entityand is linked up to the parent company existing insome other country. The Companies Act, 1956regards all those companies which areincorporated outside India and have set up theirbusiness in India as foreign companies.Subsidaries. A multinational firm may alsooperate by setting up national affiliates assubsidiary companies. A subsidiary in a particularcountry is established under the laws of that country. Such subsidary companies take advantageof the financial and managerial .skill of theholding company and also benefit by theinternational reputation that the latter enjoys. Atthe same time, they maintain their separate entity.

**Joint Venture-Companies.** At times. MNCs)enter into a joint venture with an indigenous firmor agency. Under this arrangement the MNCmakes available machinery, capital goods andtechnological expertise to the indigenous firm.This form of organisation is adopted in thosecountries where the law requires control by localnationals. For instance, the law in a particularcountry may require that the local national mustown a specified percentage of the affiliate's equity.

**Franchise Holders.** This is a special kind ofarrangement by whichan affiliate firm produces ormarkets the produce of a multinational firm afterobtaining a licence from that firm. A formalcontract is entered into between the affiliate firmand the multinational firm which' specificallymentions the rights that are transferred to theaffiliate firm and lays down the Compensation(usually in the form of royalties) that it has to payto the parent firm.

**Turn-Key Projects.** Under this organizational form, the multinational undertakes to complete theprojectfrom scratch to the operational stage. Whenthe project is ready it is handed over to the hostcountry. Frequently underdeveloped countriesinvite tenders for construction of certain projectsrequiring high technical skill. With 'their hugeresources and managerial and technical expertisethe MNCs are most suited to carry out this job.

Through these various methods of operations.MNCs carry their technology to the developingcountries. If MNCs set up a branch of a subsidiarycompany, it is claimed that there isa directinjection of foreign experience and expertise in thedeveloping country. The branch or the subsidiarycompany can providea, channel for thetransmission of the latest improvements from thedeveloped to the underdeveloped countries.According to A.K. Cairncross, "There is noquestion that the branch factory, is a highlyeffective way of importing technology. It usuallyprovides along with the technical expertise, thecapital that is not easily mobilised inunderdeveloped countries, for new industrialventures and the managerial experience that can sorarely be supplied by them."[1] However, success onthis front depends crucially on how far therecipient countries areable to regulate theactivitiesof MNCs keeping the local interests inview.

## 9.3 REASONS FOR THE GROWTH OF MNCS

Reasons for the growth of multinationalcorporations are manifold, the important onesbeing as follows :

1. **Expansion of market territory.** As theoperations of a large-sized firm expand andas its international image builds up, it seeksmore and more extension of its activitiesbeyond the physical boundaries of thecountry in which it is incorporated.

2. **Marketing superiorities.** A multinational firmenjoys a number of marketing superioritiesover the national firms : (a) It possesses amore reliable and uptodate marketinformation system; (b) It enjoys marketreputation and faces less difficulty in sellingits products; (c) It adopts more effectiveadvertising and sales promotion techniquesand' (d) It has efficient warehousing facilitiesdue to lower inventory requirements.
3. **Financial superiorities,** A multinational firmenjoysthe following financial superioritiesover the national firm ; (a) It has hugefinancial resources with which it can easilyturn all circumstances in its favour; (b) It maintains a high level of funds utilization bygenerating funds in one country and usingthem in another; (c) It has easier access toexternal capital markets; and (d) because ofits international reputation it is able toraisemore international resources, even investorsand banks of the host country are eager toinvest in it."
4. **Technological superiorities.** The main reasonwhy MNCs have been encouraged by the under-developed countries to participate intheir industrial development is on account ofthe technological superiorities which thesefirms possess as compared to nationalcompanies. The underdeveloped countries'regard'transfer of technology from MNCsuseful on account of the following reasons ofthese countries are insufficient to sustain theindustrial progress on. their own; (b) Localmanpower, materials, local capital equipmentetc. have to be optimally exploited and thesecountries and unable to accomplish this; (c)depending totally on local companies wouldrequire heavy imports of raw materials,capital equipment, machinery and technicalknowledge whereas MNCs bring these on'their own; and (d) The underdevelopedcountries have to face stiffcompetition forselling their products in international markets.Unless their goods meet internationalstandards, and quality specifications,theycannot sell. MNCs help them inproducing such goods.
5. **Product innovations.** MNCs have hugeResearch and Development departmentsengaged in the task of developing newproducts and superior designs of existingproducts. While developing new products andsuperior designs of existing products, theMNCs have an eye on a number of countries.Therefore their production opportunities arefar greater as compared **do** nationalcompanies.

## 9.4 ADVANTAGES OF PRIVATE FOREIGN INVESTMENT

The section on the 'Need for Foreign Capital'and the 'Reasons for the Growth of MNCs'mention some advantages of private foreigninvestment as well. In this section we propose tohighlight some specific advantagesof privateforeign investment. These are as under :

1. Private foreign investment goes directly intocapital formation and this it constitutes a netaddition to investible resources in therecipient country. This it helps in pushing up the rate of growth of the economy.
2. Being subject of business calculation ofprivate profit it is likely to be employed moreproductively as compared to public financialaid.
3. When made available in the form of directbusiness investment' (as in the case ofinvestment by MNCs) foreign 'privateinvestment promotes .the spread of moderntechnology and efficient managementmethods.
4. Foreign investment may also induce moredomestic investment. For instance, ancillarydomestic units can be set up to 'feed* themain industrial unit set up by the foreigninvestor.
5. By setting an example, and through thetraining that they sponsor, foreign directinvestments as by MNCs) contribute to thetransfer of technology to the underdevelopedcountries and in encouraging the growth of skills.
6. Since returns on foreign investment are linkedto the profits earned by the firm, it is more'flexible' as compared to foreign loans whichare guided by rigid interest and amortizationrequirements.
7. Foreign investment results in a pattern ofgrowth which is desirablefrom the point ofview of underdeveloped countries since newproducts are introduced and marketed, newtastes are created, and specific needs of therecipient country are met.
8. Free flow of capital is conducive both to totalworld welfare and to the welfare of eachindividual country. The operations or foreignfirms, especially of modern multinationalfirms, knit countries together and closer intothe web of international commerce, both by(internal and horizontal) economic integrationand by the transmission of tastes,designs,ideas and technology.

The real case for encouraging private foreigninvestment rests on whether it helps in raisingproductivity or not. If it does, and if the resultingincrease is not wholly appropriated by the investor,the greater product must be shared with others.This would means some direct benefits to otherincome groups. These benefits can accrue to (a).domestic labour in the form of higher real wages(b) consumers by way of lower prices, and (c) thegovernment through higher tax revenue. Beyondthis, and most importantly in many cases, there arelikely to be (d) indirect gains through therealisation of external economies.

The pro-foreign investment arguments are **not**entirely correct and **have been** contested**by**various economists. It has been noted in a large number of countries that although foreign companies provide capital and thereby, raise the level of capital formation in the short run, they have a tendency **to lower** domestic savings and investment rates by stifling competition, failing toreinvest most of the profit earned and inhibitingthe expansion of indigenous firms. Themanagement and technology provided by theMNCs rarely meet the local requirements.

**TABLE 1.1**
**THE WORLD'S LARGEST CORPORATIONS**

| Rank | | Company Name | Home | Revenues | Assets |
|---|---|---|---|---|---|
| 2000 | 1999 | | Country | $ billion | $ billion |
| **Developed Countries** | | | | | |
| 1 | 3 | Exxon Mobil | US | 210.4 | 149.0 |
| 2 | 2 | Wal-Mart Stores | US | 193.3 | 77.9 |
| 3 | 1 | General Motors | US | 184.6 | 303,1 |
| 4 | 4 | Ford Motor | US | 180.6 | 284.4 |
| 5 | 5 . | Daimlerchrysler | Germany | 150.1 | 187.1 |
| 6 ; | 11 | Royal Dutch/Shell Group | UK/Netherla nds | 149.1 | 122.5 |
| 7 | 17 | BP | UK | 148.1 | 143.9 |
| 8 | 9 | General Electric | US | 129.8 | 437.0 |
| 9 | 7 | Mitsubishi | Japan | 126.5 | 64.4 |
| 10 | 8 | Toyota Motor | Japan | 121.4 | 139.8 |
| 11 | 6 | Mitsui | Japan | 11.8 | 53.5 |
| 12 | 18 | City group | US | 111.8 | 902.2 |
| 13 | 10 | Itochu | Japan | 109.8 | 41.2. |
| 14 | 50 | Total Fina Elf | France | 105.9 | 82.4 |
| 15 | 13 | Nippon Telegraph & Telephone | Japan | 103.2 | 169.3 |
| 16 | 62 | Enron | US | 100.8 | 65.5 |
| 17 | 15 | Axa | France | 92.7 | 445.6 *i* |
| 18 | 12 | Sumltoma | Japan | 91.2 | 39.5 |
| 19 | 16. | Intl. Business Machines. | US | 88.4 | 88.4. |
| 20 | 14 | Marubeni | Japan | 85.4 | 42.5 |
| **Developing Countries** | | | | | |
| 45 | 102 | Povsa | Venezuela | 53.7 | 57.1 |

| | | | | | |
|---|---|---|---|---|---|
| 68 | 58 | Sinopec | China | 45.3 | 64.7 |
| 77 | 83 | Stale Power | China | 42.5 | 149.9 |
| 81 | 144 | **Pemex** | Mexico | 42.2 | 59.6 |
| 83 | __ | China National Petroleum | China | 41.7 | 79.3 |
| 92 | 131 | Samsung Electronics | South Korea | 38.5 | 36.7 |
| 103 | 107 | Hyundai . | South Korea | 36.0 | 0.8 |
| 105 | 115 | Samsung | South Korea | 35.9 | 5.8 |
| 123 | 105 | SK | South Korea | 35.9 | 5.8 |
| 149 | 202 | Hyundai Motor | South Korea | 28.8 | 25.3 |
| 160 | 280 | Petrobras | Brazil | 27.0 | 39.2 |
| 193 | 301 | LG International . | SouthKorea | 23.5 | 0.4 |
| 209 | 232 | Indian Oil . | India | 22.3 | 10.3 |
| 213 | 208 | Industrial & Commercial Bank of China | China | 22.1 | 483.0 |
| 222 | 257 | SamsungLife Insurance | South Korea | 21.2 | 40.3 |
| 228 | 236 | China Telecommunications | China | 20.8 | 63.7 |
| 244 | 308 | L.G. Electronix | South Korea | 20.1 | 16.8 |
| 251 | 255 | Bank of China. | China | 19.5 | 382.7 |
| 254 | .311 | Petronas | Malaysia | 19.3 | 36.6 |
| 276 | 307 | Sinochem | China | 18.0 | 4.7 |

***Source Fortune.,* no.16 July 23, 2001**

## 9.5 WORLD TRADE ORGANISATION

The signing of the Final Actof the UruguayRound by member nations of GATT in April 1994paved the way for the setting up of the World TradeOrganisation (WTO). An agreement to this effectwas signed by 104 members. The WTO agreementcame into force from January 1, 1995 and India hasbecome a founder member of the World TradeOrganisation, by ratifying the WTO Agreement onDecember 30, 1994.

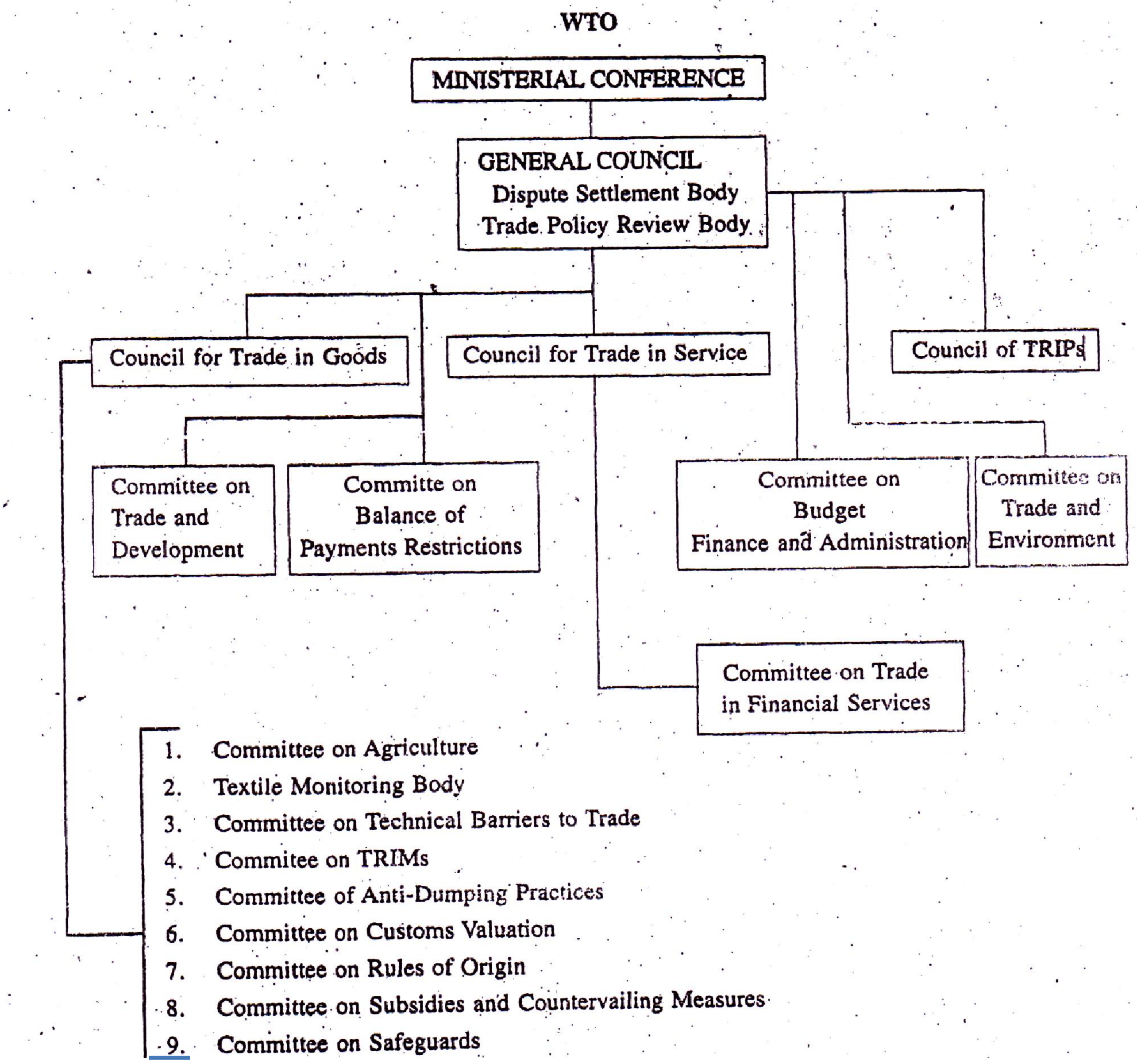
The former GATT was not really anorganisation : it was merely a legal arrangement.On the other hand, the WTO is a new internationalorganisation set up as a permanent body and isdesigned to play the role of awatchdog in thespheres of trade is goods, trade in services, foreigninvestment, intellectual property rights etc.

## 9.6 FUNCTIONS AND ORGANISATION OFWTO

The Purpose of the WTO is spelied out in thePreamble and Article I! of the agreement establishing the WTO. Paragraphl of ArticleIIreads : "The WTO shall provide the commoninstitutional framework for the conduct of trade'relations amongits members in matters related tothe agreements and associated legal instrumentsincluded in the Annexes to this Agreement". WTOhas the following five functions as set out inArticle III.

First the WTO shall facilitate theimplementation, administration and operation, andfurther the objectives, of this agreement and of theMultilateral Trade Agreement, and shall alsoprovide the frame work for the implementation,administration and operation of the Plurilateral Trade Agreements.

## ORGANISATIONSTRUCTURE OF WTO



The Ministerial conference and all other bodies except the Textile Monitoring Body consist oftheentire membership of the WTO. The membership of some of these bodies is by self-selection. The TextileMonitoring Body consists of its Chairperson and 10 other member of WTO.

The General Council itself will meet as the Dispute Settlement Body and the Trade Policy ReviewBody.

*'Source :* Muchkund Debey, An Unequal Treaty : World Trading Order After GATT, New Delhi; (NewAge International Limited 1996). p. 104.

## 9.7 GATTANDWTO

Second, theWTO 'shall provide the forum fornegotiations among its members concerning their multilateral trade relations in matters dealt withunder the agreements in the Annexes to thisAgreement.

Third, the WTO 'shall administer theUnderstanding on Rules and ProceduresGoverning the Settlement of Dispute'.

Fourth, me WTO shall administer the tradepolicy Review Mechanism';

Fifth, "with a view to achieving greatercoherence in global economic policy-making, theWorld Trade Organisation shall cooperate, asappropriate;' with the International Monetary Fundand with the International Bank for Reconstructionand Development and its affiliated agencies.

The organisational structure of WTO ispresented in Chart 20.1. The highest body will bethe Ministerial Conference. This will consist ofrepresentatives of all the members and will meet at least once every two years. There will also be aGeneral Council: again consisting of representative of all the members. It is the real engine of theWTO which shall act on behalf of the MinisterialConference. The General Council itself wilt meetas the Dispute Settlement, Body and the Tradepolicy ReviewBody.

There are three councils working under theGeneral Council ; Council for Trade in Goods.Council for Trade' in Services and Council of TRIPs.

The Ministerial Conference has the authorityto create special committees. Accordingly, aCommittee on Trade and Development, aCommittee on balanceofPayments Restrictionsand a Committee on Budget. Finance andAdministration were created. In addition, to beseen from the chart, a Committee on Trade and Economic Environment and a Committee on Tradein Financial Services were also created.

## 9.8 INDIA AND WTO

No other issue in recent times has generatedso much heat than the likely repercussions of thenew international economic order onworldeconomy in general and developing countries inparticular. According to the supporters, theUruguay Round agreement, the MarrakeshDeclaration (which reiterated, the commitment ofthe ministers of various governments attending theFinal Round to the hew multinational tradeframework) and the ultimate setting up of theWTO, are expectedto bring about substantial gainsin world trade and increased income fromliberalization, improved market access and greaterexport opportunities, besides greater predictabilityof the trading environment. The GovernmentofIndia has also been harping on this tune. However,critics have pointed out that the entire negotiationprocess' was ruthlessly dominated by thedeveloped countries (Particularly the USA) and theresults that have emerged (in the form of variousAgreements noted above) are highly tilled in theirfavour. The poor countries operated in theperiphery, seldom consulted until the rich ones hadcompleted negotiations among themselve. Asnoted by Kelvin Watkins, "Whatever the skills ofnegotiators from the South, for the most pan theyare like extras on the GATT stage: the show cannotgo on without them, to nobody is remotelyinterested in what they have to say." In this sectionwe first of all, highlight the commitments made bythe Government of India to the WTO and thendiscuss the likely favourable and unfavourableeffects of the new world economic order on theIndian economy,i.e. how interation of the Indianeconomy into the global economy is likely***to***affect us.

## INDIA'S COMMITMENTS TO WTO

1. Tariff **Lines :** As a members of the WTO, Indiahas bound about 67 of its tariff lineswhereas prior to [he Uruguay Round only 6per cent of the tariff lines were bound. Fornon-agricultural goods, with *a* fewexceptions, ceiling bindings of 40 per cent andvalorem on finished goods and25 per cent onintermediate goods, machinery andequipment have been undertaken. The phasedreduction to these bound levels is beingundertaken over the periodMarch 1995 to theyear, 2005. In textiles, where reduction willbe achieved over a period of 10 years, Indiahas reserved the right to revert to duty levelsprevailing in 1990, If theintegration process,envisaged under the agreement on Textilesand Clothing does not materialise in full or isdelayed. Under the Agreement onAgriculture, except for a few items, India'sbound rate range from 100 to 300 per centand **no** commitments have been maderegarding market acces ofsubsidies or tariffs.
2. **Quantitative Restrictions (ORs).** QRs onimports maintained on balance of paymentsgrounds were notified to WTO in 1997 for2,714 tariff lines at the eight digit level. Inview of the improvements in India's balanceof payments, the Committee on Balance ofPayments Restrictions had asked India for aphase out for the QRs. Based on presentationsbefore this Committee and subsequentconsultations with main trading partners,India reached an agreement with thesecountries, except USA, tophase out the QRsover a period of six years beginning 1997.The USA preferred a dispute under theWTO's dispute Settlement Mechanism. TheDisputes Settlement Panel and the AppellateBody ruled in favour of USA and againstIndia. As a result, India was required to phaseout QRs in a period of less than six years. Infact, an agreement between USA and Indiawas reached which envisaged the phasing outof all QRs by India by April 1, 2001. In linewith this agreement. India removed QRs on714 items in the Exim Policy announced onMarch, 31,2000 and on the remaining 715items in the Exim Policy announced onMarch 31, 2001.

By their ruling against India, the DisputesSettlement Panel arid the Appellate Body haveoveruled the decision of the Committee on Balanceof Payments. According to Biswajit Dharm thisbrings into clear focus, the fact that the supposedlydemocratic structure of the WTO, which operatesthrough the various Committees comprising of themember States can be undermined by the DisputesSettlement Panel. 'The experts, who adjudicate thedisputes between the WTO member Slates, evendisregard the institutional basis of the organizationwhich passing their judgements."

3. **TRIPs.** The ruling of the two WTO DisputeSettlement Panels following the complaintsmade by the USA and the European Unionthat India had failed to meet itscommitments under Article 70.8 (requiringthe setting up of the Mail Box System) andArticle 70.9 (granting of Exclusive MarketingRights) made it obligatory for theGovernment of India to make appropriateamendments to the Patents Act, 1970 by April19, 1999. The Patents (Amendment) Act,1999 was passed by the Parliament in

March1999 to provide for Exclusive MarketingRights. In respect of plant varieties, a decisionhas been taken to put in place a suigenerissystem as it is perceived to be in our nationalinterest.

As far as copyrights and related rights areconcerned, the Copyright Act 1957 as amended in1994 takes care of our interest and meets therequirements of the TRIPs Agreement except in thecase of terms of protection of performers' rights. ABill to increase this term to 50 years was passed byParliament in December. 1999. As far as lay-outdesigns are concerned, a legislation givingprotection to them was introduced in the RajyaSabha on December 20, 1999 by the Departmentof Electronics. In the field of trade marks. TheTrade and Merchandise Marks Act (TMMA), 1958is in its essential features, in accordance withinternational law. A Bill passed in Parliament inDecember, 1999 provides for protection to servicemarks. On the question of geographic indications,there is specific law in India for this purpose. Caselaw, however, enables legal action for protection ofgeographical indications'. The Government ofIndia decided to enact a new law on the subject totake advantage of the provisions of the TRIPsAgreement. A Bill in this regard was passed by theParliament in December 1999.

4. **TRIMs. Under** the **TRIMs Agreement,developing countries** were granted **atransisition period of 5** years up to **December**31,1999 'during which **they** could continue **tomaintain measures inconsistent with** the**Agreement provide these were** duly **notified.**The Government of **India,** notified twoTRIMs. viz, that relating to local contentrequirements in the production of certainpharmaceutical products and dividendbalancing' requirement in the case ofinvestment in 22 categories of consumeritems.
5. **GATS.** Under the General Agreement onTrade in Services (GATS), India has madecommitments in 33 activities. Foreign serviceprovides will be allowed to enter these activities. According to the Government ofIndia, the choice of the activities has beenguided by considerations of national benefit(viz., the impact on capital inflows,technology and employment).
6. **Customs Valuation Rules.** India's legislationof Customs Valuation Rules, 1998, has beenemended to bring it is conformity with theprovisions of the WTO Agreement onimplementation of Article VII of GAIT 1994and the Customs Valuation Agreement.

## 9.9 PUBLIC SECTOR IN THE INDIANECONOMY AND THE ISSUE OFPRIVATISATION

The present India economics structure inoften characterised is 'mixed economy*. There aretwo fields of production in the structure the—theprivate sector and the public sector. The presenceof public sector in the Indian company is by nomeans noval experiment. Even in the capitalistcountries of the West, the Stale has not onlyinterfered in the economic lift at times, but alsoparticipated directed in the production anddistribution activities. Especially in those countrieswhere the process of industrialization was initiatedquite late, the role of the Slate in economicdevelopment has been very significant. Thecontribution of State in industrialization has beenimportant even in countries like Japan. Germanyand the USA.

## DIVISION OF THE ECONOMY INTOPUBLIC AND PRIVATE SECTORS

At the lime of the Independence, activities ofthe public sector were restricted to a limited fieldlike irrigation, power, railways, ports,communications and some departmentalundertakings. After Independence, the area ofactivities of the public sector expanded at a veryrapid speed. To assurethe private sector that itsactivities will to be undualy curbed, twoindustrial policy resolutions were issued in 1948and 1956 respectively. These policy resolutionsdivided the industries into different categories.Some fields were left entirely for the public sewsome fields were divided between the public anthe private sector and some others were left totallyto the pri\ate sector. A cursory glance at thedivision of fields of industries were kept for thepublics sectors, the emir. .ield of consumer goodsindustries (having high and corporations, railways,air transport, etc., are in the public sector, theentire agricultural sector (which is the largestsector of the economy) has been left of the privatesector.

The important point that arises at this junctureis — why were the heavy and basic industries likeiron and steel, heavy engineering, heavy electricalplant, etc., selected for development in the publicsector wheel quickly - yielding consumer goodsindustries were left for the private sector ? Theanswer to this questions been attempted by R.K.Hazari according to whom the industrialprogrammers of government that emerged after1995 were built around two hypothesis *:*

(i) private investment in relatively simple goodswould be promoted by shutting out imports aswell as through excess cap;[1] home, witha consequent,boost to prowls and

(ii) public investment, being autonomous ofprofits, would take place in basic areas whichhad long gestation periods,' low or no profits,a large foreign exchange component,technology and equally complex problems ofcoordination.

The logic of the first hypothesis was thatprivate investment was in the nature of 'inducedinvestment' and could be promoted by adopting apolicy of protection against imported substitutes.The logic of the second hypothesis was that'investments in low profit yielding and heavyinvestment requiring industries were in the natureof 'autonomous investment' and could,accordingly,be undertaken only by the State.

## 9.10 PUBLIC SECTOR AND ECONOMICDEVELOPMENT

Public Sector in India has been criticizedvehemently by a number of supports of the privatesector who have chosen to shut their eyes towardsthe achievements of the public sector. Followingdescription should be sufficient to convince onethat sector has played a definite positive role in the economy.

Public sector and capital formation. The roleof public sector in collecting savings and investingthem during the planning era has been important.During the Fist and Second Plans, of the totalinvestment, 54 per cent was in the public sectorand the remaining in the private, sector. The shareof public sector rose to 60 per cent in the Thirdplan. The Fifth, Sixth and Seventh Plansconvisaged respectively 57.6 per cent, 52.9 percentand 47.89 per cent share ofpublicsector inplan investment. As against this, the actual share ofpublic hector in plan investment was 43.3 per centand 45.7 per cent respectively in these plans. The English Plan envisaged 45.2 per cent -share ofpublic sector in plan investment whereas the shareof publicsector in total plan investment to declinefurther to just 33 per cent. This reflects; theincreasing importance that is now being accordedto the private sector. The nationalized banks. StateBank of India, Industrial Development Bank ofIndia, Industrial Finance Corporation of India,State Financial Corporations, LIC, UTI etc. haveplayed an important role in collecting savings andmobilization of resources.

However, savings in the public sector, itselfare not much. In fact, there has been a precipitousfall in the share of public sector in gross domesticsavings during the last two decades and a half ;it was 18,2 per cent in 1980 - 81, 8.1 per cent in1995-96 and 6.5 per cent in 1997-98. During theperiod of Sixth Plan as a whole, public saving was19.6 per cent of total domestic saving and this fellto 11.1 per cent during the period of the SeventhPlan and just 6.6 per cent in English Plan. Duringthe first year of the Ninth Plan, 1997-98 share ofpublic sector in total savings was just 6.6. per cent.. Savings in the public sector were, in fact, negativein the next two years, 1998-99 and 1990-2000.For instance, savings in public sector in 1998-99*were* Rs. 14,345 crore and in 1999-2000, — Rs.23,220 crore. The share ofpublic sector in grossdomestic capital formation (GDCP) which was44.6 per cent during. Sixth Plan fell to 37.7 percent during Eighth Plan. In 1999-2000, it was just30.3 per cent.

Development of infrastructure. The primarycondition of economic development in any includedeveloped country is the infrastructure shoulddevelop at a rapid pace. Without a sufficientexpansion of irrigation, facilities and power andenergy; oenc annol even conceive of agriculturaldevelopment. In the same way without anadequate development of transportation andcommunication facilities, fuel and energy, andbasic and heavy industries, the process from thecolonial period. After independence, the privatesector neither showed any inclination to develop itnor did it have any resources to make thispossible. It was comparatively weak bothfinancially and technically, and was incapable ofestablishing a heavy industry immediately. Thesefactors made the Stale's participation inindustrialization of essential since only thegovernment could enforce a large-scale andmobilization of capital, the coordination, ofindustrial construction, and training of technicians.The government has not only improved the road,rail, air, and sea transport system, it has alsoexpended the 'manifold. The government haspublic sector has enabled the economy to developa strong infrastructure for the future economicgrowth. The private sector also has benefitedimmensely from these investments undertaken bythe public sector.

Strong industrial base. The share of theindustrial sector, (comprising manufacturing,construction, electricity,gas and water supply) inGross Domestic Product at factor cost hasincreased slowly but steadily during the period ofplanning. The share of the industrial sector in GDPat factor cost rose from 13.3 per cent in 1950 – 51to 21.6 per cent in 1980 - 81 and further to 24.6per cent in 1999 - 2000. On the other hand, theshare of agriculture in GDP at factor cost declinedfrom 59.2 per cent in 1950-51 to 41.8 per cent in1980-81 and further to 27.5 percent in 1999 - 2000 (at 1993 - 94 prices). These data amply bringout the increasing importance of the industrialsector in the Indian-economy. Not only this, theindustrial base of the Indian "economy is muchstronger than what is was in 1950 - 51. There hasbeen significant growth in the defence industries and industries of strategic importance. Thegovernment has strenghened the industrial baseconsiderably by placing due-emphasis on thesetting up of industries in the following fields —iron and steel, heavy engineering, coal, heavyelectrical machinery, petroleum and natural gas,chemicals and drugs, fertilizers, etc. Because oftheir lowprofitability potential in the short nm,these industries do not find favour with the privatesector. However, unless, these industries are set up,the consumer goods industries cannot progress at asufficiently rapid pace. Therefore the productionof consumer goods industries. As noted by A.H.Hanson. "Even the view that it is the function ofthe State to provide only basic 'services' leaverooms for a great deal of public enterprises, whichare usually capable of, attracting some privatecapital, depend on the 'services' of the producer -goods industries which are usually capable **of**attraction some private capital, depend on the'services' of the producer - goods Industries, inwhich private capital is at least initially — lessinterested. Hence on can argue, without any'socialistic' overtones, that as—of instance—textileor food - processing industries need the support ofnative equipment not being available from abroad**owing** to foreign exchange difficulties, deliverydelays, etc.) and as no private entrepreneurs showany inclination to pioneer the latter, the State .muststate in and do the pioneering itself."

Economies of Scale. In the case of thoseindustries where for technological reasons, theplants have to be large requiring hug investments,setting up of these industries in the public sectorcan prevent the concentration of economic andindustrial power in private hands, it is a known factthat in the presence of significant economies ofscale, the free market does not produce the bestresults. Accordingly, considerations of economicefficiency, require some from for government orpublic ownership. Even in the U.S.A. firms in theelectric power, natural gas, telephone and someother industries are being regulated by Federal andState regulatory commissions. Countries likeFrance and the United Kingdom have explicitlypreferred public ownership in these fields.

**Removal of regional dispartities.** Thegovernment in India has sought to use its power ofsetting up of industries as means of removingregional disparities in industrial development. In thepre-Independence period, most of industrialprogress of the country was limited in and aroundthe port towns of Mumbai, Calcutta and Chennai.Other parts of the country lagged far behind. Afterthe initiation of the planning process in the country,in 1951, the government has paid particularattention to the problem and has set up industriesin a Timber of areas hirherto neglected by theprivate' sector. Thus major proportion investmentof Rs. 1,14,647 crore by public sector enterprisestill 1990-91, as much as Rs. 40,721 crore (i.e. 35.5.per cent) was accounted for by the four backwardstates of Bihar. Orissa, Madhya Pradesh and UttarPradesh. Their share in public sector employmentwas 43 per cent. All the four major steel plants in the public sector - Bhilai Steel Plant, RourkelaSteel Plant, Durgapur Steel Plant and Bokaro SteelPlant - were set up in the backward States. It wasbelieved that the setting up of large scale publicsector projects in the backward areas would ubiesha propulsive mechines in them and causeeconomic development of the hinterland. Theseconsiderations also guided the location ofmachinery and machine tools factories, aircraft,transport equipment, fertiliser plants etc.

**Import subsitution and export promotion.**The foreign exchange problem often emerges as aserious constraint on the programmes ofindustrialization in a developing economy. Theconstraint appeared in a rather way in India duringthe Second Plan and' the subsequently plans.Because of these considerations, all such industriesthat helpin import substitution are of crucial importance for the economy. Bharat HeavyElectricals Limited, Bharat Electronics Ltd.Hindustan Antibiotics Ltd. Indian Oil Corporation,Oil and Natural Gas Commission etc., in thepublicsector are of special importance from this point ofview. .

Several public sector enterprises have alsoplayed and important role in expanding theexports of the country. Specific reference ofHindustan Steel Limited, Hindustan Machine ToolsLimited, Bharat Electronics Ltd. Stale TradingCorporation and Metals and Minerals TradingCorporation can be made in this context.

Check over concentration of economicspower. In capitalist economy where the publicsector is practically non-existant or is very smallsize, economic poor gets increasingly in a fewhands and inequalities of income and wealthincrease. During the four and half decades ofplanning in this countryit has been said time andagain the expansion of public sector wilt help inputting a brake on the tendency towardsconcentration of wealth and economic power inthe private sector.

Public sector can help in reducing inequalitiesin the economy in a number of ways. For instance(i) profits of the public sector can be used directlyby the government on the programmes of thepoorer sections of community ; (ii) public sectorcan' adopt is discrimination policy by supplyingmaterials to small industrialists at low prices andbig industrialists at high prices ; (iii) public sectorcan give better wages to the lower staff ascompared to the private sector and can alsoimplement programmers of labour welfare,construction of colonies and township forlabourers, slum clearance, etc ; and (iv) publicsector can orient production machinery towardsthe production of mass consumption goods.

## 9.11 PERFORMANCE OF THE PUBLICSECTOR

In it usual to judge the performance of privatesector units by the yardstick of net profit or losssince in their case, maximization of profit is thesole aim. This yardstickfails miserably in the caseof public sector undertakings. Such units arefrequently started in those sectors whereprofitability is low and gestation period long. For instance, investment in infrastructure and basicindustries is not likely to. yield early returns andaccordingly, profits in the "beginning are likely to be very .low and in some instances, may even bynegative. Yet these investments serve importantends since they createthe basis for expansion ofindustrial activities in the future. Investment madeby the public sector in the steel industry fertilizers,power projects, mining etc., come under thiscategory. Then, in some, cases, public sectorprovides inputs in very easy for it to earn hugeprofits by merely hiking the prices of its output,However, this is likely to have an adverse impacton the industrial activity in the private sector onthe one hand, and push up prices on the other. Accordingly, prices are ntentionally keptlow eventhough this cuts into the profits of the public sector seriously. Also, so noted by Hazari and Oza,private sector has invested mostly in consumer andlighter goods which have been granted fargreatedprotection against external competition ascompared to capital goods which are mostlyproduced by the public sector andwhich need stiffcompetition from imports financed by aid andforeign private investment. Another point thatneeds specific mention in that the publicSector isnot merely capital - intensive and characterized bylonger gestation periods ; in steel, which accountsfor the bulk of investments, it is also materialintensive, and to that extant its value addedcomponent is smaller than in items like saychemicals.

Because of considerations such as these, itisoften maintained that the performance of thepublic sector units should not be judged by whatthey earn in the from of profits buy by the totaladditions they made to the flow of goods andservices in the economy. Thus, instead of profits,the yardstick should be the *total value of the salesof an enterprise.* For instance, it an iron and steelplant produces' steelworth Rs. 1,500 crore in acertain specified period but makes no profitbecause its aim is to provide steel low prices to theindustries using steel as an input, it would bewrong to say that its performance is disappointingon this count atone. What is from the point of view of the industrial development of the country is thefact the this plant has added steel worth Rs. 1,500crore to the social pool of goods and servicesobtaining in the country.

## EXPANSION OF THE PUBLIC SECTORAND ITS SHARE IN NATIONALPRDUCTION

Public enterprises in India constitute a majornational capability in terms of their scale **of**operations, coverage of the national economy,technological capabilities, and stock of humancapital. There are over a thousand publicenterprises, about 800 of which are owned by theStates. The rest are in the Central sector. **There**include departmental undertakings (e.g.railways, post and telecommunications), financial institutions (e.g., the State Bank of India, **the**Industrial Development Bank of India, Unit **Trust**of India), and non-departmental enterprises **or**government companies or corporations which areeither incorporated under theCompany law (e.g.,the Steel Authority of India and the IndianPetrochemical Corporation Ltd.) or statutorilycreated by Acts of Parliament (e.g. Coal India, AirIndia, Airlines and the national Thermal Power-Corporations). , Details regarding the expansion **and**performance of public sector enterprises are'presented in Table 1. .

There were only 5 Central public Sectorenterprises at the commencement of the First FiveYear Plan with investment amounting to Rs. 29crore only. The number rose to 163 in 1980 – 81and 235 in 1998 - 99. Capital employed in themcorrespondingly rose to Rs. 18,207 crore in 1980-81 and to a staggering Rs. 2,73,697 crore in 1998-99. Gross sales of central public sector enterprisesrose from Rs, 28,635 crore in 1980-81 to Rs.3.09,994 crore in 1998-99. Of the total investmentin central public sector enterprises in 1998-99,68.6 per cent was in enterprises producing andselling goods while 29.6 per cent was in serviceenterprises. **As** far as the farmer is concerned; thefour and most important sectors were power.(accounting 'for 15.7 per cent of total investment).In the case of service enterprises, the mostimportant' were financial services wilh a share of16.2 per cent in total investment in 1998 - *99.* Asfar as the share in national, productionis.concerned, central public sector enterprises play apivotal role in the production of fuels, basic metalindustries, non - ferrous metal industries, fertilisersand communication equipment.

## THE QUESTIONS OF PROFITABILITY

Though we have pointed the earlier thatprofits are not the creation for examing theperformance of public sector enterprises, theirfinancial performance is of wide interest .andconcern as they are set up to a huge cost to thenational exchequer. As is clear from Table 1, grossprofit of public sector enterprises increased fromRS.I, 418 crore in1980-81 to Rs.39,776 crore in1998-99 while net profit Which was negative in1980-81 turned to an impressive positive figure ofRs, 13.235 crore in 1998-99. The ratio of grossprofit to capital employed which was 7.8 per cent in 1980-81 rose to 14.5 per cent in 1998-91. Overthe same period, the ratio of gross profit toturnover rose from 5.0 per cent to 12.8 per centwhile the ratio of net profit to capital employedwhich was1.1 percentin 1980-81 rose to 5.4 percent in but fell to 4.8 per centin 1998-99.

It is important to note here that performanceof public sector enterprises has improvedconsiderably in recent years. In fact, net profit ofthese enterprises rose significantly from only Rs.2,272 crore in 1990-91 to as high as Rs. 13.235crore in 998-99. What is more, the reliance ofpublic sector enterprises on budgetary resourcesdeclined while their gross internal resourceincreased. Gross internal on budgetary resourcesdeclined with their gross internal resourcegeneration increased. Gross internal resourcegeneration in 1991-92 was Rs. 12,943 crore whichrose by 242 pe cent toRs. 31,301 crore in 1998-99. The contribution of public sector enterprises toexchequer increased markedly from Rs. 19,264crore in 1991-92 toRs. 46,925 crore in 1998-99(an increase of 244 per cent). Despite all this, anddespite the fact that the ratio of net profit to capitalemployed, touched 5.4 per cent in 1997-98, thefact of the matter is that the ratio of net capital toprofit employed to be highly indadequate lookingat the colossal investments that have been made inthe public sector (in a number of years in recentpast their ratio has been in the range 2.0 to 2.5 percent). Bimal Jalan has recently alleged that it isthislow return on investment in the public sectorenterprises that is to a large responsible for thefiscal crisis of the central government.

## EMPLOYMENT AND LABOUR WELFARE

As far as this criterion of the performance isconcerned, the public sector seems to have doneexceedingly well. It has contributed to a significantextend to improving the overall employmentsituation in the country and has acted as a modelemployed, by providing the workers with belterwages an other facilities as compared to theprivaled sector. The number of persons employedin the central public sectorenterprises are about 2million. The industrial sectors which have a sizablenumber of employees in the public sector includecoal, steel, textiles, heavy engineering, andmedium and light engineering. The average orworker in public sector-enterprises is also higherthan in the private sector.

The public sector enterprises have also spenta considerable amount to the development oftownships around them. These townships wereprovided with - facilities like schools, hospitals,shopping complexes, etc. A substantial sumofmoneyis spent annually on the maintenance andadministration of these townships and socialoverheads. For instance, gross expenditure worthRs. 3,323 crore was incurred by public sectorunits in 1998-99 on township maintenance,administration and social overheads'. Theemployees of the public sector enterprises alsoenjoy medical amenities, subsidized canteenfacilities, transport and educational facilitiesetc,

## PUBLIC SECTOR AND FOREIGN EX-CHANGE EARNINGS

'Enterprises in the public sector have helpedthe economy' in earning substantial amount offoreign exchange and also in saving, the foreignexchange and expenditure via their efforts atimport substitution, Capital goods, industrialmachinery, and other equipment which are totallyimported about three decades basic or now beingmostly manufactured in the countryin theeconomy itself. This had saved valuable foreignexchanges. The ONGC and Indian Oil Corporationhave helped the country in reducing thedependence on foreign imports. The HindustanAntibiotics Ltd. and the Indian" Drugs andPharmaceuticals Ltd. have entered the field ofmanufacture of drugs and pharmaceuticals in a bigway. While this has helped in saving foreignexchange on the one hand it has almost enable thecountry to break the strangehold of foreigncompanies in this field. As far as foreign exchangeearnings are connected, the public sector hasservices rendered by the public sectorundertakings, and (iii) through trading andmarketing services of the understanding throughwhich exports are canalized. The public sectorprovided one - forth to one-fifth of the total exportearnings through the eighties.

## THE QUESTIONS OF EFFICIENCY

Though there is no dispute regarding the roleof the public sector undertaking in country'seconomic development, yet the feeling widelyprevalent is that the rate of profit in theseundertakings is either too low' or is negative. Accordingly, they are inefficient.

However, it snot so easy to decide theefficiency of the public sector undertakings. Asnoted by us earlier, the rate of profit might be agood criterion; to judge, the efficiency of a privatesector.

## 9.12 Self Check Questions

1. Define MNCs.
2. Explain the Organisation structure ofWTO.
3. Discuss the role of the public sector in Indian Economy.

## 9.13 Summary

A multinational corporation is a company that operates in its home country, as well as inother countries around the world. It maintains a central office. ... Lasting interestdifferentiates FDI from foreign portfolio investments, where investors passively holdsecurities from a foreign country.The WTO has a crucial role in promoting free, fair andstable trade. This is to the benefit not just of developed countries but the developingeven more so:"... if the poor are to have any hope of better lives their countries must begiven greater opportunities to participate in the global trading system. Of course tradeliberalisation must be planned, phased in, and based on clear rules. Of course it mustbe accompanied by increased trade capacity and domestic pro-poor policies. But theWTO is the only place where global trade development can take place in a way shapedby the developing world. Without the WTO we are left with the economics of the bullyPublic sector occupied a worthy place for achieving systematic and planneddevelopment in a developing country like India. In a country like India suffering frommulti-dimensional problems, private sector is not in a position to make necessary effortfor the development of its various sectors simultaneously.

## 9.14 Glossary

**MNCs:** A multinational corporation (MNC) is usually a large corporation incorporated inone country which produces or sells goods or services in various countries

**Joint Venture:** Joint venture (JV) is a business arrangement in which two **or more**parties agree to pool their resources for the purpose of accomplishing a specific task.

**Public Sector:** The public sector is that portion of an economic system that is controlledby national, state or provincial, and local governments.

**Private Sector:** The private sector is the part of the economy, sometimes referred to **as**the citizen sector, which is owned by private individuals or groups, usually as a meansof enterprise for profit, rather than being owned by the State.

**GATT:** The General Agreement on Tariffs and Trade (GATT) is a legal agreementbetween many countries, whose overall purpose was to promote international trade byreducing or eliminating trade barriers such as tariffs or quotas.

**TRIPs:** The Agreement on Trade-Related Aspects of Intellectual Property Rights(TRIPS) is an international legal agreement between all the member nations of theWorld Trade Organization (WTO).

**Foreign Exchange:** Foreign exchange is the exchange of one currency for another orthe conversion of one currency into another currency.

## 9.15 Answers: Self-check Questions

1. See the section no. 9.1, Lesson 9
2. See the section no. 9.6, Lesson 9
3. See the section no. 9.10, Lesson 9

## 9.16 Terminal Questions

1. What is MNCs? Explain its advantages and disadvantages.
2. Discuss the functions of WTO.
3. Discuss the role of public and private sector in Indian economy.

## 9.17 Suggested Readings

1. Aswathappa, K., (2009). *Essentials of Business Environment.* Global Media.
2. Dave, B., (2009). *Business Environment in Modem Era.* Global Media.
3. Cherunilam, F. (2009). *Business Environment,* Global Media

4. Bedi Suresh (2006). *Business Environment,* Excel Books,
5. Mishra, Puri (2006). *Economic Environment of Business,* Himalaya PublicationsHouse,

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**LESSON 10**

# SUSTAINABLE DEVELOPMENT AND FUTURE CHALLENGES

## Structure



## 10.0 Learning Objectives

After going through this lesson the learners will be able to :

1. Understand the concepts of sustainable development.
2. Discuss the interaction of economy and environment.
3. Explain the Future Challenges of Society and Business in 21st Century.

## 10.1 Introduction

The environment has' been the subject of agreat deal of concern, research, and writing overthe past few decades. However, there is a strongnotion that the study of environmental problemsare the subject matter of a study of science ortechnology and hence have been treated assomething beyond the scope of Economics. It isnevertheless true that any rational decisionconcerning the utilisation of environmentresources, can be made only within a frameworkbased on complementary inputs from scientists,engineers and economists.

One of the strong obstacles in the way ofidentifying the integrated approach to theenvironmental problems is the failure, tounderstand theinter-disciplinary linkages ofEnvironment. This resulted in the identification ofonly the "curative aspects" of the environment(encompassing science and technology) which ledto the neglect to the preventive .aspects. Thevarious social sciences such as Economics,Sociology, Anthropology, etc. offer preventivetools for proper environmental planning andmanagement. Of all the social sciences. Economic offers most of the 'cause-effect' attributes ofenvironmental degradation. The importanceofeconomic in dealing with environmental problemsis highlighted by Prof. Lary Ruff who rightlyobserved:

We are going to make little real progress insolving the problem of pollution until werecognise it for what primarily it is an economicproblem, which must be understood in economicterms.....Engineers, for example, are certain thatpollution will vanish once they find the magicgadget of power source. Politicians keep trying tofind the right kind of bureaucracy, and bureaucratsmaintain an unending search for the correctset ofrules and regulations. Those who, are above such vulgar, pursuits pin their hopes on a moralregeneration or social revolution apparently in thebelief that saints and socialists have no garbage todispose' off. But as important as technology,politics and law and ethics are to the pollutionquestion, all such approaches are found to havedisappointing results, tor they ignore the primaryfact that pollution is an economic problem.

On account of the multi-disciplinary natureand linkages, environmental economics cannot beconfined to a normal definitional framework. Inspite of the fact' that the subject has drawn theattention of Economists for more than a fewdecades, still no proper comprehensive definitionhas been provided. At the most, environmentaleconomics has been defined as that part ofeconomics which deals with the inter-relationshipbetween environment and development. Such adefinition focuses; attention on developmentactivities and its effects on environment.Environment there refers to all aspects that peoplehave in mind when they talk of environmentalcrisis i.e. the subjects of concern are the purity ofair and public waters, plentifulness and vitality ofnatural landscapes, *fauna* and *flora* and theintegrity of other natural features such as beaches.These may be precisely termed as ecosphere—theliving space "shared by all living creatures".

Man has been tempering withthe ecospherefor a very long time and is now forced torecognise the fact that environment consists ofscarce and exhaustible resources. This is where economics enters as the science of allocatingscarce resources among competing ends; Thefundamental economic problem is that the goodsand services which thesociety wishes to consumeare generally scarce. Scarcity exists whenever thedemand for anything exceeds its supply at a zeroprice. The unprecedeted high levels of industrialgrowth achieved in few countries in the twentieth,century have transformed environmental qualityform a generally free good into a scarce oreconomic good. At the beginning of this centurysupply or most of the environmental resources likeclean air,' pure drinking water, etc. exceededdemand at zero prose. But today with increase inthe human (abuse) of the biosphere resources, dueto expanding population and technological developments, the environmental resource havebecome scarce goods in both developing anddeveloped economies — in both capitalist andplanned economies. Thus there has been a reversalinteh supply-demand relationship of environmental quality i.e., demand for environmental quality has registered a sharp-increase while the supply ofclean air, water and other environmental serviceshave declined/While the former may be attributedto affluence, the latter to effluents. An importantbyproductof economic growth and development is rising levels of affluence that has led to a sharpincrease in the 'demand for environmental quality.On the verge of subsistence people seldom worryabout the quality of the environment in which theyare placed. Once man assures himself of food andother necessities along with a good deal ofluxuries, he can turn his attention to other less immediate wants, including enjoyment ofenvironmental quality and the expectation of ahealthier and longer life. Thus environmentalquality is highly incomeelastic and is a luxurygood. This means that households with higherincome are willing to pay more for betterenvironment. On the supply side, economicgrowth and development accompanied bypopulation growth and urbanisation has reduced theavailable supply of clean air, water and otherenvironmental amenities through sheer quality ofeffluents discharged by the high level of industrialproduction. Increased industrial output hasincreased the volume of effluents discharged andthis waste load has reduce the self-cleansing powerof the atmosphere and Water. Thus on account ofreversal of demand and supply relationship,economic growth has transformed environmentquality into a scarce good. All economies —"developed and developing" — planned andcapitalistic — bear evidence to this.

## 10.2 Sustainable Development

Sustainability is a concept on whichsocialand natural scientists, and philosophers haveexpressed their views from time to lime. It meantconservation of resources to Epicures, populationmanagement to Malthus, carrying opacity tobiologists (Hardin 1968), maintaining biodiversityto ecologiesis (Flint 1992), maintaining culturaldiversity but with social harmony to Sachs (1.989)the inevitale stationary state (i.e. level of well- being or living) to John Stuart Mill and so on.

In essence, sustainable development is aprocess of change in when the exploitation ofresources, the direction of investments, theorientation of technological development, and*institutional change'* are all in *harmony* and enhance both current and Future potential to meethuman *needs* and *aspirations* (emphases added).

This concept of sustainable - development'leaves scope, for dynamic adjustments ininstitutional factors (such as the market,community and state), common factors (such asinvestments) and scientific and technologicalfactors, and, above all encompasses both' heedsand aspirations. In the context of formulating apolicy oriented model for a resource rich buteconomically subsistence' level economy such asPalamau district, one can safely settle for thisdefinition and leave the debate for intellectual"pursuit.

The focus in this manner of characterizing sustainable development is on a process whichlinks *exploitation of resources, investment.'technology* and *institutions* with *human needs andaspirations.* Operationalising sustainable development within this framework is theresponsibility of policy makers and administrators. In order to translate policies, expressed asemployment programmes, investments, pricesupports and transfer of technology; intosustainable development indicators, they need tohave information on me current state ofproduction, consumption, employment, price's,distribution of income, and so on. In addition toconceptualise the links of economic variables withsustainable development, it is essential that thisinformation is supplemented with measures of theservices supplied and welfare augmented by non-market assets such as environmental goods andresources. The service-supplying capacity of thesegoods and resources, as well as the utility providedby the level and quality of their stock, should bemonitored carefully. Only then can it beascertained whether the economic performance of a country or a region is becoming more or less sustainable over time.

If growth in the production of primaryproducts, manufactures and services depletesenvironmental goods and resources, this maycounteract some of the welfare gains from that growth in production and related income. It mayeven undermine future growth prospects andhence sustainable development. For a proper-shortand long-term trade-off between economicobjectives and changes in the natural resourcebase, information on economic and environmentalvariables has to be comparable and the interactionsbetween these variables correctly, identified. Thiscan be achieved in a succinct manner throughvarious modeling approaches.

## 10.3 ECONOMY-ENVIRONMENTINTERACTION

Economic activities (production,tansportation, trade, consumption, etc,) at anyspatial level, including the regional an districtlevels, and linked with—and in fact even basedon—a range of environmental, features andprocesses. The environment provides economicactivities with material and energy inputs; it can beregarded as inieralia a stock or set of resources andtheir registration systems, on which the economy**is** based. Further, economic activities areundertaken within the framework of socialprocesses in order to ensure the sustenance andwelfare of human groups, and populations. Variousfeatures of these processes and the institutionalstructure surrounding them have to be taken intoaccount in order to understand the specific patternsand levels of economic activities and their derivedresource claims. While generating certain patternsand levels of sustenance and welfare, economicactivities draw upon natural resources, and lead toflows of pollution and waste back into theenvironment. There they may give rise to chains of(bio.) chemical transformations that aretransported through soil, water and air. Such aprocess leads to environmental degradation ifaccumulation of bio-chemical transformationstakes place beyond the level of naturalassimilation.

Environmental degradation can manifest itselfas (a) rising concentrations of pollutants; (b) resource depletion; and (c) intrusion into ormodification of ecosystems, e.g., by buildingphysical infra-structures into or through them.These manifestations can be interrelated ; pollution'may lead to effects in ecosystem, and changes inboth pollution and the ecosystem may adverselyaffect the regenerative properties of the systems. Environmental degradation is linked with a rangeof features, processes and agentsin the naturalenvironment and society:

1. Source of environmental pressure (increase ineconomic activities such as the production ofautomobiles and hazardous chemicals).
2. Receptors of environmental degradation(ecosystems.), e.g.. wetlands; cultural objects,e.g. ancient, temples; people, e.g. slumdwellers).
3. Intermediate environmental processeslinkingsources to receptors (transportation/dispersion, transformation/decomposition,accumulation etc., in the variousenvironmental subsystems/compartments; e.g.rag-pickers, incinerators waste treatmentplants).
4. Feedbacks, or response by social agents, toenvironmental degradation ('spontaneous' orendogenous responses and/or exogenous policy responses, e.g. awareness camps,minimum national standards, eco-labelling).
5. The social 'determinants' of economicactivities (e.g., population and livestockgrowth, etc.).

## 10.4 FUTURE CHALLENGES OF SOCIETYAND BUSINESS IN 21ST CENTURY

21st Century poses both threates andopportunities to the international community in the'variousfields.The biggest threat before the societyis the environmental crisis. Global warming hasposed a serious threat to the survival of humanrace. Snow milling at North and South pole hasresulted in increasing th& SIG level. Glaciers athigh altitude have alsostarted melting and passingserious flood threats. By 2080, it is expected that,temperature of earth may increase by 4 to 5 degreecentigrade. The greatest living scientist Stephenriowking has rightly pointed out that if humanwill not be difficult protect the survival of humanrace in the next centuries. Therefore, 21st centuryprovides biggest challenges.

The root cause of most of these problems isthe population explosion. Particularly in thirdworld countries, the fastest growth in populationhas been noticed in test 3 quarters of 20$^{th}$centuryand which is still continuing. The excessiveurbanisation has created number of socialproblems. Large number of plants and animalshave disappeared or at the vorge of extinctionfrom thisplanet which has created a serious,ecological crisis. Fresh water is also becoming amore and more scarce commodity.

Another major challenge before the humancivilisation is ever growing terrorism. Almost all,countries of the, world are facing terrorism in oneor the other form Imolrance and heteredness isalso increasing amongst various communitiesthrough out the world. The natural-resources arealso depeleting at very fast place. Crude oil willlost far only next 30 years. Most of other mineralswill also be exhausted within next 100 years.Therefore, more stress should *be* made onconservation and renewable of natural resources.

Apart from these challenges, number ofbusiness opportunities have also multiplied manytimes in the recent years. After singing of WTO,there has been a fast expansuin in the world trade.More and more trading blocks are emerging andlarge number of countries have gone for freetrade agreement the success story of EuropeanUnion has brought very interesting lessons to thehumanity that hostalities of nations can beovercome and world can become a unified singleidentity. If free trade agreements succeed menproblems of poverty, hunger disparities etc, can beovercome within a shortest possible span of time.

In nutshall thisCentury is full of threats andopportunities and if 'the prevailing threats arechannels properly then definitely world can become a better place for living.

## 10.5 Self Check Questions

1. Define the concept of sustainable development.
2. Discuss the environmental challenges of society.

## 10.6 Summary

Everyone wants a better place to live. Some people want better homes and housing,while other people want better schools, more jobs, better shops, or cleaner and saferstreets. Others may want all these things. Whatever the problems in anyneighbourhood, they can usually be grouped into three issues. People need: abetter environment - that means green spaces, play areas, no litter, nice gardens,decent houses, less noise and pollution. The resources used should renew overgenerations. A better economy - that means jobs, reasonable prices, cheaper heat andlight, no loan sharks. Better social conditions - that means good leisure facilities, lots ofcommunity groups offering sports and arts, friendly neighbours. But many people nowrealise that if we are to tackle one issue, then we'll probably have to tackle the others aswell. For instance, new shopsare unlikely to open in an areawhere crime and poverty levels are very high. Similarly crime is unlikely to fall in an areawhere the housing has been improved unless there are jobs available. People maymove into an area where housing and jobs are available, but if the surroundings arerun-down and public transport is poor, they may well not want to stay This is not just alocal issue. The same problems are faced at a national level. If the governments of theworld are to deal with poverty, they do not just need to provide money and food aid,they need to help local people get educated and get jobs. People also need a safeenvironment with adequate homes and drinking water. To make these things work,governments also need to make sure that people have an effective voice in decidingwhat happens where they live.

## 10.7 Glossary

**Sustainable Development:Sustainable** development is a way for people to useresources without the resources running out. It means doing development withoutdamaging or affecting the environment

**Environment:Environment** is a place where different things are such as a swampy orhot **environment.** It can be living (biotic) or non-living (abiotic) things. It includesphysical, chemical and other natural forces

**Society:**A society is a group of individuals involved in persistent social interaction, or alarge social group sharing the same spatial or social territory, typically subject to thesame political authority and dominant cultural expectations.

## 10.8 Answers: Self-check Questions

1. See the section no. 10.2, Lesson 10
2. See the section no. 10.4, Lesson 10

## 10.9 Terminal Questions

1. Discuss the environmental challenges faced by society.
2. Explain the concept of Sustainable development.
3. Discuss the future challenges of society and business in 21$^{st}$ century.

## 10.10 Suggested Readings

1. Cherunilam, F. (2009). *Business Environment,* Global Media
2. Bedi Suresh (2006). *Business Environment,* Excel Books,
3. Mishra, Puri (2006). *Economic Environment of Business,* Himalaya **Publications**House,

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# ASSIGNMENTS

**Attempt 75% Assignments**

1. "Environment is dynamic and multi-faceted". Discuss.
2. Discuss the future challenges of society and business in the 21$^{st}$ century.
3. What is MNCs? Explain its advantages and disadvantages.
4. Describe the major issues of information technology in India.
5. Discuss industrial revolution in detail.
6. Discuss how the RBI regulates the supply of money in the country.

**M.B.A. Examination December 2005**

# BUSINESS ENVIRONMENT

## Paper-104

## Time : Three Hours

## Maximum Marks : 60

***The candidates shall limit their answers precisely within the answer-book (40 pages) issued to them and no supplementary/ continuation sheet will be issued.***

*Note:—* **Attempt Five Questions in all**
**Select onequestion from each unit**
**All questions cary** equalmarks.

### Unit-I

1. Discuss in detail different aspect of business environment. How has the interaction of these aspects been influencing the emerging economic environment of Indian economy ?
2. How do you differentiate the medieval Indian business from the contemporary business? Discuss the **major shifts which have occurred** in the basic structure of corporate sector in India.

### Unit-II

3. State's intervention in the present Indian market is now indirect. What factors have forced government to change its role in respect of thefunctioning of business in India?
4. Write short notes on the following :
   (i) Changes in company laws.
   (ii) Foreign investment.

### Unit-III

*5.* Indian economic policies are witnessing a paradigm shift in its intent and content. Discuss the mainfeatures of the changes since*1990's.*

6. India is experiencing a process of rapid social change accompanied by growing urbanisation andmiddle class. How these changes impacted the business opportunities in India ?.

### Unit-IV

7. Discuss the recommendations of various Commissions, constituted. to examine, the Centre-Stalerelationship.
8. Discuss the main trends representing the contemporary technological environment of India. Whatissues are involved in technology transfer ?

# M.B.A. Examination
# Business Environment
## Paper -104

**Time: Three Hours** **Max.** Marks : 60 (Regular)
100 (ICDEOL)

*The candidates shall limit their answers precisely within the answerbook (40 pages) issuedto them and no supplementary/continuation sheet will be issued.*

**Note:-** AttemptFivequestionsin all,selectingOnequestionsfromeachunit. All questions carry equal marks..

### UNIT-I

**I.** Discuss in **detail** the Open Systems approach. Also explain the plus andminuspoints, if any, of the approach.

**II.** Compare and contrast the important features of the History of Indian Businessduring the medieval and modern era.

### UNIT-II

III What do you understand by Globalisation ? Discuss the positive and negative effectsof globalisation on Indian industry.

IV. Explain the important provisions of Anti-trust law.

### UNIT-III

V. Economic Planning and Policy have lost their importance in this era of liberalization and globalisation.

**VI.** Compare and contrast Westernisation with Sanskritisation. .

### UNIT-IV

**VII.** What are Fundamental Rights and Directive Principles ? How these influencebusiness operations?

**VIII** **IT** revolution has proved to be a **boon** for Indian outsourcing industry. Comment.

### UN1T-V

IX. . "The plus points of Privatisation outweigh the negative points in the context of Indianeconomy." Discuss.

X. "The business of business is business." Discuss.

# M.B.A. Examination
# Business Environment
## Paper-104

**Time: 3 Hours** **Max. Marks : (Regular) 60**
**(ICDEOL) 100**

*The candidates shall limit their answers precisely within theanswer-book (40 pages) issued to them and noSupplementary/continuation sheet will be issued.*

**Note** :- i) Attempt Five questions in **all.**
ii) Choose one question from each unit
ili) AII questions carry equal marks..

### Unit-I

1. Evaluate various components of Business Environment.
2. How today's business environment is different from thatin fifties or sixties?

### Unit-II

3. Discuss the role of Government in Market BusinessEnvironment.
4. Discuss what changes have taken place in various lawsin India.

### Unit-III

5. Evaluate Monetary Policy as on instrument of Growth.
6. Discuss the changing dimensions of Indian Socio-culturalenvironment.

### Unit-IV

7. Discuss how political environment effect Economicenvironment.
8. Mow Indian technological Environment have changed in the last few decades ?

### Unit-V

9. How public sector can be privatized?
10. How we can achieve balance in ecology in this world?

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## CONTENTS