PONDICHERRY UNIVERSITY

(A Central University)

DIRECTORATE OF DISTANCE EDUCATION

BUSINESS ENVIRONMENT

(Common to all MBA Programmes)

Master of Business Administration
First Year - 1 Semester

Paper Code : MBCP 1004

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Business Environment

Objectives

- To acquaint students with the issues of domestic and global environment in which business has to operate
- To understand the opportunity and challenges of global business environment
- To relate the impact of environment on business in an integrated manner, and
- To provide an understand of the role of business in society

Unit – I Business and its environment

Dynamics of Business and Its Environment – Definition, Types of Environments - Corporate Governance and Social Responsibility - Ethics in Business – Business Ethics in India.

Unit – II Economic System

Economic Systems and Management structure – Family Management to Professionalism – Resource base of the economy – Land, Forest, Water, Fisheries, Minerals – Environmental Issues.

Unit – III Infrastructure and current issues in Business Environment

Infrastructure – Economic – Social, Demographic Issues, Political context – Productivity Factors, Human Elements and Issues for Improvement.

Unit – IV Global trends in Business and Management

Global Trends in Business and Management – International Relations Multi-National Companies, Multi-National Companies in India.

Unit – V Foreign Capital and Collaboration

Foreign Capital, Needs for Foreign Capital, Trends in Indian Industry, Foreign Development Investment, FDI and the Indian

References

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UNIT - I

Lesson 1.1- Business and its Environment

Objectives:

After going through this unit, you should be able to:

- Understand the importance of the dynamics of business and its environment;
- Review the impact of technological, political, social and cultural environment on business;
- Have some insights into the concepts of corporate governance & social responsibility;
- Reflect on the need and importance of ensuring ethics in business; and
- Highlight on some of the key issues relating to the economic systems and management structure of business.

Definition Of Business

The term business is understood and explained in different ways by different people. For some, business is an activity, for some it is a method of transacting, for some others, it is a method of money making and some people argue that business is an organized activity to achieve certain pre-determined goals or objectives. Dictionary meaning of business is: the act of buying and selling of goods and services, commerce and trade. Based on all these meanings of business, we may define business as: gainful activity through which various elements of society conduct exchanges of the desirable things.

Nature of Business

Business may be understood as the organized efforts of enterprise to supply consumers with goods and services for a profit. Businesses vary in size, as measured by the number of employees or by sales volume. But, all businesses share the same purpose to earn profits.

The purpose of business goes beyond earning profit. There are:

- It is an important institution in society.
- Be it for the supply of goods and services
- Creation of job opportunities
- Offer of better quality of life
- Contributing to the economic growth of the country.

Hence, it is understood that the role of business is crucial. Society cannot do without business. It needs no emphasis that business needs society as much.

Business Goals

Profit - Making profit is the primary goal of any business enterprise.

Growth - Business should grow in all directions over a period of time.

Power - Business houses have vast resources at its command. These resources confer enormous economic and political power.

Employee satisfaction and development - Business is people. Caring for employee satisfaction and providing for their development has been one of the objectives of enlightened business enterprises.

Quality products and services - Persistent quality of products earns brand loyalty, a vital ingredient of success.

Market leadership - To earn a niche for oneself in the market, innovation is the key factor.

Challenging - Business offers vast scope and poses formidable challenges.

Joy of creation - It is through business strategies new ideas and innovations are given a shape and are converted into useful products and services.

Service to society - Business is a part of society and has several obligations towards it.

Definition of Business Environment

"The total of all things external to firms and industries which affect their organization and operation"—**Bayard O. Wheeler**

According to **Arthur M. Weimer**, business environment encompasses the 'climate' or set of conditions, economic, social, political or institutional in which business operations are conducted.

Types of Environment

The business environment poses threats to a firm or offers immense opportunities for potential market exploitation. The business is determined by two factors namely:

1. Micro environment or internal factor or endogenous factor.
2. Macro environment or external factor or exogenous factor.

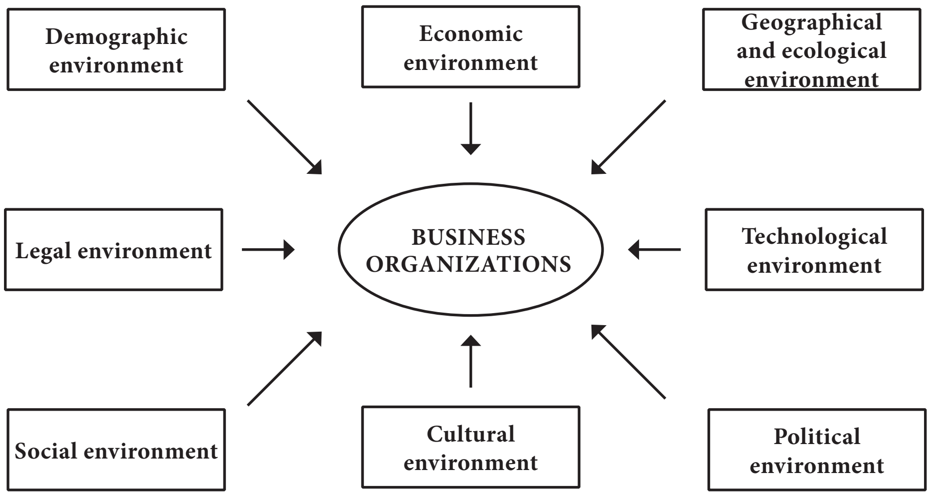
Micro Environment

Micro environment relates to internal matters of business such as:

- Structure of business
- Size of the business
- Policy relating to business
- Product produced

Macro Environment or Business Environment or External Environment

- Demographic environment
- Economic environment
- Geographical and ecological environment
- Legal environment
- Technological environment
- Social environment
- Cultural environment
- Political environment



Demographic Environment

This refers to the size and behaviour of the population in a country. Suppose a country has a huge size of population, then, the country would provide extensive business or marketing opportunities for all types of business organizations. On the other hand, a country with low size of population would force the business organizations to seek external market for their products or services. Similarly, if the population in a country is well - tuned to 'use and throw concept' [like most of the western countries] then there would be limited scope for repair shops. The employment scope in that segment would be almost nothing. But alternatively, this would give wide marketing opportunities for manufacturing organizations. On the other hand, if the population is averse to 'use and throw' concept, then the business opportunities would be limited for manufacturing organizations. But the repair shops, self-employed technical persons and spares manufacturers, would have roaring business. Hence, the size and quality of population emerge as vital factors in a business environment.

Economic Environment

There is close relationship between business and its economic environment. Business obtains all its needed inputs from the economic environment and it absorbs the output of business units.

1. Fiscal policy
2. Monetary policy.
3. Foreign policy.

Geographical and Ecological Environment

Geographical environment refers to climatic conditions and natural resources, which determines the manufacturing scope and the nature of the products that could be marketed. For example, a country like Kenya has to manufacture more of products based on forest resources, while the gulf countries can produce only crude, japan can have business on fish, fruits, etc., Countries in the tropical region would produce products from largely available geographical resources in that region, organizations in Mediterranean countries have a different business scope, Scandinavian countries have scope in dairy products and so on. On the other hand, steps towards balanced eco- system are taking place at an alarming rate in the world today. Deforestation and hunting of rare species of animals for food have been prohibited. Hence, while identifying the business opportunities, business organizations have to be conscious of the limitations posed by the geographical and ecological considerations.

Legal Environment

It is well known that every country has a number of legal regulations to ensure that the interests of business organizations do not run counter to national interests. Right from the stage of incorporation of organizations, their listing in stock exchange, redress of customer complaints, payment of tax to government, manufacturing practices, human resources development to pricing of products and services, a number of legal regulations have to be fulfilled. For example, in usa and several western countries, consumer protection is very active, that even a medical practitioner is subjected to huge liabilities in times of deficiency in services. In India and other countries, very rigorous legal provisions are in place to prevent hunting of rare species. Hence, any organization, which manufactures products based on such species, have to get legal sanctions. In case of failure to honour cheques issued, organizations are now a days made to pay hefty compensations. Hence, the deterrence in terms of legal provisions has become the order of the day. All organizations have to first of all address these provisions become coming in to steam.

Technological Environment

Technology is understood as the systematic application of scientific or other organized knowledge to practical tasks. Technology changes fast and to keep pace with it, businessmen should be ever alert to adopt changed technology in their businesses.

Political Environment

It refers to the influence exerted by the three political institutions viz., Legislature, executive and the judiciary in shaping, directing, developing and controlling business activities. A stable and dynamic political environment is indispensable for business growth.

Natural Environment

Business, an economic pursuit of man, continues to be dictated by nature. To what extend business depends on nature and what is the relationship between the two constitute an interesting study.

Social and Cultural Environment

It refers to people's attitude to work and wealth; role of family, marriage, religion and education; ethical issues and social responsiveness of business. According to Geert Hofstede, culture is "the collective programming of the mind that distinguishes the members of one category of people from those of another".

Notes

Business Environmental Factors

Sl.No.	Factors	Components
1.	Political	Political System, Political Institutions, Political Environment, Political Ideologies of Parties, Political Stability, Political Culture Etc.
2.	Government	System Of Government Distribution of Environment, Power Between National and Local Government, Culture of Civil Servants, Government Policy on Businesses, etc.
3.	Legal	Business Related Laws Governing Environment Competition, Consumer Protection,Contractual Obligations, Regulation of Foreign Participation, Respect for Judiciary Efficiency Of The Same, etc.
4.	Economic	Size Of the Economy Composition of The Environment, Economy, Economic Health, Economic Policies – Fiscal Monetary And Entrepreneurial Foreign Capital, etc.
5.	Technological	Technological Orientations, Research Environment Development, Technology Import and Absorption, Technological Obsolescence, Etc.
6.	Ecological	Natural Resources and Reserves Need for Environment, Protection of Fragile Zones,Pollution Control Etc.
7.	Geographical	The Geo-Peculiarities of a Region Like Environment, The Terrain Vegetation Cover Location Attitude, Rainfall, Climate Etc.
8.	Cultural	Cultural Life of People Rites, Rituals, Environmental Festivals, Heritage Invasion Of Alien Culture Business, Culture Roles, etc.
9.	Social	Social Practices, Social Classification Environment Like Caste Religion and Community, Social Institutions Like Family, Marriage, etc.
10.	Demographic	Size of Population Composition ofEnvironment, Population, Family Size and Cycle Language Educational Attainments, Entrepreneurial Talents, etc.

Lesson 1.2- Corporate Governance, Social Responsibility and Business Ethics

Corporate Governance

Corporate failures and widespread dissatisfaction with the way many corporate functions have led to the global realization of the need of a proper system for corporate governance.Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources.

The aim is to align as nearly as possible the interest of individuals, corporations, and society. The incentive to corporations and to those who own and manage them to adopt internationally accepted governance standards is that these standards will help them to achieve their corporate aims and to attract investment.

Corporate governance broadly refers to the rules, process or laws by which business are operated, regulated and controlled. The term can be referred to internal factors defined by the management, stockholders or the constitution of a corporation, as well as to external forces such as consumer groups, clients, society, environment and government regulations. This definition implies that corporate governance should provide a structure that works for the benefit of everyone concerned by ensuring that the enterprise adheres to accepted ethical standards and best practices, as well as to formal laws and regulations. An important theme of modern corporate governance is to ensure the accountability of certain key individuals in the organisation through as mechanism of 'code of practice' and by-laws. Simultaneously, today's corporate governance places a strong emphasis on both economic efficiency y and safeguarding thew welfare of shareholders.

The process of corporate governance has evolved with the beginning of corporation of business since the 19th century. Initially, corporate laws and rules for business administration in a state or country formed the basis of corporate governance, which was not necessarily transparent or unanimous. Gradually with, the rise of large trading houses and corporations, especially in the US, and with increasing flow of public money to various corporate entities, rights of individual owners and shareholders became an increasing important issue in corporate governance.

Definitions of Corporate Governance

Many attempts have been taken to define corporate governance, many of them more penetrating than the, over-simple distinction between governance and management drawn: *'management runs the business; the board ensures that it is being well run and in the right direction.'*

Both the Cadbury Report (1992) and a subsequent report from the Organisation for economic Co-operation and development OECD (1999) defined: *'corporate governance is the process by which companies are directed and controlled'*. By 2001 the, the OECD had broadened their definition:

corporate governance refers to the private and public institutions, including laws, regulations and public institutions, which together govern the relationship, in a market economy, between corporate managers and entrepreneurs, on the one hand, and those who invest resources in the corporation other.

In 2001 two influential American practitioners Bob Monks and Nel Minow defined: *'corporate governance is the relationship among various participants in determining the direction and performance of corporations. The primary participants are the shareholders and, the management and the board of directors.*

Relevance

At least three reasons have trigger off concern in corporate governance in our country.

- Since 1991, the country has moved into liberalized economy and one of the victims of the market-based economy is transparent fair business practice. Several instances of mismanagement have been alleged, with some well-known and senior executive being hauled up for non-performance and /or non-compliance with legal requirements.
- Both domestic as well as foreign investors are becoming more demanding in their approach towards the companies in which

they have invested their funds. They seek information and want to influence decisions.

- Interests of non-promoter shareholder and those of small investors are increasingly being undermined. Several MNCs have sought to set up 100 percent subsidiaries and transfer their businesses to them. In many cases, there was no thought of consultation with non-promoter shareholders.
- In this context, some norms of behavior to ensure responsive behavior are of great help. Hence, corporate governance is relevant.

Focus

Corporate governance is concerned with the values, vision and visibility. It is about the value orientation of the organization, ethical norms for its performance, the direction of development and social accomplishment of the organization and the visibility of its performance and practices.

Corporate management is concerned with the efficiency of the resources used, value addition and wealth creation within the broad parameters of the corporate philosophy established by corporate governance.

Importance

- Studies of firms in India and abroad have shown that markets and investors take notice of well-managed companies, respond positively to them, and reward such companies, with higher valuations. In other words, they have a system of good corporate governance.
- Strong corporate governance is indispensable to resilient and vibrant capital markets and is an important instrument of investor protection.
- Corporate governance prevents insider trading.
- Under corporate governance, corporates are expected to disseminate the material price sensitive information in a timely and proper manner and also ensures that till such information is made public, insiders abstain from transacting in the securities of the company.
  - The principle should be 'disclose or desist'. Good corporate governance, besides protecting the interests of shareholders

and all other stakeholders, contributes to the efficiency of a business enterprise, to the creation of wealth and to the country's economy.

- Good corporate governance is considered vital from medium and long- term perspectives to enable firms to compete internationally in a sustained way and make them, not only to improve standard of living materially but also to enhance social cohesion.

Pre-Requisites

A system of good corporate governance requires the following:

- A proper system consisting of clearly defined and adequate structure of roles, authority and responsibility.
- Vision, principles and norms, which indicate development path, normative considerations, and guidelines and norms for performance.
- A proper system for guiding, monitoring, reporting and control.
- The two issues - an organization's social responsibility and responsiveness- ultimately depend on the ethical standards of managers.

Code and Standard of Corporate Governance

In the changing global business scenario, it has become necessary to bring in effective governance practices in the corporate sector through codes and standards. Today, good corporate governance is being considered imperative for long-terms success or even for the survival of of a business in a fiercely competitive market. Accordingly, several codes, guidelines and principles -covering varied aspects of corporate governance-have been drafted and implemented. The aim of these codes and guidelines is to:

- Bring transparency and accountability in the functions and decisions
- Seek to establish accountability standards board and management
- Protect investors' interest
- Care for other stakeholders
- Promote investor confidence in the business system

Since the codes tend to curb some flexibility of the process of governance, questions may be raised about their need to necessity. However, the international business community, in general, is not averse to such codes of practice, especially in the wake of the corporate scandal of recent times

(e.g., Enron, WorldCom and Satyam among many others). As a result, different committees, associations or trade bodies have de3veloped several codes or standards over the years. Corporate governance principles and codes also have been developed in different countries and issued either from stock exchange or corporation or by associations. For example, to bring in better corporate governance in listed companies, capital market regulator in India, the Security and Exchange Board of India (SEBI) mandated the guidelines for Board composition of listed companies.

Best practices in Corporate Governance

The aim of the corporate governance best practice is not only to comply with codes and regulations, it is also to create opportunities to determine the right business objectives, to ensure transparent administration of the 'means and ends', to raise the bar for corporate standards, to check misuse of power by the powerful in the company or business, and to ensure that all stakeholders are fairly and ethically treated and their interests are served.

Best practices in corporate governance should be mission-driven; a company's mission should be:

- To foster a culture to promote good and ethical governance, and to facilitate effective participation of different stakeholders in the company's policy and programmes.
- To create a framework of best practices, process and ethical work culture.
- To respect the professional code and ethics in propagating the interest of the business.
- To make a significant difference to corporate society by raising the standards of corporate governance for achieving growth, stability and strength.
- To contribute to environmental protection and social well-being.
- To promote ultimate self-regulation and self-discipline as a means of governance.

Social Responsibility

Social responsibility is the obligation of decision-makers to take actions, which protects and improves the welfare of society as a whole along with their own interests. Every decision the businessman takes and every action he contemplates have social implications.

Definition of Social Responsibility

Definitions of Corporate Social Responsibility

As defined by the World Business Council for Sustainability Development: 'Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of the life of the workforce and their families as well as of the local community and society at the large'.

Keith Davis defined 'Social responsibility refers to the business decisions and actions taken to reasons at least partially beyond firm's direct economic or technical interests,

Corporate Social Responsibility (CSR) can be defined in many ways and from various perspectives –

1. The responsibility to profitability serves the employees, society and customers in an ethical and lawful manners.
2. An organization's obligation to maximise its positive impact and minimise its negative impact on the society.
3. The concern for the consequences of a person's institution's acts as they might affect the interest of others, including the environment and involuntary customers.
4. The concept that business should be actively concerned with the welfare of society at large.
5. A business's collective code of ethical behaviour towards the environment, its customers, its employees and its investors.
6. Ethical obligations to customers , employees and the general community.

Arguments For Social Responsibility

- Business has to respond to the needs and expectations of society.

- Improvement of the social environment benefits both society and business.
- Social responsibility discourages additional governmental regulation and intervention.
- Business has a great deal of power, which should be accompanied by an equal amount of responsibility.
- Internal activities of the enterprise have an impact on the external environment.
- The concept of social responsibility protects interests of stockholders.
- Social responsibility creates a favourable public image.
- Business has the resources to solve some of social problems.
- It is better to prevent social problems through business involvement than to cure them.

Arguments Against Social Responsibility

- Social responsibilities could reduce economic efficiency.
- Social responsibility would create excessive costs for business.
- Weaken international balance of payments
- Business has enough power, and social involvement would further increase its power and influence.
- Business people lack the social skills necessary to deal with the problems of society.
- Business is not really accountable to society.

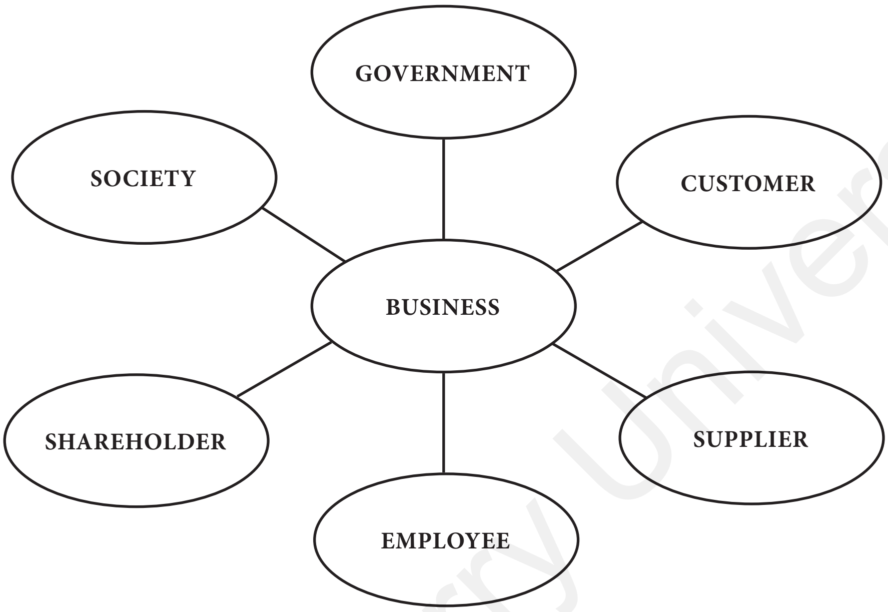
Social Stakeholders

Managers, who are concerned about corporate social responsibility, need to identify various interest groups which may affect the functioning of a business organization and may be affected by its functioning. Business enterprises are primarily responsible to six major groups:

- Shareholders
- Employees
- Customers
- Creditors, suppliers and others
- Society and
- Government.

These groups are called interest groups or social stakeholders. They can be affected for better or worse by the business activities of corporations.

Social Responsibility



Social Responsibility Towards Stakeholders

Customer:

- Avoid misleading advertisement.
- Avoid misleading name of the product.
- Avoid authorized dealer name for misleading customer.
- Avoid wrong information.
- Avoid exploiting customers.
- Avoid collusive agreements with other firms to exploit customer.

Employees:

- Fair wage, bonus & incentives to employees.
- Cordial relation towards employees.
- Providing better working condition.
- Creating opportunities for creative and talent employees
- Proper training.

- Proper and transparent performance, appraisal and promotion

Shareholders:

- Assuring security to their fund
- Proper payment of return on investment (ROI)
- Providing correct information about the company.

Government:

- The business activities should be law abiding.
- Prompt payment of tax & other duties.
- Abiding by pollution controls.

Creditors & Suppliers:

- Maintenance of cordial relationship.
- Timely payment & obligation.
- Providing true & correct picture of financial position

Society:

- Preventing monopoly.
- Disposal of waste & effluents.
- Creating employment opportunities.
- Balanced regional rural development.

CSR in India

The Business scenario in Indian presents different types of CSR. There are companies who are actively involved in CSR activities whereas, there are companies who never bothered for such kind of activities. However, recently in the Companies Acct, 2013 there is a provision requiring certain companies to set up corporate Social Responsibility (CSR) committee to formulate policies for the social and economic welfare of the neglected or deprived class of the society, introduced and thereby mandated CSR spending. In this regard the Sachar Committee also has suggested that companies in the public sector, which are a part of the corporate sector and account for a major part of the total investments and turnover, must reckon with the social cost arising out of the investment and profits.

Recently in the last five years, the trend has changed dramatically. There are more and more companies scrambling to contribute to the society through substantial CSR measures. Th Annual report of most joint stock companies is posting considerable and commendable contributions that the companies have made towards helping the society through various initiatives. Top ranked companies like Reliance Industries, TATA, ITC, L&T, Dr. Reddy's etc., have made significant contribution in the field. Not only private sectors, but also public sector giants like BPCL, ONGC etc. are contributing in a big way towards the upliftment of the society. The business communities have been instrumental in setting up hundreds of hospitals, eye clinics, dispensaries, libraries, parks, institute for deaf, dumb and blind etc. Most of the enterprises extend their helping hand and provide welfare measure to the victim of floods, earthquake, draughts and other natural calamities. Some companies care for their immediate neighbourhood and provide counselling, family planning advice, vaccination camps, free literacy programme for adults and children, drinking water facilities etc. Sometimes companies join their hands with central and state government in joint venture perform CSR activities. In this context Non-government Organisations (NGO) also plays very important roles. They emerge in a big way to support welfare activities on their own and on behalf of corporations

Business Ethics

The term ethics commonly refers to the rules or principles that define right and wrong conduct. Business ethics is concerned with truth and justice and has a variety of aspects such as expectations of society, fair competition, advertising, public relations, social responsibilities, consumer autonomy, and corporate behaviour in the home country as well as abroad.

Ethics is a system of moral principles and attitudes that guide to action morally correct, fair and just. Ethics is not simply professing about virtue or good behaviour, either are the expressions and exhibition of standards of moral conduct governing the members of a profession, business or society so that the interests of people involved in these organisations or associations are protected. This subject relates to the morality of our actions or specific moral choices that we make with regard to others in society or in business. Ethics are the core of our behaviour and response to an event or situation, which makes us feel good or bad, satisfied or dissatisfied, happy and unhappy. While doing these, one has to be concerned not only with the action but also with the output of the action. Therefore, ethics and ethical issues are concerned with the morality and fairness of our decision and its consequences.

Definition of Ethics

Ethics is defined as the "discipline dealing with what is good and bad and with moral duty and obligation".

Types of Ethics Can Be Classified as

1. Individual or Personal Ethics
2. Professional Ethics
3. Business Ethics or Corporate Ethics

Need for Business Ethics

- Ethics corresponds to basic human needs. It is human trait that man desires to be ethical, not only in his private life but also in his business. These basic ethical needs compel the organizations to be ethic-oriented.
- Values create credibility with public. A company perceived by the public to be ethically and socially responsive will be honoured and respected. The management has credibility with its employees precisely because it has credibility with the public.
- An ethical attitude helps the management make better decisions, because ethics will force a management to take various aspects – economic, social, and ethical in making decisions.
- Value driven companies are sure to be successful in the long run, though they lose money in the short run.
- Ethics is important because the government, law and lawyers cannot do everything to protect society.

Ethical Guidelines

In business, many of ethical guidelines arise from the following value consideration:

- Is there any unfair gain to the person doing it? An example is a conflict of interest in which manager gains through a purchase contract that he makes with a firm in which he has a secret interest.

- Is there unfair harm to others? Example: a private disclosure of unfavourable financial information to a shareholder of the firm.
- How substantial is the unfair gain or harm to others? Example, water pollution in the community and taking part in the civic programme of chlorinating the drinking water.
- Was the act a personal one or a representative behaviour according to the established practice? Example dismissing an employee on personal dislike is more serious than dismissing him on grounds of poor performance.

Approach of Business Ethics

Moral Management

Moral management strives to follow ethical principles and precepts, moral managers strive for success, but never violate the parameters of ethical standards. They seek to succeed only within the ideas of fairness and justice.

Moral managers follow the law not only in letter but also in spirit. The moral management approach is likely to be in the best interests of the organization's long run.

Amoral Management

This Approach Is Neither Immoral nor Moral. It Ignores Ethical Considerations. Amoral Management Is Broadly Categorized into two types – Intentional and unintentional.

- Intentional amoral managers exclude ethical issues because they think that general ethical standards are not appropriate to business.
  - Unintentional amoral managers do not include ethical concerns because they are inattentive or insensitive to the moral implications.

Immoral Management

Immoral management is synonymous with "unethical" practices in business. This kind of management not only ignores concerns, it is actively opposed to ethical behaviour.

Codes of Conduct

A formal document, that states an organization's primary values and the ethical rules, expects employees to follow it. The code is helpful in maintaining ethical behaviour among employees.

Clarence C. Walton has given models of business conduct. They are as follows

1. **Austre Model:** This business gives exclusive emphasis on ownership interest and profit objective. This type of business will always cost-conscious in every activity. This firm will be conservative in outlook.

2. **The Household Model:** The business gives extension of the benefits to the employees with condescension of paternalism. This type of business is analogous to a family or household consisting of shareholders, management and employees whose benefits will be looked after.

3. **The Vendor Model:** In this type of business, consumer interest, tastes and right would be given first preference and consumer satisfaction would be dominating the organization.

4. **The Investment Model:** This model focuses on the organization as an entity and thus on long term profits and survival. It gives recognition to social investments along with economic investments.

5. **The Civic Model:** This accepts social responsibility and makes a positive commitment to social needs. Its slogan is corporate responsibility.

6. **The Artistic Model:** This model encourages the organization to become a creative instrument serving the cause of an advanced civilization with a better quality of life. It undertakes creative ideas in its actions not originally contemplated by others.

The Role of Ethics in Business

The aim of the business ethics is to create a deeper understanding of what is good and bad, moral or immoral, in the business operation in respect of customers, employees, investors, society and all the stake holders in order to protect their interests. Business ethics are concerned with the morality of actions in business operations and deal with:

- Rightful expectations of consumers, employees, society and other stakeholders
- Fairness in competition and advertising of goods and services

- Social responsibility and care
- Overall corporate behaviour in governance

The ultimate aim of business ethics is to protect people, employee, society and stakeholders from damages while operating business with them.

Business Ethics in India

The people are more concerned about the open unethical practices of the business to exploit the consumer, the employees and the government. In Indie the open corrupt practices are considered as unethical practices. These unethical practices are looming large in India.

Mr. K. Santhanam who was the chairman of the prevention of corruption committee estimated that 25% of our plan expenditure had been lost because of corrupt practices and inefficiency. Now the percentage would be still larger.

Business Unethical Practices:

Towards Customers:

1. Adulteration.
2. Duplicates.
3. Spurious products.
4. Injurious products.
5. Deceptive advertisement.
6. Deceptive packing and containers.

Towards Employees:

1. Low salaries.
2. Giving low wages after getting discharge of higher amounts.
3. Employing children.
4. Poor working condition.

Towards Government and Customers:

1. Tax evasion.
2. Bribery and corruption to get licenses and quotes.

3. Over invoicing and under invoicing.
4. Pollution.
5. Payment of money to the party in power and indulging in price-hikes and other unethical activities.

Tools For Ethical Management

- **Top Management Commitment:** Managers can prove their commitment and dedication for work and by acting as role models through their own behaviours.
- **Ethics Committees:** Appointment of an ethics committee, consisting of internal and external directors is essential for institutionalizing ethical behaviour.
- **Ethics Audits:** Systematic assessment of conformance to organizational ethical policies, understanding of those policies, and identification of serious deviations requiring remedial action.
- **Ethics Training:** Ethical training enables managers to integrate employee behavior in ethical arena with major organizational goals.
- **Ethics Hotline:** A Special telephone line that enables employees to bypass the normal chain of command in reporting their experiences, expectations and problem. The line is usually handled by an executive appointed to help resolve the issues that are reported.

Self-Assessment Questions:

1. What is business? How does business of today differ from that of earlier?
2. What are business objectives?
3. Explain business environment.
4. Firms which systematically analyse and diagnose the environment are more effective than those which don't". Elucidate.
5. Sketch organizational arrangement for environment analysis. Give its limitations.
6. Define corporate governance. Why is it assuming greater relevance now a day?
7. Explain the factors influencing corporate governance.
8. Why is social responsibility important for business?
9. List out the arguments for and against social responsibility.

10. What are the practical problems that confront social action programmes? How do you overcome them?
11. What do you understand by ethics? Why is ethics important for business?
12. State and explain the sources of business ethics.
13. How is ethics managed in a business unit?
14. State the difficulties involved in ethical decision-making. Bring out the guidelines, which help in ethical decision-making.

Key Words

- **Micro environment**: the microenvironment refers to the forces that are close to the company and affect its ability to serve its customers. It includes the company itself, its suppliers, marketing intermediaries, customer markets, competitors, and publics.
- **Macro environment:** the macro environment refers to all forces that are part of the larger society and affect the microenvironment. It includes concepts such as demography, economy, natural forces, technology, politics, and culture.
- **Business ethics:** it is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations.

Further Readings

1. David Needle., **Business in Context: An Introduction to Business and Its Environment (Revised Edition)**, Thomas Rennie, 2004.
2. David P. Baron, **Business and Its Environment,** Pearson Education, 206.
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Case Study 1: Competitive Environment

Tesco's founder, Jack Cohen, started the business as a market leader in the East End of London in 1919 and opened his first Tesco shop in 1929. From these humble beginnings Tesco has now become the UK market leader with a market share in the UK grocery market of 30.4 per cent in March 2009. Tesco was also the third largest t=retailer in the world measured by annual sales in 2008, though at $95 billion it was still considerably smaller than the world's largest retailer, Walmart Stores, with sales of $379 billion. Walmart is also the owner of Tesco's nearest UK rival, Asda, which had a market share of 17.5 per cent, closely followed by Sainsbury at 16.1 per cent and Morison at 11.8 percent. Although well ahead of its competitors in terms of UK market share and profitability, Tesco's three main rivals became more equally balanced after Morrison's takeover of Safeway in 2003. The UK market also contains a number of smaller supermarket chains, including continental European discounters such as Aldi, Netto and Lidl. Opportunities for further expansion in the UK market are now limited to some extent by competition policy rules and planning restrictions.

Tesco has pursued a strategy of rapid growth in the UK for a number of years, with considerable success. Its recent growth strategy has included organic growth through the opening of new stores, a move into smaller convenience stores, increasing emphasis on non-food sales such as clothing and electrical goods, the development of personal finance and tele communication services and the launch of its internet business. From its origin as a discounter, Tesco has moved up market in terms of its product and service quality, though it retains a wide customer base through its low-price policy.

Like many UK retailers Tesco was relatively slow to go international. Despite the company's long history, it was only in the 1990s that Tesco started to venture abroad, initially TI Ireland and Continental Europe, then to Asia and more recently to the United States. One of the company's early international ventures was its acquisition of the northern French chain, Catteau, but Tesco soon pulled out of France after facing stiff competition in the mature French market. Its main European operations outside the UK are now in Ireland and four of the Central European countries, the Czech Republic, Poland, Hungary, and Slovakia. Tesco also has stores in China, Japan, Malaysia, South Korea, Thailand, and Turkey. Its international expansion has often involved the acquisition of an existing retail chain, followed by the opening of new stores. The company's expansion to the United States has been more cautious. The experience of other UK retailers, such as Marks and Spencer and Dixons, may have discouraged Tesco from early US market entry. Despite the familiar language and culture, the US market is highly competitive and US customers are very demanding. Tesco extended its internet business to United States in 2001 and opened its first 'Fresh and Easy' convenience stores there in 2007. Although it is now clearly a multinational business, over 70 per cent of the company's sales still came from its UK operation in 2008.

Tesco's business has grown during a period of unrepresented change in the retail sector. From a one-man market stall to a small chain of conventional stores during the first half of the twelfth century, Tesco adopted the self-service and supermarket formats during the 1960s and 1970s, followed by a succession or takeovers and new stores as the food market became dominated by the large supermarket chains in the 1980s and 1990s. By 1995 , Tesco had become the UK retail grocery market leader. The company's international expansion was clearly a response to international development such as the end of communism in Central and Eastern Europe, the world's more mature markets in Western Europe and North America have proved difficult to penetrate and and time will tell whether the company's US venture will turn out to be successful. Whilst there has been some concern over the company's dominant position in the UK and some of the other markets, Tesco is nevertheless regarded as one of the UK's most successful companies. Strong financial performance and opportunities for further diversification of product offering and international expansion suggests that the company's growth trajectory is likely continue.

Answer the following questions:

a. How would you describe Tesco's competitive environment in the UK market?

b. How is this environment likely to differ in the markets for food, clothing, electronic goods and financial services respectively?

c. Why do you think UK retailers were generally slow to venture abroad until the 1990s?

d. How would you describe Tesco's competitive environment in its international markets?

UNIT II

Lesson 2.1- Economic Systems

Objectives:

After going through this unit, you should be able to:

- Understand the meaning of economy and its importance in business system in India
- Review the impact of economic transition in business system;
- Have some insights into the concepts of privatization and globalization
- Reflect on the need and importance of ensuring ethics in business; and
- Highlight on some of the key issues relating to the economic systems and management structure of business.

Meaning

Economic system is a social organism through which people make their living. It is constituted of all those individuals, households, farms, firms, factories, banks and governments, which act and interact to produce and consume goods and services. Individuals and households put their resources (land, labour, capital and skill) to one or more of their alternative uses and make their living; firms buy factors of production and organize them in the process of production, produce goods and services, and sell them to their users to make projects.

Consumers are able to get the goods and services of their requirement; producers are able to produce and sell various kinds of products in appropriate quantities and so on. The system is operated by, what Adam Smith Called "Invisible Hands", the market forces of demand and supply.

A modern economic system is enormously complex. Millions of people participate and contribute to its working in different capacities – as producers, traders, workers, consumers and financers and so on.

Thousands of people are involved in production and distribution of single commodity. A community, before it reaches its final consumer, passes through a complex process of production and through a number of intermediary hands.

Kinds of Economic Systems

Free Enterprise Economy

This economic system works on the principle of laissez faire system, i.e., The least interference by the government or any external force. The primary role of the government, if any, is to ensure free working of the economy by removing obstacles to free competition.

A free enterprise economy is characterized as follows:

- Means of production are privately owned by the people who acquire and possess them
- Private gains are the main motivating and guiding force for carrying out economic activities
- Both consumers and firms enjoy the freedom of choice; consumers have the freedom to consume what they want to and firms have the choice to produce what they want to
- The factory owners enjoy the freedom of occupational choice, i.e., They are free to use their resources in any legal business or occupation;
- There exists a high degree of competition in both commodity and factor markets and
- There is least interference by the government in the economic activities of the people; the government is in fact supposed to limit its traditional functions viz., to defence, police, justice, some financial organizations and public utility services.

Government-Controlled Economy

The government-controlled economies are also called as 'command, centrally planned or socialist economies. Such economies are, in contradiction to the free enterprise economies, controlled, regulated and managed by the government agencies.

The other features of a pure socialist economy are:

- Means of production are owned by the society or by the state in the name of the community – private ownership of factors and property is abolished;
- Social welfare is the guiding factor for economic activities – private gains, motivations and initiatives are absent,
- Freedom of choice for the consumers is curbed to what society can afford for all, and
- The role of market forces and competition is eliminated by law.

Mixed Economy

A mixed economy is one in which there exist both government and private economic systems. It is supposed to combine good elements of both free enterprise and socialist economies. A mixed economy is widely known as one, which had both "**Public Sector**" (the government economy) and "**Private Sector**" (the private economy). The private sector has features of a free enterprise economy and the public sector has features of socialist economy. It is important to note here that most economies in the world today are mixed economies.

There are two different forms of the mixed economies.

- **Mixed Capitalist Economies**: A mixed capitalist economy is a variant of the free enterprise economic system. To this category fall the highly developed nations like the United States, U.K., France, Japan etc. Though these economies have a very large government sector, their private sectors will work on the principles of the free enterprise system. The government plays a significant role in preserving capitalist mode of production, ensuring a workable competition in factor and product markets, providing infrastructure for promotion of private sector's economic activities.
- **Mixed Socialist Economies**: To the category of the mixed socialist economies belong the countries which have adopted "socialist pattern of society and economic planning as he means of growth and social justice (e.g., India) and the former communist countries (e.g., Russia and china) have of late carried out drastic economic reforms and liberalized their economies for private entrepreneurship. The government of these countries takes upon themselves to control

and regulate the private sector activities in accordance with the plan objectives.

Basic Problems of an Economy and The Role of Government

Whatever the nature of the economic system, all types of economies have been faced with certain common basic problems.

The major economic problems faced by an economy may be classified into two broad groups:

- **Micro-Economic Problems** Called Basic Problems, which are related to the working of the constituents of the economic system; and
- **Macro-Economic Problems** related to the growth, stability, and management of the economy as a whole.

The way the basic problems of an economy are solved depends on the nature of the economy. While in a socialist economy they are solved by the government agencies, like central planning authority, in a free enterprise or mixed capitalist economy this task is performed by the price mechanism or market mechanism.

Though free enterprise system is capable of bringing economic growth, it does not ensure a stable, sustained, and balanced growth. It becomes therefore inevitable for the government to intervene fair competition, and help the economy in achieving its goals – efficiency, stability, growth and economic justice.

Now, the question arises as to what should be the appropriate role of the government in economic management of the country or what should be the form, nature and extent of government's interference with market mechanism.

Nevertheless, the economic role of the government can be broadly categorized on the basis of the three economic systems which presently prevail in the world, viz., Capitalist system or free enterprise system, socialist system, and the mixed-economy system.

1. Capital Society:

In this system, the primary role of the government are: (i) to preserve and promote free market mechanism wherever it is possible to ensure a workable competition, (ii) to remove all unnecessary restrictions on the free operation of competitive market, and (iii) to provide playground and rules of the market game through necessary interventions and controls so that free competition can work effectively.

It may be inferred that the government's role in a capitalist society is supposed to be limited to (a) restoration and promotion of necessary conditions for efficient working of free market mechanism; and (b) to enter those areas of production and distribution in which private entrepreneurship is lacking or is inefficient.

2. Socialist Economy:

In contrast with the capitalist system, the role of government in a socialist economy is much more exhaustive. While in the former, the government is supposed to play a limited role in the economic sphere, in the latter,

It exercises comprehensive control on almost all economic activities. In the socialist system, not only there is a complete disregard for free enterprise and market mechanism but also these systems are abolished by law. The private ownership of factors of production is replaced by the state ownership. All economic activities are centrally planned, controlled and regulated by the state. All decisions regarding production resources, allocation, employment, pricing etc., Are centralized in the hands of government or the central planning authority.

3. Mixed Economy:

In this system, a major part of the economy, the private sector, is allowed to function on the principles of free enterprise system or free market mechanism within a broad political and economic policy framework. The other part of the economy, the public sector, is organized and managed along the socialist pattern. The public sector is created by reserving certain industries, trade, services, and activities for the government control and management. The government prevents by an ordinance the entry of private capital into the industries reserved for the public sector. Another way of creating or expanding the public sector is nationalization of existing industries. The promotion, control and management of the public sector industries are the sole responsibility of the state.

Apart from controlling and managing the public sector industries the government controls and regulates the private sector through its industrial, monetary and fiscal policies. If necessary, direct controls are also imposed.

Characteristics of Mixed Economy:

I. Co-Existence of Public and Private Sectors:

In a mixed economy, one will find the existence of both the private and public sectors. In such a system, the government will undertake the responsibility to build and develop certain sectoral activities and leave the other activities for the private initiative. In India, the government announced the adoption of the mixed economy system through its 1948 industrial policy resolution. The government clearly earmarks the industries to be completely under the state control, the industries which are to be owned and controlled by the state as well as the private sector and industries which are completely left for the private sector. In this way the resolution provided for the simultaneous existence of both private and public sectors.

II. State Participation in Economic Development:

This is the second feature of mixed economy, according to which the state reserves its right to design and decide the type of development to be achieved. In such a setup, the government strives to promote the welfare of the country by ensuring social order, social justice and establishing all the necessary institutions which are required to achieve the desired pattern of growth and development.

III. Distribution of Ownership and Control of Resources:

This is the next feature of mixed economy. In this system, the government itself enters the field of production so that the available resources are fully utilized. This will also help to avoid concentration of wealth in the hands of a few and enable distribution of ownership and control of productive activities. As a result, there is no scope for exploitation of any group, say labour, by any other group. In this way the weaker section of the community is well protected and taken care of. Only the mixed economy will enable the government to attain the objectives of the directive principles of the Indian constitution.

IV. Directing The Investment in Socially Desirable Projects and Channels:

Mixed economy facilitates the flow of investment into channels which confers the society with several benefits. For example, the Indian government has invested huge amount in several projects to develop the infrastructural facilities. This forms the basis for the development of other sectors. The investment in these infrastructural areas will not come forth from the private sector as the return is nil. Hence, the government in a mixed economic set up provides the thrust by developing the necessary background and strength which will encourage the private sector to invest in profitable opportunities. Thus, the government plays a key role in a mixed economic system.

V. Scope For Achieving Balanced Economic Development:

One left to itself, the private sector would establish its enterprises only in urban or sub-urban areas and that too in already well-developed states. This will mean other areas will have no scope for development. But in a mixed economy, the government will itself undertake the initiative to set up industries in backward areas and encourage the private initiative to set up industries in such areas by offering several concessions and exemptions. In the absence of mixed economy, several states in India would have remained industrially backward.

VI. Ultimate Control and Regulation in The Hands of Government:

This feature of mixed economy clearly spells out that in every activity affecting the economy, the government will be the ultimate authority. Though the private sector is assigned its role to perform, the government will still monitor and control the way in which the private initiative is performing its role. According to the 1948 industrial policy resolution, the government made it clear that the industries already established by the private sector belonging to the category in which new industries will be established by the government alone, the government would undertake the review of the working of these industries in private sector for a decade and if it's found unsatisfactory, they would be taken over by the government.

Though this was criticised as a threat to nationalisation, yet through such a provision the government underlines its authority. Similarly in the banking and insurance sectors, the government nationalised banks emphasising its powers to control and regulate any sector.

VII. Co-Operation In the Field of Economic Development:

According to this feature of mixed economy, the government formulates the design for development and invites the private sector to participate in the development. It clearly spells out the guidelines which would govern such co-operative efforts and the limits of freedom granted to the private sector. In Indian case, the government prepares the plans for development and spells out the areas left for the private initiative and the areas will be under state control. Hence, there is scope for the development of private sector, though only according to the design developed by the government.

Lesson 2.2- Economic Transition in India: Privatisation and Globalisation

Privatisation

Privatisation, which has become a universal trend, means transfer of ownership or management of an enterprise from the public sector to the private sector. It also means the withdrawal of the state from an industry or sector, partially or fully. Another dimension of privatisation is opening up of an industry that has been reserved for the public sector to the private sector.

Privatisation is an inevitable historical reaction to the indiscriminate expansion of the state sector and the associated problems. Even in the 'communist' countries it became a vital measure of economic rejuvenation.

Ways Of Privatisation

1. Divestiture or privatisation of ownership through sale of equity.
2. Reprivatisation or denationalisation.
3. Franchising.
4. Contracting
5. Leasing

1. Divestiture

Allowing the private sector to participate in the equity of government held company or public sector unit is one more form of privatisation. In this case the government widely announces its intention of selling the equities of a public sector unit by inviting the private sector to buy these equities and become partner in the ownership, management and control of the unit.

2. Denationalisation

Those units which were nationalised in the past, to enable the government to have management and control over them, are handed over to the private sector for continued operation. For example, suppose a commercial was nationalised by taking it over from a private management, under privatisation, the government voluntarily reduces its hold in the bank by disposing of its ownership equities to the private sector

3. Franchising

The government may provide the technical know-how and the name and brand name may be provided by the private sector. For example, the millions of STD/ISTD telephone booths are owned by the private parties and the telephone link is provided to them by the government. In this case the private parties are franchised to use the telecommunication links provided by the government. Before this, the postal and telegraph departments were completely providing this service.

4. Contracting

Government may contract out its service and make the service available to the common public through private bodies. For example, railways or airways may contract the catering service to an outside hostel or restaurant for a fixed period.

5. Leasing

Leasing of facilities provided by the government is yet another form of privatisation. For example, a shopping complex built by the government may be leased out to private parties for a specified period against the payment of lease rentals.

Objects

The objects are:

- To improve the performance of PSUs, so as to lessen the financial burden on taxpayers.
- To increase the size and dynamism of the private sector, distributing ownership more widely in the population at large.
- To encourage and to facilitate private sector investments, from both domestic and foreign sources.

- To generate revenues for the state.
- To reduce the administrative burden on the state.
- Launching and sustaining the transformation of the economy from a command to a market model.

Privatisation Routes

The important ways of privatisation are:

- Divestiture, or privatisation of ownership, through the sales of equity.Denationalization or reprivatisation.
- Contracting – under which government contracts out services to other organizations that produce and deliver them.
- Franchising – authorizing the delivery of certain services in designated geographical areas – is common in utilities and urban transport.
- Government withdrawing from the provision of certain goods and services leaving them wholly or partly to the private sector.
- Privatisation of management uses leases and management contracts
- Liquidation, which can be either formal or informal. Formal liquidation involves the closure of an enterprise and the sale of its assets. Under informal liquidation, a firm retains its legal status even though some or all of its operations may be suspended.

Benefits

The benefits of privatisation may be listed down as follows:

- It reduces the fiscal burden of the state by relieving it of the losses of the sues and reducing the size of the bureaucracy.
- Privatisation of sues enables the government to mop up funds.
- Privatisation helps the state to trim the size of the administrative machinery.
- It enables the government to concentrate more on the essential state functions
- Privatisation helps to accelerate the pace of economic developments as it attracts more resources from the private sector for development.
- It may result in better management of the enterprises.
- Privatisation may also encourage entrepreneurship.

- Privatisation may increase the number of workers and common man who are shareholders. This could make the enterprises subject to more public vigilance.

Criticisms

Some of the important arguments against privatisation are as follows:

- The public sector has been developed with certain noble objectives and privatisation means discarding them in one stroke.
- Privatisation will encourage concentration of economic power to the common detriment.
- If privatisation results in the substitution of the monopoly power of the public enterprises by the monopoly power of private enterprises, it will be very dangerous.
- Privatisation, many a time, results in the acquisition of national firms by foreign firms.
- Privatisation of profitable enterprises, including potentially profitable, means foregoing future streams of income for the government.
- Privatisation of strategic and vital sectors is against national interests.
- There are well managed and ill-managed firms both in the public and private sectors. It is not sector that matters, but the quality and commitment of the management.
- The capital markets of developing countries are not developed enough for efficiently carrying out privatisation.
- Privatisation, in many instances, is a half-hearted measure and therefore it is not properly carried out. As a result, that the expected results may not be achieved.
- In many instances, there are vested interested behind privatisation and it amounts deceiving the nation. In many countries privatisation often has been a "garage sale" to favored individuals and groups.

Conditions For Success

- Privatisation cannot be sustained unless the political leadership is committed to it, and unless it reflects a shift in the preferences of the public arising out of dissatisfaction with the performance of other alternatives.

- Replacement of a government monopoly by a private monopoly may not increase public welfare. There must a multiplicity of private suppliers and freedom of entry to provide goods and services.
- Public services provided by the private sector must be specific or should have measurable outcome.
- Lack of specificity makes it more difficult to control services provided by the private sector. Service delivery by non- governmental organisations or local governments may be more appropriate under these conditions.
- Consumers should be able to link the benefits they receive from a service to the costs they pay for it, and then they will shop more wisely for difficult services.
- The importance of educating consumers and disseminating information to the public are necessary.
- Privately provided services should be less susceptible to fraud than government services, if they are effective.
- Equity is an important consideration in the delivery of public services. Broadly speaking, the benefits of privatisation can accrue to the capital owner, to the consumer and to the public at large.

Privatisation In India

In India, although there were some isolated cases of privatisation, no definite policy decision was taken until the new economic policy was been ushered in. The accumulated loses of many SOEs, including some state transport corporations, are larger than the capital invested in them. Privatisation of certain sectors and enterprises are, therefore, necessary to reduce the budgetary burden on the public, in order to make more resources available for the developmental activities, and to enable the government to concentrate more on the essential and priority areas.

The new industrial policy, which has abolished the public sector monopoly in all but a very few industries, is a significant step towards privatisation. The new policy also proposes privatisation of enterprises by selling shares to mutual funds, workers and the public. The central government has been reviewing the existing portfolio of public investment with a view to offloading public investment.

The disinvestments commission was set up by the government of India in august 1996 for suggesting the modalities for undertaking disinvestments of equities for selecting PSUs. The commission has recommended disinvestments at varying levels for a number of PSUs

Globalisation

India's economic integration with the rest of the world was very limited because of the restrictive economic policies followed until 1991. Indian firms confined themselves, by and large, to the home market.

Foreign investment by Indian firms was very insignificant. With the new economic policy ushered in 1991, there has been a considerable change. Globalization has, in fact, become a buzzword with Indian firms now and many are expanding their overseas business by different strategies.

Definition of Globalization:

Globalization may be defined as "the growing economic inter-dependence of countries worldwide through increasing volume and variety of cross border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology".

Levels of Globalization:

Globalization may be considered at two levels. Viz,

- Macro level (i.e., Globalization of the world economy) and
- Micro level (i.e., Globalization of the business and the firm).

Globalization of the world economy is achieved, quite obviously, by globalising the national economies. Globalization of the economies and globalization of business are very much inter-dependent.

Reasons for Globalisation

- The rapid shrinking of time and distance across the globe thank to faster communication, speedier transportation, growing financial flows and rapid technological changes.
- The domestic markets are no longer adequate rich. It is necessary to

search for international markets and to set up overseas production facilities.

- Companies may choose for going international market to find political stability, which is relatively good in other countries.
- To get technological and managerial know-how.
- Companies often set up overseas plans to reduce high transportation costs.
- Some companies set up plans overseas so as to be close to their raw materials supply and to the markets for their finished products.
- Other developments also contribute to the increasing international of business.
- The us, Canada and Mexico have signed the north American free trade agreement (NAFTA), which will remove all barriers to trade among these countries.
- The creation of the world trade organization (WTO) is stimulating increased cross-border trade.

Stages of Globalisation

There are five different stages in the development of a firm into global corporations.

First Stage

The first stage is the arm's length service activity of essentially domestic company, which moves into new markets overseas by linking up with local dealers and distributors.

Second Stage

In this stage, the company takes over these activities on its own.

Third Stage

In the next stage, the domestic based company begins to carry out its own manufacturing, marketing and sales in the key foreign markets.

Fourth Stage

In the fourth stage, the company moves to a full insider position in these markets, supported by a complete business system including R & D and engineering.

This stage calls on the managers to replicate in a new environment the hardware, systems and operational approaches that have worked so well at home.

Fifth Stage

In the fifth stage, the company moves toward a genuinely global mode of operation.

Essential Conditions for Globalization

There are, however, some essential conditions to be satisfied on the part of the domestic economy as well as the firm for successful globalization of the business. They are:

Business freedom: There should not be unnecessary Government restrictions, which come in the way of globalisation, like import restriction, restrictions on sourcing finance or other factors from abroad, foreign investment etc. That is why the economic liberalisation is regarded as first step towards facilitating globalization.

Facilities: The extent to which an enterprise can develop globally from home country base depends on the facilities available like the infrastructure facilities.

Government Support: Although unnecessary government interface is hinderance to globalization, government support can encourage globalization. Government support may take the form of policy and procedural reforms, development of common facilities like infrastructure facilities, R & D support, financial market reforms and so on.

Resources: Resources is one of the important factors, which often decide the ability of a firm to globalise. Resourceful companies may find it easier to thrust ahead the global market. Resources include finance, technology, R & D capabilities, managerial expertise, company and brand image, human resource etc.

Competitiveness: The competitive advantage of the company is a very important determinant of success in global business. A firm may derive competitive advantage from any one or more of the factors such as low costs and price, product quality, product differentiation, technological superiority, after sales service, marketing strength etc.

Orientation: A global orientation on the part of the business firms and suitable globalisation strategies are essential for globalisation.

Globalisation Strategies

The various strategies of transiting a firm into global corporation are as follows:

Exporting

Exporting, the most traditional mode of entering the foreign market is quite a common one even now.

Licensing and Franchising

Under international licensing, a firm in one country (the licensor) permits a firm in another country (the licensee) to use its intellectual property (such as patents, trademarks, copyrights, technology, technical know-how, marketing skill or some other specific skill).

Franchising is "a form of licensing in which a parent company (the franchiser) grants another independent entity (the franchisee) the right to do business in a prescribed manner.

Contract Manufacturing

A company doing international marketing, contracts with firms in foreign countries to manufacture or assemble the products while retaining the responsibilities of marketing the product.

Management Contracting

In a management contract the supplier brings together a package of skills that will provide an integrated service to the client without incurring the risk and benefit of ownership. The arrangement is especially attractive if the contracting firm is given an option to purchase some shares in the managed company within a stated period.

Turnkey Contracts

A turnkey operation is an agreement by the seller to supply a buyer with a facility fully equipped and ready to be operated by the buyer's personnel, who will be trained by the seller.

Turnkey contracts are common in international business in the supply, erection and commissioning of plants, as in the case of oil refineries, steel mills, cement and fertilizer plants etc.

Wholly Owned Manufacturing Facilities

Companies with long term and substantial interest in the foreign market normally establish fully owned manufacturing facilities there. This method demands sufficient financial and managerial resources on the part of the company.

Assembly Operations

A manufacturer, who wants many advantages that are associated with overseas manufacturing facilities and yet does not want to go far, may find it desirable to establish overseas assembly facilities in selected markets. The establishment of an assembly operation represents a cross between exporting and overseas manufacturing.

Joint Ventures

Any form of association, which implies collaboration for more than a transitory period is a joint venture. Types of joint overseas operations are:

- Sharing of ownership and management in an enterprise
- Licensing / franchising agreements
- Contract manufacturing
- Management contracts

Third Country Location

When there are no commercial transactions between two nations because of political reasons or when direct transactions between two nations are difficult due to political reasons or the like, a firm in one of these nations which wants to enter the other market will have to operate from a third country base. For example, Taiwanese entrepreneurs found it easy to enter people's republic of china through bases in Hong Kong.

Mergers And Acquisitions

Mergers and acquisitions (M & A) have been a very important market entry strategy as well as expansion strategy. A number of Indian companies have also used this entry strategy.

Strategic Alliance

This strategy seeks to enhance the long-term competitive advantage of the firm by forming alliance with its competitors, existing or potential in critical areas, instead of competing with each other. Strategic alliance is also sometimes used as a market entry strategy. For example, a firm may enter a foreign market by forming an alliance with a firm in the foreign market.

Counter Trade

Counter trade refers to a variety of unconventional international trade practices which link exchange of goods- directly or indirectly – in an attempt to dispense with currency transactions. Counter trade is a form of international trade in which certain export and import transactions are directly linked with each other and in which import of goods are paid for by export of goods, instead of money payments.

Benefits

The important arguments in favour of globalisation are:

- Productivity grows more quickly when countries produce goods and services in which they have comparative advantage.

- Living standards can go up faster.
- Global competition and imports keep a lid on prices, so inflation is less likely to derail economic growth.
- An open economy spurs innovation with fresh ideas from abroad.
- Export jobs often pay more than other jobs.
- Unfettered capital flows give access to foreign investment and keep interest rates low.

Disadvantages

Following are the cases against globalisation:

- Millions have lost jobs due to imports or production shifts abroad.
  - Most find new jobs that pay less.
- Millions of others fear losing their jobs, especially at those companies operating under competitive pressure.
- Worker's face pays cut demands from employers, which often threaten to export jobs.
- Services and white-collar jobs are increasingly vulnerable to operations moving offshore.
- Employees can lose their comparative advantage when companies build advanced factories in low-wage countries, making them as productive as those at home.

Lesson 2.3- Natural Resources and Economic

Development Natural Resources

Natural resources include land, water resources, fisheries, mineral resources, forests, marine resources, climate, rainfall and topography. But nature possesses more in its bosom and in order to discover what it hides; man is required to develop techniques of knowing the undiscovered resources. Sometimes the discovery of the use of a resource can immediately increase its value.

When we talk about the natural resources of a country, we have obviously in mind the extent of the known or discovered natural resources with their present uses. With the growth of the knowledge about the unknown resources and their use, the natural endowment of a country will be materially altered.

Another consideration regarding the nature of natural resources is that some resources; e.g., Land, water, fisheries and forests are renewable and there are others like minerals and mineral oils which are exhaustible and can be used only once. Consequently, careful use of the exhaustible resources and maintenance of the quality of renewable resources like land are a sine qua non in the process of development.

Principles Of Resource Development

The principal objective of resource development is to maximize gross domestic output (GDP) and for this purpose there should be optimum utilization of resources not only in the short period but, in a sustained manner, over the long period. Various guiding principles for resource development are:

- Economic use of resources to achieve minimum waste
- Sustained use of economic resources through conservation of renewable resources and economic use of exhaustible resources
- Multi-purpose use of resources: if a certain resource has a number of uses, it is necessary to have all the uses
- Integrated planning in the use of natural resources
- Location of industries with a view to reducing transport costs to the

minimum

- Abundant supply of energy resources, especially electric power so as to utilize other resources in the best possible manner

Land Resources

The total geographical area of India is about 329 million hectares of which 42 million hectares or 14% of the total reporting area in India is classified as:

- Barren land, such as mountains, deserts, etc. Which cannot be brought under cultivation and
- Area under non-agricultural uses, that is, lands occupied by buildings, roads and railways, rivers and canals, and other lands put to use other than agricultural.
- The rest of the land is put under three major uses, viz., Forests, pastures and agriculture.

Forest Resources

Forests are important natural resources of India. They help control floods and thus they protect the soil against erosion. They supply timber, fuel wood, fodder and a wide range of non-wood products. They are the natural habitat for bio-diversity and repository of genetic wealth. Forests, thus, play an important role in environmental and economic sustainability. Under land utilization pattern, the government of India estimated the total area under forests as 68 million hectares or 22 % of the total geographical area. In our country, forests have generally been undervalued in economic and social terms.

The contribution of the forest sector to GDP was put as 1% in 1996 – 97 (measured at 1980 – 81 prices). A recent estimate puts the gross value of goods and services provided by the forest sector at 2.4% GDP. There is concentration of forests in a few states in Assam, Madhya Pradesh, Orissa and a few union territories. Northern India is particularly deficient in forests. There is a need to increase forest areas in the entire country as also to develop them in deficient states.

Forest Policy, 1952

Appreciating the necessity of developing forests, the government of India declared its first forest policy in 1952. According to this policy, it was decided to raise steadily the area under forests to 100 million hectares or 33 % for the country as a whole. The target area was to provide green cover over two thirds of the land area in the hills and mountains. The main objectives of forest policy under the five-year plans were:

- To increase the productivity of forests
- To link up forest-development with various forest-based industries and
- To develop forests as a support to rural economy.

New Forest Policy, 1988

The 1952 forest policy had failed to stop the serious depletion of forest wealth over the years. Accordingly, it became imperative to evolve a new strategy of forest conservation. The government of India announced its new forest policy in December 1988. The important features of this policy are:

- **Role of tribal in forests recognized**

The new policy enunciates that all agencies responsible for forest management, including forest development corporations should associate tribal people closely in the protection, regeneration and development of forests.

- **Depletion of forest area and the target for green cover**

The new policy reiterates that green cover should be extended to over two-thirds of that land area in the hills and mountains and that the total forest area in the country should be raised to 100 million hectares or 33 % of the total geographical area in the country.

- **Discouragement to forest-based industries**

The new forest policy states that no forest-based enterprises except at the village or cottage level will be set up in the future, unless it is first cleared, after a careful study of the availability of raw materials.

- **End the system of private forest contractors**

The new forest policy advocates an end to the system of contractors working the forests. The contractors will be replaced by institutions such as tribal Co-operatives, government corporations, etc.

- **Forest land not to be diverted to non-forest uses**

The forest department used to assign forestland to individuals or non-government agencies for the purpose of reforestation.

- **Participatory forest management system**

This new strategy involves rural people, particularly women and tribal community who have intimated the knowledge of plant species, their growth characteristics, utility and medicinal value, etc. They also know the specific requirements of fuel, fodder, timber and other non-food products. The adoption of the new strategy has led to several positive outcomes, such as:

- Change in the attitude and relationships of local communities and forest officials towards each other and the forests
- Improvement in the condition of forests
- Reduction in encroachments
- Increase in the income of local people and
- Involvement of non-governmental organizations (NGOs) in forest research, tree planting, promotion of productivity, etc.

Water Resources

India is one of the wettest countries of the world but it is not able to hold all the water it receives. Because of deforestation and denudation, a large portion of the monsoon water disappears into the sea as surface run-off. Community resources such as ponds, tanks and rivers are misused and continuously neglected.

Rivers are increasingly getting polluted as urban and industrial wastes are dumped into them. India's water policy has concentrated on gigantic river systems and reservoirs and despite huge investments on them; their productivity continues to be low. They have not helped in controlling or moderating floods.

Nor are they cost effective, or ecologically desirable. Ground water table has gone down dramatically in more intensely cropped areas, clearly indicating the need to increase recharges or to regulate pumping. In some areas, there is serious pollution danger to ground water due to industrial wastes.

India continues to be highly flood-prone and drought–prone but neither the government nor the planning commission has shown sufficient imagination to appreciate the gravity of the situation and make necessary correction to India's water policy.

Fisheries

India is the sixth largest producer of fish in the world and perhaps, second largest in inland fish production. Fisheries sector plays important role in the socio-economic development of Indie, generating employment for a large coastal population – about one million fishermen draw their livelihood from fisheries, but they generally live on the verge of extreme poverty. It is not only an important source of direct employment but generates employment in downstream industries. It is estimated that about six million people are employed in the fisheries sector.

Fisheries help in raising nutritional levels, augmenting food supply and earning foreign exchange. The contribution of the fisheries sector to gross domestic product (at current prices) has increased from ₹ 1,230 Crores to ₹ 32,060 Crores between 1980-1981 and 2001-2002. Fisheries contribute about 1.21 % Of India's GDP. Broadly, fishery resources of India are either inland or marine. The principal rivers and their tributaries, canals, ponds, lakes, reservoirs comprise the inland fisheries. The five-year plans assign high priority to the development of fisheries because of the necessity to raise the nutritional levels of protein deficient Indian diet and to earn much needed foreign exchange.

The fisheries programmes have emphasized family-based labour, intensive inland and brackish water fisheries and improving the harvesting from seas by stimulating the growth of country boats, mechanized boats and deep-sea trawlers.

Mineral Resources

The development and management resources play a major role in the industrial growth of a nation. Coal and iron, for instance, are the basic minerals needed for the growth of iron and steel industry, which in turn, is vitally necessary for the country's development. Similarly, there are other minerals like mica and manganese, copper, lead and zinc, which are of economic importance.

Then we have mineral fuels like petroleum, coal, thorium and uranium, which are of national importance. Thorium and uranium, the atomic energy minerals, promise to be tremendous source of power. Besides these, we have a number of minor minerals with varying degrees of utility to the country.

The reserves of India in respect of minerals essential for basic industries viz., Coal and iron are ample. But there is a fairly long list of vital minerals like copper, tin, lead, zinc, nickel, cobalt and sulphur and most of all petroleum which India lacks.

The government of India amended the mines and minerals (regulated and development) act, 1957 in January 1994 and announced a new mineral policy:

- Throwing open the mining sector to the private sector including direct foreign investment,
- Empowering the states to grant prospecting licenses/mines leases without prior approval of the central government (except in a few cases)
- Removing the restrictions on equity holding by foreign nationals in a mining company
- The major objectives and the strategies of the new mineral policy are as follows:
- To explore for identification of mineral wealth on land and off-shore
- To develop mineral resources taking into account the national and strategic considerations
- To minimize adverse effects of mineral development on the forests, environment and ecology through appropriate protective measures
- To promote foreign trade in minerals
- To promote research and development in minerals

Economic Development and Environmental Issues

Ecologists and environmentalists believe that one principal reason for the existence of the environmental problem stems from the emphasis on the growth by the industrialized nations. They point out that economic growth has been made possible only at the expense of the environment.

Ecologists postulate that growth rates were so high, because of the fantastic increase in population and demands of the society. Increased production and consumption had unscrupulously released wastes and pollutants into the environment without consideration of their effects.

Fast growth has resulted in the destruction of the environment, the impairment in the quality of elemental environmental services, the deterioration of air quality and the contamination of seas, rivers, lakes, etc. These were not taken into account in economic calculations. The loss and deterioration of important environmental goods went relatively unnoticed. In short, the social costs of growth were not included in economic analyses.

Economists who analyze in a straight jacket always contend that sustained economic growth increases human welfare. These economists base their arguments on international companies in terms of the value of goods and services produced in the economy. To put in shortly, they compare gross national product (GNP) in terms of dollar value to assess the economic growth of nations. Countries feel highly satisfied if their GNP graph shows an ascending tendency, year after year and they proclaim that they are forward.

But, the measurement of economic growth in terms of output of goods and services (GNP) is rather faulty. It takes into consideration the national product only. It does not consider the national disproduct in the process of production. Billions of dollars' worth of cigarettes produced in the economy have been brought under the calculation of GNP per year. It does not take into consideration the external cost, the pollution it creates, the diseases it spreads in the society among smokers and silent smokers.

These are the disproducts of the nation. Edward F. Denison considers that air and water pollution and also the solid wastes generated in the process of production as the real costs of economic growth. He has suggested that value of the deterioration to environment by these real costs should be deducted from NNP to contain a better. In this context, Samuelson's NEW (Net Economic Welfare) is worth considering as very appropriate, whereby the national disproducts are deducted from the national product. Measure of output.

The role of environment and the need for maintaining the quality of the environment have emerged recently as important issue and has assumed greater importance in the context of several ecological disasters in many parts of the globe in recent times.

Barry commoner has analyzed the interaction of three major factors influencing environmental impact. They are:

- Population factor
- Per capita availability of goods
- Pollution per unit of economic good.

The environmental impact (**ei**) is given as follows

$$EI = Population * \frac{Economic\ Good}{Population} * \frac{Population}{Economic\ Good}$$

This enables us to estimate the contributions of the three factors to the environmental impact, viz., The size of the population, per capita production or consumption; and the pollutant generated per unit of production or consumption.

Thus, environmental impact represents the environmental cost of a given economic process. By the economic process, agencies external to the eco- system is produced and which tends to degrade its capacity for self-adjustment.

According to Kenneth Boulding, "the world is finite and the resources are scarce". Man out of greed exploits this earth, as if its resources are limitless, to enrich himself in his pursuit of economic growth. If this is continued by man who is too much enterprising, soon "we will have a plundered plant".

Self-Assessment Questions:

1. What is an economic system? What are the basic problems of an economic system?
2. What are the features of a mixed economic system?
3. "The fundamental economic problem of an economy is the problem of choice". Discuss.
4. Explain the role of government in solving problems aroused out of different economic systems.
5. Define privatisation and trace the history of privatisation.
6. Explain the different routes of making privatisation.
7. Give your arguments for and against privatisation.
8. "There is a need for exercising caution and restraint while privatising PSU's". Comment.

9. Bring out the nature and causes of globalization of business.
10. Explain the stages involved in the economic transition of globalisation.
11. Evaluate the impact of globalisation on Indian economy.
12. List out the strategies used for globalising a business.
13. Natural resources are the wealth of a country's economy. Discuss.
14. Explain the different kinds of natural wealth discovered and undiscovered in India.
15. Evaluate our government policies towards management of natural resources.
16. Appraise the impact of economic development on various kinds of environmental issues.

Key Words

- **Privatization**: it is the incidence or process of transferring ownership of a business, enterprise, agency, public service or property from the public sector to the private sector or to private non-profit organizations.
- **Globalization**: it has to do with processes of international integration arising from increasing human connectivity and interchange of worldviews, products, ideas, and other aspects of culture.
- **Economic system**: an economic system is the combination of the various agencies, entities (or even sectors as described by some authors) that provide the economic structure that defines the social community. These agencies are joined by lines of trade and exchange along which goods, money etc. Are continuously flowing

Further Readings

17. David Needle., **Business in Context: An Introduction to Business and Its Environment (Revised Edition)**, Thomas Rennie, 2004.
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UNIT - III

Lesson 3.1- Infrastructure of the Economy

Objectives:

The major purpose of this unit is to enable you to:

- Define the meaning of infrastructure and its need and importance to build the economy;
- Identify the critical elements of infrastructure development;
- Understand the global trends in business and management;
- Analyse the role of MNCs in the developing countries; and Examine the current trends in Indian industry and also the capital market scenario

Infrastructure

Adequate quantity, quality and reliability of infrastructure are the key to the growth of any economy. Infrastructure facilities often referred to as economic and social overheads – consists of:

- Irrigation: including flood control and command area development
- Energy: coal, electricity, oil and non-conventional sources
- Transport: railways, roads, shipping and civil aviation
- Communications:
- Posts and telegraphs, telephones, telecommunications, etc.
- Banking, finance, and insurance
- Science and technology
- Social overheads: health and hygiene and education.

Energy

Energy is the most important determinant of a country's economic growth. In fact, per capita consumption of energy is taken as an indicator of a country's prosperity. Energy is created through several sources. The sources are conventional and non-conventional. The first shall include commercial and non- commercial sources of energy.

Commercial energy is so-called as it commands a price and the user are expected to pay it for its use. Non-commercial energy commands no price and the user can take it as a free goods gifted by nature. Non – conventional energy is a recent discovery and its use is confined to limited pockets in our country.

Confining to the commercial energy, it may be stated that coal is the main source, accounting for 67 % of the total energy consumed in the country. The government has initiated several steps to improve the supply of coal. Private sector participation is allowed in coal mining. Imports of cooking coal under the open general license (OGL) are being allowed and the import tariff has been slashed from 85% to 35 %.

Power has been a bugbear of our economy. Lack of sufficient power supply has checked the growth of industries all over the country. The government has announced a package of incentives to attract private investments. The package includes the reduction of import duties on power equipment to 20%; a five-year tax holiday for new power projects; a guaranteed 16% rate of return on paid up and subscribed capital; and the provision of counter guarantee by the central government.

As part of the ongoing economic reforms, the government has allowed imports and distribution of certain petroleum products like domestic LPG and kerosene by the private sector at market prices to promote new investments and to improve operational efficiency. The ONGC has already disinvested 2% of its equity and proposes to offload 18 % more in domestic and foreign markets.

Private and foreign companies are now allowed to invest in oil exploration and production in joint-venture with ONGC or OIL, (ONGC has already tied up with reliance and ENRON) and also in refining of petroleum products. The domestic market in lubricants has been opened up to foreign collaborations.

Strengths, Weaknesses and Remedies of Power

Strengths

- Elaborate organizational framework for the growth of electricity has been provided by the electricity (supply) act, 1948
- Power and responsibilities have nearly been divided between central

and states. Former confines itself to planning, co-ordination and regulation. Latter looks after generation and distribution.

- Vast network of generation, transmission and distribution facilities are spanning the length and breadth of the country.
- Joint venture among states in power generation
- Numerous amendments to permit private participation in power generation.

Weaknesses

- Very low plant load factors
- Declining share of hydro-power
- Too much subsidy burden on state electricity boards
- Incompetent and corrupt electricity boards
- Frequent and heavy load-shedding
- Capital intensive but starved of funds
- Heavy losses during transmission and distribution

Remedies

- Formulate unambiguous guidelines for private sector investment and ensure speedy clearance
- Expedite formulation of guidelines for private participation in transmission and distribution
- Create autonomous regulatory authorities at the central and state levels.
- Corporatise SEBs with separate generation, transmission, and distribution segments.
- Set cost-based pricing for each consumer group, building in per-determined tariff increases

Transport

Transport sector includes railways, roads, shipping and civil aviation. The Indian railways have a long history. They consist of an extensive network spread over 62,462 kms- comprising broad gauge (36,824 kms), meter gauge (20,653kms) and narrow gauge (3,985kms). Electrified networks with 11,793 kms account for 18.8 % Of the total route kilometer age.

The thrust areas are identified for the eight-plan periods include replacement and renewal of average assets; argumentation of terminal and rolling stock capacities, gauge conversion and electrification. Railways can claim foe having connected most of the country with the conversion of gauges and creating more routes.

The last few years have been particularly good for railways because of the addition of more than 500 new trains, which include the deluxe trains like Rajdhani's and Shatabdi's. A little known distinction of the railways is their achievements abroad. Among the PSUSs of the railway ministry are the rail India technical and economic services ltd (RITES) And the Indian Railway Construction Company Ltd (IRCON). RITES consultancy expertise is internationally recognized.

It has completed important assignments in railway systems in Africa, the middle east, Vietnam and Nepal. Ircon too has undertaken construction projects in Turkey, Saudi Arabia, Malaysia, Indonesia and Bangladesh. Another feather in the cap of the railways is the 760 km long Konkan railway.

Strengths, Weakness and Remedies of Railways

Strengths

- Historical advantage – 85% of track being inherited from the British
- Largest in Asia and fourth largest in the world
- Substantial electrified tracks
- Competitive advantage in project consultancy and construction
- Agenda of national integration

Weakness

- Ever increasing traffic load
- Inadequate finance
- Low productivity
- Low speed of goods as well as passenger trains
- Poor service to the passengers
- Absence of suitable transportation policy
- Too many social objectives

Remedies

- Corporatise with detailed terms of reference approved by the parliament
- Unbundle disparate operations like transportation of freight and passengers and equipment-manufacture
- Corporatise all manufacturing units and privatise them gradually
- Commercialise passenger services by abolishing all free travel,
- and privatise ticket-checking
- Phase out cross-subsidisation of passenger fares, through freight charge, so as to reflect real costs
- Make commercial use of railway property by selling or leasing it, to the private sector

Road Transport

In order to improve the road transport system, the government announced several measures. Private participation has been allowed in the construction and maintenance of roads. In addition, road transport has been declared as an industry, which enables it to borrow finance from financial institutions. National highway act is to be amended so as to enable the levy of a toll on road users.

MRTP act is also to be amended to enable large firms to enter the road transport sector. The Road Development Plan for 1981 – 2001 envisages the construction of 2212000 kms of rural roads. But viewing against the backdrop of the resource crunch, this plan appeared to be unimplementable.

Strengths, Weaknesses and Remedies of Road Transport

Strengths

- One of the world's largest, stretching for almost 201 million across the country
- Relatively low vehicle density per km.
- Ease the burden of railways

Problems

- Only 1.6% Of road strength is occupied by national highways, 5.86% By state highways and 92.54%By district and village roads. Except the national highways, the condition of other roads is pathetic.
- Several missing links, unbridged river crossings, weak culverts and inadequate road pavement enroute.
- Remote parts of the country are still not connected
- Veritable death traps
- Lack of adequate finance
- Increasing pollution

Remedies

- Allocate additional resources for upgrading and widening existing national and state highways.
- Create a highway development fund as an extra-budgetary development fund for funding highways
- Set up a financing mechanism for funding road construction, using the toll system for cost recovery
- Encourage private sector participation in highways by institutionalising build-operate – transfer schemes.
- Earmark a proportion of the state's levies on vehicle and fuels for road maintenance.
- Amend the loans to allow for right of way in land acquisition for laying roads.

Sea Transport

The government has recently approved a scheme, which envisages voluntary cargo support of the shippers to Indian shipping lines, up to 40% of the value of linear cargo transacted in the foreign trade in a phased manner. To reap the benefits of the scheme, SCI has beefed up its customer services cell to attend to the requirements of shippers on a priority basis.

Steps have been initiated by the government to frame guidelines for Indian shipping companies as per the international safety management (ISM) code, which was adopted by the international maritime organization (IMO) in November 1993. Under the ism code, which will be applicable to passenger ships and tankers by July 1998 and for other vessels by July 2002, shipping companies are required to provide special training to on shore staff and the crew on board. There are eleven major ports and 139 operable minor ports located along the 5560 km long coastline of the country.

The phenomenal growth of our merchant navy from a modest base of 0.2M GRT in 1947 to 6.3 M GRT has placed our country 17th among the maritime nations of the world. Today, our shipping industry can boast of a modern versatile and technically superior fleet with an average of 13 years as against the world average of 17 years and is well equipped to compete in the international markets.

Strengths, Weakness and Remedies of Shipping

Strengths

- Long coastline of over 5700 kms and almost the whole of foreign trade passing across the seas.
- Largest merchants shipping fleet among the developing countries and 14th in the world in shipping tonnage
- Skilled and competent managerial and ship board personnel
- Huge potential in the make of India becoming one of the signatories of the WTO. There will be considerable increase in sea-borne trade.

Weaknesses

- Limited cargo handling capacities of ports
- Challenge from containerisation which is highly prevalent in advanced countries
- Fund starving
- Undue hardships to ship owners due to conversion of fob items into cif, which has been introduced because of decanalisation.

Remedies

- Amend the Major Port Trust Act, 1963, to allow private sector bot projects at the 11 major ports
- Raise the capital expenditure ceiling of the port trust boards from rs.5 Crore to rs.200Crore.
- Abolish the need for PIB approvals for private projects that do not need port trust investment

- Unbundle activities like cargo handling and warehousing into profit centers.
- Allow port-based businesses to create captive facilities for themselves under the BOT system
- Initiate restraining programmes to reduce labour resistance to private sector participation.

Civil Aviation

Civil aviation has three functional sub sectors; operational, infrastructural and regulatory-cum-developmental. On the operational side, Indian airlines limited, Vaudois (which functions as a separate identifiable division of Indian airlines limited) and private airlines (scheduled and non-scheduled) provide domestic air services. Air India limited and Indian airlines limited are domestic airlines, which provide international air services. Pawanhans limited provides helicopter support services, primarily to the petroleum sector.

Infrastructural facilities are provided by the International Airports Authority of India (IAAI) and the National Airports Authority (NAA). These two authorities are being merged to form a single authority viz. Airports authority of India as a result of the enactment of the airports authority of India act, 1994. The regulatory and developmental functions are looked after by the ministry of civil aviation and the offices of the directorate general of civil aviation. The air corporation act, 1953, was repealed on march 1, 1994, ending the monopoly of Indian airlines, Air India and Vaudois over scheduled air transport services. Six private operators, who were hitherto operating as air taxis, have since been granted scheduled airlines status.

Indian airlines have also geared itself since June 1993 to the challenging task of adopting itself to a competitive environment. Several measures have been taken, mainly centered on making the organization adopt a marketing approach to decision-making and considerably to improve the quality of its product. It has improved its passenger facilities both on board and on the ground, on time performance; flight safety measures and has also increased employee participation to provide better services.

Communications

The communication system comprises posts and telegraphs, telecommunication systems, broadcasting, television and information services. By providing necessary information about the markets and also supplying necessary motivation, the communication system helps to bring buyers and sellers together effectively and helps to accelerate the growth of the economy. Accordingly, the modern communication system has become an integral part of the development process.

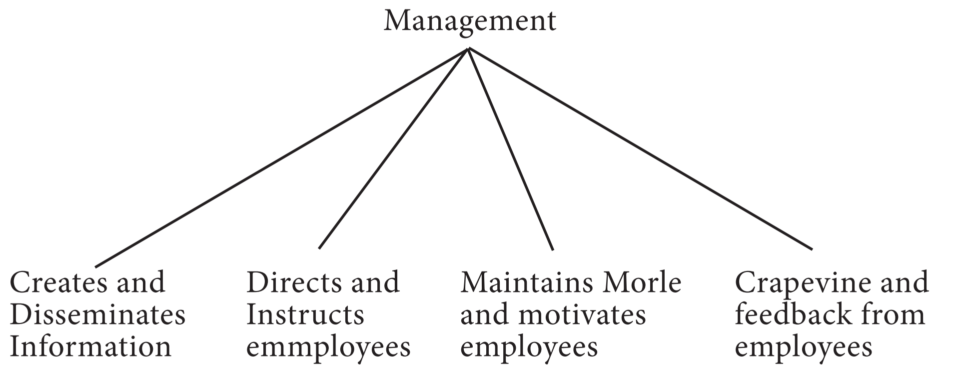
Importance Of Communication

With the development of science and technology, the need for the importance of communication is felt and consequently the social behaviour of human mankind is also transformed to a larger extent. The pressure of work and other social and personal commitments keep people in tight schedules leaving no time for casual talk or gossiping in private life. Whereas, in business circles, stiff competition of trade, liberal import of goods, development of new businesses by foreign corporate houses, indigenous giants, NRI's investment, easy availability of bank loans, heavy transactions in the stock market, etc., Make business people to keep track of the development worldwide in order to keep abreast of business information on hourly basis. It involves interpretation of communication between people continuously which in turn results into refined decision-making of the business people.

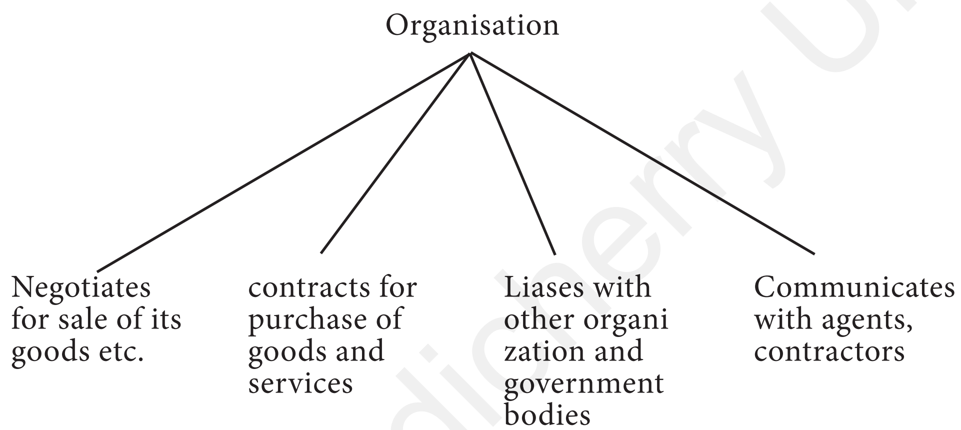
In the modern professional organizations a great deal of importance is attached to devising and maintaining an efficient system of communication. Research shows that 70% to 80% of the total working time of professional and top ranking officials of corporate offices is spent on communication. In India, out of total time spent on communication, 64.14% Is on communicating in English as against 27.22% In Hindi and 8.64% In regional languages. Thus, the role of English in business communication is predominant and it continues to be in the first place always.

Communication performs a number of functions and plays a major role in an organization.

Internal Communication



External Communication



Postal System in India

Since 1950-51, the postal network has been expanded throughout the country, and in recent years, with special emphasis on the rural, hilly and remote tribal areas. The postal department has given a new thrust to its programme of modernisation for providing new value added services to customers. This includes:

- A programme of computerised services of such postal operations as mail processing, savings of bank and material management
- Introduction of metro channel service linking 6 metros
- Introduction of raidhani channel linking delhi with most of the state capitals and
- A business channel with exclusive treatment to pin coded business mail

In recent years, there has been a healthy growth in many lines of postal activity, such as speed post traffic, postal life insurance, extensive of postal life insurance and post office savings banks to rural areas, etc.

Indian Telegraphs

Indian telegraph is one of the oldest government-owned public utility organisations in the world. A number of telegraph offices has been increased from 8,200 in 1951 to over 30,000 now. All these facilities: the phonogram service for sending and receiving telegram by telephone, telex service to send and receive printed message directly from one centre to another, the tremendous expansion of telephone facilities and direct trunk dialing – are available to the general public.

Telecommunications

Telecommunication is a vital input for global competition and for India's success in the international markets. It is important not only because of its role in bringing the benefits of communication to every corner of India but also in serving the new policy objectives of improving the global competitiveness of the Indian economy and stimulating and attracting foreign direct investment. There has been phenomenal growth in the telecommunication sector after 1995.

There has been a shift in importance towards the private sector and towards wireless telephony with falling tariff rates for cellular phones. There has also been a phenomenal increase in the number of cellular subscribers. Cellular telephony has become the most preferred mode of communication among the Indian public.

Strengths, Weaknesses and Remedies of Telecommunication

Strength

- Huge potential for expansion
- Rapid growth in the last couple of years with annual growth of 13 % between 1984 and 1994 and 20 % thereafter.
- Relatively high density with 7.97 Phones per 100 towns people ahead of China and Indonesia

- High technology – 66 % of exchanges are digital

Weaknesses

- Waiting period to get new connections
- Poor maintenance 218 faults for 100 lines every year
- Privatisation efforts are not successful

Remedies

- Accelerate the clearance process for private sector entry into basic telecom services
- Offer incentives to private telecom companies for meeting connection and low-fault targets
- Resolve disputes between private operators and the DOT over long distance connections immediately
- Convert the DOT into a holding corporation, with its subsidiaries operating services in different circles
- Replace the Indian telegraph act, 1885 with a new act incorporating the impact of technology changes.

Recent Developments in Telecom Sector

- Large number of villages are now covered through wireless in local loop (WLL)
- The national internet backbone (NIB) was commissioned
- Since long distance (national and international) has been opened up to competition, long distance tariffs have come down.
- To enhance telecom services in rural and remote areas, the telecom department has issued guidelines for implementing universal service obligation (USO)
- According to the new telecom policy every village in india is expected to be provided with one public telephone.

Education, Science and Technology

Science and technology are ideas and the means with which man seeks to change his environment. While science represents "accumulation of knowledge", technology represents "refinement in tools". Over last two hundred years or so, science and technology have helped to improve the quality of human life. For rapid economic progress, the application of science and technology (S and T) to agriculture, industry, transports and to all other economic and non-economic activities has become essential.

Jawaharlal Nehru believed in the spread of science of scientific temper. He was responsible for the setting up of a chain of national laboratories devoted to basic and applied research which develops indigenous technology and processes and help industrial enterprises in solving their technological problems. The Council of Scientific and Industrial Research (CSIR) as well as the department of atomic energy was set up. The Indian Council of Agricultural Research (ICAR) was strengthened. The department of space technology, the Indian Space Research Organization (ISRO) etc., Arrived later. In 1958 the science policy resolution was adopted to provide positive incentives for the development and utilization of s and t in nation building activities. The major aims of this policy were:

- To foster, promote and sustain by appropriate means the cultivation in science and scientific research in all its aspects – pure, applied and educational
- To ensure an adequate supply within the country of research scientists of higher quality and recognize their work as an important component of the strength of the nation
- To encourage and initiate with all possible speed programmes for training of scientific and technical personnel on a scale adequate to fulfill the country's needs in regard to scientific and education, agriculture, industry and defence
- To ensure for the people of the country all the benefits that can accrue from the acquisition and application of scientific knowledge.

The Indian government has been giving special support to s and t since independence and the large network of national laboratories and universities have been training a strong cadre of scientists, engineers, technologists, etc. Public and private sector organizations have established over 600 in-house research and development (R&D) laboratories to meet their internal technological requirements. The rapid growth of engineering consultancy organizations to provide design and consultancy services and act, as the bridge between research institutions and industry, is really commendable. India's stock of technical man-power has been growing at the rate of about 9 percent per year for the last 20 years and is now estimated to be about 2.5 million. After USA, India today ranks second in the world as regards qualified science and technology man-power.

Science and technology (S&T) have made a phenomenal impact over the world in shaping the lifestyle of the common man. If India has to really forge ahead in the coming decade, S&T must play a pivotal role in all the important tasks that lie ahead of us. Hence, the deployment of S&T as an effective instrument of growth and change becomes an imperative strategy. In order to derive maximum output from meager resources, S&T and the associated methodology must be brought into the main theme of economic planning in the agricultural, industrial and services sectors.

Measures To Promote Science & Technology

Following are the measures necessary to promote science & technology

Education for the Knowledge Economy

Producing knowledge intensive, technologically sophisticated, higher value goods and services are not possible without a trained management cadre and labour force with the appropriate mix of technical and vocational skills. Among other things, this requires:

- Scientists with the skills needed to conduct appropriate R&D
- Engineers and skilled craftsmen to evaluate technology and adopt it for use in the enterprise,
- Skilled technicians who will actually utilize the technology in the production process

Vocational, secondary and tertiary education must all contribute to turning out graduates with the necessary skills. Moreover, since the skills required by today's labour market may not be the same as those that will be required in the future, a process of lifelong learning must be built into the education system. And at all levels and life-cycle stages, the education system must work with the private sector to understand and respond to its needs.

Technology Acquisition and Diffusion (Using Existing Knowledge to Improve the Competitiveness)

Most of the knowledge that developing countries need to boost productivity and value added, in both high tech and traditional sectors, has already been invented. The problem is that this existing knowledge is not always being employed in world bank client countries. Therefore, a third, related aspect of capacity building involves enhancing the private sector's ability existing technology, to improve and develop it for particular needs of local enterprises and incorporate it into local production processes. In other words, this aspect of capacity building would focus on helping the private sector absorbs and utilizes better technology that is already in use elsewhere in the world.

Science & Technology Policy Making Capacity

National policy makers need to have the capacity to understand the challenges and opportunities flowing from the global economy and to devise appropriate policies. Meeting these challenges will require concerted action by education institutions, R&D institutes, the private sector and the national government. It will also require close links and co-operation between each of these actors.

Science And Technology Manpower Development and Employment

While a number of steps have been taken by the government to increase employment opportunities the number of scientists would fall far short of the rate at which S&T persons are needed in the country. Some of the strategies for the creation of jobs and for retaining S&T personnel are:

- Motivating S&T personnel to capture the full potential of self-employment
- Creating awareness about entrepreneurship leading to self-employment among the college and school students
- Introducing greater capital investment in the areas where the outlay per work place is minimal
- Restructuring government policies to minimize import of goods
- Creating entrepreneurship development cells in all Science / Engineering/IITs and other academic institutions by the concerned central /state agencies
- Introducing automated techniques selectively from the viewpoint

of safety, reduction of drudgery, improvements in productivity / efficiency, etc.

- Examining export strategy to enable the country to pay for imports through exports and thereby simultaneously generating greater employment
- Encouraging the establishment of sophisticated industries in the emerging areas of technology as also encouraging the service sectors requiring inputs from high technology so that highly trained S&T personnel could be retained and gainfully employed
- Maintaining centers of excellence in various branches of science and technology to retain highly trained persons within the country
- Providing proper working atmosphere and adequate amenities (e.g., Housing in urban areas) to S&T personnel

Lesson 3.2 - Demographic Issues and Human Development

Study of Human Resource

The study of human resource is vital from the point of view of economic welfare. It is particularly important because human beings are not only instruments of production but also ends in themselves. It is necessary to know in quantitative terms the number of people living in a country at a particular time, the rate at which they are growing and the composition and distribution of population.

The Theory of Demographic Transition

The theory of "demographic transition" postulates a three-stage sequence of birth and death rate as typically associated with economic development.

First Stage of Demographic Transition:

According to this theory death rates are high in the first stage of an agrarian economy on account of poor diets, primitive sanitation and absence of effective medical aid.

Second Stage of Demographic Transition:

Rise in income levels enables the people to improve their diet. Economic development also brings about all round improvement including the improvement in transport, which makes the supply of food regular. These entire factors tend to reduce death rate. Thus in the second stage, birth rate remains high but death rate begins to decline rapidly. This accelerates the growth of population. High birth rate and falling death rate contribute to the growth of the average size of the family in the second stage.

Third Stage of Demographic Transition:

With the growth of industrialization, population tends to shift away from rural areas towards industrial and commercial centers. One of the features of economic development is typically increasing urbanization, and children are usually more of a burden and less of an asset in an urban setting than in a rural. The consciousness to maintain reasonable standard of living tends to reduce the size of family in an industrialized economy; since the death rate is already low, this is possible only if birth rate falls. Thus, the characteristics of the third stage are low birth rate, low death rate, small family size and low growth rate of population.

These three stages reveal the transformation of a primitive high birth and high death rate economy into a low birth and low death rate economy. When an economy shifts from the first stage to the second stage of demographic transition, an imbalance is created in the economy as a result of falling death rate but relatively stable birth rate. The second stage of demographic evolution has, therefore, been termed as the stage of population explosion. This stage is the most hazardous period for a developing economy. The decline in death rate in the second stage therefore creates an imbalance, which requires a period of transition for adjustment. Thus, the theory is termed as the theory of demographic transition. During the period of transition, the demographic factors get out of harmony. A new constellation of demographic forces is brought about which changes the character of society; birth and death rate becomes balanced at a lower level as a result of which growth rate of population also declines.

Size And Growth Rate of Population in India

India today possesses about 2.4 Percent of the total land area of the world but she has to support about 17 percent of the world population. At the beginning of this century india's population was 236 million and according to 2001 census, the population of india is 1,027 million.

A study of growth rate of India's population falls into four phases:
1891-1921: Stagnant population

1921-1951: Steady growth

1951-1981: Rapid high growth

1981-2001: High growth with definite signs of slowing down

During the first phase of 30 years (1891-1921), the population of India grew from 236 million in 1891 to 251 million in 1921 i.e., Just by 15 million.

Growth Of Population in India (1901-2001)

Censes Period	Population (In Millions)	Compound Annual Growth Rate
1891-1921	251	0.19
1921-1951	361	1.22
1951-1981	683	2.15
1984-1991	844	2.11
1991-2001	1027	1.93

Source: Census of India 2001, Series 1, Paper 1 Of 2001, Provisional Population Totals.

During the second phase of 30 years (1921 to 1951) the population of India grew from 251 million in 1921 to 361 million in 1951 i.e. By 110 million. During the third phase of 30 years (1951-1981), the population of indie grew from 361 million in 1951 to 683 million in 1981. In other words, there was a record growth of population by 332 million in a period of 30 years. During 1981 to 2001, India entered the fourth phase of high population growth with definite signs of slowing down. Total population increased from 683 million in 1981 to 1,027 million in 2001 indicating an increase of 50.4 % During the 20 years period.

However, the second decade (1991-2001) of this phase registered a decline (1.93%) In the annual average rate of growth. This is a welcome trend, which should be strengthened.

Human Development in India

Measures of human development

Economic Growth Contributes Most to Poverty Reduction When It Expands the Employment, Productivity and Wages of Poor People and When Public Resources Are Channeled to Promoting Human Development. A Virtuous Cycle of Economic Growth and Human Development Arise When Growth Is Labour Using and Employment Generating and When Human Skills and Health Improve Rapidly.

Income, clearly, is only one option that people would like to have, though an important one. But it is not the sum total of their lives. Income is also a means, with which human development meets the end. Ever since the publication of the human development report 1990, efforts have been made to devise and further refine measures of human developments.

Three measures have been developed. They are human development index (HDI), gender related development index (GDI) and human poverty index (HDI).

Comparison Of Human Development Indices (2002)
Some Selected Countries

		Human Devel- opment (HDI)	Gender Related Develop- ment Index (GDI)	Human Poverty Index (HPI)	Income Pov- erty Line US $ I A Day 1993 PPP 1990 – 2002
High Human Development					
1	Norway	0.956	0.955	7.1	4.3*
4	Canada	0.943	0.941	12.2	7.4*
8	UnitedStates	0.939	0.936	15.8	13.6*
9	Japan	0.938	0.932	11.1	…
12	United Kingdom	0.936	0.934	14.8	15.7*
28	SouthKorea	0.888	0.882	…	<2.0
53	Mexico	0.802	0.792	9.1	9.9
High Human Development					
57	RussianFed	0.795	0.794	…	…
59	Malaysia	0.793	0.786	10.9	<2
68	Venezuela	0.778	0.770	8.5	15.0
72	Brazil	0.775	0.768	11.5	8.2
77	Saudi Arabia	0.768	0.739	15.8	…
83	Philippine	0.753	0.751	15.0	14.6
94	China	0.745	0.741	13.2	16.6
96	Sri Lanka	0.741	0.738	18.2	6.6
101	Iran	0.732	0.713	16.4	<2
111	Indonesia	0.692	0.685	17.8	7.5

112	Vietnam	0.961	0.689	20.0	17.7
120	Egypt	0.953	0.634	30.9	3.1
127	India	0.595	0.572	31.4	34.7
138	Bangladesh	0.509	0.499	42.2	36.0

Low Human Development

142	Pakistan	0.497	0.471	41.9	13.4
151	Nigeria	0.466	0.458	35.1	70.2
176	Niger	0.292	0.278	61.4	61.4

**For 1994 – 95 using $ 11 a day (1994 PPP US $)*

Note: countries have been arranged in the descending order on the basis of HDI

Source: Compiled From UNDP, Human Development Report 2004. Human Development Index

HDI measures the average achievement in three basic dimensions of human development:

- A long and healthy life as measured by life expectancy at birth
- Knowledge as measured by the adult literacy rate (with two third weight) and the combined primary, secondary and tertiary gross enrolment ratio (with one third weight)
- A decent standard of living as measured by GDP per capita (PPP US $)

Before calculating HDI, an index for each of the three dimensions is created,

The HDI is calculated as a simple average of the dimension indices. The table indicates human development index for 2002 for selected countries as reported in HDR 2004. Countries have been grouped under three categories:

- Countries in the HDI range 0.8 And above are in the high human development group
- Countries in the HDI range 0.5 To 0.8 Are in the range of medium human development group

- Countries in the HDI range less than 0.5 Are in the low human development group

The data has been collected for 177 countries. Among them 55 countries were in the high human development range, 86 countries were in medium human development range and 36 countries were in low human development range. India, which was at no.138 In HDI in 1994, has improved its position to no.127 In 2002.

Gender Related Development Index (GDI)

While HDI measures average achievement, the GDI adjusts the average achievement to reflect the inequalities between men and women. The three components used for the purpose are:

- Female life expectancy
- Female adult literacy and gross enrolment ratio
- Female per capita income

If gender inequalities were not penalized, the value of GDI and HDI would be the same, but if gender inequalities exist, the value of GDI would be lower than that of HDI. The greater the difference between HDIand GDI, the greater is the gender inequality.

From the table (refer GDI column) it may be noted that near gender equality exists in Norway, Canada, United States, United Kingdom, Japan, Mexico, Russian Federation, Malaysia, Venezuela, Philippines, Sri Lanka, China, Vietnam and Indonesia. Countries which indicate higher gender inequality are Saudi Arabia, Pakistan, Iran, India, Egypt and Nigeria.

Human Poverty Index (HPI)

Human development report 1997 introduced the concept of human poverty index, which concentrates on deprivation in three essential elements of human life already reflected in HDI – longevity, knowledge and a decent living standard. The first deprivation is vulnerability to death at a relatively early age and is represented in the HPI by the percentage of people expected to die before age 40. The second deprivation is related to knowledge and is measured by the percentage of adults who are illiterate. The third deprivation relates to a decent standard of living, in particular, overall provisioning. This is represented by a composite of three variables

– the percentage of people of people with access to:

- Health services
- To safe water
- The percentage of malnourished children under five.

It may be noted that in the case of Nigeria, 70.2 % Of the population suffers from income poverty, but HPI index is 35.1 %. However, in the case of Bangladesh, the situation is totally reversed – HPI 42.2, But income poor population is 36 %. In case of India, proportion of population below international income poverty line is 34.7 %, But human poverty index is 31.4.

United Nations Millennium Declaration For 2015

To Promote HDI:

- To halve the proportion of the world's people living on less than $1 a day
- To halve the proportion of the world's people suffering from hunger
- To halve the proportion of the world's people without access to safe drinking water
- To achieve universal completion of primary schooling
- To achieve gender equality in access to education
- To reduce maternal mortality ratios by three quarters
- To reduce under-five mortality rates by two thirds
- To halt and begin to reverse the spread of HIV/AIDS, malaria and other major diseases.

Human Development Index for Various States in India

Major State – Wise Human Development in India (HDI)

Rank	State	Value Of HDI
1	Kerala	62.78(1)
2	Maharashtra	55.49(2)
3	Punjab	54.86(3)
4	Tamil Nadu	51.11(4)
5	Haryana	50.56(5)
6	Gujarat	47.82(6)
7	Karnataka	46.83(7)
8	West Bengal	45.37(8)
9	Andhra Pradesh	41.28(9)
10	Assam	39.48(10)
11	Madhya Pradesh	36.71(11)
12	Orissa	37.25(12)
13	Rajasthan	37.11(13)
14	Uttar Pradesh	35.51(14)
15	Bihar	34.05(15)

Note: 1. States have been arranged on the basis of UNFPA studying the descending order of HDI

2. Figures in brackets indicate respective state-wise ranks

Source: UNFPA, India: Towards Population and Development Goals, OUP, 1997

Many of India's states can be compared with medium-size countries. It would, therefore, be appropriate to construct human development index (HDI) for various states so as to understand the difference in HDI among them. The UNFPA published a report on human developments in India in a book entitled "India; towards population and development goals" in 1997. The range of HDI values in UNFPA study varies from 62.8 For the top most Kerala to 34 for Bihar. In this study, the variation is from 59.7 In case of Kerala to 34.1 For Madhya Pradesh.

Progress Of Human Development in India

The basic purpose of planning in India is to widen people's choices and improve the wellbeing of the people. In this context, human development was the key issue so that people could lead a long and healthy life, they could acquire knowledge so as to have a better vertical mobility in life and last, but not the least, to achieve a decent standard of living of all. It would be, therefore, appropriate to examine the progress of human development in India.

India has been categorized by the human development report 2001 as a medium human development country. The human development index has risen gradually from 0.406 In 1975 to 0.510 In 1990 and stands at 0.590 In 2001. In fact, it can take quite long for India to cross the mark of 0.8 in HDI to join the rank of high HDI countries.

A major impediment to progress in human development is the very fast growth of population experienced in India. India's population increases from 620.7 million in 1975 to 1,033 million in 2001 giving a growth rate of 20 % per annum during the period (1975-2001), which is fairly high. It is expected that the growth rate of population during 2000-2015 will come down to 1.3 %. This would provide a welcome relief to push forward the process of human development. Urbanization is considered to be a factor, which promotes human development.

The share of urban population, which was 21.3 % In 1975, has reached a level of 27.8 %In 2001, but by 2015, urban population would reach the level of 32.2 %. This would certainly help to enlarge human development because it has been observed that urban areas are better looked after in terms of education and health facilities. Another healthy feature of likely demographic transition is the proportion of children or population under age 15, whose proportion stood at 33.7 % In 2001 but likely to decline to 27.7 % By 2015.

This will imply decreasing population pressures far below in future which would also help in releasing resources to improve human development. It would be quite useful to consider factors related with the education of the population that are likely to promote human development. The most important factor is adult literacy rate, which was 58 % in 2001.

The share of India in the world's illiterate population is 33.3 %. The information technology revolution has been necessitated an increase in proportion of tertiary students in science, mathematics and engineering to be steeped up. Their proportion was only 25% during 1994 – 97 in India. India has to bring about a shift to meet the challenging demands of the new economy.

Key Words

- Demographic transition (DT) refers to the transition from high birth and death rates to low birth and death rates as a country develops from a pre-industrial to an industrialized economic system.
- Human development is a concept within the scope of the study of the human condition, specifically international development, relating to international and economic development

Self-Assessment Questions:

1. Outline the present status of infrastructural facilities in our country.
2. Point out the constraints which inhibit the rapid growth of infrastructural facilities.
3. Bring out the role of infrastructure in the growth of a country
4. Bring out the strengths, problems and remedies for different areas of infrastructure.
5. List out the recent developments in Telecom sector.
6. Evaluate the significance of S & T in economic growth suggests suitable measures to promote S & T.
7. Explain the theory of Demographic Transition.
8. Examine the trend of population growth and its implications on economic growth.
9. State the importance of Human Development. What are the measures to assess human development?
10. 'Gender Related Development is important to achieve overall human development', Comment and highlight the extent of gender equality in India.
11. Evaluate the Human Development across the state in India. Give reasons for the variation among the states.

UNIT- IV

Lesson 4.1- Global Trends in Business and Management

Objectives:

The major purpose of this unit is to enable you to:

- Define the meaning of International Relations and its need in Indian economy system;
- Identify the different approaches to International Relations;
- Understand the global trends in business and management;
- Analyse the role of MNCs in the developing countries; and
- Examine the current trends in Indian industry and also the capital market scenario

Doing Business in a diverse world:

Doing business with other nations is much more than a step across a geographical boundary; it is a step into different social, political, cultural, and economic realities. Even businesses operating in one community or one nation cannot function successfully without considering a wide variety of stakeholder needs and interests. When companies operate their business globally, the number of stakeholders to be considered in decision making, and the diversity of their interests, increases dramatically. The many nations of the world differ greatly in their political, social and economic system. One important dimension of this diversity is how power is exercised, that is, the degree to which a nation's people may freely exercise their democratic rights. Democracy refers broadly to the presence of political freedom.

Another dimension of difference among nations today is how economic assets are controlled, that is, the degree of economic freedom. On one end of the continuum are societies in which assets are privately owned and exchanged in a free and open market. Such free enterprise systems are based on the principle of voluntary association and exchange. In such a system, people with goods and services to sell take them voluntarily to the market place, seeking to exchange them for money or other goods or services. Political and economic freedom are, of course, related: as people gain more control over government decisions, they often pass for greater economic opportunity; open markets may give people the resources to participate effectively in politics. Nations also differ in their overall levels of economic and social development.

Meeting the Challenges of Global Diversity

Transnational corporations today do business in a world of staggering diversity and complexity. Not surprisingly, the wide range of political, social, and economic environments in which business operates poses complex and challenging questions for managers, such as the following, for example:

If a company does business in a nation that does not grant women equal rights such as Saudi Arabia, for example should that company hire and promote women at work, even if this violates local laws or customs?

Should a company enter into a business joint venture with a government-owned enterprise if that government has a reputation for violating the human rights of its own citizens? For example, entering into a joint venture with repressive military government of Myanmar.

Does a company have a duty to offer it's productor services—say, lifesaving medication—at a power price in poor countries like Mali or to customers who desperately need them?

If a government fails to provide basic service to its citizens, such as primary education, decent housing, and sanitary services, is it the duty of a company to provide these things for its own employee or for members of the community in which it is located?

Many people believe that when transnational corporations operate according to strong moral principles, they can become a force for positive change in other nations where they operate. This is known as constructive engagement. Under some situations, however, constructive engagement may not be possible. At what point do violation of politics, human, and economic rights become so extreme that companies simply cannot morally justify doing business in a country anymore?

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- Does a company have a duty to offer it's productor services—say, lifesaving medication—at a power price in poor countries like Mali or to customers who desperately need them?
- If a government fails to provide basic service to its citizens, such as primary education, decent housing, and sanitary services, is it the duty of a company to provide these things for its own employee or for members of the community in which it is located?
- Many people believe that when transnational corporations operate according to strong moral principles, they can become a force for positive change in other nations where they operate. This is known as **constructive engagement**. Under some situations, however, constructive engagement may not be possible. At what point do violation of politics, human, and economic rights become so extreme that companies simply cannot morally justify doing business in a country anymore?

Global Codes of Corporate Conduct

In recent years, a number of important efforts have been made to address the challenges facing transnational companies as they confront a bewildering diversity of the laws, norms, cultures, and stake holders' expectations. Most companies take for granted that they should, unless the circumstances are truly exceptional, follow the laws of the nations which they do business. But beyond merely obeying the law, , what other standards should transnational corporations follow? Does universal standard applicable to all companies in all global circumstances, exist?

These difficult questions have been addressed by international organizations such as the United Nations, by corporations and business advisory groups, and by scholars and ethicists. Recent year have seen a proliferation of **global codes of conduct** that seek to define acceptable and unacceptable behaviour for today's transnational corporations.

Collaborative Partnership for Global Problem Solving

As doing business in a diverse world is exceptionally challenging for business. Multiple codes of conduct have been developed to guide the actions of transnational corporations, yet most of them are too general to provide a road map for many of the specific problems that confront today's large corporations doing business abroad.

Since the questions facing transnational corporations are so challenging, one solution is to approach them collectively, through a collaborative, multisector partnership focused on particular social issues or problems in the global economy. Collaborative partnership carries a number of important advantages for transnational companies, They can enlist the special skills of governments and communities, educate the company about stakeholder expectations, and ensure that a particular project is consistent with local norms and values.

Business and Government Relations

The relationship between business and government is dynamic and complex. The stability of a government can be shaky or solid. Even within a stable government, different individuals or groups can acquire and loose power through elections, the natural death of a public official, or other means. Understanding the government's authority and its relationship with business is essential for managers in developing their strategies and achieving their organization's goals. In some situations, government may work closely with business to build a cooperative relationship and seek manually beneficial goals. The basis for this cooperation may be at the core of the nation's social values and customs. In some Asian countries, society is viewed as a collective family that includes both government and business. Thus, working together as a family leads those two powers to seek results that benefit both society and business. Cooperation between business and government, often occurs when both groups encounter a common problem or enemy requiring a joining of forces. Even traditional adversaries can find grounds for collaboration and support when the need present itself.

Government Cooperates with Business

In some situation, government may work closely with business to build a cooperative relationship and seek mutually beneficial goals. The basis for this cooperation may be at the core of the nation's societal values and customs. In some Asian countries, society is viewed as a collective family that includes both government and business. Thus, working together to as a family leads these two powers to seek result that benefit both society and business. In Europe, the relationship between government and business often has been cooperative. European culture includes a sense of teamwork and mutual aid. Unions, for example, are often included on administrative boards with managers to lead the organization towards mutual goals through interactive strategies.

Government Conflicts with Business

In other situations, government's goals and business's objectives are at odds, and these conflicts result in an adversarial relationship. Following the Enron and other business scandals, in which the auditing industry had failed to police itself adequately, the U.S Securities and Exchange Commission passed new rules, and Congress passed the Sarbanese-Oxley Act of 2003. This law initiated the ability of accounting firms to offer both consulting and auditing services in their clients.

Government may also act an adversarial role against business when negative externalities arise. Negative externalities, or spill over effects, result when the manufacturer or distribution of a product give rise to unplanned or unintended costs borne by consumers, competitors, neighbouring communities, or other business stakeholders. To control or reverse these costs, government may step in to regulate business action.

Government's Public Policy Role

Government performs a vital and important role in modern society. Although vigorous debates occur about the proper size of programs government should undertake, most people agree that a society cannot function properly without some government activities. Citizens look to government to meet important basic needs. Foremost among these are safety and protection provided by homeland security, police and fire departments. These are collective or public goods, which are most efficiently provided by government for everyone in a community. In today's world government are also expected to provide economic security and essential social services, and to deal with the most pressing social problems that require collective action, or public policy.

Government Regulations of Business

Societies rely on government to establish rules of conduct for citizens and organizations called regulations. Regulation is a primary way of accomplishing public policy. Because government operates at so many levels, modern business face complex webs of regulations. Government regulations come in different forms. Some are directly imposed; others are more indirect. Some are aimed at a specific industry; others such as those dealing with job discrimination or pollution, apply to all industries. Some have been in existence for a long time. Regulations affects many societal stakeholders, including business. Sometimes the consequences are known and intended, but at other times unintended or accidental consequences emerge from regulatory actions. In general, government hopes that the benefit arising from regulations outweigh the cost-

International Relations

In modern times no state can afford to live in isolation. It has to cultivate relations with other states of the world out of sheer necessity. Just as no individual can live outside the society, similarly, no state can live outside the international community. Therefore, international relationship is as much a product of necessity as social existence itself. With the industrial revolution the world shrank and the distances were reduced.

As a result, the regional and local problems began to assume world character. With these regional relations were transformed into international relations. The term international relations have been interpreted and defined in two senses- narrow and broad. In the narrow sense it is confined to the study of **"official relations conducted by authorized leaders of the state".**

By emphasizing official relations, the relations between businessmen, scientists, etc., Of the various countries are excluded from the scope of international relations. In the broader sense international relations include **"all intercourse among states and all movements of people, goods and ideas across national frontiers"**.

Types Of Relations

Usually, two types of relations exist between states – **co-operative and oppositional.**

- **Cooperative relations:** they are usually non-political and involve no power.
- **Oppositional relations**: the oppositional relations imply conflict among groups and demand use of power.

International relations include study of the both. At initial stages international relations studied only diplomatic history as conditioned by the happening of the past, but soon even to study of international law was included in its scope.

With establishment of the league of nations, the study of international institutions was also included in its fold. Thus, after World War I it came to study the diplomatic history, international law and the league organization.

After World War II, its field was further widened and study of military science and regional areas was also included in it. The psychological study through personality and background analysis also gained prominence. Thus, at present international relations have become very extensive.

International Relations Approaches

Broadly speaking there are two approaches for the study of international relations.

- **The classical approach** considers the substance more important
- **Scientific approach attaches** more importance to method and technique.

Types Of Classical Approach

The prominent amongst the classical approach are

1. **Historical approach**

Under its diplomacy and inter-relations of a particular period are studied. This approach is not possible in modern world, though it has the advantage of giving the students a deep understanding of the problems in their correct prescriptive.

2. International organization approach

It studies the behavior of various states in the international organization to determine the attitude of a particular power. This theory does not take into account the activities of a state outside the international organization.

3. International law approach

It considers the international law as the key to the interpretation of international relations. This approach, however, ignored the internal politics as a factor in determining the attitude of a power in the international sphere.

Types Of Scientific Approach

The prominent scientific or modern approaches are

- **Behavior approach** is based on psychology and tries to analyze international relations as strife between various national characters.
- Karl Deutsch developed **quantitative theory** and developed certain measurable indices of community development.
- **Decision-making approac**h of Richard c. Snyder emphasized the need of probing the minds of the decision makers. While probing their minds both internal and external settings were to be taken into account.
- **The systems theory** developed by Kaplan holds that a theory of international politics normally cannot predict individual actions because the interaction problem is very complex.
- **Equilibrium theory** of international relations and institutions was developed by Laska. He holds that the states seek to secure the best attainable position of equilibrium, and this is desirable.
- **Power approach or realist theory** it tries to understand international relations in term of state interests and holds that the statesmen are guided by interests rather than ideology, or motives.

Lesson 4.2-Multinational Corporations

The dynamics of the business environment fostered by the drastic political changes in the erstwhile communist and socialist countries and the economic liberalization across the world have enormously expanded the opportunities for the multinational corporations, also known by such names **as international corporation, transnational corporation, global corporation (or firm, company or enterprise) etc.**

The rapidity with which the MNC's are growing is indicated by the fact that while according to the world investment report 1997, there were about 45000 MNC's with some 280000 affiliates. According to the world investment report 2001, there were over 63,000 of them with about 822,000 affiliates.

Only less than 12 % of these affiliates were in the developed countries. China was host to about 3.64 Lakh of the affiliates (i.e., More than 44% of the total) compared to more than 1400 in India. The MNC's accounts for a significant share of the world's industrial investment, production, employment and trade.

Although the multinational corporation took birth in the early 1860s, it was after the Second World War that multinationals have grown rapidly. In the early days, the United State was the home of most of the MNCs. Now there are large number of multinationals Japanese and European multinationals. Multinationals have been emerging from the developing countries too. South Korea has, for example, well known MNCs like Samsung, Hyundai, LG and Daewoo. MNCs of the US are more focused, i.e., they confine their business to one industry or product category. In fact, several American MNCs which reverted to focus, after bitter experience with the diversification. Compared with the US MNCs, most European companies have a product line that are much too broad.

Definition And Meaning of MNC

As the concept of multinationality has several dimensions, there is no single criterion that can define the multinational and, therefore, there is no single universally agreed definition of the term multinational corporation.

According to ILO report, the essential nature of the multinational enterprises lies in the fact that its managerial headquarters are located in one country while the enterprise carries out operations in a number of other countries as well. However, MNC can be defined as:

"A corporation that controls production facilities in more than one country, such facilities having been acquired through the process of foreign direct investment, firms that participate in international business, however large they may be, solely by exporting or by licensing technology are not multinational enterprises."

The various benchmarks sometimes used to define "multi nationality" are that the company must:

- Produce (rather than just distribute) abroad as well as in the headquarters country
- Operate in a certain minimum number of nations (six for example)
- Derive some minimum percentage of its income from foreign operations (e.g., 25%)
- Have a certain minimum ratio of foreign to total number of employees, or of foreign total value of assets
- Possess a management team with geo-centric orientations.
- Directly control foreign investments (as opposed simply to holding shares in foreign companies).

MNCs and International Trade

Peter Drucker remarks that multinational and expanding world trade are two sides of the same coin. He points out that the period of most rapid growth of multinationals – the fifties and sixties –was the period of most rapid growth of multinationals trade. Indeed, during this period the world trading economy grew faster at an annual rate of 15 per cent or so in most years than even the fastest growing domestic economy.

There was a very significant increase in the export intensity (i.e., the percentage of exports to total sales) of the foreign affiliates of many MNCs. The export intensity of foreign affiliates of US MNCs, for example, increased from less than 20 per cent in the mid-1960s to over 40 per cent in the early 1990s for all economies; it doubled from about 20 to 40 per cent in the case of developed economies; jumped from about 6 to 22 per cent in the case of Latin American affiliates and from 23 to 64 per cent of developing Asia. The average export intensity of all the affiliates has, however, remained between 21-24 per cent for a long time. In the case of India, however, it has very low. About 50 per cent of the total export of China is done by MNC affiliates. The export contribution of foreign affiliates in China is larger than the total exports of India.

Apart from trade in commodities, other transactions also take place intensively between the different parts of these enterprises—for example the granting of loans, the licensing of technology and the provision of services. In all such transactions, transfer prices may be settled which are different from the price which would have been the case between independent parties operating at arm's length. Such differences may reflect the legitimate concerns of the companies but are also capable of being used in order to shift profits from high to low tax countries or o get around exchange or price controls or custom duties. The monitoring and control of transfer prices involves inter-Governmental cooperation and measures to secure due disclosure of relevant information by companies. This is necessary to make effective tax laws covering transfer prices which exist in many countries. Intra-firm trade also opens up the possibility for corporations to impose restrictive business practices within their own organisation; they can limit the exports of their affiliates; allocate their markets between nations or restrict the use of their technology or that developed by their affiliates. Such practices, although best pursued in the best business interests of the companies, may conflict with the developmental objectives and national interests of host countries.

Merits Of MNC

The important arguments in favour of the MNCs are mentioned below:

- MNCs help to increase the investment level and thereby the income and employment in host country.
- The transnational corporation has become vehicles for the transfer technology, especially to the developing countries.
- They also kindle a managerial revolution in the host countries through professional management and the employment of highly sophisticated management techniques.
- The MNCs enable the host countries to increase their exports and decrease their import requirements.

- They work to equalize the cost of factors of production around the world.
- MNC provide an efficient means of integrating national economies.
- The enormous resources of the multinational enterprises enable them to have very efficient research and development systems.
- Thus, they make a commendable contribution to inventions and innovations.
- MNC also stimulate domestic enterprise because to support their own operations, the MNCs may encourage and assist domestic suppliers.
- MNC help increase competition and break monopolies.

Demerits Of MNC

The various cases against MNCs are:

- The MNCs technology is designed for worldwide profit maximization, not the development needs of poor countries.
- Through their power and flexibility, MNCs can evade or undermine national economic autonomy and control, and their activities may be inimical to the national interests
- MNCs may destroy competition and acquire monopoly powers.
- The tremendous power of the global corporations poses the risk that they may threaten the sovereignty of the nations in which they do business.
- MNCs retard growth of employment in the home country.
- The transnational corporations cause fast depletion of some of the non-renewable natural resources in the host country. They have also been accused of the environmental problems.
- The transfer pricing enables MNCs to avoid taxes by manipulating prices on intra-company transactions
- The MNC undermine local culture and traditions; change the consumption habits for their benefits against the long-term interests of the local community.

Perspective

Future holds out an enormous scope for the growth of MNCs. The changes in the economic environment in a large number of countries indicate this. A united nation's report described several developments that points to a rapidly changing context for economic growth, along with a growing role transnational corporation in that process. These include:

- Increasing emphasis on the market forces and a growing role for the private sector in nearly all developing countries.
- Rapidly changing technologies that are transforming the nature of organization and location of international production.
- The globalization of firms and industries.
- The rise of services to constitute the largest single sector in the world economy and
- Regional economic integration, which involves both the world' largest economies as well as selected developing countries.

Multinationals In India

The inflow of foreign funds through MNCs in India is showing an upward trend in recent years. 1991 Onwards, the government of India has taken several steps to attract foreign investments and entry of the MNCs, such as:

- Abolition of industrial licensing
- Removal of restriction on investment under the MRTP act
- Liberalization of policy and procedure for transfer of technology, import off capital goods, etc.
- Existing companies are allowed to raise foreign equity up to 51%
- Provisions of the FERA have been relaxed. As a result, companies with more than 40% foreign equity can operate like any other Indian company.
- Foreign companies are permitted to use their trade in domestic markets.

During the nineties, there has been an increasing trend of foreign investments in India. The government approved 666 foreign collaborations in 1990. This number has become more than double to 1520 by 1992. At present, the USA is the largest investor in India, followed by Switzerland, Japan and UK. Foreign investment has largely been concentrated in sector such as fuel and oil refineries, power chemicals and electrical equipment and electronics.

The Rise of Indian Multinationals

After liberalization of Indian market in 1991 and in its due course, Indian MNC is flying high not only over the Indian sky but globally. Though it took almost a decade when many Indian forms have slowly and surly embarked on the global path and lead to the emergence of the Indian Multinational Companies. With each passing day, Indian businesses are acquiring companies abroad, becoming worldwide popular suppliers and are recruiting staff across national boundaries. While an Asian paint is painting the world red, tata is rolling out India's from Birmingham and Sundaram fasteners nails home the fat that the Indian company is an entity to be reckoned with.

Some facts:

- **Tata Motors** sells its passenger-car indica in the UK through a marketing alliance with rover and has acquired a Daewoo Commercial vehicles unit giving it access to markets in Korea and China.
- **INFOSYS** has 25,634 employees including 600 from 33 nationalities other than Indian. It has 30 marketing offices across the world and 26 global software development centers in the US, Canada, Australia, the UK and Japan.
- **Ranbaxy** is the ninth largest generics company in the world. An impressive 76 % Of its revenues come from overseas.
- **Dr. Reddy's Laboratories** became the first Asia pacific pharmaceutical company outside Japan to list on the New York stock exchange in 2001
- **Asian paints** are among the 10 largest decorative paints makers in the world and have been manufacturing facilities across 24 countries.
    - Small auto components company **Bharat Forge** is now the world's second largest forging maker. It became the world's second largest forgings manufacturer after acquiring Carl Dan Peddinghaus, a German forgings company, last year. Its workforce includes Japanese, German, American and Chinese

people. It has 31 customers across the world and only 31 percent of its turnover comes from India.

- About 80% of revenues for Tata Consultancy Services come from outside India. It raised in Asia's second – biggest tech IPO this year and India's largest IPO ever.
- Sundaram Fasteners is not merely a nuts-and-bolts company. It believes in thinking out of the box. Probably that is why it decided to acquire a plant in China. The plant in Jiaxin city in the Haiyan economic zone has ensures one fact; that its customers who were earlier buying Sundaram products in Europe and the US, did not have to go far from home to access the product.

Key Words

- **International Relations (I.R.)**: Although the two terms are not perfectly synonymous) is the study of relationships between countries, including the roles of states, Inter-Governmental Organizations (IGOs), International Nongovernmental Organizations (INGOs), Non-Governmental Organizations (NGOs) and Multinational Corporations (MNCs).
- **Multinational Corporation**: A Multinational Corporation (MNC) or Multinational Enterprise (MNE) is a corporation enterprise that manages production or delivers services in more than one country.

Self-Assessment Questions:

1. What do you understand by International Relations? Why is IR important in today's environment?
2. Explain the different approaches of International Relations management.
3. Evaluate the role played by MNCs in developing countries.
4. What is Multinational Corporation? Explain its characteristics.
5. Outline the major MNCs in India. Also, the rise of Indian Multinationals at global.
6. Examine the pros and cons of the growth of the multinational corporation.

UNIT - V

Lesson 5.1- Foreign Capital and Collaboration

Objectives:

The major purpose of this unit is to enable you to:

- Understand the need and importance of foreign capital d in Indian economy system;
- Identify the different approaches to foreign capital investment;
- Understand the global trends in foreign collaborations;
- Analyse the role of FDI in the developing countries; and
- Examine the current trends in Indian industry and also the capital market scenario

Foreign Capital

Most countries of the world which embarked on the road to economic development have to depend on foreign capital to some extent. The degree of dependence, however, is varied with the extent to which domestic resources could be mobilized, the state of the domestic economy in respect of technical progress, the attitude of the respective governments, etc. But the fact cannot be denied that foreign capital contributes in many important ways to the process of economic growth and industrialization.

Need For Foreign Capital

The need for foreign capital for a developing country like India can arise on account of the following reasons:

- Domestic capital is inadequate for purposes of economic growth.
- For want of experience, domestic capital and entrepreneurship may not flow into certain lines of production.
- There may be potential savings in a developing economy like India but this may come forward only at a higher level of economic activity.
- It may be difficult to mobilize domestic savings for the financing of projects that are badly needed for economic development.

- Foreign capital brings with it other scarce productive factors, such as technical know-how, business experience and knowledge.

The Role of Foreign Investment

The factors that propel sustained economic development have not changed o time. They include the generation and efficient allocation of capital and labour, application of technology and the creation of skills and institutions. These facts determine how well each economy uses its endowments and adds to them. They also affect how flexibly and dynamically each country responds to changing economic conditions, However, the global context for development has changed enormous the past three decades. These changes affect not only the role of FDI in host countries, but also government policies on EDT. The following three are of particular significance.

i. The nature and pace of knowledge - and, particularly, technological knowledge - change:

The creation and diffusion of productive knowledge have become central to growth and development. "Knowledge" includes not only technical knowledge (research and development, design, process engineering), but also knowledge of organisation, management and interfirm and international relationships. Much of this knowledge is tacit. Today, the resources devoted to such knowledge exceed investment in tangible machinery and equipment in many of the world's most dynamic firms, and the costs of generating new knowledge are rising constantly. The importance of knowledge is not limited to modern or high-tech activities but pervades all sectors and industries, including traditional activities in the primary sector (for instance, vegetable and flower exports), manufacturing (such as textiles, clothing and footwear), and services (such as tourism and banking). As a result, achieving development objectives is, more than ever, a continuous learning process. The sheer pace of technological change, in particular, is unprecedented arid is accelerating.

ii. Shrinking economic space and changing competitive conditions

Technical progress in transport and communications has caused economic space to shrink dramatically. Countries now face much more intense and immediate competition than ever before. This leads to a significant restructuring of their comparative advantages ad activities. The nature of competition itself is changing, with the rapid introduction of new products, shorter product cycles, flexibility of response to demand, and customer interaction becoming more important than traditional forms of competition based on lower costs. At the enterprise level, this calls for new management and technical skills and organizational forms. In many instances, it leads to flatter hierarchies and greater use of networking and cooperation between related firms and also competing firms (for instance, component suppliers now play a much more direct role in new technology development). At the national level, it requires countries to be more open to international flows of information, and to improve national capabilities to absorb and use that information: to develop new skills, institutions and innovative capacities. Countries that cart do that - either generally or in niche markets - can move up the value-added ladder.

iii. Changing attitudes and policy regimes

Most developing and transition countries have moved to market-oriented and private sector led economies. This shift reflects disillusionment with past strategies and growing. difficulties in pursuing them in the new technological and competitive setting. The shrinking of economic space has itself rendered elements of traditional strategies absolute while the flow of information has made governments more aware of policies a performance in other countries. Policy benchmarking in all areas is becoming more common which, in turn, puts more pressure on countries to innovate in the policy arena. There is widespread reduction and removal of trade barriers, deregulation of internal markets, privatization and liberalization of technology and investment flows at the national level. At the international level, regulation has intensified and is being harmonized. For instance, the TRIPS agreement of the Uruguay Round has introduced a common more rigorous, system of intellectual property protection; the TRIMs agreement established disciplines over certain performance requirements; and quality requirements such as ISO standards are becoming prerequisites for participating in international production and trade.

Foreign Direct Investment (FDI)

FDI refers to investment in a foreign country where the investors retain control over the investment. It typically takes the form of starting a subsidiary, acquiring a stake in an existing form or starting a joint venture in the foreign country. Direct investment and management of the firms concerned normally go together.

UNCTAD's World Investment Report define foreign direct investment (FDI) as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transaction between them and among foreign affiliates, both incorporated and unincorporated. FDI may be undertaken by individuals as well as business entities. Flows of FDI comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to an FDI enterprise. Or capital received from an FDI enterprise by a foreign direct investor. FDI has three components: equity capital, reinvested earnings and intra company loans. It may be nor=ted that the Government of India used to exclude reinvested earnings from the estimation of FDI in India. Government sources have, however, indicated that Government would redefine FDI including reinvested earning also.

FDI's are governed by long term considerations because these investments cannot be easily liquidated. Hence factors like long-term political stability, government policy. Industrial and economic prospects etc. influence the FDI decision. However, portfolio investments which can be liquidated fairly easily are influenced by short term gains. Portfolio investment are generally much more sensitive than FDIs. Direct Investment have direct responsibility with the promotion and management of the enterprise. Portfolio investors do not have such direct involvement with the promotion and management.

Foreign Portfolio Investment (FPI)

If the investor has only a sort of property interest in investing the capitals in buying equities, bonds, or other securities abroad, it is referred to as portfolio investment. That is, in the case of portfolio investments, the investor uses his capital in order to get a return on it, but has no much control over the use of the capital. There are mainly two mutual funds and through Global Depository Receipts (GDRs). American Depository Receipts (ADRs) and Foreign Currency Convertible Bonds (FCCBs)

Significance of Foreign Investment

Foreign investment is playing an increasing role in economic development. Economic development reforms and the far-reaching political changes have resulted in very substantial changes in the international capital flows. Foreign Development Investment (FDI) now contributes to a significant share of the domestic investment, employment generation, exports etc. in a number of economies. China isa classic example, where in 1997, FDI contributed about 15 per cent of domestic investment, 41 per cent of total exports, 19 per cent of industrial output, 13 per cent of tax revenue and 18 million employments.

The change in the composition of the capital flows and the substantial increase in the magnitude of some of the flows, like FDI, have remarkably changed the balance of payments and foreign exchange reserves position of several countries. The debt creating flows as a percentage of total flows in the BOP of India averaged as much as 97 per cent during the Seventh Plan (1985-90) but declined to less than 20 per cent by the mid-1990s. Eventually, India began to experience a surplus on the BOP and a very remarkable improvement in the reserve position.

Foreign investment has assisted and is assisting the economic growth of many countries. As a World Bank report points out, for the developing countries FDI has the following advantages over the official development assistance (ODA)

- FDI shifts the burden of risk of an investment from domestic to foreign investors.
- Repayments are linked to profitability of the underlying investment, whereas under debt financing the borrowed funds must be serviced regardless of the project costs.
- Further, it has also been observed that FDI is the only capital inflow that has been strongly associated with higher GDP growths since 1970.

Trends In Indian Industry

The different forms of foreign investments in India are:

Direct Foreign Investment

Foreign capital can enter India in the form of direct investments.

Foreign Collaboration

Joint participation of foreign and domestic capital: there are three types of foreign collaborations – joint participation between private parties, between foreign firms and Indian government and between foreign governments and Indian government.

Inter-Government Loans

Since the Second World War, there has been a growing tendency towards direct inter-government loans and grants.

Loans from International Institutions

International Monetary Fund (IMF), Aid India Consortium, Asian Development Bank (ADB) and the World Bank have been the major sources of external assistance to India.

External Commercial Borrowing (ECB)

Export credit agencies like the US Exim bank, the Japanese Exim Bank, and ECGC of the UK etc. to obtain commercial borrowing from the capital market.

The Government of India liberalized its policy towards foreign investment in 1991 to permit automatic approval for foreign investment up to 51 percent equity in 34 industries. The Foreign Investment Promotion Board (FIPB) was also set up to process applications in cases not covered by automatic approval. During 1992-93 several additional measures were taken to encourage direct foreign investment, portfolio investment, NRI investment, etc.

Foreign Collaboration

During the early phase of the planning era, the national policy towards foreign capital did recognize the need for foreign capital, but decided not to permit it a dominant position. Consequently, foreign collaborations had to keep their equity within the ceiling of 49 % and allow the Indian counterpart a majority stake. Moreover, foreign collaborations were to be permitted in priority areas, more especially those in which we had not developed our capabilities.

But in an overall sense, our policy towards foreign collaborations remained restrictive and selective. Consequently, during 1961-70 a total of 2,475 foreign collaborations were approved and during the next decade (1971 – 80) another 3, 041 collaborations were sanctioned.

It was only during the eighties that government relaxed its policy towards foreign collaborations. This was done specifically in respect of investors from Oil Exporting Developing countries with well-defined package exemptions. This was followed by Technology Policy Statement (TPS) in January 1983.The objective of the policy was to acquire imported technology and ensure that it was of the latest type appropriate to the requirements and resources of the country.

Foreign Investments by Countries

Technical collaborations were allowed on financial criteria i.e., royalty or lump sum payment or a combination of both. These relaxations resulted in a larger inflow of foreign direct investment and consequently, the number of approvals during the decade (1981 – 90) reached a record figure of 7,436 involving a total investment of Rs1, 274 crores.

Country-wise analysis of foreign collaboration reveals that USA was at the top accounting for nearly Rs.322.7 crores of investment. This was one fourth of the total foreign collaboration approvals. This was followed by Federal Republic of Germany (17.2%), Japan, UK, Italy, France and Switzerland. Five countries USA, West Germany, Japan, UK and Italy accounted for nearly 63% of total approved foreign investment. Even Non-Resident Indians (NRIs) contributed about Rs.113 crores accounted for 8.9 % of total investment.

Foreign Investment in India

The flow of direct foreign investment to India has been comparatively limited because of the type of industrial development strategy and the very cautious foreign investment policy followed by the nation.

Direct foreign investment (private) in India was adversely affected by the following factors:

1. The public sector was assigned a monopoly or dominated position in the most important industries and therefore, the scope of private investment, both domestic and foreign, was limited.

2. When the public sector enterprises needed foreign technology or investment, there was a marked preference for the foreign government sources.
3. Government policy towards foreign capital was very selective. Foreign investment was normally permitted only in high-technology industries in priority area and in export-oriented industries.
4. Foreign equity participation was normally subject to a ceiling of 40 per cent, although exceptions were allowed on merit.
5. Payment of dividends abroad, repatriation of capital, etc. as well as inward remittances were subject to stringent laws like the Foreign Exchange Regulations Act (FERA), 1973. This discouraged foreign investment.
6. Corporate taxation was high and tax laws and procedure were complex.

Thes factors either limited the scope of or discouraged the foreign investment in India.

Foreign Investment by India Companies

Until 1991, Indian companies made very little investment abroad. Although government of India's policy had been one of encouraging foreign investment by Indian companies, subject to certain conditions, several factors like the domestic economic policy and the domestic economic situation were deterrents to foreign investment by Indian Companies.

By restricting the areas operation and growth, the government policy seriously constrained the potential of Indian companies to make a foray into the foreign countries through investment. Added to this was the attraction of the protected domestic market which was, in many cases, a seller's market and this made the Indian companies ignore the foreign markets.

Indian companies have established subsidiaries and joint ventures in a number of countries in different manufacturing industries and services sectors. The liberalisation, both global and domestic, has imparted a global orientation to Indian business so that there has been a substantial increase in Indian investment abroad. FDI outflow from India crossed $18 billion in 2008 compared to the Annual average of $121 million during 1900-2000.

An UNCTAD report observes that India also stands out among Asian investors, not so much because of its recent and significant increase in outward FDI and because of its potential to be a large outward investor, but because of the new trend set by some of its information technology (IT) firms. Most Indian outward FDI is in manufacturing (about 55 per cent), but non-financial services also account for a significant share (25 per cent). FDI in IT services in particular has begun to grow rapidly. The growing technological capabilities of Indian firms and their rising exports, particularly in IT services and pharmaceuticals, are driving the FDI growth. Access to markets, distribution networks, foreign technology and strategic assets such as brand names, are the main motivations. Securing natural resources is also becoming an important driver for FDI in the oil and gas industries and mining.

The most important destination for Indian FDI has been the United States, accounting for nearly one-fifth of its total outward flows since the mid-1990s to 2003, followed by the Russian Federation (with 18 per cent) mainly due to acquisitions in the oil and gas industries. Overall, however, about half of total Indian outward FDI has gone to other developing countries.

Strategic M&As have been finding favour with corporate India too. M&As by Indian companies involving foreign firms fall into three categories, viz., acquisition of foreign firms. Acquisition of MNC affiliates in India and acquisition of foreign brands.

Foreign investment, both in greenfield enterprises and mergers and acquisitions(M&A), is clearly a part of the globalisation strategy of many Indian companies. Recently, there has been a spurt in FDI by India companies

Foreign Investment by Industries

An industry-wise analysis of foreign collaboration approvals reveals that electrical and electronic (including telecommunications) accounted for 22% of the total approval, indicating highest priority to this sector, followed by industrial machinery 15.5%. Foreign collaboration in chemicals (other than fertilizers) was third in importance. By and large it may be stated that the priority sector accounted for about 70% of total approvals. It implies that foreign collaborations approvals were more or less in conformity with the general climate towards foreign capital in the country at that time.

Financial And Technical Collaborations

Foreign collaborations are of two types:

- **Technical approvals** involving payments for technology
- **Financial approvals** involving equity capital of an existing or new undertaking.

Upto Rs.600 crores the Industry Ministry accords approval on the advice of Foreign Investment Promotion Board (FIPB), but larger projects over these limits are approved by Cabinet Committee on Foreign Investment (CCFI).

Sources Reveal:

- Financial collaborations were just 20.1% during 1981 – 1985, their share improved to 28.8 % during 1985 – 90 but rose sharply to 72% during 1991- 1997.
- The amount of approved investment also increased sharply from Rs.899 crores during 1985 – 90 to Rs.1, 73,510 crores in August 1998.

Obviously, there is a shift from technical approvals to financial approvals during the post liberalization phase. However, Government has been successful in attracting more foreign investment in the post liberalization phase as compared to the earlier period.

Takeovers And Implementation of Foreign Collaborations

Indian entrepreneur seems to have lost it bargaining power and well-known Indian brands have been taken over by TNCs. It needs to be emphasized that takeovers do not add to new production capacities. On the contrary, there are likely to add to higher outflow of foreign exchange. In foreign collaborations, transfer of superior technology has not been the main consideration.

Some Recent Takeovers

- ICI (UK) attempted to take over Asian paints.
- Hindustan lever took over Tomco.

- Premier automobiles transferred two of its plants to Peugeot.
- Transfer of Lakme's brand to a 50:50 joint venture with the Levers.
- TVS Suzuki takes up Hero Honda.
- Whirlpool took over TVS Whirlpool.
- Suzuki's attempt to gain majority control in Maruti Udyog.
- Bridgestone increasing its stake from 51% to 74 % in joint venture with ACC.
- Bausch & Lomb increasing its share in Indian venture to 69%.
- Henkel increasing its share to 70%.
- Blue star edged out of Motorola Blue Star and Hewlett Packard India.
- Shriram's share got reduced in Shriram Honda Power.
- Once the Indian partners transferred the units, they neither had the money nor the marketing network with them.

FDI and the Indian Stock Market

- Stock market is an ideal form of organization, which by providing easy liquidity encourages the public to invest, and this brings out the latent surplus in the economy.
- For this purpose, the shares of good promising companies should be listed on the market. During the 70's and 80's, a good number of blue chips TNC scripts got listed. Notable among them were: Abbot Labs, Burroughs Wellcome, E.Merck, Eskayef, Fulford, Hoechst, May & Baker, Organon, Parke Davis and Wyeth.
- The chief objective of offering shares to the public by the affiliates could not be to raise fresh capital from the public, but was only a strategy of diluting foreign equity without reducing their foreign parent's quantum of investment.
- In the post-liberalization period, the policy was reversed. At the first available opportunity, many foreign affiliates raised foreign equity to majority levels.
- While raising share of foreign equity to majority level, most TNCs indicate a tendency to avoid the stock market. TNCs are side-stepping the stock market and they sell off the existing units to locals and promote Wholly-Owned-Subsidiaries (WOS) or transfer certain divisions / products to Wholly-Owned-Subsidiaries of the

parent company.

- The number of technical collaborations declined from 629 in 1997 – 1928 to only 299 in 2003 – 2004. There was a tendency to convert purely technology transfer arrangements later into financial collaboration by buying the equity share of the concerns.

Foreign Capital and Collaboration – A Critical Assessment

- Transfer of technology can be affected with more investment being made by technologically advanced MNCs. But there are aspects of foreign direct investment which seriously impinge on people's welfare and national sovereignty.
- Nearly half of the Foreign Investment is in the nature of portfolio investment, which only strengthens speculative trading in shares. This only underlines the fact that MNCs are able to manipulate the stock market to suit their goals.
- Foreign direct investment is catering to the needs of the upper middle and affluent classes. Consequently, there is an utter neglect of the wage goods sector.
  - Portfolio investment made in India is in the nature of hot money, which may take to flight, if the market signals indicate any adverse trends. Thus, it would be a mistake to treat portfolio investment as a stable factor in our growth.
  - A larger inflow of foreign direct investment, more so in the financial sector, will lead to building of reserves, which in turn will expand domestic money supply. Consequently, inflationary trend of prices gets strengthened in the process.
  - MNCs after their entry are rapidly increasing their shareholding in Indian companies. This has resulted in a number of takeovers by the MNCs and thus, the process of Indianization of the corporate sector has been totally reversed.

Self-Assessment Questions:

1. Describe the need of foreign capital for economic growth.
2. What are the forms of foreign capital? List the major investing foreign countries in India.
3. Explain the concept Financial and technical collaborations.

4. Why should have collaborations? Explain the various strategies of collaborations.
5. Critically examine the impact of FDI on Indian stock market.
6. Examine the relationship between FDI flows and liquidity and volatility of stock market.
7. Trace out the growing significance and major forms of takeover in India.
8. Outline the trade and pattern of industrialization in India.
9. Examine the growth and future perspective of Indian industries.
10. What is 'Geopolitical Dimension'? Give its relevance in today's global environment.
11. Describe the need and emergence of new dimension of business environment, 'geopolitical transformation'.

Key Words

- Foreign direct investment (FDI) is investment directly into production in a country by a company located in another country, either by buying a company in the target country or by expanding operations of an existing business in that country.
- Subsidiary Company: A subsidiary company, subsidiary, or daughter company is a company that is completely or partly owned and wholly controlled by another company that owns more than half of the subsidiary's stock.
- The International Monetary Fund (IMF) is an international organization that was created on July 22, 1944 at the Bretton Woods Conference and came into existence on December 27, 1945 when 29 countries signed the Articles of Agreement.

Further Readings

1. Don Mayer, Daniel Warner, George Siedel and Jethro K. Lieberman, **Business Law and the Legal Environment**, Palgrave Macmillan publishing, New York, 2011.
2. Jane P. Mallor, A. James Barnes, L. Thomas Bowers and Arlen W Langvardt, **Business Law: The Ethical, Global and E-Commerce Environment**, McGraw-Hill/Irwin, 2004.

Case Study1: Alliance between Renault and Nissan

The alliance between the French car manufacturer, Renault and its Japanese manufacturer Nissan was formed in 1999. Renault initially bought 36.8 percent equity stake in Ni9ssan in return for Nissan's 15 percent non-voting stake in Renault. Renault later increased its investment in Nissan to 44.4 percent. The alliance is in effect a joint venture between the two companies, given the cross-share holdings between them, but it is not a merger, each company remains legally separate with its own brands and market share.

However, the alliance gave Renault management control of Nissan and, since 2005, the two companies have had a single chief executive, Carlos Ghosn.

The remarkable aspect of the alliance is the very different backgrounds of the two companies. Renault had been state owned and during the 1980s the company underwent major restructuring to improve the performance. In 1995, it was largely privatized, with the French government retaining a minority shareholding. Nissan on the other hand, had reached the peak of its international success by the end of the 1090s, producing high specification vehicles at its highly productive, state-of-the-art factories. The main things the two companies had in common were their status as symbols of national pride 9especially in the case of Renault) and their roots in their respective national cultures.

By 1999, however, when the alliance was formed, Renault had become more adventurous, producing imaginative cars and enjoying its new-found commercial freedom in the private sector, while Nissan still a highly productive company – had built up debts of $2000 billion (then about $15 billion), a legacy of its reliance on loan capital to finance its domestic and international expansion. The alliance gave Renault an opportunity to venture into Nissan's markets, share, technology and design skills, and achieve cost savings using common suppliers. Nissan was given a rescue line to allow it to return to profitability. Both companies became more significant players in the global significant player in the global car market, with their joint sales placing them close behind the market leaders, Toyota, General Motors, Dialmer, and Ford.

The Renault-Nissan alliance represents a cultural conundrum. Carlos Ghosn was brought in as chief executive of Nissan in 1999 by Renault's long-standing chairman and chief executive, Louis Schweitzer.

Schweitzer had transformed Renault in to a successful company and Ghosn was expected to turn Nissan's fortunes round after the alliance was formed. Ghosn was remarkably successful in achieving this goal, helping to reduce Nissan's enormous debt and excess capacity, cut costs, and return the company to profitability by 2001. He then set about introducing new models, Carlos Ghosn's own cultural background is intriguing; he was born in Brazil to Lebanese parents, but educated in France. At Nissan, he gained a reputation as 'le cost killer,' a curious amalgam of French and Anglo-Saxon cultures, both linguistically and socio-economically. Using an approach more commonly associated with the Anglo-Saxon model, Ghosn was able to build on the success of a French company to transform a quintessentially Japanese company. Surprisingly, he encountered as much praise as resistance from Japanese citizens when closing Nissan plants in Japan and making workers redundant, something normally alien to Japan's collective corporate culture. At the very least, the Japanese were starting to re-valuating their conventional ideas. Japan had by this time already experienced a decade of economic stagnation and falling corporate profitability, and there was a growing realization that difficult times required drastic measures.

Answer the following:

a. Why did Nissan, along with other Japanese companies, get in to difficulties during 1990s?
b. In what way have both Nissan and Renault benefited from alliance synergies since 1999?
c. Why do you think Renault and Nissan have decided to keep the two companies separate, despite their joint overall management?
d. Explain the differences and similarities between Japanese and French Cultures in relation to the main dimensions of culture.