

BUSINESS ENVIRONMENT

STUDY MATERIAL

M.COM

SEMESTER I

PAPER I

(2015 Admission Onwards)



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SCHOOL OF DISTANCE EDUCATION

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Prepared by:

Dr. Thomas Paul Kattookaran
Associate Professor and Head,
Research and Post Graduate Department of Commerce
St. Thomas' College (Autonomous), Thrissur

Scrutinised by:

Dr. Yakoob . C.
Reader and Research Guide,
SS COLLEGE, AREACODE.

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Preface

Environment or surrounding is crucial as far as every business firm, irrespective of their nature-small or medium, manufacturing or service- is concerned. If a business firm wants to sustain in its area of operations, it must be well adapted to the surroundings in which it is. Otherwise, as an entity, it may be unsuccessful as it fails to exploit opportunities in the external environment, tackle problems or threats, and to reinforce its strengths. Business decisions, in general and strategies in particular are framed in accordance with the business environment. External environmental components like nature of the economy, economic system, political and legal factors and internal elements like organizational structure, human resource, cost structure etc are playing a decisive role in forming the destiny of a business organization.

This book is prepared with the intention of benefitting SDE students of the Commerce and Management Studies in University of Calicut. The purpose of the book is to set a base in the post graduate students, on the subject Business Environment, by describing its various aspects such as internal and external environmental factors, structure and profile of the economy of India, concept of foreign investment and major multinational economic associations. I have taken every effort to make the content of this book simple, precise and instructive. I acknowledge with thanks the support provided by my colleagues, especially the Doctoral Research Scholars, Mr. Hareesh Kumar A.G, and Ms. Febina. K, in the preparation of this study material.

I expect the book will be helpful to students who are eager to learn the subject, but are restrained due to lack of foundation in Economics and Commerce.

To enrich and develop the contents of the book, suggestions are welcome at all times.

Dr. Thomas Paul Kattookaran

Thrissur

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MODULE I

Unit 1

INTRODUCTION TO BUSINESS ENVIRONMENT

The progress of every business depends largely on its ability to become accustomed to environment. For instance, if the government changes its economic policies, the firm should appropriately respond to that change. Likewise, a firm should keenly observe and respond properly to the technological changes capable of rendering the existing products obsolete. Thus it can be identified that the association between business and its environment is very close and continuous. This association helps the business firm to reinforce its capabilities and allocate its resources more efficiently.

As if living beings, business too has an ecology. To survive in this vibrant ecology, a firm needs its intrinsic abilities and strengths.

Meaning and definition of Business Environment

Business Environment can be defined as the combination of internal and external factors that influence a company's operating situation. The business environment can include factors such as: clients and suppliers; its competition and owners; improvements in technology; laws and government activities; and market, social and economic trends.

Business Environment literally means all those aspects that have a bearing on the business such as its strengths, weaknesses, internal power relationships and orientations of the organization; government policies and regulations; nature of the economy and economic conditions; socio-cultural factors; demographic trends; natural factors; and, global trends and cross-border developments.

Business environment plays a key role in shaping the business decisions and strategies of a firm. The opportunities and threats for a business come mainly from its external environment which includes factors like economic, political, technological and social. Similarly, the internal factors like managerial capabilities, efficiency in resource utilization etc make an organization strong or weak.

Characteristics of Business Environment

Business environment has the following characteristics:

1. Environment is Complex

Business environment is complex because it is continuously exposed to countless challenges, like technological disruptions, global competition, leadership change, shifting economic, social, and regulatory conditions etc. It is very stressful for a firm to survive and prosper in such an environment.

2. Environment is Dynamic

Both the internal and external environments of business are highly dynamic or vibrant owing to the following:

- customer preferences keep evolving,
- New competitors enter the market.
- Arise of novel technology.
- New marketing channels.
- New resources.
- New policies.
- Changing demography.

3. Environment is uncertain.

Not anything can be assumed with any degree of certainty about the factors of the business environment because they continue to change quickly.

The dimensions of uncertainty include the following:

- *Macro-environmental uncertainty*: This is the uncertainty in the organization's general environment, including political, regulatory, statutory, and economic conditions. This uncertainty has the capacity to reduce an organization's capability for mapping out and pursuing strategic choices (Miller and Friesen 1984).
- *Competitive uncertainty*: This is the uncertainty regarding the assessment of relative powers of competitors, their future courses of action, and strategies.
- *Market (and demand) uncertainty*: This uncertainty stems from lack of clarity in the dynamics of the market and their effects on the organization's operations, and demand and supply conditions in the industry.
- *Technology uncertainty*: This uncertainty owes to change in the industry's technological resources and capabilities.

4. Relativity

Business environment is related to the local conditions and this is the reason as to why the business environment occurs to be diverse in different countries and different even in the same country at different places.

5. Interrelatedness

The different factors of business environment are co-related. For example, let us suppose that there is a change in the import-export policy with the coming of a new government. In this case, the coming of new government to power and change in the import-export policy are political and economic changes respectively. Thus, a change in one factor affects the other factor.

Significances of Business Environment

The business environment is complex, multifarious and vibrant in nature and has an in-depth impact on the endurance and development of the business. Having a worm's eye view on the firm's environment can be beneficial in the following ways:

- a) **Revealing opportunities and threats**: Keen observation on the firm's environment will bring out the opportunities and threats hidden in the environment, so that the firm can meet challenges triumphantly.
- b) **Providing guidance for growth**: Firms will be directed towards new edges of growth if it has some proper communication and involvement with its environment.
- c) **Makes a firm strong or weak**: It is the internal factors of a business like employee efficiency, efficiency in resource utilization, better management of costs etc make an organization strong or weak. To be robust and resilient, a firm should keep up its internal environment solid.
- d) **Continuous learning**: The management can easily confront challenges with proper environment analysis. The vibrant environment inspires managers to renew and revise their acquaintance and awareness to meet the foreseen variations in business territory.
- e) **Foster impression**: A firm becomes an icon among other firms in the industry if it positively susceptible to the environment within which they are. For example, in view of the call out against environmental pollution, many firms are producing eco friendly products.
- f) **Meeting rivalry**: Numerous firms face cut throat competitions in today's scenario. But proper environmental analysis will enable a firm to analyze the competitors' strategies and counteract effectively.
- g) **Retrospection**: Proper analysis of environment keeps a firm retrospective as it can effectively spot its strengths, weaknesses, opportunities and threats.

Environmental analysis

Environmental analysis refers to the process of identifying the external and internal elements, which can affect the performance of an organisation. The analysed facts will then be used for formulating strategies and taking decisions, so as to exploit opportunities and enhance strengths, and to minimize threats and weaknesses.

Stages of environmental analysis

1. Scanning the environment.

Environmental scanning is primarily done for identifying the factors which may have implications on the business. This is the prime step to be done in environmental analysis. A good scanning of environment can reveal so many hidden factors in the environment.

2. Monitoring particular factors spotted.

In the process of scanning, some particular factors which need due attention might have been identified. At this stage of analysis, such factors or trends evolving should be undergone for keen understanding. The outputs of monitoring are therefore, a precise picture of the environmental issues, identification of tendencies for additional scrutiny and recognition of patterns demanding further scanning.

3. Forecasting

It refers to anticipating the future threats and opportunities for formulating strategic plans. It can be defined as Estimating the intensity, nature, and timing of the external forces that may affect the performance of a firm, disrupt its plans, or force a change in its strategies.

4. Assessment

Assessment refers to realizing implications or probable impacts of those factors which may cause threats and provides opportunities.

Environmental analysis has some advantages like better relationship between environment and organization, recognition of opportunities, threats, strengths and weaknesses by the organization, risk identification, efficiency in operation etc. Also it is not free from limitations. Its major drawbacks include wrong selection of variables for analysis, perceiving environmental analysis as a solution rather than a way for success etc.

SWOT Analysis

It is an important form of business environment analysis, which is accepted all over the world. A SWOT analysis (alternatively SWOT matrix) is a configured planning method used to assess the strengths, weaknesses, opportunities and threats involved in a project or in a business venture. It is not feasible for an organization to exploit all the opportunities present in the environment due to the short of strengths and abilities. It may also fail to successfully overcome threats due to the lack of capabilities. Proper Strength, Weaknesses, Opportunities, and Threats (SWOT) analysis may reveal that the company is not efficient in particular fields of business. It can give up such business activities and concentrate more on competent areas.

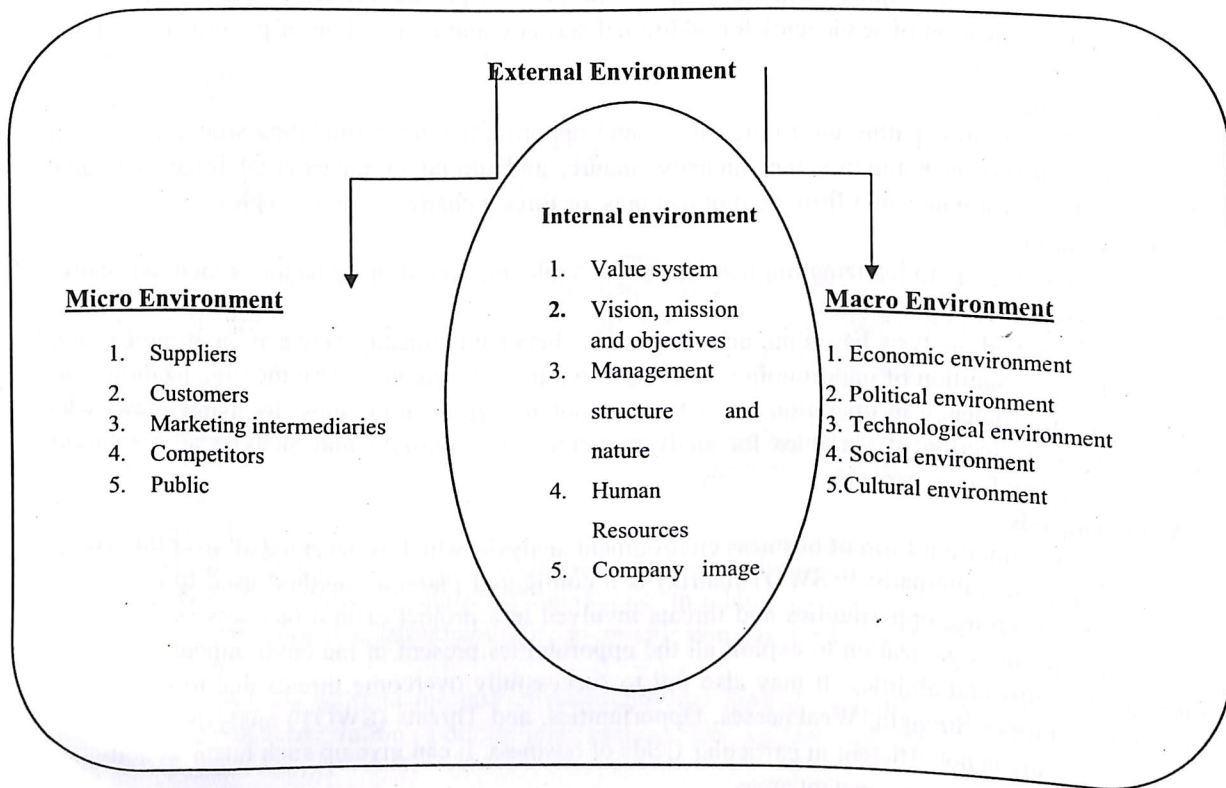
A firm's strengths are its resources and abilities that can be used as a foundation for expanding competitive advantage. It includes factors like better brands, reputation and goodwill, cost reduction etc. Similarly, weaknesses include those zones where the firm is not strong. For instance, high cost structure and inefficient production processes may keep a firm weak. Opportunities are the factors which open doors to profitability and expansion for a firm, and are present in the external environment of a business. Novel technologies developed, a particular need of consumers etc can be seen as opportunities for improvement. The vibrant external environment can challenge the prosperity of an enterprise by throwing threats against it. Such threats include, a new policy of regulation by government, steeply increasing cost of raw materials etc.

In SWOT analysis, one has to identify all the four factors. Strengths should be enhanced and weaknesses should be eliminated for effectively reaping benefits of opportunities and avoiding challenges of threats.

Merits of SWOT analysis

- a. It is a source of information for strategic planning.
- b. Builds organization's strengths.
- c. Helps to deplete firm's weaknesses.
- d. Maximize organization's response to opportunities.
- e. Overcome organization's threats.
- f. It helps in identifying core competencies of the firm.
- g. It helps in setting of objectives for strategic planning.
- h. It gives a clear picture of the past, present and future aspects of the organization.

Figure 1: Components of Business Environment



modifications in these factors:

2. External Environment

These are factors existing outside the business and are beyond its control to a large extent. The external business environment is classified again in to micro and macro environment. Micro environment consists of those factors which have a direct and intimate impact on the firm. E.g.: Suppliers and distributors of the firm. The micro environment is also known as task environment or operating environment. Certain factors like economic policies of the government; demographic factors etc affect the industry as a whole and is known as macro environment of business.

Internal Environment

The prominent internal factors which have implications on the tactics and decisions of a business organization are given below:

1. **Vision, mission and objectives**

Concepts like vision, mission and objectives of a company plays a key role in deciding business province, preferences, course of development, business philosophy, business policy etc. The mission of Tata Consultancy Services (TCS), that is to help customers achieve their business objectives by providing innovative, best-in-class consulting, IT solutions and services, enabled it to be one of the triumphant companies of the world.

2. **Values.**

Factors like mission and objectives of the organization, business policies and practices are moulded based on the values of the founders and pioneers of the organisation. Endorsing and dissemination of strong values by the whole organization leads to its success while weak value base ends up in its failure.

3. **Management structure and nature**

Factors like organizational structure, the composition of the board of directors, level of professionalization of management etc have a sway upon business decisions and strategies. Quick decision making is easily enabled by some management structures while some others cause delay in it.

4. **In-house authority liaison.**

It intends that certain features like support from different levels of employees to the top management, shareholders and board of directors etc are swaying decisions and strategies.

5. **Human Resources**

The attributes of the employees like soft and hard skills, eminence, self-esteem, dedication, attitude and aptitude etc could add to the strength and weaknesses of an organization.

6. **Owners**

Owners are people who have invested their fund in the company and have property rights and claims on the organization. Owner can be an individual or a group of persons who created the company; or who purchased the shares from the share market. They have the right to change the company policies at any time. Hence it can be said that they are a decisive component of the internal environment.

7. **Board of Directors**

The board of directors is the governing body of the company who are elected by stockholders, and they are given the responsibility of administering a firm's top managers and other officials. They have crucial control over the internal environment.

8. **Company image and brand equity.**

The image of the company have a say in doing operations like mobilization of finance, materialization of joint ventures or other alliances, entering purchase or sales contracts, marshalling raw materials, opening new product lines etc.

9. **Research and development**

Good research activities undertaken by an organization is a strong internal component that can contribute to its prosperity as such a venture will enhance its reputation and can exploit first mover advantage.

10. **Technological factors**

Factors like introduction of new technology, its effective exploitation etc have a sway on the affluence of the business. There are a number of other internal factors like physical assets and facilities like production capacity, marketing capabilities like marketing personnel and distribution networks etc. The top management of the firm can renovate the internal environment with more strength and less weaknesses.

Unit 2

EXTERNAL ENVIRONMENT OF BUSINESS

External Environment

The external business environment of a firm can be classified into micro and macro environment.

Micro Environment

The micro environment or task environment encompasses those forces in the close surrounding area of an organization that influence its functioning. Even if it is external to an organization, micro factors need not affect all the firms in a particular industry in an equivalent manner. Some of the micro factors may be unique to a firm. It embraces the following factors:

1. Suppliers

Suppliers of raw materials, components and semi finished goods are very prominent for a firm. They operate as an important force within the micro environment of the firm.

2. Marketing intermediaries

It includes the firms that assist the company in promoting, selling and distributing its goods to final buyers. They are operating in the micro environment.

3. Customers

As far as any business firm is concerned, creation and maintenance of customers are of utmost importance. Triumph of a business principally depends on realising the needs, desire and tastes of customers.

4. Competitors

Every organization has a competitive environment. Activities of a business should be adjusted according to the actions and reactions of competitors. An enterprise will be facing direct and indirect competition from many rivalries. A firm should monitor the activities of the competitors in its micro environment and should counteract accordingly.

5. Public

Public refers to any cluster that has actual or potential interest in the business activities. Such clusters can exert influence on the business. e.g., growth of consumer groups may affect the working of newly developed businesses.

6. Financiers

The term financiers include commercial banks, money lending institutions, private persons etc who have lent money for business operations. In addition to the financing capabilities, their policies and strategies, attitudes, ability to provide non-financial assistance etc are vital.

7. Regulators

Regulators are units in the task environment that have the authority to control, regulate or influence an organization's policies and practices. Government agencies are the main player of this environment.

8. Strategic Partners

They are the organizations and individuals with whom the firm is in an agreement or understanding for the benefit of the organization. Such strategic partners may influence the organizations activities in various ways.

Macro Environment

A company along with its micro environment situate in a bigger macro environment. This micro environment provides opportunities and poses threats to a firm. The macro forces are generally more uncontrollable and the success of a company depends on its adaptability to the environment. A firm cannot exercise effective control on the factors of macro environment and only the degree of adaptability it has to that particular environment can direct it to success.

The macro environment of a firm consists of the following:

1. Economic environment

The Economic environment includes broad factors like structure and nature of the economy, the stage of development of the economy, economic resources, the level of income of the economy, the distribution of income and assets among citizens, linkages with global economy, economic policies etc. Important economic factors are:

a) Degree of economic development.

Extent of development of a country's economy can exert influence on the business prosperity in many ways. Factors like nature and size of demand, government policies affecting business etc derive basically from the level of economic development of a nation. Economies can be classified in to three as low income, middle income and high income countries, on the basis of the degree of development.

In a developing country, the low income may be the reason for the very low demand of the product. Such a circumstance may even necessitate the development of a new low cost product. For instance, Colgate devised a simple, hand driven, low-cost (\$10) washing machine for low income buyers in less developed countries.

On the other hand, businesses will prosper in those economies which are highly developed, and where investment and income are swiftly rising.

b) Structure of the economy.

The structure of the economy encompasses factors such as contribution of different sectors like primary (agricultural), secondary (industrial) and tertiary (service) sectors. Large, medium and small sectors, integration of the domestic economy with the world economy etc are imperative to business because these factors designate the prospectus for different types of business.

The character of each sector and its various components has bearing on the business. For instance, even if we are in the first place in the production of several agricultural products, we cannot collect and process crops efficiently because of the small and scraped nature of the land possession. Agricultural inputs business may be affected by this.

c) Economic policies.

Economic policies like industrial policy, trade policy, foreign exchange policy, monetary policy, fiscal policy, and foreign investment and technology policy etc can exert high influence on business operations. While some enterprises get benefits out of certain government policies, others may suffer.

- Industrial policy

Policies on industries usually define the role and objectives of different sectors like private and public, large, medium and small etc. Businesses would be compelled to change their operations in accordance with the new policy regime.

- Trade policy

A preventive import policy of the government may do benefits to the home industries.

- Fiscal and monetary policies

Fiscal policy includes the government's tactics on public expenditure and revenue. It can restrain or foster business operations. Similarly, a policy of the Reserve bank to restrain flow of credit can affect the savings, investments etc.

d) Economic conditions

Economic conditions refer to the state of the economy in a country or region. Economic conditions change over time. General economic conditions have an effect on business. Economies pass through periods of boom and recession. A boom is attributed by high levels of output, employment and rising demand and prices. A business can reap profits during the periods of boom and the reverse happens during recession.

Thus it can be inferred that all these factors make the economic environment of a business complex and it has to formulate its own policies for its survival.

2. Political Environment

It primarily comprises of the country's government's actions which may influence the operations of a company or business. These actions can be on different levels like local, regional, national or international. The decision makers should observe the movements of the government keenly, so that they can make quick decisions.

Increase or decrease in tax level is one factor in political environment. Such decisions will directly affect the business. Government interferences like shifts in interest rate can have an effect on the demand patterns of company. The political environment is one among the least predictable elements in the business environment. Major political factors affecting business are,

- Bureaucracy
- Corruption level
- Freedom of the press
- Tariffs
- Trade control
- Employment law
- Environmental Law
- Health and safety law
- Competition regulation
- Tax policy (tax rates and incentives)
- Government stability and related changes
- Government involvement in trade unions and agreements
- Import restrictions on quality and quantity of product
- Intellectual property law (Copyright, patents)
- Consumer protection and e-commerce

3. Technological environment

Along with determining the destiny of an organization, technology can contribute to the economic and social development of a nation. Factors like the type of technology in use, the level of technological developments, the speed with which new technologies are adopted and diffused, the type of technologies that are appropriate, the technology policy etc has deep implications on the prospects of the business.

Technology can be bifurcated into the tools-both machines (Hard Technology) and ways of thinking (Soft Technology) - accessible to crack problems and uphold progress between societies. Technological environment of a firm includes the following.

• **Innovation**

It is the eminent economist, Joseph Schumpeter, who upheld the value of innovation in the development of a business firm and society. There are three types of innovations as Radical invention of steam engine or steam boat, incremental innovation (altering an existing technology system that does not modify functionality but improve performance) and next generation technology innovation (similar to incremental innovation but improve performance dramatically).

- Technology leadership and followership
A firm seeking better technologies can either become a technology leader or follower. Leadership refers to becoming the first in introducing a particular technology and followership means a firm chooses not to become first on innovations.
- Technology may augment the competitive advantage of a firm in the following ways:
 - Technological transformation may reduce cost and it will boost a firm's differentiation abilities with other similar firms.
 - Initiating the technological change may give first mover advantage to a firm.
 - Technological change will improve the overall industrial structure.

4. Social Environment

The social environment of business includes social factors like customs, traditions, values, beliefs, poverty, literacy, life expectancy rate etc. The social structure and the values that a society cherishes have a considerable influence on the functioning of business firms. For example, during festive seasons there is an increase in the demand for new clothes, sweets, fruits, flower, etc. Due to increase in literacy rate the consumers are becoming more conscious of the quality of the products. Due to change in family composition, more nuclear families with single child concepts have come up. This increases the demand for the different types of household goods. It may be noted that the consumption patterns, the dressing and living styles of people belonging to different social structures and culture vary significantly.

Social responsibility of business

It signifies that all activities a business does over and above the statutory requirement comes under corporate social responsibility. It depicts that the business has some more moral responsibilities towards the society.

Archie. B. Carroll defines Corporate Social responsibility as the entire range of obligations business has to society. He has derived four models of Corporate Social responsibility as follows:

1. Economic
Since the firm is primarily an economic entity, its activities should contribute to the prosperity of the economy.
2. Legal
A company is legally bound in many aspects and it is ought to obey the law of the land.
3. Ethical
These are certain standards which the society expects the business to do though they are not demanded by the law. Eg: Avoiding corruption and unfair trade practices.
4. Discretionary
These are the voluntary contributions of the business to the social affluence like participation in the community development programmes.

Business ethics

Business ethics means the conduct of business according to some self recognized moral standards. What is expected from a business organization is that conduct of business in an advantageous way to the interests of society and the business sector. The important ethical principles that a business should follow are:

- Stay away from deceiving customers by selling sub-standard products or by under-measurement.
- Evade distortion of competition
- Keep away from unfair trade practices like hoarding, black-marketing etc
- Keep activities like advertising, labeling, packaging etc accurate and sincere.
- Disburse taxes and other obligations on time

Corporate Social Responsibility Guidelines in Companies Act, 2013

The Ministry of Corporate Affairs has notified Section 135 and Schedule VII of the Companies Act 2013 as well as the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 to come into effect from April 1, 2014.

With effect from April 1, 2014, every company, private limited or public limited, which either has a net worth of Rs 500 crore or a turnover of Rs 1,000 crore or net profit of Rs 5 crore, needs to spend at least 2% of its average net profit for the immediately preceding three financial years on corporate social responsibility activities. The CSR activities should not be undertaken in the normal course of business and must be with respect to any of the activities mentioned in Schedule VII of the 2013 Act. Contribution to any political party is not considered to be a CSR activity and only activities in India would be considered for computing CSR expenditure.

Legal Environment

This includes a set of laws and regulations, which influence the business organisations and their operations. Every business organisation has to abide by, and work within the framework of the law. The important legislations that concern the business enterprises include:

- (i) Companies Act, 2013.
- (ii) Foreign Exchange Management Act, 1999
- (iii) The Factories Act, 1948
- (iv) Industrial Disputes Act, 1972
- (v) Payment of Gratuity Act, 1972
- (vi) Industries (Development and Regulation) Act, 1951
- (vii) Prevention of Food Adulteration Act, 1954
- (viii) Essential Commodities Act, 2002

In addition to the above legislations, the following are also form part of the legal environment of business.

- Stipulations of the Constitution: The provisions of the Articles of the Indian Constitution, principally directive principles, rights and duties of citizens, legislative powers of the central and state government also influence the operation of business enterprises.
- Judicial Decisions: The judiciary has to make sure that the legislature and the government function in the interest of the public and act within the boundaries of the constitution. The various rulings given by the court in diverse matters relating to trade and industry also influence the business activities.

5. Cultural environment

Culture of a particular region includes activities such as dance, drama, music and festivals. In its exact sense culture is understood as that composite whole which includes knowledge, belief, art, morals, law, customs and other capabilities and habits acquired by individual as a member of a society. The culture has two main traits:

- i) Shared value
- ii) Passage of time Culture of a society is shared by its members.

Cultural philosophy is passed from one generation to other generation. It is not confined to one particular period of time. The interface between business and culture can be summarized as follows:

- a. Culture creates people.
- b. Culture decides goods and services to be bought and sold in a particular region
- c. It defines people's attitude to business and to work.
- d. Explains the spirit of collectivism and individualism.
- e. Defines whether people are Ambitious or complacent.
- f. Education
- g. Family
- h. Authority
- i. Marriage
- j. Time Dimension
- k. Cultural Resources.

All the above said factors influence the business in one or other way. Hence it is important to understand all these factors for a successful business.

6. Labour Environment

The labour environment has some important roles in deciding business location and functioning. The Factors such as availability of labourers of different skill levels, productivity and cost of labour, flexibility of labour, attitude and behavioural pattern of labour, nature of trade unionism, labour legislations and the effectiveness of their implementation etc are important to business.

Labour standards which comprises of concerns like child labour, working conditions and labour welfare, wage levels, labour legislation and their execution, have come out as important issues in international business.

Factors like labour welfare norms, industrial relations of labourers etc can make far reaching impact on the business activities.

In India, previously, the business environment was very tough and rigid for private entrepreneurs. But after the economic liberalization policy adopted in 1991, the scenario witnessed for a sea change. In the post liberalization era, when, all but a few industries open to private sector, private entrepreneurship got enormous possibilities. Similarly, relief from the burden of license Raj made entry to and exit from various sectors easy.

Unit 3

TRADE UNIONS AND QUALITY CIRCLES

Trade union-Meaning

Trade unions are very important and decisive environment of business. Accountable trade unions would be favorable to the workers, business and the society, and negligent trade unions could be detrimental to all. The term trade union refers to an association of workers took shape to shield their privileges and augment their welfare.

Regulation of Trade Unions

Trade unions in India are regulated by the Indian Trade Unions Act 1926, amended from time to time.

Registration of unions

Any seven or more members of a trade union may, by subscribing their names to the rules of the trade unions and otherwise complying with the provisions of this Act with respect to registration, apply for the registration of the trade unions under this Act.

Functions of trade unions

According to the National Commission on Labour, the essential tasks of the trade unions are:

1. To guarantee fair wages for workers.
2. To ensure job security and improve working conditions.
3. To get better opportunities for promotion and training.
4. To advance the working and living conditions of labourers.
5. To provide for educational, cultural and recreational facilities.
6. To promote identity of interests of the workers with their industry.
7. To promote individual and collective welfare.
8. To offer co-operation in improving levels of production and productivity, discipline and high standard of quality.

Limitations and problems of trade unions in India

1. Low representation

Only a 'small' portion of the total workforce represents trade unions. In the unorganized sectors, unionization is not common. Immature trade unionism is a curse, in sectors like agriculture.

2. Small size and rising number.

Number of trade unions is increasing very much. Separation of existing unions into two or more segments is the prime reason for this mushroom like formation of new ones. These newly formed small unions face up to problems of feeble financial and managerial position, weak combined bargaining power, inter-union rivalry etc.

3. Penetration of Politics.

Infiltration of politics is a serious problem which troubles trade unionism in India. As an after effect of this, political enmity is stretched to trade unions, and each political party tries to have its own trade unions.

4. Outside leadership.

Majority of the outside leaders of trade unions perceive the union as a mean for fulfilling their personal ends. It causes a number of problems like inter-union rivalries, misdirection and misuse of trade union movement etc.

5. Inadequate funds.

Because of the low income of the Indian working class and the small number of members, the funds of the unions are very meager.

6. Illiteracy

Growth of the trade unions is stunted by the illiteracy and lack of education of the workers. As a result of the low level of education, workers are incapable to appreciate and contribute to the growth of trade unionism. This also results in outside leadership. The ignorance and indifference of workers may result in lack of proper control of the leadership and in misdirection.

7. Lack of integrity

Lack of integrity and dedication on the part of trade union leaders is a major drawback of trade unionism in India. Leaders betraying workers in their negotiations with the employer, exploiting their position and funds, using the union for vested interests etc. are not exceptional.

Trade union movement in India

The trade union movement, originated in India in the first quarter of the twentieth century and it was merely from the end of the First World War that it assumed impetus. The new awakening was an aftermath of those days' economic and political conditions. During the war, prices rose steeply with no tallying rise in the wages, though the employers had amassed substantial profits. It ended up in a pervasive labour conflict in the post war period. Consequently, several new unions formed. Freedom struggle incidents of India like non-co operation movement etc deeply influenced the working class.

Creation and development of trade unions in India were also motivated by the setting up of the International Labour Organisation, of which India was a founder member. An important milestone in the history of trade unions was the passing of the Trade Unions Act of 1926, which deals with the registration of trade unions, their rights and responsibilities.

Quality Circles (Q.C)

Quality Circle refers to a voluntary group of people who get together frequently to spot, evaluate and resolve quality, productivity, cost reduction, safety and other problems in their work area, directing to progress in their performance. The optimum range of a Quality Circle is around 10 members.

Origin and development

The concept of Quality Circle came to light in Japan in the 1960s. It was Dr. Kaoru Ishikawa, a Japanese Chemical Engineer and quality control expert, who conceived and introduced the present form of Quality Circles. Quality circles played a key role in transforming Japanese industries quality oriented at a minimal cost. Soon, the concept spread to other countries too.

Structure of Quality Circle

1. Top management

Top management should back Quality Circle to ensure its success.

2. Steering committee.

It includes the heads of major departments of the organization and is supervised over by the chairman who is preferably the chief executive of the organization. The steering committee lays down the goals and objectives for the Quality Circle, sets up operational guidelines, and takes an outline of the Quality Circle activities.

3. Facilitator

He is a senior officer proposed by the management for assisting and guiding Quality Circle activities in his area. He has the following functions:

- Liaisoning with the coordinator on all aspects of Quality Circle
- Implementation of all Quality Circle policies, procedures and code of conduct.
- Upward and downward communications in respect of Quality Circles.

4. Leader

Every Quality Circle must have a leader who has to persuade members to vigorously participate in the Quality Circle activities, ensure proper conduct of the Quality Circle meetings, make regular progress reports and maintain circle records.

5. Members

They are the group of workers who have voluntarily formed the Quality Circle. They are the core part of any Quality Circle.

Objectives

1. Lessen errors and augment quality and productivity.
2. Instigate more effective team work.
3. Promote job involvement and participation.
4. Boost employee motivation.
5. Generate problem solving capability.
6. Build an attitude of problem prevention.
7. Improve communication in the organization.
8. Expand harmonious manager-worker relationship.
9. Promote personal and leadership development.
10. Develop greater safety awareness.
11. Promote cost reduction.
12. Catalyze attitudinal changes for greater cohesiveness and team-work.

The process of Quality Circles

1. Identification of problems.

Quality Circle identifies several problems in their work area such as low quality, productivity problems, high cost structure etc. Brainstorming is the effective way bringing out employees' work related problems.

2. Problem selection

All the problems came out through discussion cannot be considered by a Quality Circle due to the deficiency of various kinds of resources. Hence, certain problems which demands urgent attention will be selected for finding out resolutions.

3. Problem analysis.

Quality Circle analyses the selected problems, sometimes with the help of adepts in the area.

4. Recommendation to the top management.

This is the final stage of a Quality Circle. The matters analyzed and discovered are communicated to the departmental heads in the first instance, normally once in 7-8 weeks, and selected cases of all circles are presented to the top management, normally, once in 2-3 months. The top management takes decisions on the transacted matters.

External Factors Influencing Business Environment

1. Economic environment

On the basis of the economic development, nations in the world have been bifurcated in to developing and developed countries. Nearly three fourth of the nations of the world are developing countries, inhabited by about 85 percent of the world population.

The developing countries fall in to two categories. Viz. low income and middle income countries. The differences in the levels of development and income have implications for the business.

2. Social environment.

It covers the religious aspects, language, customs, traditions and beliefs, tastes and preferences, social stratification, social institutions, buying and consumption habits etc. In international business, it is to be noted that culture varies from regions to regions and what is in the vein of one culture may not be liked by the other.

3. Demographic environment.

Factors such as size of the population, population growth rate, age composition, family size, nature of the family etc have very significant implications for business.

4. Political and governmental environment

The political environment including the characteristics and policies of the political parties, the nature of the Constitution and government system and the government environment encompassing the economic and business policies and regulations are among the factors of utmost importance in the market selection and business strategy formulation. These factors may show wide variations among different nations.

5. Technological environment

The type of technology in use, the level of technological developments, the speed with which new technologies are adopted and diffused, the type of technologies that are appropriate, the technology policy of different nations etc are important to business.

Dimensions of International Business Environment

Globalisation, the phenomenon which shook the world economy at the end of 20th century has a principal role in making today's international business environment so dynamic and profound. The international environment for a business firm comprises of several crucial factors such as WTO principles and agreements, other international treaties or agreements, economic and business conditions. Similarly, there are certain other factors like, hike in the crude oil price, variation in gold price etc.

The WTO principles and regulations have extensive impact on Indian business. For instance, Acceptance of product patents, critically impacts the pharmaceutical industry. Similarly, the import and investment liberalizations mandated by WTO, have considerably changed the competitive environment in India.

Economic situations in other countries may also have an effect on business. For example, if the economic conditions in a company's export markets is better, export prospects will also be good and vice versa. Recession in other countries can increase the import threats, including dumping. The recent economic crisis of 2008, is a major example demonstrating how an economic slowdown can be detrimental to the international trade, as it one of the largest components of the global economy. The financial crisis of 2007–08 is considered by many economists to have been the worst financial crisis since the Great Depression of the 1930s. It threatened the collapse of large financial institutions, which was prevented by the bailout of banks by national governments, but stock markets still dropped worldwide. In many areas, the housing market also suffered, resulting in evictions, foreclosures and prolonged unemployment. The crisis played a significant role in the failure of key businesses, declines in consumer wealth estimated in trillions of U.S. dollars, and a downturn in economic activity leading to the 2008–2012 global recession and contributing to the European sovereign-debt crisis.

International political factors can also affect business, like war or political tensions or uncertainties, strained political relations between the nation and other countries. The recent economic crisis emerged in Greece, crucial political turmoil prevailing in countries like Syria, Iraq, Libya etc are examples of this.

progress in information and communication technologies smooth the progress of cross border spread of cultures, significantly influence attitudes, aspirations, tastes, preferences and even customs, traditions and values. This has significant implications for the business.

Challenges in International Business Environment

1. The impact of political risk.

Political risk was defined by Wells (1998) as the challenges faced by investors that result from some sort of government action, and sometimes inaction. Political risk implies negative business consequences due to the behaviour of governments and public sector organisations (Suder 2004). The most important political risk has been the threat of nationalization (Brooks et al 2004). However, Jones (2001) observes that dramatic events such as wars, assassinations and sequestrations are rare in the international business arena.

Another important political risk is represented by corruption practices (Hill 2005). For instance, a company may lose a contract because of a government's unethical dealings (Madura 2006). To mitigate this risk, Transparency International has created a corruption index that can be available to all interested (Jones 2001).

Generally, to minimize political risk, companies can respond through political behaviour such as lobbying the central government (Suder 2004). Another solution is to negotiate a better deal with the government; for instance, an investor can seek a reduction of tax levels in exchange for accommodating the government (Brink 2004).

2. Foreign Exchange Risks.

Foreign exchange risk is a financial risk that exists when a financial transaction is denominated in a currency other than that of the base currency of the company. The firm's value of investment may subject to oscillations due to the deviations in the value of currencies, thus exposing the firm to huge risk.

3. Supply Chain Risks.

The sequence of processes involved in the production and distribution of a commodity is called a supply chain. Supply chain risks include:

a) External supply chain risks

There are five main types of external risks:

- Demand risks – because of arising of unpredictable or misunderstood customer or end-customer demand
- Supply risks - caused by any interruptions to the flow of product, whether raw material or parts, within the supply chain.
- Environmental risks - from outside the supply chain; usually related to economic, social, governmental, and climate factors, including the threat of terrorism
- Physical plant risks - caused by the condition of a supplier's physical facility and regulatory compliance.

b) Internal supply chain risks

Internal risks provide better opportunities for mitigation because they are within the business's control.

- Manufacturing risks - caused by disruptions of internal operations or processes
- Business risks - caused by changes in key personnel, management, reporting structures or business Processes, such as the way purchasers communicate to suppliers and customers
- Planning and control risks - caused by inadequate assessment and planning, which amount to ineffective management.

All these should be viewed vigilantly in international business environment.

4. Compliance and Regulations

The firm must comply with the tax laws of different countries as well as statutory export regulations. Some countries have strict policies about the types of business practices allowed in their countries that often include human resource and pension restrictions and rules if we hire a foreign workforce.

5. Culture and Language

If a firm's sales are increasingly going overseas, it should find ways to overcome the language barriers that may crop up in emails and phone calls. At the same time, cultural differences can play a big role in our success in the global market. In China, the color red is a symbol of luck, while in other countries, it represents a warning sign. Religious and cultural boundaries must be understood well to run effective marketing campaigns abroad.

6. National and international Accounting standards.

Always there will be a huge difference between the accounting standards practiced by different countries. Similarly, accounting practices differ in accordance with the relationship between the business and its shareholders. For instance, the tradition of family-owned companies in Germany has created an environment of professional secrecy which does not require high transparency (Walton et al 2003). By comparison, the US has a tradition of transparency due to the relatively large amount of shareholders. Inflation accounting also differs amongst different countries. Such challenges of differences should be effectively overcome.

7. Environmental Impact

Recycling is rapidly becoming a common practice in most U.S. companies as business leaders recognize the impact of their actions on global environmental issues. A firm may be challenged to include successful recycling programs because of the prevailing environmental protection norms in certain regions. Food, energy and transportation companies all face environmental pressures to use fewer natural resources and offer products made with recyclable materials.

Review Questions

Short Answer Type:

1. What is environmental analysis?
2. Distinguish between micro and macro environment.
3. What do you mean by SWOT analysis?
4. Compare between the external and internal environment of business.
5. Write any two important external factors that constitute the economic environment of a business?
6. Explain the concept of Corporate Social Responsibility.
7. Describe the legal environment of business.
8. What do you mean by Business Ethics?
9. Write any three significant objectives of Quality Circles.
10. What is a trade union movement?

Essay type:

1. 'Environmental analysis can make a firm strong or weak'. Do you agree with this statement? Explain.
2. Write a detailed account on the economic environment of business.
3. What are the major functions of trade unions? What are the limitations and problems faced by trade unions in India?
4. Explain the dimensions of international business environment.

MODULE II

Unit 4

INDIAN ECONOMY-AN OVERVIEW

Indian economy holds a relatively attractive place in the world, as its journey is accompanied with alluring indicators that are passionately imitated by other developing regions. One of the peculiarities it possesses is its unique structure. Amidst innumerable challenges and global pressures, Indian economy had succeeded with its efficient institutions, unparalleled policies and strong markets. Business organizations should thoroughly understand the true characteristics of economy in the light of changing circumstances. Forecasts and predictions about economy may not hold correct or even match the realities in that dynamic atmosphere. Interestingly, decisions of these micro enterprises will surely affect the economy also. In fact, a reciprocal relationship exists between business organizations and economy.

Economic Systems

The economic system is the sum total of the establishments in the economy and their interdependence. It includes the facilities, regulations, units, and different ideologies that are capable of maintaining the human living with sufficient welfare. While we look into modern economy, all sub units in the global economic systems are becoming complex and attached.

Kinds of economic systems

Free economy

Under this system Government interferences will be minimum and can be termed as *Laisses Faire* system, i.e.; lack of external force. Here primary role of Government is to reduce the barriers and ensure smooth functioning of the private enterprises. All resources are accumulated in the hands of private persons and major decisions are taken by these persons. This can be also termed as market economy. It is so called because the economy functions mainly on the basis of fundamental market forces. Private firms and individuals make choices about what to produce, how to produce and for whom to produce. Government passes laws to protect businessmen and consumers. It also provides sufficient services, repair and maintain State properties. USA and Japan are examples for free economy.

Government controlled economy

Here Government is supposed to own almost all resources and have to produce and provide necessary products and services to the people. Government owned units and produce goods for the people. Government is the sole authority to take decisions on central economic problems. This economy is also termed as planned economy. Government owns means of production. It plans, organizes and coordinates the whole production processes in most industries. Cuba and China are examples for planned economy.

Mixed economy

This system envisages the co existence of public sector units and private sector undertakings. Key establishments are owned and run by Government and the Government itself set norms and regulations for private establishments. All western European countries are in this style. Here social provision will tend to be greater, taxed higher and distribution of wealth and income more equal.

Economic System of India

At the time of independence, Indian economy was predominantly agrarian. Most of the population was employed agriculture sector, and their economic status was very poor. Land ownership and pattern of distribution were very complex and uneven. The British were never interested in the development of citizens or Indian economy. They constantly engaged in draining the wealth from India to Britain.

Agricultural and non agricultural resources were exploited by the British and they compelled Indians to use their product also. At the end of the British rule, Indian economy struggled with the following drawbacks or phenomenon;

- (i) Shattering of handicrafts industry
- (ii) Increase in the production of cash crops
- (iii) Famines and food shortage
- (iv) Rise of intermediaries in agriculture

Partition of India in 1947 also divided complementary economic zones.. After independence Indian economy accepted a mixed system where, Government decide and handle key and heavy manufacturing sectors, whereas the rest will be handled by private sector.

Challenges in the Indian Economy after Independence

Indian economy has to face innumerable challenges in the post independent period. Major challenges faced by the economy were low level of per capita income, slow growth of per capita income, heavy population, poverty, over dependence on agriculture. In order to overcome these threats, India followed a path of planned economy and as such resources were allocated to different sectors.

Planning in India

Planning commission was set up by the Government of India in 1950 with the objective of promoting the rapid rise in standard of living of people of India using the available resources in efficient manner. Increasing production, employment opportunities and thus responsible for bringing welfare in the Country. **Planning Commission** was charged with assessment of resources, formulating plans for effective utilization and determination of priority. Jawaharlal Nehru was the first chairman of Planning Commission. First Five Year Plan started in 1951.

Organization

Prime Minister was the ex-officio Chairman of Planning Commission, which functioned under the guidance of National Development Council. The Deputy Chairman and the full time Members of the Commission, as a composite body, provide advice and guidance to the subject Divisions for the formulation of Five Year Plans, Annual Plans, State Plans, Monitoring Plan Programs, Projects and Schemes. The Planning Commission functions through several Divisions, each headed by a Senior Officer.

Divisions

1. Agriculture	16. Minerals
2. Communication, IT and Information	17. Minorities Division
3. Decentralized planning, Panchayati Raj and Special Area Programme (Including Western Ghat Secretariat)	18. Plan Coordination and Management
4. Development Policy and Perspective Planning	19. Power and Energy
5. Direct Benefit Transfer	20. Project Appraisal and Management
6. Environment and Forests (Including Climate Change Cell)	21. Rural Development
7. Financial Resources	22. Science and Technology
8. Health, Family Welfare and Nutrition	23. Social Justice and Social Welfare
9. Housing and Urban Affairs (including Home Affairs Cell)	24. Research Division
10. Human Resources Development	25. State Plans (Including Island Development Authority Cell)
11. Industries	26. Transport and Tourism
12. Infrastructure	27. Village and Small Enterprises
13. International Economics	28. Voluntary Action Cell
14. International Relations Cell	29. Water Resources Division
15. Labour, Employment and Manpower	30. Women and Child Development
	31. Programme Evaluation Organization

Plan Period	Features
First Plan (1951 - 56)	Based on Harrod-Domar Model. Community Development Program launched in 1952 Focus on agriculture, price stability, power and transport It was a successful plan primarily because of good harvests in the last two years of the plan
Second Plan (1956 - 61) Target Growth: 4.5% Actual Growth: 4.27%	Also called Mahalanobis Plan named after the well known economist Focus - rapid industrialization Advocated huge imports through foreign loans. Shifted basic emphasis from agriculture to industry far too soon. During this plan, prices increased by 30%, against a decline of 13% during the First Plan
Third Plan (1961 - 66) Target Growth: 5.6% Actual Growth: 2.84%	At its conception, it was felt that Indian economy has entered a take-off stage. Therefore, its aim was to make India a 'self-reliant' and 'self-generating' economy. Based on the experience of first two plans, agriculture was given top priority to support the exports and industry. Complete failure in reaching the targets due to unforeseen events - Chinese aggression (1962), Indo-Pak war (1965), severe drought 1965-66
Three Annual Plans (1966-69) Plan holiday for 3 years.	Prevailing crisis in agriculture and serious food shortage necessitated the emphasis on agriculture during the Annual Plans During these plans a whole new agricultural strategy was implemented. It involving wide-spread distribution of high-yielding varieties of seeds, extensive use of fertilizers, exploitation of irrigation potential and soil conservation. During the Annual Plans, the economy absorbed the shocks generated during the Third Plan It paved the path for the planned growth ahead.
Fourth Plan (1969 - 74) Target Growth: 5.7% Actual Growth: 3.30%	Main emphasis was on growth rate of agriculture to enable other sectors to move forward First two years of the plan saw record production. The last three years did not measure up due to poor monsoon. Influx of Bangladeshi refugees before and after 1971 Indo-Pak war was an important issue
Fifth Plan (1974-79) Target Growth: 4.4% Actual Growth: 3.8	The fifth plan was prepared and launched by D.D. Dhar. It proposed to achieve two main objectives: 'removal of poverty' (Garibi Hatao) and 'attainment of self reliance' Promotion of high rate of growth, better distribution of income and significant growth in the domestic rate of savings were seen as key instruments The plan was terminated in 1978 (instead of 1979) when Janta Party Govt. rose to power.
Rolling Plan (1978 - 80)	There were 2 Sixth Plans. Janta Govt. put forward a plan for 1978-1983. However, the government lasted for only 2 years. Congress Govt. returned to power in 1980 and launched a different plan.
Sixth Plan (1980 - 85) Target Growth: 5.2% Actual Growth: 5.66%	Focus - Increase in national income, modernization of technology, ensuring continuous decrease in poverty and unemployment, population control through family planning, etc.
Seventh Plan (1985 - 90) Target Growth: 5.0% Actual Growth: 6.01%	Focus - rapid growth in food-grains production, increased employment opportunities and productivity within the framework of basic tenants of planning. The plan was very successful, the economy recorded 6% growth rate against the targeted 5%.
Eighth Plan (1992 - 97)	The eighth plan was postponed by two years because of political uncertainty at the Centre Worsening Balance of Payment position and inflation during 1990-91 were the key issues during the launch of the plan. The plan undertook drastic policy measures to combat the bad economic situation and to undertake an annual average growth of 5.6% Some of the main economic outcomes during eighth plan period were rapid economic growth, high growth of agriculture and allied sector, and manufacturing sector, growth in exports and imports, improvement in trade and current account deficit.
Ninth Plan (1997- 2002) Target Growth: 6.5% Actual Growth: 5.35%	It was developed in the context of four important dimensions: Quality of life, generation of productive employment, regional balance and self-reliance.

School of Distance Education

Tenth Plan (2002 - 2007)	<p>Goals:</p> <p>To achieve 8% GDP growth rate</p> <p>Reduction of poverty ratio by 5 percentage points by 2007.</p> <p>Providing gainful high quality employment to the addition to the labour force over the tenth plan period.</p> <p>Universal access to primary education by 2007.</p> <p>Reduction in gender gaps in literacy and wage rates by atleast 50% by 2007.</p> <p>Reduction in decadal rate of population growth between 2001 and 2011 to 16.2%.</p> <p>Increase in literacy rate to 72% within the plan period and to 80% by 2012.</p> <p>Reduction of Infant Mortality Rate (IMR) to 45 per 1000 live births by 2007 and to 28 by 2012.</p> <p>Increase in forest and tree cover to 25% by 2007 and 33% by 2012.</p> <p>All villages to have sustained access to potable drinking water by 2012.</p> <p>Cleaning of all major polluted rivers by 2007 and other notified stretches by 2012.</p>
Eleventh Plan (2007 - 2012)	<p>Goals:</p> <p>Accelerate GDP growth from 8% to 10%. Increase agricultural GDP growth rate to 4% per year.</p> <p>Create 70 million new work opportunities and reduce educated unemployment to below 5%.</p> <p>Raise real wage rate of unskilled workers by 20 percent.</p> <p>Reduce dropout rates of children from elementary school from 52.2% in 2003-04 to 20% by 2011-12. Increase literacy rate for persons of age 7 years or above to 85%.</p> <p>Lower gender gap in literacy to 10 percentage point. Increase the percentage of each cohort going to higher education from the present 10% to 15%.</p> <p>Reduce infant mortality rate to 28 and maternal mortality ratio to 1 per 1000 live births</p> <p>Reduce Total Fertility Rate to 2.1</p> <p>Provide clean drinking water for all by 2009. Reduce malnutrition among children between 0-3 years to half its present level. Reduce anaemia among women and girls by 50%.</p> <p>Raise the sex ratio for age group 0-6 to 935 by 2011-12 and to 950 by 2016-17</p> <p>Ensure that at least 33 percent of the direct and indirect beneficiaries of all government schemes are women and girl children</p> <p>Ensure all-weather road connection to all habitation with population 1000 and above (500 in hilly and tribal areas) by 2009, and ensure coverage of all significant habitation by 2015</p> <p>Connect every village by telephone by November 2007 and provide broadband connectivity to all villages by 2012</p> <p>Increase forest and tree cover by 5 percentage points.</p> <p>Attain WHO standards of air quality in all major cities by 2011-12.</p> <p>Treat all urban waste water by 2011-12 to clean river waters.</p> <p>Increase energy efficiency by 20 percentage points by 2016-17.</p>

Planning Commission, aimed at rationalization of available resources in an integrative manner. Different schemes introduced by the Planning Commission helped to upgrade the quality of life of common people by prudent utilization of resources. Rural health, literacy, rural energy needs, slum area development, drinking water, housing, women empowerment and other indirect target programs were the threshold of Planning commission that profoundly handled.

Twelfth Plan: an overview

12th Five Year Plan was started in 2012. In India, a large number of people expects much especially by those who are underprivileged. The Twelfth plan must address the high expectations of different sections in society. The global economy muddles through unexpected failures in different sectors and unfavorable decline in total production. Macro economic imbalances threaten the country especially after 2008 global economic crisis. The policy challenge in the plan is two-fold. One is to reverse the observed deceleration in growth by ensuring investments quickly as possible. Constraints here are related with infrastructural availability. At the same time there is a challenge that demands the leveraging of strength to its real growth. The plan recognizes that the objective of development is broad based improvement in the economic and social conditions of our people. The plan had a target of 9 percent average growth of GDP over the plan period. Sub sectors that are important for inclusiveness are agriculture (4 percent) and manufacturing (10 per cent)¹.

¹ Planning Commission, (2013)

NITI AAYOG (NATIONAL INSTITUTION FOR TRANSFORMING INDIA)

India has undergone drastic changes over the decades. These changes are the sum total of the shifts in global scenario. Keeping with the changing times, NDA Government, in 2014, has decided to set up NITI Aayog (National Institution for Transforming India), in place of the Planning Commission, as a way to serve the developmental aspirations of the people of India².

The new institution will be a catalyst to the developmental process; nurturing an overall enabling environment, through a holistic approach to development going beyond the limited sphere of the Public Sector and Government of India. This will be built on the foundations of:

- a) An empowered role of States as equal partners in national development; operationalizing the principle of Cooperative Federalism.
- b) A knowledge hub of internal as well as external resources; serving as a repository of good governance best practices, and a Think Tank offering domain knowledge as well as strategic expertise to all levels of government.
- c) A collaborative platform facilitating Implementation; by monitoring progress, plugging gaps and bringing together the various Ministries at the Centre and in States, in the joint pursuit of developmental goals.

Functions of NITI Aayog

(1) Cooperative and Competitive Federalism: The basic function of NITI Aayog is to be the primary platform for operationalizing Cooperative Federalism; enabling States to have active participation in the formulation of national policy, as well as achieving time-bound implementation of quantitative and qualitative targets through the combined authority of the Prime Minister and Chief Ministers. This will be by means of systematic and structured interactions between the Union and State Governments, to better understand developmental issues, as well as forge a consensus on strategies and implementation mechanisms. The above would mark the replacement of the one-way flow of policy from centre-to-state, with a genuine and continuing Centre-State partnership. This Cooperation would be further enhanced by the vibrancy of Competitive Federalism; with the Centre competing with the States and vice versa, and the States competing with each other, in the joint pursuit of national development.

(2) Shared National Agenda: Evolve a shared vision of national development priorities and strategies, with the active involvement of States. This will provide the framework 'national agenda' for the Prime Minister and Chief Ministers to implement.

(3) State's Best Friend at the Centre: Support States in addressing their own challenges, as well as building on strengths and comparative advantages. This will be through various means, such as coordinating with Ministries, championing their ideas at the centre, providing consultancy support and building capacity.

(4) Decentralized Planning: Restructure the planning process into a bottom-up model, empowering States, and guiding them to further empower local governments; in developing mechanisms to formulate credible plans at the village level, which are progressively aggregated up the higher levels of government.

(5) Vision & Scenario Planning: Design medium and long-term strategic frameworks of the big picture vision of India's future - across schemes, sectors, regions and time; factoring in all possible alternative assumptions and counterfactuals. These would be the drivers of the national reforms agenda, especially focussed on identifying critical gaps and harnessing untapped potentialities. And given its unique position as the aggregator and integrator of all developmental initiatives of the Government of India and States, the NITI Aayog would be ideally suited for the same.

(6) Domain Strategies: Build a repository of specialized domain expertise, both sectoral and cross-sectoral; to assist Ministries of the Central and State governments in their respective development planning as well problem solving needs. This will especially enable the imbibing of good governance best practices, both national as well as international; especially with regards to structural reform.

² (Govt of India, 2015)

(7) Sounding Board: Be an in-house sounding board whetting and refining government positions, through objective criticisms and comprehensive counter-views.

Network of Expertise: Main-stream external ideas and expertise into government policies and programmes through a collaborative community of national and international experts, practitioners and other partners. This would entail being Government's link to the outside world, roping in academia (universities, think tanks and research institutions), private sector expertise, and the people at large, for close involvement in the policy making process.

(8) Knowledge and Innovation hub: Be an accumulator as well as disseminator of research and best practices on good governance, through a state-of-the-art Resource Centre which identifies, analyses, shares and facilitates replication of the same.

(9) Harmonization: Facilitate harmonization of actions across different layers of government, especially when involving cross-cutting and overlapping issues across multiple sectors; through communication, coordination, collaboration and convergence amongst all stakeholders. The emphasis will be on bringing all together on an integrated and holistic approach to development.

(10) Conflict Resolution: Provide a platform for mutual resolution of inter-sectoral, inter-departmental, inter-state as well as centre-state issues; facilitating consensus acceptable and beneficial to all, to bring about clarity and speed in execution.

Coordinating interface with the World: Be the nodal point for strategically harnessing global expertise and resources coming in from across nations, multi-lateral institutions and other international organisations, in India's developmental process.

(11) Internal Consultancy: Offer an internal consultancy function to central and state governments on policy and program design; providing frameworks adhering to basic design principles such as decentralization, flexibility and a focus on results. This would include specialised skills such as structuring and executing Public Private Partnerships.

(12) Capacity building: Enable capacity building and technology up-gradation across government, benchmarking with latest global trends and providing managerial and technical knowhow.

(13) Monitoring and Evaluation: Monitor the implementation of policies and programmes, and evaluate their impact; through rigorous tracking of performance metrics and comprehensive program evaluations. This will not only help identify weaknesses and bottlenecks for necessary course correction, but also enable data-driven policy making; encouraging greater efficiency as well as effectiveness.

1.2 India- A developing economy

During the past decades Indian economy exhibited marked improvements. In this context, the following aspects are important;

- (i) **Rise in National Income:** Net National Product (NNP) at factor cost (National Income) was about Rs 255000 crore in 1950-51. It rose to more than Rs 4572000 crore (at constant prices) in 2011-12.
- (ii) **Increase in per capita income:** Per capita income in 1950-51 was Rs 7114. It rose to Rs 38037 in 2011-12.
- (iii) **Significant changes in occupational structure of population:** As Indian economy grows, there is a shift of labour force from primary sector to secondary and tertiary sectors.

Occupational Distribution of Working Population in India

Occupation	Primary sector	Secondary sector	Tertiary sector	Total
1951	72.1	10.6	17.3	100
1991	66.9	12.7	20.4	100
2001	56.7	18.2	25.2	100
2009-10	53.2	21.5	25.3	100

Source: National Sample Survey, Govt of India

Unit 5

PUBLIC SECTOR IN INDIA

Introduction

The Government owned corporations are termed as Public Sector Undertakings in India. In a PSU majority (51% or more) of the paid up capital is held by Central government or by any State government or partly by the Central governments and partly by one or more state governments³. The roadmap for public sector was developed as an instrument for self-reliant economic development. While the country adopted a planned development, it envisaged the making and development of PSUs. Initially the area of PSUs was confined to certain core and strategic themes. The second phase witnessed numerous takeovers from different private sector entities and nationalization of private sector. The Industrial policy 1948 stresses the need and importance of PSUs in nation making and equitable development.

Classification of Public Sector Undertakings

Public Sector Undertakings (PSUs) shall be classified as Public Sector Enterprises (PSEs), Central Public Sector Enterprises (CPSEs) and Public Sector Banks (PSBs).

The Central Public Sector Enterprises (CPSEs) shall also be classified into 'strategic' and 'non-strategic'. Areas of strategic CPSEs are:

- Arms & Ammunition and the allied items of defence equipments, defence air-crafts and warships
- Atomic Energy (except in the areas related to the operation of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine and non-strategic industries)
- Railways transport.

Maharatna/Navratna/Miniratna Status for Public Sector Undertakings

The status of Maharatna, Navratna, Miniratna to CPSEs is provided by the Department of Public Enterprises. These prestigious titles provide them greater autonomy and goodwill to compete in the global market.

Maharatna

A company qualifying for the should have an average annual turnover of Rs 20,000 crore during the last three years against Rs 25,000 crore prescribed earlier. The average annual net worth of the company should be Rs 10,000 crore.

The Maharatna status empowers mega CPSEs to expand their operations and emerge as global giants. The coveted status empowers the boards of firms to take investment decisions up to Rs 5,000 crore as against the present Rs 1,000 crore limit without seeking government approval. The Maharatna firms would now be free to decide on investments up to 15% of their net worth in a project, limited to an absolute ceiling of Rs 5,000 crore.

Navratna

The Central Public Sector Enterprises (CPSEs) fulfilling the following criteria are eligible to be considered for grant of Navaratna.

- Having Schedule 'A' and Miniratna Category-1 status.
- Having at least three 'Excellent' or 'Very Good' Memorandum of Understanding (MoU) ratings during the last five years.

The Navratna status empowers PSEs to invest up to Rs. 1000 crore or 15% of their net worth on a single project without seeking government approval. In a year, these companies can spend up to 30% of their net worth not exceeding Rs. 1000 cr. They also enjoy the freedom to enter joint ventures, form alliances and float subsidiaries abroad.

³ India, http://www.archive.india.gov.in/spotlight/spotlight_archive.php?id=78, 2015

Miniratna Category

For Miniratna category I status, the CPSE should have made profit in the last three years continuously, the pre-tax profit should have been Rs. 30 crores or more in at least one of the three years and should have a positive net worth. For category II, the CPSE should have made profit for the last three years continuously and should have a positive net worth.

Miniratnas can enter into joint ventures, set subsidiary companies and overseas offices but with certain conditions. This designation applies to PSEs that have made profits continuously for the last three years or earned a net profit of Rs. 30 crore or more in one of the three years. Category II miniratnas have autonomy to incurring the capital expenditure without government approval up to Rs. 300 crore or up to 50% of their net worth whichever is lower.

Changing Role of Public Sector Units in India

Public sector units exhibit a wide range of sustainable procurement practices in International context⁴. Although Public sector initiates innovation today, mostly happens through uncoordinated initiatives rather than as a result of deliberate, strategic efforts. The quest for more and better public sector innovation is hindered by several barriers, which fall into four major categories: weak enabling factors or unfavorable framework conditions; lack of innovation leadership at all levels; limited knowledge and application of innovation processes and methods; and insufficiently precise and systematic use of measurement and data⁵.

Public sector enterprises eminently contributed to the construction of an industrial base in our economy. They have given contribution to the government under the various heads, other than meeting the social responsibilities; the select list includes the following⁶:

1. PSEs share in India's gross domestic product (GDP),
2. Contribution to the Central Exchequer,
3. Contribution to foreign exchange earnings,
4. Contribution towards employment generation in the organized sector, and
5. Growth in market capital.

Post liberalized era compel government to equip the PSEs in such a manner that the role shall be redefined to cater the requirements of the Foreign Direct Investment (FDI) that develop international competitiveness to the economy and shall be on the platform of comparative advantage⁷. The overview justifies the role of PSEs in India, especially after liberalization, as a catalyst, where it is making the climate a conducive in the transition of economy to more open one. Central Public Sector Enterprises are exemplary entities, which are struggling for overcoming the problems.

Performance of CPSEs during 2012-13		(Rs in Crores)		
Sr. No.	Item / Indicator	2011-12	2012-13	% Growth over 11-12
1	Number of Operating CPSEs	225	229	1.78%
2	Turnover of (operating) CPSEs	18,22,049	19,45,777	6.79%
3	Income of (operating) CPSEs	18,04,614	19,31,149	7.01%
4	Investment in CPSEs			
	4.1 Total paid up capital	1,63,863	1,85,282	13.07%
	4.2 Total investment (equity plus long term loans)	7,29,298	8,50,599	16.63%
	4.3 Capital employed (Paid up Capital + long term loans and reserves & surplus)	13,52,970	15,32,007	13.23%

⁴ (Brammer & Walker, 2007)

⁵ (Commission, 2013)

⁶ P.K. Jain et al., *Public Sector Enterprises in India: The Impact of Disinvestment and Self Obligation on Financial Performance*, DOI 10.1007/978-81-322-1762-6_2, © Springer India 2014, Pp: 7-19.

Also see Public Enterprises Surveys 2011-2012 and 2007-2008.

⁷ (Kumar, 2003)

		1,25,929	1,43,559	
5	Profit of (Profit making) CPSEs	(161)	(149)	14.00%
		(-) 27,683	(-) 28,260	
6	Loss of (loss making) CPSEs	(64)	(79)	2.08%
7	Overall Net Profit	98,246	1,15,298	17.36%
8	Reserves and Surpluses of CPSEs	6,23,671	6,81,409	9.26%
9	Net Worth of CPSEs	7,76,161	8,51,245	9.67%
10	Contribution of CPSEs to Central Exchequer	1,62,402	1,62,761	0.22%
11	Foreign exchange earnings of CPSEs	1,27,880	1,38,150	8.03%
12	Foreign exchange outgo of CPSEs	7,33,542	6,46,262	(-) 11.90%
13	Market Capitalisation (M_Cap) of 45 listed CPSEs	12,57,792	11,16,817	(-) 11.21%

Source: Annual Report 2013-14, Department of Public Enterprises, India

Public sector reforms in India

In developing countries, poor performance and weak governance strongly contributes to the poverty and inequitable distribution of income⁸. Although the sole party responsible for poverty hardly be the PSEs, the world perspective on the role of these enterprises were rather turned as, "Access to market opportunities and to public sector services is often strongly influenced by state and social institutions, which must be responsive and accountable to poor people" (World Development Report 2000/2001, Attacking Poverty, Pp: 7).

Public Private Participation (PPP)

Apart from bridging the deficit in financing of public projects, PPPs also brings new and cost effective technology for creation of infrastructure assets, managerial efficiency, competency for operation and maintenance of the created assets and the contractual accountability on the private party to ensure timely and quality infrastructure service to the end users. The Government of India is actively encouraging PPPs through several initiatives. The appraisal mechanism for the PPP projects has been streamlined to ensure speedy appraisal of projects, eliminate delays, adopt international best practices and have uniformity in appraisal mechanism and guidelines. The appraisal mechanism notified includes setting up of the Public Private Partnership Appraisal Committee (PPPAC) responsible for the appraisal of PPP projects in the Central Sector⁹.

Initiatives by Government of India

The Public Private Partnership (PPP) Cell is responsible for matters concerning Public Private Partnerships, including policy, schemes, programmes and capacity building and all other matters relating to mainstreaming PPPs.

Functions:

- Matters and proposals relating to clearance by Public Private Partnership Appraisal Committee (PPPAC)
- Matters and proposals relating to the Scheme for Financial Support to Public Private Partnerships in Infrastructure- Viability Gap Funding (VGF) Scheme
- Matters and proposals relating to the Scheme for India Infrastructure Project Development Fund
- Policy matters related to Public Private Partnerships (including Model Concession Agreement)
- Developing multi-pronged and innovative interventions and support mechanisms for facilitating PPPs in the country, including Technical Assistance programmes from bilateral and multilateral agencies on mainstreaming PPPs and support to State and local governments
- Managing training programmes, strategies, exposures for capacity building for PPPs.
- Subject of advocacy for greater acceptability towards PPPs Institution building for mainstreaming PPPs
- Matters relating to management of PPP related information.
- The Toolkit for the use by PPP practitioners across India in both the public and private sectors.
- Other policy/Parliament related matters concerning PPPs.

⁸ (World Bank, 2000), Reforming public institutions and strengthening governance, A world Bank strategy, November 2000.

⁹ <http://www.pppinindia.com/index.php>

Privatization in India

Privatization refers to the process of transfer of ownership, can be of both permanent or long term lease in nature, of a state-owned or public owned property to individuals or groups that intend to utilize it for private benefits and run the entity with the major aim of profit maximization. Although the contribution of Public Sector Undertakings is essential to our economy, their poor performance is a barrier that shall be conceived well. In the social service sector, low level of satisfaction led to exit raising the provision of services (Kapur & Ramamurti, 2002). Privatization got tremendous strength by the introduction of new economic policy in 1991 that allowed delicensing, relaxing entry restrictions and equity funding¹⁰. Bureaucracy, red tapism, political hiccups, corruption are prominent obstacles in the development of India and also becomes hindrances to foreign investors¹¹.

Features of privatization

Enhanced competitive characteristics: That competitiveness shall be fruitful to the business as well as the country. In this sense, many scholars had supported privatization as a vital source to enhance economic enticements, amplify better managerial skills of the private sector, extend the share ownership, and lower the public borrowings in order to sustain sustainable services.

An attempt to enhance market potencies: Privatization essentially is an effective tool for restructuring and reforming the public enterprises. Because public sector is conceived as self motivated entities and superior producer of quality goods.

Types of privatization

Delegation: Government keep hold of responsibility and private enterprises deal fully or partly the delivery of product and services.

Divestment: Government surrenders the responsibility.

Displacement: The private enterprise develops and gradually displaces the government entity¹².

Advantages of privatization

(i) Microeconomic advantages

1. Private enterprises show better results in terms of revenue, efficiency and productivity.
2. Privatization brings strong structural changes in a competitive manner.
3. Privatization leads to the adoption of global best practices and improvised management of resources.

(ii) Macroeconomic advantages

1. It has a positive impact on the financial health of the sector by reducing debts and deficits.
2. Net transfer to the State owned Enterprises is lowered through privatization.
3. Helps in escalating the performance parameters of the industry in general.
4. In long term, employees shall avail benefits that offer prosperity.
5. Privatized enterprises provide better and prompt services to the customers and help to the betterment of infrastructure in the country.

Disadvantages of privatization

1. Private sector primarily focuses on profit maximization and less on social services.
2. There is lack of transparency in private sector and public do not get the complete information about the functioning of these enterprises.
3. Private enterprises support unnecessary corruption and illegitimate ways of accomplishments of licenses and business deals.
4. Private enterprises may deviate from the societal commitments and may solely exist for profit making.
5. Private entities results in high employee turnover and may require high cost to train the employees.
6. Another argument against privatization is price inflation.

¹⁰ (Gouri, 1996)

¹¹ (Kousadikar & Singh, 2013)

¹² (Savas, 2006)

Unit 6

FISCAL AND MONETARY POLICY

Fiscal Policy

Meaning: The fiscal policy is concerned with the raising of government revenue and incurring of government expenditure. To generate revenue and to incur expenditure, the government frames a policy termed budgetary policy or fiscal policy. So, the fiscal policy is concerned with government expenditure and government revenue.

Fiscal policy decides on the size and pattern of flow of expenditure from the government to the economy and from the economy back to the government. So, in broad term, fiscal policy refers to, "That segment of national economic policy which is primarily concerned with the receipts and expenditure of Central government." In other words, fiscal policy refers to the policy of the government with regard to taxation, public expenditure and public borrowings.

Main Objectives of Fiscal Policy in India

1. Ensure development by effective mobilization of resources

The important objective of fiscal policy is to ensure rapid economic growth and development. This objective of economic growth and development can be achieved by Mobilization of Financial Resources in right way. The central and the state governments in India have used fiscal policy to mobilize resources. The financial resources can be mobilized by:-

1. **Taxation:** Through effective fiscal policies, the government aims to mobilize resources by way of direct taxes as well as indirect taxes.
2. **Public Savings:** The resources can be mobilized through public savings by reducing government expenditure and increasing surpluses of public sector enterprises.
3. **Private Savings:** Through effective fiscal measures such as tax benefits, the government can raise resources from private sector and households. Resources can be mobilised through government borrowings by ways of treasury bills, issue of government bonds, etc., loans from domestic and foreign parties and by deficit financing.

2. Efficient allocation of limited Financial Resources

The central and state governments have tried to make efficient allocation of the available financial resources. These resources are allocated for Development Activities which includes expenditure on railways, infrastructure, etc. While Non-development Activities includes expenditure on defence, interest payments, subsidies, etc. But generally the fiscal policy should ensure that the resources are allocated for generation of goods and services which are socially desirable. Therefore, India's fiscal policy is designed in such a manner so as to encourage production of desirable goods and discourage those goods which are socially undesirable.

3. Reduction in inequalities of Income and Wealth

Fiscal policy aims at achieving equity or social justice by reducing income inequalities among different sections of the society. The direct taxes such as income tax are charged more on the rich people as compared to lower income groups. Indirect taxes are also more in the case of semi-luxury and luxury items, which are mostly consumed by the upper middle class and the upper class. The government invests a significant proportion of its tax revenue in the implementation of Poverty Alleviation Programmes to improve the conditions of poor people in society.

4. Price Stability and Control of Inflation

One of the main objectives of fiscal policy is to control inflation and stabilize price. This requires the measures of monetary. Therefore, the government always aims to control the inflation by reducing fiscal deficits, introducing tax savings schemes, Productive use of financial resources, etc.

5. Employment Generation

The responsible government is making every possible effort to increase employment in the country through effective fiscal measure. Investment in infrastructure has resulted in direct and indirect employment. Lower taxes and duties on small-scale industrial (SSI) units encourage more investment and consequently generate more employment. Various rural employment programmes have been undertaken by the Government of India to solve problems in rural areas. Similarly, self employment scheme is taken to provide employment to technically qualified persons in the urban areas.

6. Balanced Regional Development

Another main intention of the fiscal policy is to bring about a balanced regional development. There are various incentives from the government for setting up projects in backward areas such as Cash subsidy, Concession in taxes and duties in the form of tax holidays, Finance at concessional interest rates, etc.

7. Reducing the Deficit in the Balance of Payment

Fiscal policy tries to encourage exports by way of fiscal measures like Exemption of income tax on export earnings, Exemption of central excise duties and customs, Exemption of sales tax and octroi, etc. The foreign exchange is also protected by providing fiscal benefits to import substitute industries, imposing customs duties on imports, etc. The foreign exchange earned by way of exports and saved by way of import substitutes helps to solve balance of payments problem. In this way adverse balance of payment can be corrected either by imposing duties on imports or by giving subsidies to export. There are three sources from where the government gets money. The first two are revenue sources, and the last one is borrowings and capital asset sales.

1. **Revenue Receipts or Tax Revenue:** This is the tax that the government collects in the form of corporation tax, personal income tax, customs, excise etc.
2. **Non Tax Revenue:** These include interests on bonds held, dividends from PSUs, and grants. They are revenue sources meaning they don't have to be repaid and are smaller than tax revenues.
3. **Capital Receipts:** These are borrowings of the government like the market loans, short term borrowings, external commercial receipts etc.

Structure of Union Budget

The government is accountable to the Parliament in its financial management and efficient utilization. With the constitutional supremacy of the bicameral Parliament, especially of the, every single financial act is processed and passed by the representatives of the people. However, proposals for the formulation of budget levying taxes, determining government accounts and expenditures, are prepared by the Government's Ministries and consolidated in the Ministry of Finance.

The Union Budget presented to the Parliament consists of the General Budget and the Railway Budget, the Demands for Grant, the Vote on Account, the Supplementary Demands for Grant, the Appropriation Bill and the Finance Bill.

The Annual Financial Statement is the main Budget document. It details the receipts and payments under which Government accounts are kept, namely - Consolidated Fund, Contingency Fund, and Public Account.

The Contingency Fund on the other hand is placed at the disposal of the President of India, for occasions that may arise when the Government may have to incur imperative and unexpected expenditure. Parliamentary approval for such expenditure and its reimbursement from the Consolidated Fund is subsequently obtained, and the amount spent is recouped to the Contingency Fund.

Besides the normal Government expenditures that relate to the Consolidated Fund, certain other transactions enter the Government accounts in respect of which, the Government acts more like a banker, overlooking transactions relating to provident funds, small savings collections, other deposits, etc.

School of Distance Education

Budget at a Glance

		(In crore of Rupees)			
		2013-2014	2014-2015	2014-2015	2015-2016
				Revised	
		Actuals @	Budget	Estimates	Budget
			Estimates		Estimates
1	Revenue Receipts	1014724	1189763	1126294	1141575
	2 Tax Revenue (net to centre)	815854	977258	908463	919842
	3 Non-Tax Revenue	198870	212505	217831	221733
4	Capital Receipts (5+6+7)\$	544723	605129	554864	635902
	5 Recoveries of Loans	12497	10527	10886	10753
	6 Other Receipts	29368	63425	31350	69500
	7 Borrowings and other liabilities *	502858	531177	512628	555649
8	Total Receipts (1+4)\$	1559447	1794892	1681158	1777477
9	Non-Plan Expenditure	1106120	1219892	1213224	1312200
	10 On Revenue Account	1019040	1114609	1121897	1206027
	of which,				
	11 Interest Payments	374254	427011	411354	456145
	12 On Capital Account	87080	105283	91327	106173
13	Plan Expenditure	453327	575000	467934	465277
	14 On Revenue Account	352732	453503	366883	330020
	15 On Capital Account	100595	121497	101051	135257
16	Total Expenditure (9+13)	1559447	1794892	1681158	1777477
	17 Revenue Expenditure (10+14)	1371772	1568111	1488780	1536047
	18 Of Which, Grants for creation of Capital Assets	129418	168104	131898	110551
	19 Capital Expenditure (12+15)	187675	226781	192378	241430
20	Revenue Deficit (17-1)	357048	378348	362486	394472
		(3.1)	(2.9)	(2.9)	(2.8)
21	Effective Revenue Deficit (20-18)#	227630	210244	230588	283921
		(2.0)	(1.6)	(1.8)	(2.0)
22	Fiscal Deficit {16-(1+5+6)}	502858	531177	512628	555649
		(4.4)	(4.1)	(4.1)	(3.9)
23	Primary Deficit (22-11)	128604	104166	101274	99504
		(1.1)	(0.8)	(0.8)	(0.7)
Actuals for 2013-14 in this document are provisional.					
\$	Excluding receipts under Market Stabilisation Scheme.				
*	Includes draw-down of Cash Balance.				
Notes:	1. GDP for BE 2015-2016 has been projected at '14108945 crore assuming 11.5% growth over the Advance Estimates				
	of 2014-2015 (Rs. 12653762 crore) released by CSO.				
	2. Individual items in this document may not sum up to the totals due to rounding off.				

Source: Ministry of Finance, Government of India

The Union Budget 2015-16 specified the following broad themes during the presentation¹³;

- A. Measures to curb black money;
- B. Job creation through revival of growth and investment and promotion of domestic manufacturing and 'Make in India';
- C. Minimum government and maximum governance to improve the ease of doing business;
- D. Benefits to middle class taxpayers;
- E. Improving the quality of life and public health through Swachh Bharat initiatives; and
- F. Stand alone proposals to maximise benefits to the economy.

Public Debt Management in India

The overall objective of the Central Government's debt management policy, as laid out by the Central Government's status paper in November 2010 is to "meet Central Government's financing needs at the lowest possible long term borrowing costs and also to keep the total debt within sustainable levels. Additionally, it aims at supporting development of a well-functioning and vibrant domestic bond market". Apart from this declared objectives, timely availability of resources for Government is ensured in a non-disruptive manner for the market. Various institutional arrangements are also put in place accordingly.

As per the Fiscal Policy Strategy Statement of 2012-13 the public debt management policy of the Government is driven by the principle of gradual reduction of public debt to GDP ratio. This is with the objective of further reducing the debt servicing risk and to create fiscal space for developmental expenditure. On the financing side, the Government policy focuses on the following principles;

- i. Greater reliance on domestic borrowings over external debt,
- ii. Preference for market borrowings over instruments carrying administered interest rates,
- iii. consolidation of the debt portfolio and
- iv. Development of a deep and wide market for Government securities to improve liquidity in secondary market.

The jurisdiction of various institutions responsible for public debt management is given below:

- 1. Reserve Bank of India – Domestic Marketable Debt i.e., dated securities, treasury bills and cash management bills.
- 2. Ministry of Finance (MOF); Office of Aid and accounts Division – external debt
- 3. Ministry of Finance; Budget Division and Reserve Bank of India – Other liabilities such as small savings, deposits, reserve funds etc.

Monetary Policy

Monetary policy is concerned with the measures taken to regulate the supply of money, the cost and availability of credit in the economy. Further, it also deals with the distribution of credit between and among users and also deals with both the lending and borrowing rates of interest of the banks. In developed countries the monetary policy has been usefully used for overcoming depression and inflation as an anti-cyclical policy. The various instruments of monetary policy are changes in the supply of currency, variations in bank rates and other interest rates, open market operations, selective credit controls, and variations in reserve requirements.

In India, subsequent to the recommendations of the Dr. Urjit Patel Committee Report, the Reserve Bank has formally announced a "glide path" for disinflation that sets an objective of below 8 per cent CPI inflation by January 2015 and below 6 per cent CPI inflation by January 2016. The agreement on

¹³ Speech of Union Finance Minister, February 28, 2015

Monetary Policy Framework between the Government and the Reserve Bank of India dated February 20, 2015 defines the price stability objective explicitly in terms of the target for inflation – as measured by the consumer price index-combined (CPI-C) – in the near to medium-term, i.e., (a) below 6 per cent by January 2016, and (b) 4 per cent (+/-) 2 per cent for the financial year 2016-17 and all subsequent years. Price stability is a necessary (if not sufficient) precondition to sustainable growth and financial stability. The relative emphasis assigned to price stability and growth objectives in the conduct of monetary policy varies from time to time depending on the evolving macroeconomic environment. Financial stability is important for smooth transmission of monetary policy and, therefore, regulatory and financial market policies, including macro-prudential policies, are often announced along with monetary policy under Part-B of monetary policy statements¹⁴. There are several direct and indirect instruments that are used in the implementation of monetary policy.

- **Cash Reserve Ratio (CRR):** The share of net demand and time liabilities (deposits) that banks must maintain as cash balance with the Reserve Bank.
- **Statutory Liquidity Ratio (SLR):** The share of net demand and time liabilities (deposits) that banks must maintain in safe and liquid assets, such as, government securities, cash and gold. Changes in SLR often influence the availability of resources in the banking system for lending to the private sector.
- **Refinance facilities:** Sector-specific refinance facilities aim at achieving sector specific objectives through provision of liquidity at a cost linked to the policy repo rate. The Reserve Bank has, however, been progressively de-emphasising sector specific policies as they interfere with the transmission mechanism.
- **Liquidity Adjustment Facility (LAF):** Consists of overnight and term repo/reverse repo auctions. Progressively, the Reserve Bank has increased the proportion of liquidity injected in the LAF through term-repos.
- **Term Repos:** Since October 2013, the Reserve Bank has introduced term repos (of different tenors, such as, 7/14/28 days), to inject liquidity over a period that is longer than overnight. The aim of term repo is to help develop inter-bank money market, which in turn can set market based benchmarks for pricing of loans and deposits, and through that improve transmission of monetary policy.
- **Marginal Standing Facility (MSF):** A facility under which scheduled commercial banks can borrow additional amount of overnight money from the Reserve Bank by dipping into their SLR portfolio up to a limit (currently two per cent of their net demand and time liabilities deposits) at a penal rate of interest (currently 100 basis points above the repo rate). This provides a safety valve against unanticipated liquidity shocks to the banking system. MSF rate and reverse repo rate determine the corridor for the daily movement in short term money market interest rates.
- **Open Market Operations (OMOs):** These include both, outright purchase/sale of government securities (for injection/absorption of liquidity)
- **Bank Rate:** It is the rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers. This rate has been aligned to the MSF rate and, therefore, changes automatically as and when the MSF rate changes alongside policy repo rate changes.
- **Market Stabilisation Scheme (MSS):** This instrument for monetary management was introduced in 2004. Surplus liquidity of a more enduring nature arising from large capital inflows is absorbed through sale of short-dated government securities and treasury bills. The mobilised cash is held in a separate government account with the Reserve Bank. The instrument thus has features of both, SLR and CRR.

¹⁴ RBI

Policy Rates (as on 02-Jan-2016)	
Policy Repo Rate	: 6.75%
Reverse Repo Rate	: 5.75%
Marginal Standing Facility Rate	: 7.75%
Bank Rate	: 7.75%
Reserve Ratios	
CRR	: 4%
SLR	: 21.5%
Exchange Rates	
RBI Reference Rate	
INR / 1 USD	: 66.1780
INR / 1 Euro	: 71.8627
INR / 100 Jap. YEN	: 55.0100
INR / 1 Pound Sterling	: 97.6059
Lending Deposit Rates	
Base Rate	: 9.30% - 9.70%
Savings Deposit Rate (Variable from Bank to Bank)	: 4.00%
Term Deposit Rate > 1 Year	: 7.00% - 7.90%

Source: Website of RBI

Review Questions

Short Answer Type:

1. What do you mean by fiscal policy?
2. What are the tools used by monetary authority in India as a part of the implementation of monetary policy?
3. Write a short note on the public debt management in India?
4. What are the arguments against privatization?
5. What are the characteristics of Privatization?
6. What is the rationale behind Public Private Participation in India?
7. Classify the Central Public Sector Units in India?
8. Enumerate the items that are usually accommodating in the Union budget as elements of revenue and expenses?
9. What are the objectives of fiscal policy of India?
10. What do you mean by an economic system?
11. What are the characteristics of government controlled economy?
12. Write a short note on NITI Aayog.
13. What are the peculiarities of a mixed economy?
14. Write a short note on the peculiarities of Indian economy?

Essay Questions

1. Critically evaluate the effectiveness of recent fiscal and monetary policies of India in bridging the gap between the rich and the poor.
2. Briefly explain the role, functions and responsibilities of NITI Aayog.
3. Evaluate the goals and achievements of 12th Five Year Plan in India.

MODULE III

Unit 7

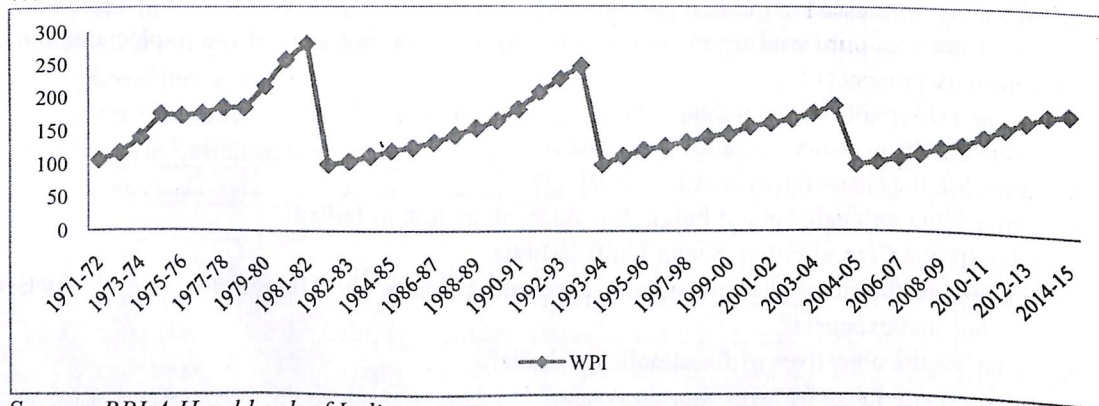
INDIAN ECONOMY- GROWTH AND DRIVERS

Introduction

During the colonial period Indian economy was in a state of deteriorating nature in terms of values and volume of transactions. British India witnessed drainage of wealth from our economy to their homeland. The policies introduced by the colonial rulers were not competent enough to support the basic producers- agriculture, rather that policies were destructive in nature. Consequently, the policies also impacted seriously the industrial and service sector. Now, Indian economy is a dynamic one, in the sense that the overall features of the system have been profoundly exposed to changes in global scenario. The connotation of economy has reached in a meaningful manner only after the independence. Before that, Indian economy had been shaping according to the requirements of colonial nations. Since independence, we cautiously selected unique model to function using the highlights of the success story of USSR. Although we call it a planned one, we cannot compare ours with other nations. So the period after independence was really a challenging one, sufficiently backed by some primitive objectives. Variations and tragedies were the peculiarities of plans, which were floated during the post independence era.

Planned economy reached a maximum threshold during eighties in India. The economy has been beneficially pulled by efficient engines- elaborated commercial banking system and other calibrated financial market agencies. Expected results were still at large distance during the dawn of 19th century. The overall performance of Public sector Units was not in the mood of the developments in other parts. Some of the Units were existed solely for the sake of certain unnecessary basements. The dark side of planning has elaborately manifested and the economy muddled with uncontrollable inflation, poverty and unemployment.

Wholesale Price Index in India



Source: RBI A Hand book of Indian economy

1981-82, 1993-94, 2004-05 are base years. The steepness of the wholesale price index line shows an irregular and high tends in 1971 to 1980 period. The steepness was high during the period of 1980 to 1993. It was phenomenally lowered since 1993 and became more seasoned after 2004. The periods are the chronological epitomes of Post liberalization and global pressures. Rather than an incremental improvement, the economy showed a good leap since 2000¹⁵. De-regulation, privatization and foreign direct investment contributed exorbitant economic growth to Indian economy. The percentage hike in growth was huge enough than pre liberalization, and aptly can call that phenomenon as "Indian

¹⁵ (Khambatta, 2013), pointed out the quantitative development in Indian economy as it doubled in size from 2000 to 2010, outpacing all other BRICS countries except China.

Economic Miracle". In fact, the Indian economy grew 40 percent faster per year in the two decades that followed the 1991 reforms than it did in the two decades preceding it. But during the recent years, Indian economic growth has stagnated. In 2013, Indian economic growth slowed to 4.4 percent- the lowest level in a decade. Slowing economic growth, high unemployment, inflation and looming demographic dividend are still contending issues for policy makers. Indian economy and enterprises face stringent competition from global counterparts. In this context, Indian economy explores market based competition for a sustainable growth. The strategy seriously encompasses wholesome domestic and foreign competitors considering cross board productivity and more focus on innovation potential of its own¹⁶.

Agricultural growth and problems

The period after independence can be conveniently divided into three. From 1950 to 1960- a period substantially determined by planning premises, 1960s to 1980s- a period majorised by revolutionary practices, and the rest 1980 to 1990s- dominated by liberalized forces. First five year plan focused mainly on the fortification of agricultural sector, and thus channelized much funds towards the building up of infrastructure. Consequently, major projects such as Bakranangal and Hirakud were built up, which have been exemplifying the leaping in agricultural sector. A bird's view on Indian agriculture reveals the following aspects¹⁷;

1. During the first phase, Inter-State disparity in area cropped per person declined, neutralizing the shrinkage in spatial variations in land productivity.
2. First period agricultural growth was dominantly on broad spatial base- **increase in area**- and to some extent, succeeded in productively absorbing rural surplus labour.
3. In the second period, there was a drastic decrease in the contribution of area expansion (to less than 18 per cent), which, presumably was due mainly to lower growth in land –use intensity. On top of this, regional disparities, both in terms of productivity per hectare and per capita output, increased implying that compensating changes in the regional pattern of the person land ratio were absent.

The second phase witnessed a decline in land use intensity and slow growth of agricultural employment. During the third period, all India land use intensity has again increased, and in addition, agricultural growth has become more broad-based. The period witnessed a marginal increase of 2.5 percent per year in all India food grain growth.

Agricultural Production - Food grains

(Million tonnes)

Cereals						
Year	Rice	Wheat	Coarse Cereals	Total (2 to 4)	Pulses	Total Food grains (5+6)
1	2	3	4	5	6	7
1960-61	34.58	11	23.74	69.32	12.7	82.02
1970-71	42.22	23.83	30.55	96.6	11.82	108.42
1980-81	53.63	36.31	29.02	118.96	10.63	129.59
1990-91	74.29	55.14	32.7	162.13	14.26	176.39
2000-01	84.98	69.68	31.08	185.74	11.07	196.81
2010-11	95.98	86.87	43.4	226.25	18.24	244.49
2011-12	105.3	94.88	42.01	242.2	17.09	259.29
2012-13	105.24	93.51	40.04	238.79	18.34	257.13
2013-14	106.65	95.85	43.29	245.79	19.25	265.04
2014-15	104.8	88.94	41.75	235.49	17.2	252.68

¹⁶ (Elliott & Atkinson, 2014)

¹⁷ (Rao & Storm, 2000)

Note: Data for 2014-15 are based on Fourth Advance Estimates.

Source: Ministry of Agriculture & Farmers Welfare, Government of India.

Agriculture revolution has been successful in increasing growth of primary food grains, especially wheat. Major irrigation projects grossly supported and rampant production of food grains achieved. The success can be reckoned through 'pure' yield component. But it has failed to tap the existing potential provided by other sources of growth such as increased land-use intensities and shifts, both across crops and over regions, in the cropping pattern.

Although the green revolution criticized on a few grounds such as above, the idea, which had got world recognition, was capable to cater many while calibrating the primary production. In nutshell, excluding some of the drawbacks related with environment problems and sustainability, green revolution was an eligible action plan in the pace of third world countries, where large problems are even now centered on poverty and hunger.

By international standards, India's land-use intensities are low and the variability of relative yields across regions high. From this it can be understood that Indian agricultural output is considerably below its potential.

The improvement in second and third period growth is primarily attributed to the developments in technology and innovation. But one of the questionable aspect remains here is the rationality of expenditure on it and the mismatch in results. Above all, distribution of growth grains across rural income classes is still a controversial problem.

Land Reforms

Although there still exists controversy regarding the socialist idea of economic doctrine, we always moved with a focus of planned industrialization, which was deemed necessary to increase productivity and exclude the exports of primary agricultural products. As part of land reforms, the following steps were initiated;

- (a) Zamindari estates to be abolished (b) The rights of tenants secured and rents regulated (c) Citizens to be imposed on private land ownership by individuals or families, and excess over these ceilings to be taken over by the State and redistributed among small farmers and the landless.

The shift mainly benefited land lords and better-off peasantry. The other part of the reforms was National Community Development Programme(CDP), to help to help to develop agricultural production through cooperativization of the rural section, agricultural extension, improve rural literacy and develop local self government. However the CDP suffered seriously from organizational problems.

In 1965, Agricultural Prices Commission (APC) set up and consequently the Food Corporation of India- to carry out the new pricing and marketing policies.

In second phase, there was a **drastic fall in growth of production**, which is attributable to three factors.

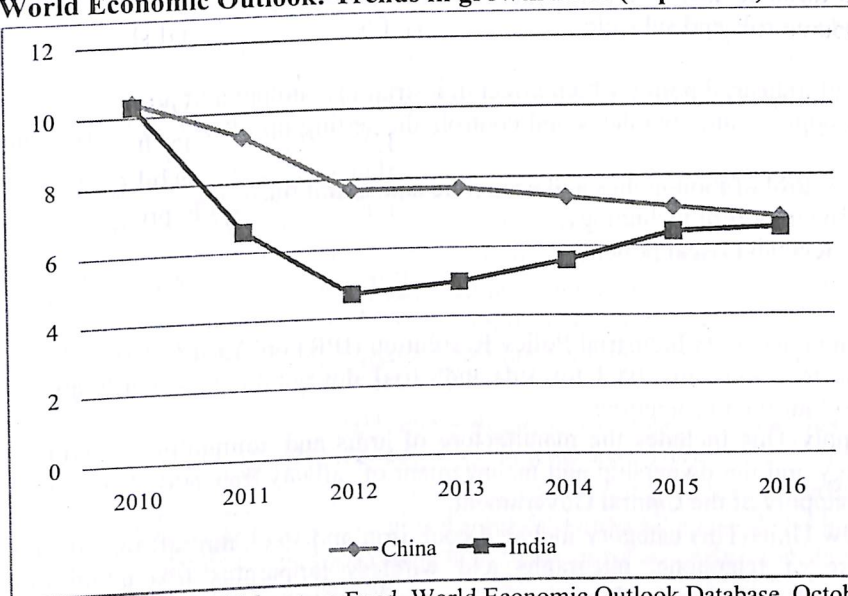
1. The loss of momentum in public investment during the second and third plans, which, given significant lags, affected output growth.
2. The concentration of the sources of growth within favored regions.
3. The increased reliance on private rather than public investment, coupled with a much greater financial acceptance of private investment by the nationalized banking system. It compelled a dependence of growth on subsidy and pricing policies.

The unequal distribution of land and other assets has also affected the nature of technical progress in Indian agriculture.

New Economic Policy

Planning sufficiently helped India to overcome some of the challenges in the economy. Post independence period a diversified industrial base than before. Agricultural production has increased by many times than the increase in population.

World Economic Outlook: Trends in growth rates (in per cent)



Source: International Monetary Fund, World Economic Outlook Database, October 2014.

Note: * Year over year Projections

India's new economic policy was a neoliberal structural adjustment program that allowed India to qualify for aid from world level Institutions. In 1990s India faced acute crisis in economy that lead to defaults in payments to these institutions. Although the structural adjustment envisages an export prompting strategy replacing the restricted imports, the idea was perfectly against the constitutional ideas which had primarily advised to stand on socialist platform. Devaluation of Indian currency by 23 percent- as recommended by World Bank and sharp decrease in provisions of subsidies to public sector entities were the immediate actions that followed as part of execution.

Planning has to consider the internationalization of capital as a reality, an imperative. The future has to chart out on the said platform. In fact it is a challenge before planning ideologies. More imaginative strategies have to be developed for international economy and yet retaining the authority of decision making. Growth of manufacturing sector (1951-1993) has been inadequate in providing poverty and unemployment. Periods of high growth are followed by periods of low growth. India has yet to achieve self sustaining manufacturing growth. Again the high growth periods have not been successful in tackling the problems of poverty and unemployment.

Unit 8

INDUSTRIAL POLICY OF INDIA

Introduction

Indian economy pursued planned phases, which was arguably characterized by self sustainability. The environment was sufficiently related with ideologies which were focused on import substitution, inward oriented growth, and controls and subsidies.

Industrial Policy

There are different aspects of industrial policy which affect industrial investment and production.

- Industrial licensing policy which regulates and controls the setting up of new industrial units and their expansion.
- Policy related with control of monopolies and economic concentration.
- Policy related with the import of technology.
- Whole range of financial and fiscal policies.

Industrial Policy in India

Industrial Policy 1948

The Government of India announced its Industrial Policy Resolution (IPR) on April 6, 1948 whereby both public and private sectors were involved towards industrial development. Accordingly, the industries were divided into four broad categories:

- (a) Exclusive State Monopoly-This includes the manufacture of arms and ammunition, production and control of atomic energy and the ownership and management of railway transport. These industries were the exclusive monopoly of the Central Government.
- (b) State Monopoly for New Units-This category included coal, iron and steel, aircraft manufacture, ship building, manufacture of telephone, telegraphs and wireless (apparatus (excluding radio receiving sets) and mineral oils. New undertakings in this category could henceforth be undertaken only by the State.
- (c) State Regulation-This category included industries of such basic importance like machine tools, chemicals, fertilizers, non-ferrous metals, rubber manufactures, cement, paper, newsprint, automobiles, electric engineering etc. which the Central Government would feel necessary to plan and regulate.
- (d) Unregulated private enterprise-the industries in this category were left open to the private sector, individual as well as cooperative.

Industrial Policy 1956

In India, industrial policy had been chalked out with the framework of the Industrial Policy Resolution, 1956 (IPR, 1956). It has been known as the 'Economic Constitution of India'. The same put stresses on:

- The development of heavy and machine-building industries;
- The expansion of the public sector;
- The establishment of a large and growing Co-operative sector; and
- Encouragement to the diffusion of ownership and management in the private sector.

New Industrial Policy 1991

Making a sharp departure from the existing IPR-1956, government announced New Industrial Policy on July 24, 1991. The basic assumption underlying the policy was 'Continuity with change'.

Objectives

- To consolidate the strengths built up during the first four decades of economic planning and to build on the gains already made;
- To correct the distortions or weaknesses that may have crept in the industrial structure as it had developed over the first four decades;
- To maintain a sustained growth in the productivity and gainful employment; and

- To attain international competitiveness. The pursuit of these objectives will be tempered by (b) the need to preserve the environment, and (b) the need to ensure the use of available resources.

Industrial Licensing Policy

- Industrial licensing has been abolished for all projects except for a short list of industries (Distillation, Cigars, tobacco, electronic aerospace and defence equipment, arms and ammunitions, industrial explosives, hazardous chemicals, drugs and pharmaceuticals)
- Only three industries groups (due to security and strategic concerns such as atomic energy, substances noted by the Department of Atomic Energy) will be reserved exclusively for the public sector.
- In projects where imported capital goods are required, automatic clearance will be given in the following cases:
 - Where foreign exchange availability is ensured through foreign equity,
 - If the CIF value of imported capital goods required is less than 25 per cent of the total value of plant and equipment, up to a maximum value of Rs 2 Crore.
- There is no requirement of obtaining industrial approvals from the Central Government for location not falling within 25 Kms. of cities having population of more than one million.
- Industries of non-polluting nature such as electronics, computer software and printing can be located within 25 Kms. of the periphery of cities with more than one million population. Other industries are permitted only if they are located in designated industrial areas.
- The mandatory convertibility clause will no longer be applicable for term loans for the financial institutions for new projects.
- All existing registration schemes will be abolished.
- Entrepreneurs will henceforth only be required to file an information memorandum on new projects and substantial expansion.
- The system of phased manufacturing programmes run on an administrative case-by-case basis will not be applicable to the new projects.
- The exemption from licensing will apply to all substantial expansions of existing units.

New Industrial Policy 1991 and Public Sector

New Industrial Policy brought a new approach to public enterprises. It seeks to control the role of public sector to provision of physical and social infrastructures and to areas where security and strategic considerations highlights.

Following four principles guided the new policy framework

- i) Partial disinvestment of equity of PSUs and bring them to open scrutiny.
- ii) PSUs can acquire more funds from public in the form of equity rather than depending on government.
- iii) In most sectors, public enterprises have to face competition from private entities.
- iv) Effective steps have to be taken to ensure institutional relationships between the PSUs and government.

Rate of Industrial Growth¹⁸

The rate of industrial growth, measured in terms of Index of Industrial Production (IIP) increased by 4.0 per cent during April-September, 2015-16 as compared to the growth of 2.9 per cent during the same period of previous year i.e. 2014-15. All the three industrial sectors viz. mining, manufacturing and electricity have registered positive growth during April-September in the current year.

The Government has taken a number of measures including administrative and regulatory, to accelerate the growth of industrial sector. For creation of conducive business environment, the Government is constantly simplifying and rationalizing the processes and the procedures for boosting investor sentiment, simplifying the policy and procedures for encouraging Foreign Direct Investment (FDI) and correcting the inverted duty structure.

¹⁸ Press Release(02 Dec 2015), Ministry of Commerce and Industry, New Delhi

Some of the recent initiatives also include pruning the list of industries that can be considered as defence industries requiring industrial license, two extensions of two years each permitted in the initial validity of three years of the industrial license to take it up to seven years, removal of stipulation of annual capacity in the industrial license, and deregulating the annual capacity for defence items for Industrial License. For defence projects validity of industrial licenses has been increased to 15 years, which can be further increased to 18 years.

With a view to liberalise and simplify the FDI policy, so as to provide ease of doing business in the country leading to larger FDI inflows, the Government has brought in FDI related reforms and liberalisation in a number of major sectors of the economy. Changes introduced in the policy include increase in sectoral limits, bringing more activities under automatic route and easing of conditionalities for foreign investments.

The Government has launched the e-biz Mission Mode Project under the National e-Governance Plan which has simplified procedures and as on date provides 29 G2B (Government to Business) services - 18 Central and 11 State/Municipal services, online. The Delhi Mumbai Industrial Corridor (DMIC) project is under implementation. In addition, the Government has conceptualized Amritsar Kolkata Industrial Corridor, Chennai-Bengaluru Industrial Corridor, Bengaluru Mumbai Economic Corridor and the Vizag-Chennai Industrial Corridor (as the first phase of an East Coast Economic Corridor), and setting up a National Industrial Corridor Development Authority (NICDA) for coordinating and overseeing progress of the various industrial corridors.

The Government has also launched "Make in India" programme with 25 thrust sectors to provide a major push to manufacturing in India. An Investor Facilitation Cell has been created viz 'Invest India' to assist, guide, handhold and facilitate investors during the various phases of business life cycle. This Cell provides necessary information on vast range of subjects; such as policies of the Ministries and State Governments, various incentive schemes and opportunities available, to make it easy for the investors to make necessary investment decision. Information on 25 thrust sectors has been put up on 'Make in India's web portal (<http://www.makeinindia.com>) along with details of FDI Policy, National Manufacturing Policy, Intellectual Property Rights and Delhi Mumbai Industrial Corridor and other National Industrial Corridors.

Table 34 : Annual Survey of Industries - Principal Characteristics
(Value in Rs Billion, Man days in Thousand and Others in Number)

Industry Characteristics	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1	2	3	4	5	6	7	8	9
1. Number of factories	136353	140160	144710	146385	155321	158877	211660	217554
2. Fixed capital	5130.69	6069.4	7151.31	8451.32	10559.66	13521.84	16070.07	19495.51
3. Working capital	1600.54	1844.63	2821.89	3169.53	3112.33	3877.45	6203.63	5887.94
4. Invested capital	7594.18	9015.79	10715.04	12801.26	15351.78	19330.54	23935.8	28400.95
5. Outstanding loans	3346.34	3515.07	4285.89	4539.96	5364.19	6630.1	8256.38	9243.82
6. Number of workers	6599298	7136097	7880536	8198110	8776745	9157802	9901970	10438365
7. Mandays-workers	1995220	2154187	2383707	2477465	2660547	2783026	3035766	3190309
8. Number of employees	8383278	9038523	10252148	10378495	11252793	11722631	12617691	13345716
9. Mandays-employees	2544598	2739729	3034322	3144881	3386622	3574683	3884964	4087131
10. Total persons engaged	8453624	9111680	10328434	10452535	11327485	11792055	12694853	13429956
11. Wages to workers	336.35	376.64	442.91	510.3	597.72	689.41	856.46	998.56
12. Total emoluments	644.06	740.08	887.51	1054.43	1294.41	1470.07	1832.96	2147.33
13. Provident & other funds	80.76	85.73	103	110.65	128.41	149.4	163.39	181.37

School of Distance Education

14. Workmen & staff welfare expenses	58.31	61.23	75.34	85.16	100.54	119.14	132.66	153.52
15. Fuels consumed	858.54	966.3	1200.67	1295.62	1521.62	1616	1954.24	2424.38
16. Material consumed	10243.47	12042.8	15117.71	17528.87	20659.82	24090.96	30204.41	37419.19
17. Total inputs	13629.41	15436.6	19483.68	22229.53	26614.86	30358.53	38510.84	47986.66
18. Products and by-products	14452.03	16975.5	21286.36	24707.17	28631.48	33061.42	40837.18	50320.9
19. Value of output	16725.61	19083.6	24085.48	27757.09	32727.98	37330.36	46762.17	57760.24
20. Depreciation	497.13	528.33	644.55	711.64	835.46	1050.69	1205.58	1406.55
21. Net value added	2599.07	3118.64	3957.25	4815.93	5277.66	5921.14	7045.76	8367.03
22. Rent paid	45.38	52.99	64.04	75.05	97.58	120.05	134.93	161.95
23. Interest paid	324.54	333.98	413.11	514.87	686.8	733.18	880.21	1206.56
24. Net income	2229.15	2731.67	3480.1	4226	4493.27	5067.91	6030.62	6998.51
25. Net fixed capital formation	255.37	732.44	798.7	1066.27	1424.01	1632.32	1630.98	2031.69
26. Gross fixed capital formation	752.5	1260.77	1443.25	1777.91	2259.47	2683.01	2836.55	3438.24
27. Addition in stock of								
(i) Material, fuels, etc	237.75	217.81	292.62	495.27	197.47	532.39	774.26	63.42
(ii) Semi finished goods	64.2	85.4	92.78	106.02	90.94	190.22	270.78	174.55
(iii) Finished goods	46.27	151.7	164.65	243.79	67.98	212.83	577.45	394.11
(iv) Total	348.22	454.9	550.05	845.08	356.38	935.44	1622.49	632.08
28. Gross capital formation	1100.73	1715.67	1993.3	2622.99	2615.85	3618.45	4459.04	4070.31
29. Profits	1446.02	1844.63	2414.25	2975.76	2969.91	3329.31	3901.62	4516.3

Source : Annual Survey of Industries, Ministry of Statistics and Programme Implementation, Government of India

Unit 9

CHALLENGES FACED BY INDIAN ECONOMY

Introduction

General performance indicator of any economy is its growing capacity. Here growing capacity rests with the ability to produce more goods as a function of demand in good environment. Some of the economists argue that mere growth will not results in a welfare State and activities and thereby policies shall be adjusted itself to the changing needs of society and global scenario. The concept economic development itself encompasses the ides of welfare to the economic growth. Hence a good economy is one, which regularly ensures the growth with welfare of everyone. An international comparison reveals the positive effectiveness of policies and strength of institutions in India. Much of the comparisons generally focus on economic growth-productions in economies. In that sense, India is not bad.

Real GDP Growth (%)

Aggregates/Economies	2013	2014e	2015f	2016f	2017f
Aggregates					
Developing economies	5.1	4.6	4.4	5.2	5.4
South Asia	6.3	6.9	7.1	7.3	7.5
South Asia, excl. India	5.7	5.8	5.7	5.8	5.9
World	2.5	2.6	2.8	3.3	3.2
Economies					
Afghanistan	3.7	2	2.5	5	5.1
Bangladesh	6.1	5.6	6.3	6.7	6.7
India	6.9	7.3	7.5	7.9	8
Maldives	4.7	5	5.3	5	5
Nepal	3.8	5.5	4.2	4.5	5.5
Pakistan	4.4	5.4	6	3.7	4.5
Sri Lanka	7.3	7.4	6.9	6.6	6.5

e-expected, f-forecasted

Source: World Bank

The changing circumstances-from a stifled economy to liberated one-brought more dynamic attire to Indian economy. Hence, the diagnosis adopted in the pasts will not serve as a panacea to the problems in the present. Further, liberalized era is a complex situation where economic decisions are itself able to accommodate the societal considerations. Although the nation is polished with alluring growth tendencies, here exist some tangled problems, which require keen study and serious interventions by both authorities and citizens.

Poverty

An Overview

Poverty refers to a situation when people are deprived of basic necessities of life. It is often characterized by inadequacy of food, shelter and clothes. One of the main ironies before developing countries is poverty. The situation is a type where poor become poorer and rich become richer. Authorities are sufficiently vigilant towards this challenge and timely actions have tested everywhere. Planned allocation of resources, liberal policies on trade and cross border trade are some of the developmental views of authorities. India is a unique place where we can see extra dimensions of poverty and related issues. Although poverty is a consequence of different illness in economy,

sometimes, in some states, poverty itself becomes source for different social and economic problems. National poverty line estimates indicated a poverty incidence of 27.5 percent in 2004¹⁹ and in absolute terms India has 301.07million poor persons and some of them are severely poor¹⁹. While discussing about conducive environment for business, authorities are confronted with the ever challenging and stifling circumstances of the poor in India. In nutshell, here arises the central problem- whether and how much to be allocated for the less privileged? However, the model developments in other countries educate us about the cardinal importance of industrialization- a predominant requirement for eliminating agent.

Table 19.3 Poverty situation in some states in India

State	% of poor people	Total number of poor people (Lakh)
Odisha	46	179
Chhatisgarh	41	91
Bihar	41	369
Uttar Pradesh	35	590
Andhra Pradesh	16	126
Haryana	14	32
Punjab	8	22
All India	27.5	3017

Source: Economic Survey, different Issues

One of the biggest challenges of independent India has been to bring millions of people out of the trap of poverty. One curative mechanism, a world level tested phenomenon, has actuated in India during second phase-during 1960s. The curative mechanism was nothing but agricultural revolution. Using High yield varieties of seeds, the revolutionary actions in Indian farmers catered millions. Access to irrigation and subsidized outputs were the accelerating forces for revolutionary production of grains. Drastic developments occurred during 1990s- a period witnessed liberating forces in each and every field. Agriculture was, in a sense, a victim of that process of ideology. This is a general perception that maintained by many and we needs thorough discussion about the impact of liberalization on agriculture and poverty.

Structural changes in economy resulted in contraction of share of agriculture and allied sectors in GDP, especially after liberalization. During the financial year 2007, it was 18 percent of GDP. Corresponding contribution of service sector and manufacturing were 56 percent and 26 percent respectively. 72.2 percent of population lives in rural areas and 56 percent of it make livelihood from agriculture and allied activities.

Poverty Lines and Poverty Measures

According to social scientists the level of income and consumption are generally understandable indicators of poverty. By now, poverty is looked through some other social indicators such as illiteracy level, malnutrition, health care, job opportunities, access to safe drinking water sanitation etc. Social exclusion and vulnerability are common bases for analyzing poverty today²⁰.

Economic inequality sharply increased during 1990s and poverty reduction narrowed much even on the pace of rampant economic growth.

India's official poverty line in monthly per capita expenditure, in 1973-74 all-India prices, is Rs 49 in rural areas and Rs 57 in urban areas. People with below the mentioned expenditure than this were considered as those who are below poverty line. These figures represent to cater 2,400 calories daily

¹⁹ Asian Development Bank, (2011)

²⁰ (NCERT, 2006)

in rural areas and 2,100 calories daily in urban areas, plus some basic nonfood items for ordinary living. From the late 1970s into the mid-1990s, only these two lines were used. On the recommendation of the 1993 Planning Commission Expert Group on Estimation of the Proportion of the Poor, the lines were modified to incorporate interstate differences in price levels, as well as variations in intrastate rural-to-urban realities. Poverty lines are thus defined at the state level, separately for rural and urban areas. Each line is updated by a set of state-specific price indexes based on the food and nonfood components of the state consumer price index of agricultural laborers for rural lines and the state consumer price index for industrial workers for urban lines, weighted by the 1973–74 food shares of households near the poverty line. Urban-rural price differences are a serious problem in calculating or evaluating poverty in India. In 2004–05, the average ratio of urban to rural poverty lines is 1.5, and the ratio varies widely across states on the grounds of intensification of urbanization. It is over 1.8 in Andhra Pradesh, and nearly as great in Maharashtra, Karnataka, and Madhya Pradesh, but actually slightly less than unity in Assam. Social acceptability and comparability over time and different sectors are prime criticisms faced by Indian poverty measurements methodology. To overcome the problems, Planning commission appointed an expert committee (2009) and on the recommendation of that committee, developmental modifications made in the estimation process. As such, timely changes in the valuation of education and health expenditures are included and a new view on the utilization of calorific energy has pointed. While evaluating the recent mechanisms, it can be noted that the underlying price adjustments were based on clearly outdated consumer price indices, and hence, there is chance for biased measurements in poverty data.

World level institutions cautiously mention about the poverty conditions in India, a unique place in India where, poverty exists as a multidimensional problem. Its causes, dimensions and diagnosis are more complex. Recently, there exist some measurement issues concerning the poverty. World Bank, in a survey, has found the following aspects about Indian poverty²¹.

1. *India has achieved steady progress in reducing poverty as measured by consumption.* Using the Government of India's official poverty lines, in 2004–05, 28 percent of people in rural areas and 26 percent of people in urban areas lived below the poverty line, down from 47 percent and 42 percent, respectively, in 1983. Improvements in the last two decades represent a continuation of a long-term secular decline of both urban and rural poverty under way in India since the 1970s. At this situation, acceleration of progress against poverty since economic reforms began in earnest in the early 1990s is suggested, but it is too early to say that that is a (statistically) robust new trend.
2. *New drivers of poverty reduction—urban growth and nonfarm growth—have emerged since the 1990s.* Historical evidence in India from the 1970s to the early 1990s has shown agricultural growth to be a major factor in reducing poverty. Indeed, for decades, poverty reduction in India has been synonymous with rural and, in particular, agricultural growth. But since the 1990s agriculture has lagged other sectors, shrinking in its contribution to less than half of rural GDP. That poverty reduction has continued apace despite a slow-down in agriculture points to the emergence of new drivers of poverty reduction. This report draws on survey evidence to identify two—urban growth and nonfarm growth.
3. *Since the 1990s, urban growth has reduced urban poverty as before, but evidence is now appearing of a much stronger link from urban growth to rural poverty as well.* With nearly three-quarters of India's poor residing in rural areas, any driver that does not affect the rural poor is unlikely to make a significant dent in Indian poverty. This report shows that urban

²¹ World Bank, Perspectives on poverty in India: stylized facts from survey data (2011)

growth, which has increasingly outpaced growth in rural areas, has helped to reduce poverty for urban residents directly. In addition, evidence appears of a much stronger link from urban economic growth to rural (and therefore overall) poverty reduction. Stronger links with rural poverty are due to a more integrated economy. Urban areas are a demand hub for rural producers, as well as a source of employment for the rural labor force. They are aiding the transformation of the rural economy out of agriculture. In urban areas, it is small and medium-size towns, rather than large cities, that appear to demonstrate the strongest urban-rural growth links. Urban growth also stimulates rural-urban migration. But although some increase in such migration has occurred over time, migration levels in India remain relatively low compared to other countries.

4. *The process of rural transformation out of agriculture toward the nonfarm sector is assuming a greater role in reducing Indian poverty.* Between 1993–94 and 2004–05, rural nonfarm employment has grown about four times as fast as farm employment, and more rural jobs have been created off-farm than on. The fact that even the lowest-paid nonfarm jobs—casual wage employment—on average, pay considerably more than those in agriculture (the wage premium is about 45 percent) suggests that the growth of the non-farm sector is likely to have been poverty reducing. Nonfarm employment also reduces rural poverty indirectly by driving up agricultural wages. Agricultural wage growth in the 1990s slowed; the analysis shows that in the absence of labor market tightening due to the nonfarm sector, agricultural wage growth would have been slower still.
5. *Continued debate about the appropriate sectoral focus for poverty reduction efforts is warranted.* Agriculture is still the employer of too many of India's poor (and especially the female and elderly poor) to be ignored, but urban growth and nonfarm rural employment deserve greater attention. The rural nonfarm sector as a sustainable source of poverty reduction will need close scrutiny—the quality of nonfarm employment has been falling in a trend toward growing “casualization” of the sector. Within the urban sector, large cities may well continue to drive India's growth. But as small and medium-size towns are home to 80 percent of India's urban poor, and given the strong links between such towns and rural areas, it is necessary to make sure that any barriers to small-town growth, or biases in policy stances that prevent small towns from realizing their potential, are eliminated. One place to look for such biases is in access to basic infrastructure services.
6. *In contrast to consumption poverty, India's record on improving basic health and education indicators is mixed.* Although some outcomes are improving, others remain stubborn and are worse for, but not confined to, the poor. Child undernutrition, in particular, remains extremely high, and improvements have been only half what would be expected given India's pace of GDP growth. In education, literacy rates are improving, and children are much more likely to be attending school. The most rapid improvements in school attendance are occurring among girls and children from poor households and in rural areas and relatively educationally backward states. But learning outcomes among Indian school children are very low, relative to their curriculum, and inequality in learning levels is high.
7. *Inequality is on the rise and may be higher than often thought.* Consumption inequality has fallen over the longer term in India but is now on the increase. Rural growth switched from being pro-poor (largely benefiting the poorer) between 1983 and 1993–94, to benefiting income groups equally between 1993–94 and 2004–05. In urban areas, over the same period, growth went from being distributed equally, to favoring the rich—that is, the gap between the rich and the poor widened. And the gap between rural and urban areas also widened. The

resulting moderate increase in inequality revealed in the survey data likely understates the increase in inequality as a result of underreporting of consumption at the top end.

8. *Some types of inequality, but not all, are harmful for poverty reduction.* Everything else being equal, a rise in inequality will dampen the poverty-reducing impact of an increase in mean incomes. But everything else is not equal, and some growth accelerations may not be possible without an increase in inequality. The recent experience of India might fall into such a category, as increasing returns to education are an important factor driving the rise in inequality. The growing importance of education fits exactly with a story of accelerating urban growth and a growing nonfarm sector, as the less the economy is dominated by agriculture, the more important education is. National accounts data also point to growing disparities between states, although the household survey data do not reveal similar patterns. Even so, other sources of inequality may be more structural in nature and may hold back participation of some groups in the development process.
9. *Structural inequalities by caste, tribe, and gender are present and visible. Scheduled tribes are being left behind.* Structural inequalities take different shapes in different parts of India. Overall, however, although multiple welfare indicators for scheduled castes and scheduled tribes are improving, the gap between them and the general population is large and persistent. Scheduled tribes today (2004–05) experience levels of poverty seen in the general population 20 years earlier (1983), while scheduled castes lag 10 years behind the general population. Female disadvantage in India continues, despite high rates of growth, and women die both in infancy and in motherhood, with poorer outcomes for women from scheduled castes and tribes. Economic and social outcomes for women are underpinned by low levels of security within and outside their home. Caste remains a potent indicator of labor market outcomes and social status, but positive signs of dynamism are also appearing within the caste hierarchy. Indicators that India's educational expansion is leaving scheduled tribes behind, especially at the secondary school and higher levels are worrying. Scheduled tribes show the least improvement in intergenerational mobility in education and also display the worst indicators of child nutrition and mortality. Scheduled tribes appear to be at risk of becoming locked out of sharing in India's growth and prosperity.
10. *Improving human development outcomes for the poor remains a key challenge for India.* It is central to improving their income-earning opportunities and welfare. Given the recent record, it is simply not the case that continued rapid economic growth will automatically translate to commensurate improvements on human development outcomes. Our analysis of structural inequalities would, for instance, suggest a redoubling of efforts to retain scheduled tribe children in school past the primary level. At the same time, some problems, such as undernutrition and poor learning outcomes, are endemic and alarming and are not confined to the poor. That suggests that improving human development outcomes is not merely, or even primarily, an issue of better targeting of existing programs and services to the poor. Larger, and systemic, challenges of service delivery remain.

Determinants of poverty

According to Planning Commission, the main determinants of poverty are

- (i) lack of income and purchasing power attributable to lack of productive employment and considerable underemployment and not to lack of employment per se;
- (ii) (ii) a continuous increase in the price of food, particularly in food grains- accounted for 70-80 percent of the consumption basket; and
- (iii) (iii) Lack of proper social infrastructure, which will affect the quality of life of the people and their employability.

In this concern Planning Commission does not isolate the phenomenon rather urge for some preconditions. One of the important aspects here is economic growth. That economic growth will create more resources and will ensure involvement of poor. However mere expansion in economic activities or increase in production will not ensure eradication of poverty. The Country cannot claim economic growth when a section of society lives in miserable conditions and are largely deviated from mainstream²². Involvement of the poor depends on the sources of growth and the nature of growth. Therefore growth shall be ensured in such sectors that have more employment elasticity. Agriculture, rural non-agricultural activities and informal sectors are important in this sense. Labour intensive exports are another thrust area that deserves expansion.

Correspondingly Government must ensure basic minimum services for the improvement of living condition of the poor. Here the important services are safe **drinking water**, primary **health** facilities, universal primary **education**, **nutrition** to school and pre-school children, **shelter** for the poor, **road** connectivity for all villages and habitations, and the **Public Distribution System (PDS)** with a focus on the poor. Accordingly The Ninth Five Year Plan has laid special emphasis on these seven basic minimum services and took efforts to achieve a particular level of satisfaction with the State Governments and Panchayati Raj Institutions (PRIs). Direct poverty alleviation programmes oriented towards fortifying productive potential of the economy and offering more opportunities for the poor to involve in the process of poverty eradication and economic growth. Social mobilization, encouragement of participatory approaches and institutions and empowerment are operational strategies. In this PRIs, the voluntary organizations and community based Self-Help Groups will be more closely involved.

Causes of poverty in India

It is said that “a country is poor because it is poor.” This idea has come down from Ragnar Nurkse who accorded the problem of the vicious circle of poverty. Low level of saving drastically reduces the scope for investment; low level of investment yields low income and thus the circle of poverty goes on indefinitely.

Rural poverty is a multi-dimensional social problem. Its causes are varied. They are as follows:

1. Climatic factors:

Climatic conditions constitute an important cause of poverty. The hot climate of India reduces the capacity of people especially the ruralites to work for which production severely suffers. Frequent flood, famine, earthquake and cyclone cause heavy damage to agriculture. Moreover, absence of timely rain, excessive or deficient rain affect severely country's agricultural production.

2. Demographic factors:

The following demographic factors are accountable for poverty in India.

(i) Rapid growth of population:

Rapid growth of population aggravates the poverty of the people. The growth of population exceeds the rate of growth in national income. Population growth not only creates difficulties in the removal of poverty but also lowers the per capita income which tends to increase poverty. The burden of this reduction in per capita income is borne heavily by the poor people. Population growth at a faster rate increases labour supply which tends to lower the wage rate.

(ii) Size of family:

Size of the family has significant bearing on rural poverty. The larger the size of family, the lower is the per capita income, and the lower is the standard of living. The persistence of the joint family system has contributed to the health and earning capacity of the ruralites.

²² (Yesudian, 2007)

3. Personal causes:

(i) Lack of motivation:

Lack of motivation is an important cause of rural poverty. Some ruralites do not have a motive to work hard or even to earn something. This accounts for the poverty of the ruralites.

(ii) Idleness:

Most of the rural people are lazy, dull and reluctant to work. Hence they rot in poverty.

4. Economic causes:

(i) Low agricultural productivity:

Poverty and real income are very much interrelated. Increase in real income leads to reduction of the magnitude of poverty. So far as agricultural sector is concerned, the farmers even today are following the traditional method of cultivation. Hence there is low agricultural productivity resulting in rural poverty.

(ii) Unequal distribution of land and other assets:

Land and other forms of assets constitute sources of income for the ruralites. But, unfortunately, there has been unequal distribution of land and other assets in our economy. The size-wise distribution of operational holdings indicates a very high degree of concentration in the hands of a few farmers leading to poverty of many in the rural sector.

(iii) Decline of village industries:

At present consequent upon industrialization new factories and industries are being set up in rural areas. Village industries fail to compete with them in terms of quality and price. As a result they are closed down. The workers are thrown out of employment and lead a life of poverty.

(iv) Immobility of labour:

Immobility of labour also accounts, for rural poverty. Even if higher wages are offered, labourers are not willing to leave their homes. The joint family system makes people lethargic and stay-at-home. The ruralites are mostly illiterate, ignorant, conservative, superstitious and fatalistic. Poverty is considered as god-given, something preordained. All these factors lead to abysmal poverty in rural India.

(v) Lack of employment opportunities:

Unemployment is the reflection of poverty. Because of lack of employment opportunities, people remain either unemployed or underemployed. Most of these unemployed and underemployed workers are the small and marginal farmers and the landless agricultural labourers.

5. Social causes:

(i) Education:

Education is an agent of social change and egalitarianism. Poverty is also said to be closely related to the levels of schooling and these two have a circular relationship. The earning power is endowed in the individual by investment in education and training. But this investment in people takes away money and lack of human investment contributes to the low earning capacity of individuals. In this way people are poor because they have little investment in themselves and poor people do not have the funds for human capital investment.

(ii) Caste system:

Caste system in India has always been responsible for rural poverty. The subordination of the low caste people by the high caste people caused the poverty of the former. Due to rigid caste system, the low caste people could not participate in the game of economic progress. A Shudra was not allowed to become a trader and a Vaisya could earn his bread only by trade.

Birth would decide their occupation and their economic fate. K. V. Verghese rightly observes, "Caste system acted as a springboard for class exploitation with the result that the counterpart of the poverty of the many is the opulence of the few. The second is the cause of the first."

(iii) Joint family system:

The joint family system provides social security to its members. Some people take undue advantage of it. They live upon the income of others. They become idlers. Their normal routine of life consists in eating, sleeping and begetting children.

In this way poverty gets aggravated through joint family system.

(iv) Social customs:

The ruralites spend a large percentage of annual earnings on social ceremonies like marriage, death feast etc. As a result, they remain in debt and poverty.

(v) Growing indebtedness:

In the rural sector most of the ruralites depend on borrowings from the money-lenders and land-lords to meet even their consumption expenses. Moneylenders, however, exploit the poor by charging exorbitant rates of interest and by acquiring the mortgaged land in the event of non-payment of loans. Indebted poor farmers cannot make themselves free from the clutches of moneylenders. Their poverty is further accentuated because of indebtedness. Such indebted families continue to remain under the poverty line for generations because of this debt-trap.

Poverty Alleviation in Rural India: Programmes and Strategy

There are startling realities around the prevailing poverty in India. 36 percent of the Indian population was below poverty line (BPL) in 1993-94. The incidence of poverty decreased from 54.9 percent in 1973-74 to 36 per cent in 1993-94. But the absolute number of poor did not decreased satisfactorily during the specified period. There were 321 million poor in 1973-74 and 320 million in 1993-94; in the rural areas the corresponding numbers were 261 million and 244 million²³.

Most of the poverty alleviation programmes are targeting the rural people as they constitute the majority and mostly are less privileged. Some of the major poverty alleviation programmes/ schemes are as follows;

National Old Age Pension Schemes

Jawahar Rozgar Yojana

National Family Benefit Scheme (NFBS)

National Maternity Benefit Scheme

Annapurna

Integrated Rural Development Programme (IRDP)

Rural Housing- Indira Awaas Yojana (IAY)

Mahatma Gandhi National Rural Employment Guarantee Scheme

²³ 9th Five Year Plan (Vol-2) Poverty Alleviation Programme

UNEMPLOYMENT

Unemployment means a person willing to work but unable to find a qualified job. Our country is facing many problems but one of the serious problems is of unemployment. The international Labour organization has in its report cautiously mentioned about the rate of unemployment and consequences. It particularly rests on low level of productivity and production. Global economic slowdown urged Indian Government to reduce the fiscal incentives that had been provided earlier. With the evolving demographic bulge in the age group 15 to 35 years, India is expected to earn demographic dividend and become a super power by 2050²⁴. The pace of unemployment in India can be understood from the following facts and figures;

- The rate of unemployment declined from 8.2 per cent in 2004–05 to 6.6 per cent in 2009–10 reversing the trend observed in the earlier period when it had actually increased from 6.1 per cent in 1993–94 to 8.2 per cent in 2004–05.
- In 2011-12, 50.8 per cent of the households are found to be having self employment as the major source of income under agricultural and non-agricultural activities.
- In the rural areas, 11.1 per cent households are estimated to be having regular earning as major source of income.
- In the urban areas, 42.3 per cent households are estimated to be having regular earning as major source of income.
- During 2011-12, in rural areas, unemployment rate is 3.4 per cent whereas in urban areas, the same is 5.0 per cent.

Types of Unemployment in India

Seasonal Unemployment

Normally when we talk of employed people we mean those who have work throughout the year. But this may not possible for all. In agriculture, work is seasonal even though agricultural activities are performed throughout the year. During the peak agricultural seasons (when the crop is ready for harvesting) more people are required for work. Similarly in the sowing, weeding and transplantation period more labour is required. Employment therefore increases at this time. In fact we will find that there is hardly any unemployment in rural areas during these peak agricultural seasons. However, once these seasons are over the agricultural workers, especially those who do not own land or whose land is not sufficient to meet their basic requirement (these are landless labourers and marginal farmers respectively), remain unemployed. This type of unemployment is known as seasonal unemployment.

Voluntary Unemployment

People who are unwilling to work at prevailing wage rate and people who get a continuous flow of income from their property or any other sources and need not to work, such people are voluntarily unemployed.

Frictional Unemployment

Unemployment attributable to the time required to match production activities with qualified resources. Frictional unemployment essentially occurs because resources, especially labor, are in the process of moving from one production activity to another. Employers are seeking workers and workers are seeking employment, the two sides just haven't matched up. Hence unemployment of the frictional variety increases. This mismatch is largely the result of limited information, which is often compounded by geographic separation between producer and resource.

²⁴ Labour Bureau, (2013)

Causal Unemployment

Cyclical unemployment is based on a greater availability of workers than there are jobs for workers. It is usually directly tied to the state of the economy. Lower demand for products due to lack of consumer confidence, disinterest, or reduction in consumer spending results in the workforce cutting back on production. Since production is reduced, companies that retail such products may also cut back on workforce, creating yet more cyclical unemployment.

Disguised Unemployment

There are also instances where we find too many people working when so many are not required. In agriculture we may find that all members of the family work. It is possible that 3-4 people can do a given work in the farm, but we find that the whole family of say 10 people doing the job. This may be because the excess people are not able to find employment elsewhere, so rather than remain unemployed they prefer to do the work along with others. This is known as disguised unemployment. This occurs when more than the necessary numbers of people are employed for the specified work. Disguised unemployment is found in agriculture because of the lack of employment opportunities elsewhere. Similarly disguised unemployment can be found in industry and offices as well.

Causes and Consequences of Unemployment in India

The major cause of unemployment in India is the slow pace of development. As GDP growth rate is still slow even after sixty five years of independence. The major causes which have been responsible for the wide spread unemployment can be spelt out as under.

- **Rapid Population Growth:** It is the leading cause of unemployment in Rural India. In India, particularly in rural areas, the population is increasing rapidly. It has adversely affected the unemployment situation largely in two ways. In the first place, the growth of population directly encouraged the unemployment by making large addition to labour force. It is because the rate of job expansion could never have been as high as population growth would have required. Secondly, the rapid population growth indirectly affected the unemployment situation by reducing the resources for capital formation. Any rise in population, over a large absolute base as in India, implies a large absolute number. It means large additional expenditure on their rearing up, maintenance, and education. As a consequence, more resources get used up in private consumption such as food, clothing, shelter and so on in public consumption like drinking water, electricity medical and educational facilities. This has reduced the opportunities of diverting a larger proportion of incomes to saving and investment.
- **Limited Land:** Land is the gift of nature. It is always constant and cannot expand like population growth. Since, India population increasing rapidly, therefore, the land is not sufficient for the growing population. As a result, there is heavy pressure on the land. In rural areas, most of the people depend directly on land for their livelihood. Land is very limited in comparison to population. It creates the unemployment situation for a large number of persons who depend on agriculture in rural areas.
- **Seasonal Agriculture:** In Rural Society agriculture is the only means of employment. However, most of the rural people are engaged directly as well as indirectly in agricultural operation. But, agriculture in India is basically a seasonal affair. It provides employment facilities to the rural people only in a particular season of the year. For example, during the sowing and harvesting period, people are fully employed and the period between the post harvest and before the next sowing they remain unemployed. It has adversely affected their standard of living.

- **Fragmentation of Land:** In India, due to the heavy pressure on land of large population results the fragmentation of land. It creates a great obstacle in the part of agriculture. As land is fragmented and agricultural work is being hindered the people who depend on agriculture remain unemployed. This has an adverse effect on the employment situation. It also leads to the poverty of villagers.
- **Backward Method of Agriculture:** The method of agriculture in India is very backward. Till now, the rural farmers followed the old farming methods. As a result, the farmer cannot feed properly many people by the produce of his farm and he is unable to provide his children with proper education or to engage them in any profession. It leads to unemployment problem.
- **Decline of Cottage Industries:** In rural India, village or cottage industries are the only means of employment particularly of the landless people. They depend directly on various cottage industries for their livelihood. But, now-a-days, these are adversely affected by the industrialization process. Actually, it is found that they cannot compete with modern factories in matter of production. As a result of which the village industries suffer a serious loss and gradually closing down. Owing to this, the people who work in there remain unemployed and unable to maintain their livelihood.
- **Defective education:** The day-to-day education is very defective and is confirmed within the class room only. Its main aim is to acquire certificate only. The present educational system is not job oriented, it is degree oriented. It is defective on the ground that it is more general than the vocational. Thus, the people who have getting general education are unable to do any work. They are to be called as good for nothing in the ground that they cannot have any job here, they can find the ways of self employment. It leads to unemployment as well as underemployment.
- **Lack of transport and communication:** In India particularly in rural areas, there are no adequate facilities of transport and communication. Owing to this, the village people who are not engaged in agricultural work are remained unemployed. It is because they are unable to start any business for their livelihood and they are confined only within the limited boundary of the village. It is noted that the modern means of transport and communication are the only way to trade and commerce. Since there is lack of transport and communication in rural areas, therefore, it leads to unemployment problem among the villagers.
- **Inadequate Employment Planning:** The employment planning of the government is not adequate in comparison to population growth. In India near about two lakh people are added yearly to our existing population. But the employment opportunities did not increase according to the proportionate rate of population growth. As a consequence, a great difference is visible between the job opportunities and population growth. On the other hand it is a very difficult task on the part of the Government to provide adequate job facilities to all the people. Besides this, the government also does not take adequate step in this direction. The faulty employment planning of the Government expedites this problem to a great extent. As a result the problem of unemployment is increasing day by day.

The labour market indicators such as labour force participation rates (LFPR), Worker population ratio (WPR) and unemployment rate (UR) gives an insight into the labour market conditions for youth in India²⁵. In India Government has initiated different schemes and programmes to equip the youth to be employable. As such Government of India laying emphasis on skill development and set a target of skilling 500 million in the 12th plan.

²⁵ (Sanghi & Srijia, 2014)

Quality of Education and Employability of the Educated

It is one of the argued matters that the young unemployed have rather poor qualifications in terms of their performance at the examinations and have little aptitude or the capacity for the type of work that they aspire for. The employability is a more serious problem and is a cardinal challenge to the entire educational system and the cream of the curricula as well as the stress on the theoretical as distinguished from practical applied training. The efforts made by the Indian government and policy-makers in this area need to be reviewed carefully; but it is widely believed that these efforts have been inadequate. As in many other matters relating to the social sector, there has been more rhetoric than action; and the implementation of the recommended policies has been woefully unsatisfactory. The high rates of youth unemployment need serious attention by the policy makers not only to mitigate the frustrations faced by the new entrants into the workforce but also to minimize the likely alienation and widespread evidence of deviant behavior of the youth throughout the country. The unemployed youth have partly been responsible for the tensions leading to the "sons-of-the soil" movements in different parts of the country and perhaps also the unrest in several of the border states of the country. Numerous schemes initiated by the Indian planners and policy-makers during the past several decades merit a careful scrutiny to assess and evaluate their impact on the employment situation.

Policies for Promoting Youth Employment in India

Ever since the initiation of planning in India in 1950, the Government has accorded the goal of increasing employment opportunities and eventually eradicating unemployment from the nation. Acceleration of the rate of savings and investment and booming of the level of productivity has been prime goals of the successive five year plans of the country. Awareness about the difficulties of eliminating unemployment has, over the past three decades, led the successive governments at the centre and in the states to formulate and implement several schemes for eradicating unemployment and promoting employment. High rates of unemployment among the youth have been recognised by the planners (India, Planning Commission, 1970)¹⁴. It is commonly stressed as the problem of unemployment among the "educated" or those who have passed the high school certificate examination (matriculates) or the higher educated. The problem is seen as part of the overall problem of employment creation or development. Yet, some of the **special employment schemes** have been aimed specifically at the youth to improve their training and skills and to promote self-employment and entrepreneurship. They included: an effort to reorient the Indian educational system in the direction of Vocational Education; an Apprenticeship Training Scheme supported by legislation passed in 1961 and amended in 1973 and 1986; the centrally sponsored scheme of TRYSEM (Training of Rural Youth for Self-Employment); and a Self-Employment Scheme for Educated Unemployed Youth (SEEUY) in urban areas. These schemes were intended to address the problems of urban youth. Some of the schemes have been modified in the light of experience and the findings of evaluations undertaken by various agencies and institutions on behalf of the government. Yet, the overall problem of high rates of unemployment among the youth continues to be virtually intractable. Despite considerable rhetoric on the subject, the actual action has fallen far short of the requirements. Young Indians face major barriers as they are becoming preys of poverty and low levels of human capital. Although educational attainment has risen hastily in recent years, equipping a foothold in the labour market remains as a dream for many young Indians. In rural and urban areas, young males are usually employed in casual jobs, whereas their female counterparts tend to be self employed. A large proportion of young rural women are employed in agriculture. But rural males are increasingly turning to the non-farm sector. In comparison, young urban males are bulkily working in the services

sector. Among young women, social conditions play an important role: labour force participation, for example, is higher among scheduled castes, scheduled tribes and other backward castes, especially in rural areas. In response to these challenges, policies should address the lack of productive employment opportunities for youth both in rural and urban areas. While skills development is crucial, these initiatives should be supplemented by more comprehensive programmes that target the most vulnerable and disadvantaged youth²⁶.

Micro Units Development & Refinance Agency (MUDRA) Bank

The Non Corporate Small Business Sector (NCSBS) accounts for a large share of industrial units in India. They feed large local and international value chains as well as domestic consumer markets as suppliers, manufacturers, contractors, distributors, retailers and service providers. The gross value addition of this sector is Rs 6.28 lakh crore annually. The biggest bottleneck to the growth of entrepreneurship in the NCSBS is lack of financial support to this sector. The support from the Banks to this sector is meagre, with less than 15% of bank credit going to Micro, Small and Medium Enterprises (MSMEs). A vast part of the non-corporate sector operates as unregistered enterprises. They do not maintain proper Books of Accounts and are not formally covered under taxation areas. Therefore, the banks find it difficult to lend to them. Majority of this sector does not access outside sources of finance. It is in this backdrop that Government of India (GoI) is setting up a Micro Units Development & Refinance Agency (MUDRA) Bank through a statutory enactment. This Agency would be responsible for developing and refinancing all Micro-finance Institutions (MFIs) which are in the business of lending to micro / small business entities engaged in manufacturing, trading and service activities. The Bank would partner with state level / regional level co-ordinators to provide finance to Last Mile Financiers of small / micro business enterprises.

Employment Generation Schemes in India

Swarnjayanthi Gram Swarajgar Yojana (SGSY)

It was launched in April 1999 as a major programme for self-employment of the rural poor after restructuring the then existing Integrated Rural Development Programme (IRDP) and combining it with other allied schemes like TRYSEM, DWCRA, SITRA, GKY and Million Wells Scheme for effective implementation under a single banner called SGSY.

Prime Minister's Employment Generation Programme (PMEGP)

The scheme was announced by the Prime Minister on 15 August, 2008 in his address from the Red Fort. This is credit linked scheme formed by merging erstwhile REGP and PMRY scheme. KVIC is the nodal agency at the national level. Its main aim is to generate continuous and sustainable employment opportunities in rural and urban areas of the country.

Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)

MGNREGA guarantees 100 days of employment in a financial year to a rural household whose adult members are willing to do unskilled manual work. This Act is an important step towards the realisation of the right to work. It is also expected to enhance people's livelihood on a sustained basis, by developing the economic and social infrastructure in rural areas.

Swarna Jayanti Shahari Rozgar Yojana (SJSRY)

This scheme came into effect on 1 December 1997 with an aim to provide gainful employment to the urban unemployed and under-employed poor by encouraging them to set up self-employment ventures.

The government has launched this rationalised SJSRY to replace the three existing schemes -- Nehru Rozgar Yojana (NRY), Urban Basic Services for the Poor (UBSP), and PM's Integrated Urban Poverty Eradication Programme (PMI UPEP).

²⁶ (Mitra & Verick, 2013)

Pradhan Mantri Gram Sadak Yojana (PMGSY)

The scheme comes under the authority of the ministry of rural development and was begun on 25 December 2000. The goal was to provide roads to all villages (1) with a population of 1,000 persons and above by 2003, (2) with a population of 500 persons and above by 2007, (3) in hill states, tribal and desert area villages with a population of 500 persons and above by 2003, and (4) in hill states, tribal and desert area villages with a population of 250 persons and above by 2007.

Samagra Awas Yojana (SAY)

Launched in 1999-2000, this is a comprehensive housing scheme with a view to ensure the integrated provision of shelter, sanitation and drinking water. The basic objective of SAY is to improve the quality of life of the people as well as the overall habitat in rural areas.

Pradhan Mantri Gramodaya Yojana (PMGY)

PMGY was launched in 2000-01 in order to achieve the objective of sustainable human development at the village level. The PMGY envisages allocation of additional central funds to the states for basic minimum services in order to focus on certain priority areas. PMGY has five components, namely primary health, primary education, rural shelter, rural drinking water and nutrition.

Sampoorna Grameen Rozgar Yojana (SGRY)

SGRY was launched in September 2001 by merging the erstwhile schemes of Jawahar Gram Samridhi Yojana (JGSY) and Employment Assurance Scheme (EAS). The objective is to provide additional wage employment in the rural areas and food security, along with the creation of durable community, social and economic infrastructure in rural areas. The SGRY is open to all rural poor in need of wage employment and desire to do manual work.

Rural Housing Schemes

Rural housing schemes such as Indira Awaas Yojana (IAY) aim at providing dwelling units, free of cost to the poor families of the SCs, STs, freed bonded labourers and also the non- SC/ST persons living below poverty Line (BPL) in the rural areas. The scheme is funded on a cost-sharing basis of 75:25 between the Centre and states.

Antyodaya Anna Yojana (AAY)

AAY was launched in December 2000. Under the scheme, one crore of the poorest among the BPL families covered under the targeted PDS are identified and 25 kg of food grains were made available to each eligible family at a highly subsidized rate of Rs 2 per kg for wheat and Rs 3 per kg for rice. This quantity has been enhanced from 25 to 35 kg with effect from April, 2002.

Annapurna

Launched with effect from 1st April, 2000, it aims at providing food security to meet the requirement of those senior citizens who, though eligible, have remained uncovered under the national old age pension scheme (NOAPS).

The scheme is targeted to cover 20% of persons eligible to receive pension under NOAPS. Funds are released to the food and civil supplies department of the state governments in one instalment.

This department ties up with Food Corporation of India (FCI) to release food grains district-wise after payment at central issue price (CIP) at FCI offices.

Valmiki Ambedkar Awas Yojana (VAMBAY)

VAMBAY was kicked off in December 2001 targeted to improve the living conditions of the urban slum dwellers living below the poverty line without adequate shelter. The scheme has the objective of facilitating the construction and up-gradation of dwelling units for slum dwellers.

Besides, it offers a healthy environment through community toilets under Nirmal Bharat Abhiyan, a component of the scheme. The Centre offers a subsidy of 50%, the balance 50% is arranged by the state government.

Following is the summary of the **Fourth Annual Employment - Unemployment Survey report 2013 -14** conducted by Labour Bureau, India²⁷.

1. Labour Force Participation Rate (LFPR) is estimated to be 52.5 percent under the UPS approach at All India level or in other words 52.5 per cent of the persons aged 15 years and above was either working or seeking work during the reference period.
2. In the rural sector, the LFPR is estimated to be 54.7 per cent whereas in the urban sector the LFPR is 47.2 per cent under the UPS approach.
3. Female LFPR is significantly lower as compared to LFPR among males. At All India level, female LFPR is estimated to be 25.8 per cent as compared to 74.4 per cent for males. LFPR for different categories based on UPS approach is as below: (in per cent)

Sector	Male	Female	Person
Rural	74.4	29.1	54.7
Urban	73.8	18.5	47.2
Rural+Urban	74.4	25.8	52.5

4. The worker Population Ratio (WPR) is estimated to be 49.9 per cent at All India level under the UPS approach. In other words, about half of the persons aged 15 years & above are employed.
5. The unemployment is estimated to be 4.9 per cent at All India level under the UPS approach.
6. In rural areas, unemployment rate is 4.7 per cent. In urban areas, the unemployment rate is 5.5 per cent.
7. The unemployment rate is significantly higher among females as compared to that among males. At All India level, the female unemployment rate is estimated to be 7.7 per cent, whereas for males this rate is 4.1 per cent.
8. Majority of the employed persons are found to be self employed.
9. The survey results show that majority of the persons are employed in the primary sector. Under Agriculture, forestry and fishing sector, 46.9 per cent persons are estimated to be employed.

REGIONAL IMBALANCES

Although Spectacular growth attained by some regions and in some sectors in India, after independence, there exist some places and sectors as ill developed. The reasons for these regional imbalances are rooted in historical processes and in varied levels of natural resource endowment in various regions of the country. During the British rule, different regions had different levels and size of surplus creation and absorption because of the variation in production relations in different regions and variation in production levels due to differential efforts in different regions. The kind of urbanisation at that time was based on the strategy of exports of primary goods and consumption of machine-made imported goods. As a result of this, some port towns like Kolkata, Mumbai and Chennai and some princely state capitals got a head-start over other regions. These princely state capitals emerged as centres of consumer goods and generated centripetal development around them. And the port towns of Kolkata, Mumbai and Chennai acted as nuclei of growth for the states of West

²⁷ Labour Force Estimates are derived for two approaches namely Usual Principal Status (UPS) Approach and Usual Principal and Subsidiary Status (UPSS) Approach.

Bengal, Maharashtra and Tamil Nadu respectively. After the initial head-start, slowly a merchant-capitalist class with the capacity to invest in industry emerged and the twin processes of industrialization and urbanization moved hand in hand. Progressively, education opportunities came up to support business and administration through a class of clerks and lower officials. Western education was quick to come because of the contacts between the hinterland and the European metropolis. Gradually, a middle class consisting of lawyers, doctors, intellectuals and skilled personnel came up. While these regions were experiencing development on modern lines, other regions lagged behind due to decline of handicrafts and other non-agricultural professions with the advent of machine-made imports. Once a region gets an early start, infrastructure comes in and a cycle of development starts. Employment opportunities come up. These conditions attract migration from poorer regions. The migrants generally include healthy, dynamic and enterprising sections who also take their savings along with them. Those who are left behind include mainly women, children and the elderly. As a result, the demographic structure of the underdeveloped regions gets distorted. The developed regions also attract most of the investment and credit. In contrast to the developed regions, a reverse cycle of underdevelopment gets initiated in the poorer regions. At the time of independence, there were great regional disparities among various regions in terms of per capita income, per capita consumption education and health facilities, infrastructure, employment etc. Because of initial political instability, this disparity had serious implications. Therefore, it was felt that the state had a major role to play in removing disparities. This commitment was reflected in the Constitution and in planning objectives, but there was a drift away from these goals because of the strategic position of the ruling classes, and the macro and sectoral model of development which was adopted by our planners²⁸.

Reasons for Disparity

The factors that are responsible for the relative regional disparity are many. Some of the root causes of disparity are as follows²⁹;

Political Cause: -On account of the politics of defections, the debacles or falls of governments and vote politics, the (central and state) governments became politically weak. Therefore the priority of the government became to please the rich minority so that it may run. To mitigate resentment and dissatisfaction among the general mass it had to play pseudo role of and on to remedy the poor mass through various unsuccessful employment and poor welfare programmes. Therefore, the rich minority and the areas or regions relating to the rich minority became rather developed by getting larger portion of the total fruits of development move of the country. Moreover, the regions or communities relating to educated and politically aware people also got greater share in economic development on account of their greater political pressure on the government.

Administrative Cause: The persons in administrators group either belong to the prosperous group of the society or come under pressure of politicians and socio-economic elites to direct the development benefits discriminately towards these politicians and elites. The elites and politicians not only pressurised in free but even enticed and allured the administration personnel by bribing them whereby corruption emerged in government departments. This corruption initially starting from these high leveled administrators later on percolated downward even to the lowest segment of the society and thus became the present condition of general corruption in India. Moreover, to show high performance and good work these administrators also supported the investment and the development projects in more developed areas to obtain early returns.

²⁸ (Sinha, 2015)

²⁹ (Rajalakshmi, 2013)

Unequal Distribution of Natural Resources:- The distribution of natural resources is not equal among the different parts and the different regions of the country. The industrialization thence became brought about fast in the regions and the parts rich in natural resources. This resulted into faster development of education and employment level in those regions and parts in comparison to that in the regions and parts lacking in the availability of natural resources

Caste System: Indian mass especially Hindus are divided into different castes under a caste system based on the strong social stratification. Despite considerable efforts have been made by the government and non-government organisations for social reforms to root out the malign traditions and social evils like untouchability, the curses of the strong stratification of the society, but the people of lower segment (castes) of the society in many parts, especially the remote ones, are still prevented from equal rights to education, employment, profession and facilities. This makes them economically weak. They are prevented forcibly by the people of upper segments (castes) even from casting votes in the general elections. Oh God! Kindly help the societies in these though limited at present regions desist from so slapping on the face of humanity. There is a gap between the people belonging to Scheduled Castes and Scheduled Tribes and the rest of the population with respect to the availability of basic civic amenities, such as electricity, housing, water supply, and toilet facilities. Access to, and benefits from the public health system are uneven between the general population and those who belong to the SC/ST categories. The resources allocated for the welfare of the SCs and STs are not in proportion to their needs. The policies and programmes specifically formulated for these categories of population have not effectively implemented. Thus, discrimination against the SC and ST population continues, even later than six decades of independence.

Policy Measures to Remove Economic Disparity:

The Planning Commission has three measures- (i) transfer of financial resources from the Centre to the backward states; (ii) special area development programmes for backward areas; and (iii) measures to encourage private investment in backward areas. The incentives offered by the government are as follows:

- (a) Income tax concessions
- (b) Central investment subsidy scheme, and
- (c) Transport subsidy scheme.

The state governments also offer few measures such as providing water and power on no-profit- no-loss basis, interest-free loans on sales tax dues, exemption from octroi duties, exemption from property taxes, etc. Besides, major financial institutions such as IDBI, IFCI, ICICI offer concessional finance for industrial projects.

BLACK MONEY IN INDIA

The black money, parallel economy, the unaccounted economy, the underground economy, or unreported economy in India has been a barrier to smooth functioning. There is no uniform or accepted definition of black money. The broader meaning would encompass and include money derived from corruption and other illegal ways- to include drug trafficking, counterfeiting currency, smuggling, arms trafficking, etc. It would include all market based legal production of goods and services that are concealed from authorities for the following reasons³⁰ -

- (i) To evade tax payments;
- (j) To evade the payments of other statutory contributions;
- (k) To evade minimum wages, working hours and safety standards, etc.; and
- (l) To evade complying with laws and administrative procedures.

Gupta's Estimate: Government of India appointed a committee under Poonam Gupta and Sanjeev Gupta in 1981 for quantifying black money in India. Their main findings were: (a) A buoyant economy offers more opportunities for unaccounted income (b) The ratio of unaccounted income to assessable non-salary income has gone up after 1973-74; (c) Increase in prices leads to an increase in black money (d) Funds are diverted to agriculture as part of converting them into white money and (e) One percent increase in overall taxes leads to more than 3 percent increase in the black money relation to the official economy.

Causes of generating black money

1. **Controls and licensing system:** Controls, permits quotas and licenses are some of the reasons that generate black money in India.
2. **Higher Rates of Taxes:** Tax evasion is common in income tax, corporate tax, corporation tax, Union duties, custom duties, sales tax, etc.
3. **Problems in enforcement of tax laws:** Enforcement of tax laws in respect of income tax, sales tax, excise tax, excise duty, stamp duty etc. is quite weak.
4. **Funding of political parties:** There is an increasing trend of supporting of political parties with the help of black money. Big businesses are providing huge funds to political parties, especially to ruling party and consequently try to utilize the relationship for their advantage by manipulating the rules and regulations.
5. **Inflation:** Increase in prices and duties results in speculation and creates black money.
6. **Agricultural Income:** Big business players hide their money in the name of agricultural income and the same is excluded from income tax in India.
7. **Privatization:** Privatization paved the way to make money by bureaucrats for making black money and even for ministers.
Transactions in urban real estates, smuggling, property deals, bribery, concealment of incomes by artists etc. are other reasons.

Impact of Black income on the Indian economy

Generation of black money and existence pose the following problems in Indian economy.

1. It will lead to under estimation of GDP in India.
2. Loss of revenue to the nation and state exchequer.
3. It will result in channelization of resources for purchase of real estate and luxury housing.
4. Black money will result in transfer of funds from our economy to other nations.
5. Black money offers an avenue for inequality in the society.
6. Over liquidity of cash and bullions is the result of black money in the economy.
7. A part of black money may be spent through illegitimate and undesirable manner and consequently it will result in social evils.

Government Initiatives

Searches, seizures, surveys and scrutiny of income tax returns are some of the measures taken by government to curb black money. Timely amendments are being ensured in finance Act to intensify efforts to curb black money. One of the mentionable amendments was regarding Voluntary Disclosure of Income Scheme (VDIS) under which black incomes and assets could be declared, and amnesty availed from penalty and prosecution. Demonetization, Special Bearer Bond Scheme, etc. are other measures taken by government.

Five-pronged strategy of the Government

As part of unearth black money kept abroad, it is necessary that there is (i) sufficient information on the wealth at abroad, (ii) necessary legislation and administrative framework to tackle the problem, and (iii) an efficient scheme for offshore compliance to help inadvertent tax-evaders comply with their tax obligations³¹. The central Government has formulated a five pronged strategy for hastening the action of bringing down the black money kept abroad³². The strategy adopted through the following aspects:

- (i) Joining the global crusade against 'black money',
- (ii) Making an appropriate legislative framework;
- (iii) Setting up institutions for dealing with illicit funds;
- (iv) Developing systems for implementation; and
- (v) Imparting skills to the manpower for effective action.

In nutshell, black money is a challenge before the economy, where it tries to accommodate different forces in line for growth. While analyzing the environment of business, it is necessary that there should be keen understanding about the malice of black money. Business decisions shall not be, in any way, found good in the parallel economy and in turn does not contribute something to that shadow, which is a national drain.

The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015

An Act passed by Union government to make provisions to deal with the problem of the Black money that is undisclosed foreign income and assets, the procedure for dealing with such income and assets and to provide for imposition of tax on any undisclosed foreign income and asset held outside India and for matters connected therewith or incidental thereto. This Act may be called the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015. It seeks to check the black money menace with stringent provisions for those stashing illegal wealth abroad. The Bill provides for separate taxation of any undisclosed income in relation to foreign income and assets. Such income will henceforth not be taxed under the Income-tax Act but under the stringent provisions of the new legislation. According to the Act, those who conceal income and assets and indulge in tax evasion in relation to foreign assets can face rigorous imprisonment. There will also be a penalty of 300 per cent of taxes on the concealed income and assets.

Inflation

Inflation is a phenomenon where the average price of all goods is on an increasing trajectory for some stretch of time. This may be accompanied by changes in relative prices. Inflation affects quite badly the common people, as the rises in prices of goods is not matched by an equivalent increase in the price of labour³³. When we look into the cases of different nations, the effective inflation is in different forms. Since 1962, Brazilian economy did not have a single year where inflation was in single digits from 1962 to 1997. Asian countries have in general had more stable prices. It is often claimed that the cost of inflation generally carried by the poor people. Inflation can be defined as a sustained increase in the general prices for goods and services. It can be measured as an annual percentage increase. There is a long run negative relationship between inflation and economic growth in India.

³¹ Information from the division of CBDT

³² Announced by Finance Minister on 25th January, 2012

³³ (Basu, 2011)

Wholesale Price Index

Inflation rate in India is reported by the ministry of commerce and industry of India. The wholesale price index (WPI) is the main measure of inflation. The WPI measures the price of a representative basket of wholesale goods.

Consumer Price Index

The Consumer Price Index (CPI) is a statistical estimate constructed with the prices of a sample of representative items whose prices are collected periodically. The overall CPI is meant to represent the cost of a representative basket of goods and services consumed by an average household. Sub-indexes and sub-sub-indexes are calculated for different categories and sub-categories of goods and services, being combined to produce the overall index with weights reflecting their shares in the total of the consumer expenditures covered by the index. It is one of several price indices calculated by most national statistical agencies. The annual percentage change in a CPI is used as a measure of inflation. A CPI can be used to index (i.e., adjust for the effect of inflation) the real value of wages, salaries, pensions for regulating prices and for deflating monetary magnitudes to show changes in real values³⁴.

Consumer Price Index (Base: 2012=100)

Group/Sub group	2014-15		
	Rural 1	Urban 2	Combined 3
1 Food and beverages	122.6	124.1	123.1
1.1 Cereals and products	122.0	123.9	122.6
1.2 Meat and fish	122.3	125.5	123.5
1.3 Egg	119.0	118.4	118.7
1.4 Milk and products	122.3	122.7	122.5
1.5 Oils and fats	110.6	103.7	108.1
1.6 Fruits	128.6	126.1	127.4
1.7 Vegetables	140.0	146.7	142.3
1.8 Pulses and products	115.1	117.8	116.0
1.9 Sugar and confectionery	102.8	99.5	101.7
1.10 Spices	115.0	122.6	117.5
1.11 Non-alcoholic beverages	116.4	114.9	115.8
1.12 Prepared meals, snacks, sweets	123.0	125.4	124.1
2 Pan, tobacco and intoxicants	120.0	123.7	120.9
3 Clothing and footwear	121.7	118.5	120.5
3.1 Clothing	122.1	119.2	121.0
3.2 Footwear	119.6	114.7	117.6
4 Housing	-	116.1	116.1
5 Fuel and light	116.5	112.3	114.9
6 Miscellaneous	113.6	113.1	113.4
6.1 Household goods and services	116.9	115.8	116.4
6.2 Health	114.9	112.5	114.0
6.3 Transport and communication	112.0	110.3	111.1
6.4 Recreation and amusement	112.8	113.3	113.1
6.5 Education	116.4	118.4	117.6
6.6 Personal care and effects	109.4	110.2	109.7
General Index (All Groups)	119.5	118.1	118.9

³⁴ (Kanwar, 2014)

Source: Central Statistics Office, Ministry of Statistics and Programme Implementation, Government of India.

Studying the aspects of past two decades in India (Mishra & Roy, 2011), the following facts have established. Low inflation position has historically been a rare occurrence in the Indian economy in the last two decades; the long-term trend in the inflation rate shows a U-shaped pattern with a structural break in the trend in 2000 and an inflection point in 2002. The long-term trend in food inflation has followed a pattern similar to overall inflation. Domestic and international food price inflation rates have been moderately correlated, though there is significant variation across commodities based on their tradability. Furthermore, food price inflation to be consistently higher than non-food, quite persistent, and having a significant pass-through to non-food inflation. Further, the price of food relative to non-food co-moves strongly with aggregate inflation rate. Animal source foods (milk, fish), processed food (sugar, edible oils), fruits and vegetables (e.g. onions) and cereals (rice and wheat) are the primary drivers of food price inflation.

SOCIAL INJUSTICE IN INDIA

Introduction

Social injustice is a concept relating to the claimed unfairness or injustice of a society in its divisions of rewards and burdens and other incidental inequalities. The concept is distinct from those of justice in law, which may or may not be considered moral in practice, or from the concept of justice within a coherent ideological system, which focuses on just process rather than on incidental inequalities. Opposition to social injustice is increasingly a platform of emerging political parties. The term "social justice" implies several sound and eminently desirable concepts enunciated for the good of society in general, and of course it covers fair play for every section, especially the weaker groups in the population. Human development is based upon the principles of equality and justice for all. The term social justice denotes a political and cultural balance of the diverse interest in society. Dr Ambedkar has mentioned multiple principles for the establishment of an open and just social order in general and Indian society in particular. UNDP comments on the pace of India as a challenging space where it has both economic growth and disparity. The context of India is illustrated by UNDP as follows;

Gender Inequality Index	0.56
Proportion of Seats Held by Women in National Parliament	12%
Human Development Index for SC	0.33
Human Development Index for ST	0.27
Adult Literacy Rate	73%
HIV Prevalence Youth (ages 15-24)	0.10%

Source: UNDP³⁵

Ways to achieve Social Justice

By following the principles that had been exerted from the views of Dr Ambedkar, we can achieve social justice³⁶.

1. Establishing a society where individual becomes the means of all social purposes
2. Establishment of society based on equality, liberty and fraternity
3. Establishing democracy-political, economic and social.
4. Establishing democracy through constitutional measures and
5. Establishing democracy by breaking monopoly of upper strata on political power.

³⁵ <http://www.in.undp.org/content/india/en/home/countryinfo/challenges.html>

³⁶ (Rathore, 2012)

Economic Policy and Social Justice in India

Inter-relation between economics and social justice is an already established. Democratic societies are stressing the rationale of welfare rights, minimum wage, and narrowing of income differentials. Since 1948, the United Nations has been promoting the cause of human rights and social justice through the Universal declaration of Human Rights. This became a common standard of achievement for all peoples and nations. Economic reforms initiated in 1991 have injected a spell of uncertainty and apprehension in the way of dispensation of social justice particularly in the context of continuing weaknesses on the social sector. In this context, the role allocated to PSUs is mentionable. One notable feature of the 1990s has been the emergence of Information Technology related services the world over. There exists some optimism concerning the more possible and real transformation in the society.

In India, The Ministry of Social Justice & Empowerment is entrusted with the empowerment of the disadvantaged and marginalized sections of the society. The target groups of the Ministry are:

- i. Scheduled Castes
- ii. Other Backward Classes
- iii. Persons with Disabilities
- iv. Senior Citizens and Victims of Substance Abuse

The Ministry has been implementing various programmes/schemes for social, educational and economic development of the target groups. As a result there has been considerable improvement in the welfare of these groups.

Due to discontinuance of caste census after 1931, disaggregated demographic data for OBCs is not available. The Mandal Commission had estimated OBC population at 52% of the total population. Similarly, authentic data for Victims of Substance Abuse is not available. At least 1% of the population is understood to be addicted. The Overall, Scheduled Castes, Senior Citizens and Persons with Disabilities population as per Census 2001 is given below:

in Crores

Category	Population						
	Total	SC	Percentage (%)	Sr. Ctz	Percentage (%)	PD	Percentage (%)
Persons	102.9	16.7	16.2	7.7	7.5	2.2	2.1
Male	53.2	8.6	16.2	3.8	7.1	1.3	2.4
Female	49.7	8.1	16.3	3.9	7.8	0.9	1.8

Note: SC - Scheduled Castes, PD - Persons with Disabilities and Sr. Ctz - Senior Citizens (60+)

Source: Ministry of Social Justice and Empowerment

Legislations

The Ministry, segmenting the groups as four target groups had made legislations and expects the integration of other ministries also.

1. Scheduled Castes Welfare

- The Protection of Civil Rights(PCR) Act, 1955
- The Protection of Civil Rights(PCR) Rules, 1977
- The Scheduled Castes and Scheduled Tribes (Prevention of Atrocities) Act, 1989
- The Scheduled Castes and Scheduled Tribes (Prevention of Atrocities) Rules, 1995

2. Welfare of Backward Classes

- The National Commission for Backward Classes Act, 1993 (that opens in a new window)

3. Empowerment of Persons with Disabilities

- Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995
- Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Rules, 1996. (External website that opens in a new window)
- National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disability Act, 1999.
- The National Trust Rules, 2000 and The National Trust Regulations, 2001.
- Rehabilitation Council of India Act, 1992.
- Rehabilitation Council of India Rules and Regulations, 1997 (External website that opens in a new window)

4. Social Defence

- Maintenance and Welfare of Parents and Senior Citizens Act, 2007

National Backward Classes Finance and Development Corporation (NBCFDC)

The National Backward Classes Finance and Development Corporation (NBCFDC) under the aegis of Ministry of Social Justice & Empowerment, Government of India is a company not for profit under Section-25 of the Companies Act 1956. Main objective of the Corporation is to provide concessional financial assistance to the members of the Backward Classes for their socio-economic development and to upgrade the technological and entrepreneurial skills of individuals or groups belonging to Backward Classes through State Channelising Agencies (SCAs) nominated by respective State Government/UT.

Special Economic Zones (SEZs)

The Special Economic Zones Policy was announced in April 2000 with the objective of making the Special Economic Zones an engine for economic growth, supported by quality infrastructure and an attractive fiscal package both at the Central and State level with a single window clearance. The SEZ concept recognizes the issues related to holistic economic development and provides for development of self-sustaining Industrial Townships so that the increased economic activity does not create pressure on the existing infrastructure³⁷. Asia's first EPZ was set up in Kandla in 1965. Seven more zones were set up thereafter. However, the zones were not able to emerge as effective instruments for export promotion on account of the multiplicity of controls and clearances, the absence of world-class infrastructure and an unstable fiscal regime. While correcting the shortcomings of the EPZ model, some new features were incorporated in the Special Economic Zones (SEZs) Policy announced in April 2000.

Objectives

The main objectives of the SEZ Act are:

- Generation of additional economic activity;
- Promotion of exports of goods and services;
- Promotion of investment from domestic and foreign sources;
- Creation of employment opportunities; and
- Development of infrastructure facilities.

Contribution of SEZ to economy's growth can be traceable from the impact on export. The following table is a summary of growth story.

Exports from the functioning SEZs during the last seven years

³⁷ Ministry of Industries and Commerce, (2015)

Year	Value (Rs. Crore)	Increase (%)
2007-08	66638	93
2008-09	99689	50
2009-10	220711	121.4
2010-11	315868	43.11
2011-12	364478	15.39
2012-13	476159	31
2013-14	494077	4

Source: Department of Commerce (SEZ Division)

Incentives and Facilities to SEZ Developer

The incentives and facilities offered to the units in SEZs for attracting investments into the SEZs, including foreign investment include:-

- Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units
- 100% Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years.
- Exemption from minimum alternate tax under section 115JB of the Income Tax Act.
- External commercial borrowing by SEZ units upto US \$ 500 million in a year without any maturity restriction through recognized banking channels.
- Exemption from Central Sales Tax.
- Exemption from Service Tax.
- Single window clearance for Central and State level approvals.

Exemption from State sales tax and other levies as extended by the respective State .The major incentives and facilities available to SEZ developers include:-

- Exemption from customs/excise duties for development of SEZs for authorized operations approved by the BOA.
- Income Tax exemption on income derived from the business of development of the SEZ in a block of 10 years in 15 years under Section 80-IAB of the Income Tax Act.
- Exemption from minimum alternate tax under Section 115 JB of the Income Tax Act.
- Exemption from dividend distribution tax under Section 115O of the Income Tax Act.
- Exemption from Central Sales Tax (CST).
- Exemption from Service Tax (Section 7, 26 and Second Schedule of the SEZ Act).

INDIA AND THE KNOWLEDGE ECONOMY

Innovation is the key behind development. While we peep into the developmental history of nations, it can be inferred that, creative thinking resulted in innovation-development of something for new use, development of new uses for existing ones, in the form of material things or ideas and consequently applied in common life. The ideas so generated had been seriously applied in the area of mass production and many nations got much from that application. The so elaborated period is termed as industrial revolution. Infinite support from the institutions is definitely a pre condition to the above mentioned innovation and development. The realization from the story motivated developing countries to establish research and development in various fields. The area selected will colossally determine the categorical development. In India, after independence, much resource have channelized to unearth the potentialities of serious research and so evolved entrepreneurship. Evidently, the type of encouragement, the quantity of resources, the pace of research, even the ideology of ruling government are effective determinants of entrepreneurship and industrialization in the nation. In this context, the following exerts of UNESCO³⁸ is important;

1. Developing countries are a heterogeneous group, consequently their innovation systems and R&D measurement systems shows internal and external variety. There is lack of demand for science, technology and innovation indicators from policy makers. There is lack of coordination at the national level and lack of cooperation by research institutions.
2. Business enterprises cater to local market lacks competitive pressure and thus systematic R&D.
3. Tallying the number of researchers in a given country presents further challenges.

India-a Knowledge Economy

It is high time to India to make its transition to the knowledge economy. It is an economy that creates disseminates and uses knowledge to enhance its growth and development. Here exists opportunities to shift labor from low productivity and subsistence activities in agriculture, informal industry, and informal services activities to more productive modern sectors, and to new knowledge based activities, and in doing so, we can able to reduce poverty and modernize our economy itself³⁹.

Advantages in India

India is becoming a knowledge economy due to the following possessions;

1. It has a critical mass of skilled, English speaking knowledge workers.
2. It has well functioning democracy.
3. Its domestic market is one of the world's largest one.
4. It has valuable knowledge linkages and networks.
5. Macroeconomic stability.
6. Dynamic private sector.
7. Institutions of a free market economy.
8. Well developed financial sector and
9. Broad and diversified science and technology infrastructure.

An evaluation of skill development initiatives in India

"Focus of skill development initiatives should be expectedly developed to an employability creation, rather than employment creation".

³⁸ (UNESCO, 2010)

³⁹ (Dahlman & Utz, 2005)

A Nation's prosperity ultimately depends on how the people work there? For what purpose?, and by how much?. These questions link to further stretch on the productivity and skill of the people in the Country. Linkages also meet with the educational and training set up in the country. One of the basic problems faced by the G20 countries includes the equipment of people in right manner. The dream quantity of Government, 500 million skilled youth by 2020, will be a multi by-product generating one and its materialization shall be the game changer to our country. Aspirations and expectations of the beneficiaries largely rolled on the imponderable efficiency of machineries of government. So it is imperative that, the fragmented missions and executions should be properly understood by those, who are flawlessly engaged with the mission. Otherwise, immense chances are there to feast, on the blunders, by the commentators.

National Skill Development Mission (NSDM) and National Rural livelihood Mission (NRLM) are the recent initiative for skill development in India. Both mission's strategic involvement amplified the positive engagement of Small and Medium enterprises (SMEs) significantly in the country ICT based monitoring mechanism will augment the efficiency of missions to reach at the bottom of society (Das, 2015). Population growth, unplanned urban migration and related poverty, school dropouts are the cardinal obstructions behind the shortfall of potential skilled man power in the coming period (Yadav, 2014). Skill deficiency felt in all areas and levels despite the coordinated efforts through various schemes in India (Jamal & Mandal, 2013). Institutional arrangements are needed to address the gap. Initiatives by the Indira Gandhi National Open University (IGNOU) are appreciable, but the awareness reaches at the needy with unreasonable delay. Even the educationally advanced regions are largely backed by the skill gap. The equipping process shall be quite balanced and as such, the University could encourage more to enroll the skill generating programs rather than promoting other high level management courses. Here the need for an institutional initiative felt, as a world class institution like IGNOU could done more than the direct initiations by the local authorities. Presently the University provides certificates in skill development in the areas of construction industry and footwear manufacturing. More areas to be identified by the University for Skill Development considering the possibilities of new avenues that are emerged with the genuine participation of Information, Communication and Technology (ICT). Indigenous technology will be the game changer for development in the coming decades, if the proposed initiatives under Make India cater Better. Roughly 80% of the workforce in India doesn't possess any identifiable and marketable skills. The shortage, in long run will be nullified in future by the augmentation and linkage of vocational training to schools, at least 25% in near future. But the gap will remain, after the envisaged plan met. People must be ready to explore craftsmanship and vocational training from anywhere in India to Make India really. The idea to generate skill among the drop outs at secondary level is an appreciable one, as it will produce more sustainable livelihood options in rural India. But the students will not be deviated from the real educational streamline. Numerous situations are there, to point out, the prosperous period of craftsmanship anchored learnable children in a narrowly enclosed habitat of craftsmanship.

Under 11th plan, a breakthrough in skill initiative was National Skill Development Corporation (NSDC), a non- profit making one, with public-private participation. Alluring feature of that Corporation was its target itself- a profound consideration for rural women. Identifying 12 key areas for development, the corporation intended to achieve its goal through three means; Funding and incentivizing, enabling support services, and advocacy or "shaping/creating". Scant necessities are there to redefine the key areas to reach at the expected quantity of bridging and mainstreaming the poor.

Labor Mobility

One of the cardinal factors that decide the intensity of free trade in any region, especially in a developing country shall be the ease of mobility of labor. In macro level, the demarcation and mobility of labor must be in a scientific way, if possible. Obstructions in the free movement of skilled labor will stifle the free growth in economy. Skilled immigrants contribute to research, innovations and technological advancements. They facilitate largely in trade and investment. We can positively acquire good from the immigrants, where they are the educated- primary and secondary- category. Thus the strategy formulated must be thoroughly supported by the involvement of different agencies to provide good education, not good skills. In the light of the above situation, World Bank prepares new skills strategy geared towards skills and productivity. Generally Countries with lower economic development exemplifies low GDP per employee, as in the case of India. Although economic growth, labor shortage and many other factors compelled the accumulation of labors, 'Low skilled workers' quantity was greatly enhanced at the cost of different requirements.

It is contentious that, Private Public participation is a no deplorable initiative, given that, the ushered initiatives of private sector- mobilization of requisite investment, setting up of first rate ITIs, ensuring efficiency in operations and enabling post-training employment- which have to be streamlined with the facilitation process by the Government-enabling frame work and requisite financial support especially to SCs and STs, minorities and differently abled persons and other deprived sections of the society.

In the year 2015, Union Cabinet cleared Rs 5142.08 crore for Shyama Prasad Mukherji Rurban Mission (SPMRM), proposal which aims to transform rural areas to economically, socially and physically sustainable spaces. The focusing rural clusters would be developed by provisioning of economic activities, developing skills and local entrepreneurship and providing infrastructure amenities. The mission aims to create 300 such Rurban clusters over the next three years across the country. This will be a hopeful initiative specifically pointed on rural space.

National Policy on Skill Development

National Policy on Skill Development, first formulated on 2009, and reformulated in 2015 with vision of- integrated outcomes based skill development eco system, which would promote economic, and employment growth, and social development through a focus on education, skill training and employment services. The draft prepared is a product of comprehensive outlook, which demands consistent support of various agencies to materialize the mission. One of the major initiatives in this policy would be the awareness among the people about the importance of skill development for human resource development. A negative perception shall be erased from the minds of youth and thereby mould them small entrepreneurs, which is the fundamental trigger of economy in our Country.

Coordination among different stakeholders is an imperative work as it will offer a better productivity and result in a formation of markets. Likewise integration of forces is also an important factor for better results. Here cooperation of unexpected agencies is important. Vigorous extension of training framework, as demanded by the industries is the galvanizing factor in skill development. For this periodic meetings of educational institutions with industrialists shall be recommended.

Focus of skill development initiatives should be expectedly developed to an employability creation, rather than employment creation. The educational system, which readily provide rigid category of employees, was predominantly a real constrain to the total industry. The industry sometimes compelled to move in the path of the training institutes, who were not ready to change their attitude. Consequently, the industries produced with the available resources, which ultimately affected productivity. The ill developed productivity again allured human resources in dormant way.

Training infrastructure quality will magnify the productivity of youth and geographical harnessing of infrastructure is a key factor in the strategy of skill initiative. Thus a prudential selection of infrastructure and geographical level harnessing will last and provide better results. Vibrant development in capacity of training facilities is also an essential requirement, with the support of local authorities.

Mere learning of skill will not produce desired results. Worldwide quality shall be ensured to the skills by establishing parameters for productivity. Although the work is to be generated in rural area, the quality considerations place superiority than anything. Improvisation is an integral part of urbanization as it starts from rural area itself. In short, our youth must be mastered in improvisation. Given the limitations of public sector engagements, greater participation for private sector is the key to envisage the expected skill development. A third party recognition will always be an encouragement to build skills among the trainers and needy. Here also, people belonged to difficult area got special consideration as in the case of other programs and schemes. Technology driven surveillance must be ensured to monitor the progress of training. Special consideration and even resources shall be set aside for making our rural skills as internationally accepted ones.

Proper movement of skill mobility, domestically and internationally, is a challenging task. Manipulated data about the moved skill is the prime reason behind the worse account of skill movement. If necessary, authorities shall depend on primary data.

Conclusion

Primitive man used the available skill solely for sharing the flesh of animals that were gathered by an individual or a group. By the time passed, he mastered to catch the prey using rough weapons. Innovations lead the civilization with skills. Again, there was a situation where innovations equipped him to use machines to get preys. The period wanted related skills to use the simple and complex machines. Revolutionary technology then played a crucial role where he learned to make the machines, thus the skill needed was of designing of that machines. The journey witnessed rising of robotic entities, their use, and development of skills, related with usage. Programming is recent phenomena that ordered machines about how to work and when?. The question 'why' did not lasted more as our technology gained a type of extreme superiority and dared to use thinking-fifth generation- computers. Skills shall be that type, which match, supports and sophisticates societal man.

GLOBALIZATION

Meaning: The term globalisation means international integration. It includes opening up of world trade, development of advanced ways of communication, internationalization of financial sector, increasing importance of MNCs, increased mobility of persons, goods, capital data and ideas. Globalization generally means integrating economy of a nation with the world economy. The economic differences initiated have had a high effect on the overall growth of the economy. It also helped in the integration of the Indian economy into the global economy. The Indian economy was in major crisis in 1991 when foreign currency reserves went down to \$1 billion. Globalization had its impact on various sectors including Agricultural, manufacturing, Financial, Health sector and many others.

New Economic Policy

After suffering a huge financial and economic crisis Government of India brought a new policy which is known as Liberalization, Privatization and Globalization Policy (LPG Policy) also known as New Economic Policy 1991 as, it was a measure to come out of the crisis that was going on at that time. The following measures were taken to liberalize and globalize the economy as per the policy:

1. Devaluation of Indian Currency by 18 to 19%
2. Disinvestment in Public sector
3. Allowing Foreign Direct Investment
4. Facilities to NRIs

Consequences of Globalization:

Globalisation, in fact affected all spheres of life in India. It has intensified interdependence and competition between and among economies in the world market. This is reflected in Interdependence in regard to trading in goods and services and in flight of capital. As a result domestic economic changes are not determined entirely by domestic policies and market conditions. Rather, they are influenced by both domestic and international policies and economic conditions. It is thus clear that a globalising economy, while formulating and evaluating its domestic policy cannot afford to ignore the possible actions and reactions of policies and developments in the rest of the world. This constrained the policy option available to the government which implies loss of policy autonomy to some extent, in decision-making at the national level.

Impact of Globalization in various fields

IMF granted loans on the basis of the understanding of structural adjustment. It maintains that, there shall be sufficient fundamental changes in the main driver of economy. Agriculturally driven economy has its own limitations to grow. Thus timely policy changes are helpful in shift from one to another. In a sense, the contribution of agriculture to the GDP has hastily decreased in the specified period. Accordingly, the world level institutions recommended reduction and gradual elimination of subsidies (both direct and indirect). Supporters of globalization list the following benefits of globalization⁴⁰;

1. India witnessed acceleration in its average annual rate of growth.
2. There is acceleration in industrial growth. The average growth has jumped from 5.2 percent during pre liberalization to a 7.0 per cent after 1991.
3. Business in India became more competitive after globalization.
4. Globalization has led to fewer economic crises.
5. After globalization, India has seen a long and unprecedented period of welfare enhancement.

Apart from the economic benefits, Indian society has got variety of products and services including education and health services that sophisticated the lifestyle of common people. In a sense, globalization changed the Human Development Index of India by eliminating the barriers of cross borders.

The critics of globalization disapprove the concept on the following grounds;

1. Globalization paved the way to exploitation of natural resources.
2. It resulted in income disparity and regional imbalances.
3. Third world countries had to experience new diseases as part of globalization.
4. Drastic deterioration in social values.
5. Rate of atmospheric pollution increased.

Review Questions

Short Answer Type:

1. Write a short note on the Industrial Policy 1948 of India.
2. Write a short note on National Industrial Corridor Development Authority (NICDA).
3. What is the rationale behind Public Private Participation in India?
4. Evaluate the Industrial Policy 1991 of India in the light of expectation and results after liberalization.
Write a short note on new economic policy of India?
5. What were the peculiarities of land reforms in India?
6. Write a short note about the structural break in Indian economy
7. Evaluate the effect of planning in the structural shift in Indian economy

Essay Questions

1. Critically evaluate the agricultural growth in India and portrait the share of agriculture in the growth of economy.
2. What are types of unemployment in India?
3. Write a short note on regional imbalance in India
4. Evaluate the existing employment generation Programmes in India

⁴⁰ (Nayar, 2006)

MODULE IV

Unit 13

FOREIGN DIRECT INVESTMENT AND FOREIGN PORTFOLIO INVESTMENT

Introduction

FDI and international trade play a key role in the process of integration of the world economy. Many firms consider FDI as an important strategy to enter in to the international business arena as the mobility of factors of production across countries have enhanced. As far as developing countries are concerned, FDI is a powerful source of external finance. At present, inward stock of FDI amounts to one third of the developing country's GDP, compared to merely 10 percent in 1980.

FDI often promotes the development of the host economies. The export performance of the host country will also be improved due to the influence of FDI. Beyond the supply of capital, FDI also helps the host countries to enhance the competitiveness of the domestic economy through transferring technology, strengthening infrastructure, raising productivity and generating new employment opportunities.

Host countries often perceived FDI as a risky factor due to the capacity of transnational investing firms to influence economic and political affairs in their home country. Similarly, some developing countries, suspected FDI as a novel form of colonialism and exploitation as they had previous similar experiences from colonial powers.

Amidst such suspicions and uncertainties, FDI are preferred to other forms of external finance because these are non-debt creating, non-volatile and the returns depend on the performance of the project financed by the investors.

FDI is considered superior to other kinds of capital flows due to the following reasons:

1. Unlike portfolio investors and foreign lenders, direct investors of foreign land will have a long term interest and perspective in the host country. As a result, it remains less volatile and sustains even at the time of economic crisis.
2. While consumption needs are often met by foreign debt flows, funds flowed through foreign investment meet productivity needs of the home country.
3. FDI can exert deep influence on the economic growth of a country as it offers access to internationally available technologies, management knowhow and marketing skills, over and above foreign funds.

A firm has to evaluate various options for doing international business and has to select the most apt form of expansion. Factors like why a firm invests abroad when it can opt for low risk entry alternatives such as exporting and licensing are to be considered. FDI is urged specially by factors like Geographical distances of markets or resources, especially for low value products. A foreign firm investing in a country should understand the institutional and regulatory framework for investment promotion in that country.

Concept of FDI

FDI refers to obtaining ownership in foreign business entity. It can also be attributed that FDI circulates capital across national boundaries. It can be defined as an investor based on one country (home country), acquires an asset in another country (host country), with the intention to manage it. It is this dimension of management that distinguishes FDI from portfolio investment in foreign stocks and other financial instruments.

Managing interest in the host country firm can be acquired by holding ten percent or more of equity shares. The lasting interest implies the existence of a long term relationship between the direct investor and the enterprise wherein a significant degree of influence is exerted by the investor in the management of the direct investment enterprise. Ownership of the 10 % of the ordinary shares or

voting stock is the criterion for determining the existence of a direct investment relationship. These are either directly or indirectly owned by the direct investor. The definition of direct investment enterprise extends to the branches and subsidiaries of the direct investor.

FDI is characterized by decreased sensitivity to fluctuations in foreign exchange rates. Since FDI is the result of a long term perspective of the investor, it is much less volatile than FPI. The returns of FDI are generally in form of profit that is retained earnings, profits, dividends, royalty payments, management fees etc. The government has made an increase in the cap on foreign direct investment (FDI) in the pension sector and insurance sector to 49 per cent from 26 per cent, paving the way for more foreign funds to enter the national pension system and insurance industry.

Foreign Portfolio Investment

Investment by individuals, firms or public bodies in financial instruments, such as foreign stocks, government bonds etc is known as Foreign Portfolio Investment. Foreign portfolio investment does not render any management control to the investor. Thus FPI can be viewed only as a passive holding of foreign assets, without having any voice in the management of the invested firm. FPI is favourably affected by factors like risk minimization through diversification, and high rate of return. Thus it can be inferred that FPI is passive whereas FDI is active. The returns in the case of FPI are generally in the form of non-voting dividends or interest payments.

Table 1: Difference between FPI and FDI

Particulars	FDI	FPI
Management and control	Investor obtains rights of management and control in the firm.	No such rights are available under FPI.
Mode of investment	Active holding	Passive holding
Disposal of investment	Difficult to dispose	Easy disposal
Flexibility	Less flexible	Volatile
Nature of interest	Long term	Short term
Requirement of capital	Very high	Comparatively less
Accessibility for an average investor	Difficult Access	Comparatively easy access

Benefits of FDI

Potential benefits of FDI to the host countries include the following:

1. Access to superior technology.

Foreign firms bring superior technology to the host countries while investing. The extent of benefits depends upon the technology spill over to other firms based in the host country.

2. Increased competition.

The investing foreign firm increasing industry output resulting in overall reduction in domestic prices, improved product or service quality, and more availability of products. This intensifies competition in host economies resulting in the improvement in consumer welfare.

3. Increase in domestic investment.

It is found that capital flows in the form of FDI increase domestic investment so as to survive and effectively respond to the increasing competition.

4. Bridging host country's foreign exchange gap.

In most developing countries, the levels of domestic savings are often insufficient to support capital accumulation and to achieve growth targets. Besides, the level of foreign exchange may be insufficient to purchase imported inputs. Under such situations, the FDI helps in making available foreign exchange for imports.

Negative impacts of FDI

In most countries, public opinion towards FDI is not favourable and FDI is feared due to its impact on domestic firms, the economy and culture. The major concerns about the negative aspects of FDI are as follows:

1. **Market monopoly.**

MNCs are far more advanced than domestic enterprises, owing to their large size and financial power. In some sectors, this is leading to MNE monopolies, thus impeding the entry of domestic enterprises in marketing, and advertising and R&D activities differentiate their products and makes the entry of new firms far more difficult as they are unable to make similar investments in R&D and marketing strategies.

2. **Crowding out and unemployment effects.**

FDI tends to discourage entry and stimulates exit of domestic enterprises often termed as the crowding out effect. As FDI enterprises are less labour intensive, their entry results in higher unemployment and increased social instability.

3. **Technology dependence.**

MNEs often function in a way that doesn't result in technology transfer or technology sharing, thereby making local firms technologically dependent or technologically less self-reliant.

4. **Profit outflow**

Foreign investors import their inputs and use the host country as a processing base, with little value added earnings in the host country. A large proportion of their profits may be repatriated.

5. **Corruption**

Many foreign investors often bribe government officials, to get their desires satisfied.

6. **National security**

With MNCs holding a dominant position in sensitive industries like telecommunications, and the supply of core equipment and software for the IT industry, there is a danger that the strategic interests of the host country may be compromised.

The Determinants of FDI Location

1. **Market demand.**

The flows of FDI are positively influenced by the size of a country's market demand as measured by GDP per capita.

2. **Growth rate.**

FDI flows to where fast economic growth has been recorded. A vicious circle is observed here: at the same time that FDI contributes significantly to economic growth, faster economic growth attracts more FDI because it increases foreign investors' confidence in the economy, which in turn pushes the growth rate even higher. In the least developed countries, studies have shown that FDI in fact follows, not proceeds, some initial growth or at least the promise of growth.

3. **Political stability.**

Political riots or armed conflicts may exert a negative influence on foreign companies' investment decisions. Indeed, frequent changes of governments and the resultant policy changes can reduce an investor's assets to zero overnight.

4. **Macroeconomic stability.**

A country's overall macroeconomic performance, such as low inflation rate and balanced fiscal account, is a consistently significant factor in shaping the decision making of foreign investors when assessing investment locations.

5. **Infrastructure.**

With regards to FDI, infrastructure encompasses both physical (e.g. roads and power) and social (e.g. health and education) concepts. It has been repeatedly shown around the world that a well-developed infrastructure network and a well-trained labor force are major elements of attractiveness to foreign investors. This is especially true where high quality FDI (e.g. long-term transfer of advanced technology) is concerned.

6. *Regulatory environment.*

It is increasingly recognized that the administrative and regulatory environment of a country can have a significant influence on the level of FDI flows. While large and powerful investors may be able to endure cumbersome and costly procedures, they may prove fatal to the entry and growth of small and medium enterprises. Moreover, arbitrary, discriminatory, and non-transparent regulations often lead to corruption, which has been shown to be a fatal deterrent to FDI.

The role of FDI in Economic Development

FDI increases capital stock, boosts human capital accumulation (though usually unmeasured in labor stock), and speeds up technological advances in host countries. Nevertheless, the most direct impacts of FDI on host economies are through its role in the accumulation of investment capital and the growth of Total Factor Product (TFP) of the recipients.

1. FDI and Productivity Growth

- *The technology transfer arising from FDI may assist productivity growth.*

In fact, the most important benefit of FDI is, along with providing financial resources, it gives access to the whole range of technological, organizational and skill assets, as well as the markets of the parent company.

Many fast-growing economies are depending heavily on FDI to jump start and sustain their rapid economic transformation.

FDI transmits best practice in two ways:

- Internal transfers of technology and skills to the foreign affiliates in the host country.
- Technological diffusion to a broad section of companies and institutions within the host country.

As most of the technologies are based on expensive R&D, firms will not sell them to unrelated parties. Hence, FDI is the only mechanism to obtain the latest technologies and expand its productivity for the host country. For many developing countries, to get access to the regional or global markets, being included in a global company's international production network is the easiest way. The ultimate impact of FDI on domestic economic growth depends on the diffusion of innovations through the local economy. (Four main channels: backward linkages with local suppliers (sourcing), forward linkages with local producers and distributors, horizontal linkages with local competitors, and linkages with local institutions such as universities and research institutes as well as vocational training centers).

2. FDI as a mechanism for social advancement

FDI serves as a catalyst for rapid economic growth and also helps in improving social norms. Here, FDI plays a major role in the development schedule of the host countries. Here, two of the main social aspects of development viz. employment and environment are discussed in detail.

a) FDI's effect on host country Employment and Labor Standard

One of the main objectives of developing countries is to achieve a secure and stable employment condition. It is a most important way to get an equitable distribution of income and higher standard of living for its population.

There are three ways for FDI to generate employment in the host countries.

- First, foreign affiliates employ people in their domestic operations.
- Second, through backward and forward linkages, employment is created in enterprises that are suppliers, subcontractors, or service providers to them.
- Third, as FDI-related industries expand and the local economy grows, employment is also created in sectors and activities that are not even indirectly linked to the original FDI.

FDI's employment generated data in developing countries are not available. Accounts show that the direct employment created by foreign affiliates is less than two percent of the labor force in most developing countries.

If the foreign affiliates are well integrated to the host country economy, they can transfer best employment practices along with technological spillovers.

In other way, there efficient and productive work pattern, helps to bring new employment norms and higher labor standards in the host country. For example, In China, there came a new form of labor-contract system through foreign investments in 1980s, which linked remuneration and bonuses to labor productivity. That system was so successful and it led to the countrywide wage and labor market reforms.

b) FDI's effect on host country's Environmental Standards

Evidences are unavailable to prove that FDI is imposing pressure on developing countries to lower their environmental standards. It can be narrated as follows:

- Environmental resources are an essential input in the production process.
- Production efficiency of firms is closely related to the environmental sustainability of a particular country.
- Environmental damage will be more in low productivity operations that employ obsolete technology, outdated work methods, poor human resource management techniques, and inefficient energy use. On this base, with stronger technological and management base, it can be said that FDI is actually upholding the environmental standards in a host country than their domestic affiliates.

The crowding out effect of FDI

There is a notion that foreign investments will reduce the investment opportunities of domestic firms and will crowd out them from their business. Such a situation may occur in financial markets or product markets because, when the foreigner borrows fund from domestic financial market, domestic interest rates may rise. It will make borrowing unaffordable for domestic traders.

Against this, Chile, which has liberal policies towards FDI, restrains the access of foreign companies to domestic financial sector.

- FDI may reduce or restrain domestic investors from investing in that area.
- Sometimes foreigners may force domestic competitors to go out of business, when host country governments lack efficient competition policy to prevent such behavior
- The message is thus that instead of prohibiting FDI from entering certain sectors, we should concentrate on enforcing our competition policies to prevent abusive practices in the domestic markets.

The Balance of Payment Problem as a Result of FDI

There is a concern that repatriation of profit may adversely affect the balance of payment position of a host country. But, because of current and capital accounts liberalization in many developing countries, this is less of a concern.

- Similarly FDI will help in enhancing the host country's exports.
- Hence, it can be stated that FDI will not create balance of payment problem in the long run, except in countries with seriously misaligned foreign exchange regimes.

Advantages of Foreign Portfolio Investment

1. Depth of secondary markets of the host country increases substantially.
2. Capital for investment is made available.
3. More regulations and norms are created in the host country so as to protect and regulate foreign investors.

Negative impacts of Foreign Portfolio Investment

1. Huge volatility arises in the stock market out of FPI, as they keep on shifting their investments from markets to markets.
2. In periods of economic recession, massive withdrawal of investment by Foreign Portfolio Investors further frails the economy.

Unit 14

CLASSIFICATION/TYPES OF FDI

1. On the basis of direction of investment.

a) Inward FDI

Foreign firms taking control over domestic assets is termed as inward FDI. From an Indian perspective, direct investments made by foreign firms such as Suzuki, Honda, LG, Samsung, General Motors, Electrolux etc come under inward FDI.

b) Outward FDI

Domestic firms investing overseas and taking control over foreign assets are known as Outward FDI. Such outward investment is also known as direct investments abroad.

2. On the basis of types of activity.

a) Horizontal FDI

It is the investment activities undertaken by a foreign firm in similar production activity as it is carried out in its home country. In other words, it signifies that an MNC assumes the same production process in two or more countries. This kind of FDI can provide competitive advantage for the firm in the host country, as it was occupied with the same kinds of business in its home country too. Multinational companies both from developed and developing countries do this kind of FDI to establish their competitive advantage abroad. A number of MNEs such as Kodak, HSBC, LG, Samsung etc expanded their business territory by way of horizontal FDI.

b) Vertical FDI

Under this, a firm assumes investment activities overseas, with the intention of supplying raw materials required for its domestic production, or to sell its domestically produced final products in a foreign country. Thus vertical FDI occurs when the multinationals splinters the production process globally, placing each stage of production in the country where it can be done at the least cost. Vertical FDI is classified in to two as:

- **Backward Vertical FDI**

Under this, a foreign firm enters the business scenario of another country with the intention of obtaining raw materials needed for carrying out its domestic production activities. Such FDI is historically common in extractive industries such as mining (Gold, Copper, Tin, Bauxite, petroleum etc). Companies like British Petroleum and Shell have expanded their international business by backward vertical FDI.

- **Forward Vertical FDI**

Here a firm assumes FDI for selling out the products it domestically produced.

Setting up a marketing network, assembly or mixing operations overseas are illustrations of forward vertical FDI

c) Conglomerate FDI

Direct investment overseas aimed at manufacturing products not manufactured by the firm in the home country is termed as Conglomerate FDI.

3. On the basis of Investment objectives.

a) Resource seeking FDI

Resource seeking FDI gives one the privilege to access resources rather than competitors. Such MNEs seeking resources, invest in countries with availability of natural resources. This ensures the firm of stability of raw material supply at right prices. The major economic determinants for resource seeking FDI include:

- Availability of raw material.
- Corresponding factors of production.
- Physical infrastructure.

Resource-abundant countries favour such FDI when they require capital and necessary technical skills for resource extractions. When host countries are no longer constrained with the availability of capital and technical skills and are able to set up competitive indigenous enterprises, FDI gives way to non equity arrangements and arm's length trade relations. Resource seeking FDI is still favoured by many multinational giants.

Such types of MNCs are common in sectors such as oil, agro processing, metals like steel, copper bauxite etc. Moreover, this kind of FDI is preferred for the production of labour intensive goods.

b) Market seeking FDI.

MNEs invest in countries with sizable market and growth opportunities in order to protect existing markets, counteract competitors, and to preclude rivals or potential rivals from gaining new markets. FDI is undertaken also by seeking markets so that firms can reduce transaction costs, improve buyer understanding by bringing it closer to the target markets, and overcome a number of regulatory controls in the host country. The major economic determinants of this include:

- Market size
- Market growth
- Regional Integration

Market seeking FDI are often favored by MNEs in a large number of durable and non-durable goods consumer goods such as automobiles, computers , processed foods, cigarettes etc.

c) Efficiency-Seeking FDI

Another motive behind FDI is seeking of efficiency in operations like regional or global product rationalization and gaining advantages of process specialization. Things like economies of scope, geographical diversification, and international sourcing of inputs is also obtained by a firm conducting FDI seeking markets. The major economic determinants of this include,

- a. Productivity adjusted labour costs.
- b. Availability of skilled labour.
- c. Availability of business related services.
- d. Trade policy.

Efficiency-Seeking FDI is often favoured in product categories such as motor vehicles, electrical appliances, business services etc.

4. On the basis of entry modes

a) Greenfield investments

Greenfield investments are done primarily for creation of new facilities or expansion of existing facilities. Firms often enter international markets by way of Greenfield investments in industries where technological skills and production technology are the key factors. Further the selection of FDI mode is influenced by

- Institutional factors
- Cultural factors
- Transactional cost factors

Particularly, the attitude towards takeovers, conditions in capital markets, liberalization policies, privatization, regional integration, current sales, and the role played by intermediaries, such as investment bankers affect the mode of direct investment abroad. Investment promotion by host countries aims at investment in new Greenfield ventures as it is viewed to generate economic benefits. In developing countries, where the right types of companies are not available for acquisition, Greenfield operations are the preferred mode of FDI.

b) Mergers and acquisitions

Merger and acquisition is a crucial tool for a firm's internationalization strategy. Mergers and acquisitions have become an increasingly popular mode of investment among firms worldwide in

order to enhance their competitiveness so as to consolidate, protect, and advance their position by acquiring companies internationally. It is estimated that about 70-80 percent of FDI are in the form of Mergers and acquisitions.

c) Brownfield investments

An investment is called Brownfield when a company or government entity purchases or leases existing production facilities to launch a new production activity. This is an alternative to Greenfield investments. It is an important strategy of FDI.

5. On the basis of sector

a) Industrial FDI

Investment by firms in the manufacturing sector is termed as Industrial FDI. Major objectives of this are:

- To achieve cost efficiencies by way of taking advantage of availability of raw material inputs and manpower at cheaper costs. Savings in costs of logistics due to proximity of inputs, markets or both leads to cost reduction.
- To bypass trade barriers such as high import tariffs and other import restrictions.
- To be closer to the markets and serve them more efficiently.
- To have physical presence due to strategic reasons.

b) Non- Industrial FDI

Investment by a foreign firm in service sector is known as non- industrial FDI. The major reasons behind this are:

- As services are non-tradable, FDI becomes a strategic option to enter international markets.
- To overcome regulatory obstacles.
- To have regular contact with the customers.

6. On the basis of strategic modes.

a) Export replacement.

In response to trade barriers of the host country, such as import restrictions and prohibitive tariff structure, FDI is regarded as a substitute for exports. It is aimed to serve the target market and its surroundings effectively.

b) Export platforms

In order to minimize a firm's cost of production and distribution, host country is made a destination. The competitive advantage and incentives provided by the host country plays a crucial role in attracting such FDI.

c) Domestic substitution

The basic objective of firms in this kind of FDI is to obtain the inputs for production in their home country. Bilateral trade agreements play an important role in this regard.

Global FDI Scenario

- With the integration of international capital markets, global FDI flows grew strongly in the 1990s.
- Recorded global inflows grew by an average of 13 percent a year during 1990-1997.
- Driven by large cross-border mergers and acquisitions (M&A), these inflows increased by an average of nearly 50 percent a year during 1998-2000, reaching a record US\$1.5 trillion in 2000.
- Inflows declined to US\$729 billion in 2001, mostly as a result of the sharp drop in cross-border M&A among the industrial countries, coinciding with the correction in world equity markets. Worldwide, the value of cross-border M&A declined from the record US\$1.1 trillion in 2000 to about US\$600 billion in 2001.
- The industrial countries have long dominated the FDI inflows and outflows and accounted for 94 percent of outflows and over 70 percent of inflows in 2001.

Inflows of FDI to developing countries grew by an average of 23 percent a year during 1990–2000. In 2001, these inflows declined by 13 percent to US\$215 billion, largely reflecting reduced inflows into Hong Kong Special Administrative Region (SAR), Brazil, and Argentina. Excluding these three economies, FDI inflows into developing countries increased by about 18 percent in 2001. During 1998–2001, FDI inflows to developing countries averaged US\$225 billion a year. In the same period, portfolio investment and other investment inflows to developing countries were much lower and in aggregate averaged US\$22 billion a year.

- During the 1998–2001 period, of the US\$900 billion of FDI inflows to developing countries, Asia accounted for US\$407 billion, followed by the Western Hemisphere (US\$307 billion). Cross-border M&A were an important contributor to these inflows, reflecting the privatization of state-owned assets, especially in Latin America, and the purchase of distressed banking and corporate assets in several Asian economies in the wake of the 1997 financial crisis. Within Asia, the two largest recipients of FDI inflows during this four-year period were China P.R. (US\$165 billion) and Hong Kong SAR (US\$124 billion).

The investment inflows to the Western Hemisphere were dominated by Brazil (US\$116 billion) and Mexico (US\$63 billion). While FDI flows predominantly comprise equity capital, US\$1 trillion of cumulative FDI inflows in the form of intercompany debt (e.g., trade credits, loans, advances) were recorded during 1998–2001, most of which went to industrial countries. During the same period, cumulative FDI equity inflows—comprising equity capital and reinvested earnings—were close to US\$3 trillion.

The book value of the estimated global stock of inward FDI totaled US\$6.8 trillion at end 2001. Four countries, the United States, the United Kingdom, France, and Germany were the largest recipients of inward FDI capital. About one third of the global stock of inward FDI represented investment in developing economies, with five economies—China P.R., Argentina, Brazil, Hong Kong SAR, and Mexico—accounting for more than half of the inward FDI stock of developing economies. The estimated global stock of outward FDI valued at book value totaled US\$6.6 trillion at end 2001; the largest investing countries were the United States, the United Kingdom, France, and Germany, which accounted for half of the global stock of FDI assets. Only 12 percent (US\$800 billion) of the world stock of outward FDI represented FDI investment from developing economies.

Current Trends

Global foreign direct investment (FDI) inflows fell by 16 per cent in 2014 to \$1.23 trillion, down from \$1.47 trillion in 2013.

The decline in FDI flows was influenced mainly by the fragility of the global economy, policy uncertainty for investors and elevated geopolitical risks. New investments were also offset by some large divestments. The decline in FDI flows was in contrast to growth in GDP, trade, gross fixed capital formation and employment. UNCTAD forecasts an upturn in FDI flows to \$1.4 trillion in 2015 and beyond (\$1.5 trillion in 2016 and \$1.7 trillion in 2017) due to growth prospects in the United States, the demand-stimulating effects of lower oil prices and accommodating monetary policy, and continued investment liberalization and promotion measures. Forecasts for macroeconomic fundamentals and continued high levels of profitability and cash reserves among multinational enterprises (MNEs) support the expectation of higher FDI flows. However, a number of economic and political risks, including ongoing uncertainties in the Eurozone, potential spillovers from geopolitical tensions, and persistent vulnerabilities in emerging economies, may disrupt the projected recovery.

The global FDI decline masks regional variations. While developed countries and economies in transition saw a significant decrease, inflows to developing economies remained at historically high levels.

Unit 15

FDI POLICY

Recent policies of FDI

Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. The Indian government's favourable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defence, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others. The FDI policy of India encompasses the following matters:

- Townships, shopping complexes & business centres – all allow up to 100% FDI under the automatic route. Conditions on minimum capitalisation & floor area restrictions have now been removed for the construction development sector.
- India's defence sector now allows consolidated FDI up to 49% under the automatic route. FDI beyond 49% will now be considered by the Foreign Investment Promotion Board. Govt approval route will be required only when FDI results in a change of ownership pattern.
- Private sector banks now allow consolidated FDI up to 74%.
- Up to 100% FDI is now allowed in coffee/rubber/cardamom/palm oil & olive oil plantations via the automatic route.
- 100% FDI is now allowed via the auto route in duty free shops located and operated in the customs bonded areas.
- Manufacturers can now sell their products through wholesale and/or retail, including through e-commerce without Government Approval.
- Foreign Equity caps have now been increased for establishment & operation of satellites, credit information companies, non-scheduled air transport & ground handling services from 74% to 100%.
- 100% FDI allowed in medical devices
- FDI cap increased in insurance & sub-activities from 26% to 49%
- FDI up to 49% has been permitted in the Pension Sector.
- Construction, operation and maintenance of specified activities of Railway sector opened to 100% foreign direct investment under automatic route.
- FDI policy on Construction Development sector has been liberalised by relaxing the norms pertaining to minimum area, minimum capitalisation and repatriation of funds or exit from the project. To encourage investment in affordable housing, projects committing 30 percent of the total project cost for low cost affordable housing have been exempted from minimum area and capitalisation norms.
- Investment by NRIs under Schedule 4 of FEMA (Transfer or Issue of Security by Persons Resident outside India) Regulations will be deemed to be domestic investment at par with the investment made by residents.
- Composite caps on foreign investments introduced to bring uniformity and simplicity is brought across the sectors in FDI policy.
- 100% FDI allowed in White Label ATM Operations.

Sectors with Restrictions

A) Sectors where FDI is prohibited

- Lottery Business including Government /private lottery, online lotteries, etc.
- Gambling and Betting including casinos etc.
- Chit funds
- Nidhi company-(borrowing from members and lending to members only).

- Trading in Transferable Development Rights (TDRs)
- Real Estate Business (other than construction development) or Construction of Farm Houses
- Manufacturing of Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes
- Activities / sectors not open to private sector investment e.g. Atomic Energy and Railway Transport (other than construction, operation and maintenance of
 - (i) Suburban corridor projects through PPP,
 - (ii) High speed train projects,
 - (iii) Dedicated freight lines,
 - (iv) Rolling stock including train sets, and locomotives/coaches manufacturing and maintenance facilities,
 - (v) Railway Electrification,
 - (vi) Signaling systems,
 - (vii) Freight terminals,
 - (viii) Passenger terminals,
 - (ix) Infrastructure in industrial park pertaining to railway line/sidings including electrified railway lines and connectivities to main railway line and
 - (x) Mass Rapid Transport Systems.)
- Services like legal, book keeping, accounting & auditing.

B) Sectors With Caps

- Petroleum refining by PSU S (49 %)
- Teleports (setting up of up-linking HUBs/Teleports), Direct to Home (DTH), Cable Networks (Multi-system operators (MSOs) operating at national, state or district level and undertaking up-gradation of networks towards digitalisation and addressability), Mobile TV and Headend-in-the-Sky Broadcasting Service (HITS) – (74%).
- Cable Networks (49%).
- Broadcasting content services- FM Radio (26%), up-linking of news and current affairs TV channels (26%).
- Print Media dealing with news and current affairs (26%).
- Air transport services- scheduled air transport (49%), non-scheduled air transport (74%).
- Ground handling services – Civil Aviation (74%).
- Satellites- establishment and operation (74%).
- Private security agencies (49%).
- Private Sector Banking- Except branches or wholly owned subsidiaries (74%).
- Public Sector Banking (20%).
- Commodity exchanges (49%).
- Credit information companies (74%).
- Infrastructure companies in securities market (49%).
- Insurance and sub-activities (49%).
- Power exchanges (49%).
- Defence (49% above 49% to CCS).
- Pension Sector (49%)

Routes of FDI approval in India

A. Automatic Route:

- Under this route no Central Government permission is required.

B. Government Route:

Under this route applications are considered by the Foreign Investment Promotion Board (FIPB). Approval from Cabinet Committee on Security is required for more than 49% FDI in defence. The proposals involving investments of more than INR 30 billion are considered by Cabinet committee on economic affairs.

The Indian company receiving FDI either under the automatic route or the government route is required to comply with provisions of the FDI policy including reporting the FDI and issue of shares to the Reserve Bank of India. The details can be seen from Q.6 of Section I of the following link-

Entry Structures

Incorporating a Company in India

- It can be a private or public limited company. Both wholly owned and joint ventures are allowed. Private limited company requires minimum of 2 shareholders.

Limited Liability Partnerships:

- Allowed under the Government route in sectors which has 100% FDI allowed under the automatic route and without any conditions.

Sole Proprietorship/Partnership Firm:

- Under RBI approval. RBI decides the application in consultation with Government of India.

Extension of Foreign Entity:

- Liaison office, Branch office (BO) or Project Office (PO). These offices can undertake only the activities specified by the RBI. Approvals are granted under the Government and RBI route. Automatic route is available to BO/PO meeting certain conditions.

Other Structures:

- Foreign investment or contributions in other structures like not for profit companies etc. are also subject to provisions of Foreign Contribution Regulation Act (FCRA).

Steps involved in investment

- Identification of structure
- Central Government approval if required
- Setting up or incorporating the structure
- Inflow of funds via eligible instruments and following pricing guidelines
- Meeting reporting requirements of RBI and respective Act
- Registrations/obtaining key documents like PAN etc.
- Project approval at state level
- Finding ideal space for business activity based on various parameters like incentives, cost, availability of man power etc.
- Manufacturing projects are required to file Industrial Entrepreneur's Memorandum (IEM), some of the industries may also require industrial license.
- Construction/renovation of unit.
- Hiring of manpower.
- Obtaining licenses if any.
- Other state & central level registrations.
- Meeting annual requirements of a structure, paying taxes etc.

Repatriation

Repatriation of Dividend

- Dividends are freely repatriable without any restrictions (net after tax deduction at source or Dividend Distribution Tax).

Repatriation of Capital

- AD Category-I bank can allow the remittance of sale proceeds of a security (net of applicable taxes) to the seller of shares resident outside India, provided the security has been held on repatriation basis, the sale of security has been made in accordance with the prescribed guidelines and NOC / tax clearance certificate from the Income Tax Department has been produced.
- Investments are subject to lock-in period of 3 years in case of construction development sector.

Repatriation of Interest

- Interest on fully, mandatorily & compulsorily convertible debentures is also freely repatriable without any restrictions (net of applicable taxes)..

Incentives**Central Government Incentives**

- Investment allowance (additional depreciation) at the rate of 15 percent to manufacturing companies that invest more than INR 1 billion in plant and machinery available till to 31.3.2015.
- Incentives available to unit's set-up in SEZ, NIMZ etc. and EOUs.
- Exports incentives like duty drawback, duty exemption/remission schemes, focus products & market schemes etc.
- Areas based incentives like unit set-up in north east region, Jammu & Kashmir, Himachal Pradesh, Uttarakhand.
- Sector specific incentives like M-SIPS in electronics.

State Government Incentives

- Each state government has its own incentive policy, which offers various types of incentives based on the amount of investments, project location, employment generation, etc. The incentives differ from state to state and are generally laid down in each state's industrial policy.
- The broad categories of state incentives include: stamp duty exemption for land acquisition, refund or exemption of value added tax, exemption from payment of electricity duty etc.

FDI Scenario in India

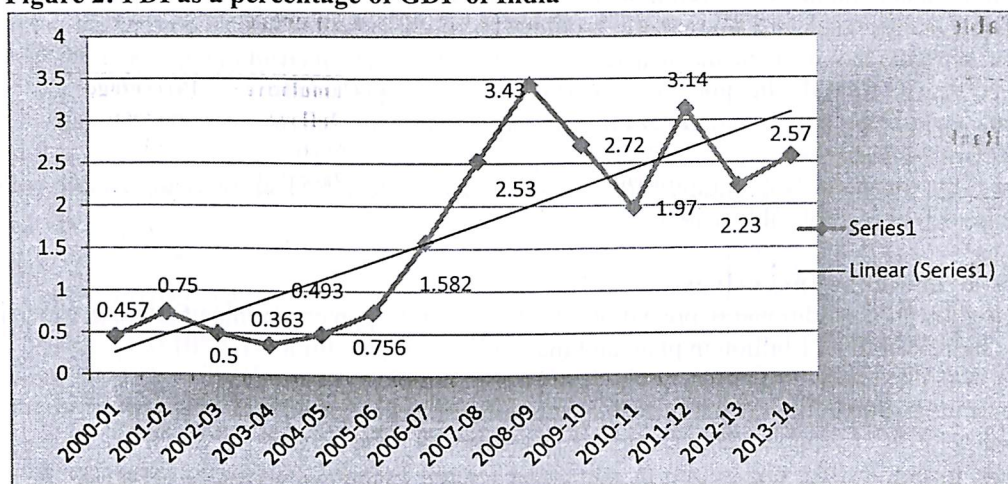
Foreign Direct Investment is unavoidable in a developing country like India which has deficiency of resources. FDI adds to international trade integration, technology spillovers, assists human capital formation, helps creating a more competitive business environment and enhances enterprise development, which is the most effective means for alleviating poverty in developing countries.

Table 2: FDI in India for past financial years

Year (Financial Year)	FDI Inflows ((Rs.Crore)	Growth Rate of FDI (%)
2000-01	10,733	0
2001-02	18,654	73.8
2002-03	12871	-31
2003-04	10,064	-21.81
2004-05	14,653	45.6
2005-06	24,584	67.77
2006-07	56,390	129.38
2007-08	98,642	74.93
2008-09	142,829	44.8
2009-10	123,120	-13.8
2010-11	97,320	-20.96
2011-12	165,146	69.69
2012-13	121,907	-26.18
2013-14	147,518	2.57

Source: Official website of Department of Industrial Policy and Promotion

Figure 2: FDI as a percentage of GDP of India



Source: Official website of Department of Industrial Policy and Promotion.

Sectors Attracting Highest FDI Equity Inflows (In Crores)

The prime sectors attracting FDI has been depicted in the table shown below:

Table 3: Sectors Attracting Highest FDI Equity Inflows (In Crores)

Rank	SECTOR	2012-13 (April - March)	2013-14 (April- March)	Cumulative Inflows (April '00 - March '14)	Percentage to total Inflows
1	SERVICES SECTOR	26306	13294	185570	18
2	CONSTRUCTION	7248	7508	108557	11
3	TELECOMMUNICATIONS	1654	7987	66719	7
4	COMPUTER SOFTWARE & HARDWARE	2656	6896	59671	6
5	DRUGS & PHARMACEUTICALS	6011	7191	56070	6
6	AUTOMOBILE INDUSTRY	8384	9027	48196	4
7	CHEMICALS	1596	4738	45234	4
8	POWER	2923	6519	42655	4
9	METALLURGICAL INDUSTRIES	7878	3436	38250	4
10	HOTEL & TOURISM	17777	2949	36209	3

Source: www.dipp.nic.in

Share of Top Investing Countries

Top 10 countries flowing their investment to India and their concerned share has given below:

Table 4: Share of Top Investing Countries (Amount Rs. In crores)

Rank	Country	2012-13 (April - March)	2013-14 (April – March)	Cumulative Inflows (April '00 - March'14)	Percentage to total Inflows
1	MAURITIUS	51,654	29360	370485	36 %
2	SINGAPORE	12594	35625	125807	12 %
3	U.K	5797	20426	100884	10 %
4	JAPAN	12243	10550	80644	7 %
5	U.S.A	3033	4807	55730	5 %
6	NETHERLANDS	10054	13920	56299	5 %
7	CYPRUS	2658	3401	35730	3 %
8	GERMANY	4684	6093	31605	3 %
9	FRANCE	3487	1842	18706	2 %
10	SWITZERLAND	987	2084	13148	1 %
Total FDI Inflows From All Countries		121907	147,518	1044430	-

Source: www.dipp.nic.in

What Do the States Need to Do for FDI?

FDI, being not a panacea, is a critical ingredient to the long term sustainable growth. For developing countries, it presents the most effective way to enhance productivity and to develop a competitive private sector; it creates employment and income opportunities; and it provides an important vehicle to raise environmental and social standards.

But both FDI and its benefits never flow automatically. Foreign investors are fallible people whose first and foremost objective is to maximize their global profits, with or without benefits to host countries. Recognizing this simple business principle, it is possible to bring out the good sides of FDI and avoid its negative aspects.

The governments need thus to provide

- (i) Basic political and macroeconomic stability that offers reasonable predictability so that investors can make normal business decisions;
- (ii) A rule-based legal and regulatory environment that facilitates doing business rather than harassing it;
- (iii) An adequate physical and social infrastructure that assist the smooth functioning of the market and transferring of knowledge; and
- (iv) Appropriate investment promotion efforts that disseminate information about the investment site and service existing and potential investors.

Beyond these basic conditions, the governments will also need to address several specific issues in order to ensure the realization of the benefits of FDI. They include:

1. *An even and competitive playing field.*

The benefits of FDI tend to be maximized when foreign investors operate on an even and competitive playing field. To this end, governments need to provide a business environment where competition, free entry, consumer choice and free exit determine who gains and who loses. Foreign and domestic investors need to be treated equally as much as possible. As amply demonstrated in economic literature, exposure to effective competition on an even playing field is the most important incentive for foreign and domestic companies to upgrade technology and management practices, while free entry is the key to establishing effective linkages between foreign investors and domestic suppliers and distributors that help diffuse best practice in the host economy.

2. *Domestic capacity to exploit FDI benefits.*

A liberal and competitive investment climate creates the basis for FDI to enter and raise the potential for productivity growth in the host economy, but improvements will only occur if the domestic actors are capable of responding to the new incentives. The key policy measures are thus to improve the education and infrastructure so as to increase the domestic absorptive capacity of the fruits of FDI.

3. *Building up environmental and social standards.*

As globalization gradually leads to higher environmental and social standards of FDI, governments need to adjust their own policies to fit into the evolving world norm. In places where there remains a wide gap between the world standards and those of a host country, reputable foreign investors may be forced to stay away out of reputational concerns or they may face too much competition from domestic firms not subject to as stringent norms. To be sure, tougher standards have costs, which may affect both domestic firms and certain low-cost-seeking FDI.

Governments have to decide how to position themselves for the long term benefits of their economic development.

Unit 16

FDI IN INDIAN RETAIL SECTOR

FDI in Retail Trade-Problems and Consequences

Retail trade is one of the pillars of Indian economy. The Indian retail market is one of the top five retail markets in the world by economic value. Moreover, just like our economy, our retail market also is growing fast. India's retailing industry is essentially owner manned small shops. Larger convenience stores and supermarkets accounts for about only a negligible percent of the industry, and these are present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population).

Reason for Allowing FDI in Retail Sector

1. Supplements domestic investment.
2. Domestic companies are benefited through FDI, by way of enhanced access to supplementary capital and state-of-the-art technologies;
3. Exposure to global managerial practices and opportunities of integration into global markets.

Until 2011, Indian government refused foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and was a bureaucratic process. Indian Parliament has passed a bill allowing FDI in retail with certain conditions on 07.12.2012.

The Government's assessment was that permitting FDI, up to 51%, in multi-brand retail trading, is likely to facilitate greater FDI inflows into front and back-end infrastructure; result in flow of technologies and efficiencies to usher the potential of agricultural value chain; additional and quality employment; and global best practices. This, in turn, is expected to benefit consumers and farmers in the long run, in terms of better quality and fair price.

Terms and Conditions in allowing FDI

To permit 100% FDI in single brand retail trading subject to the following conditions:

- FDI in single brand retail trading may be permitted up to 100% with Government approval;
- Products to be sold should be of a 'Single Brand' only. It should be sold under the same brand internationally i.e. products should be sold under the same brand in one or more countries other than India.
- 'Single Brand' product-retailing would cover only products which are branded during manufacturing.
- The foreign investor should be the owner of the brand. In respect of proposals involving FDI beyond 51%, 30% sourcing would mandatorily have to be done from Small and Medium Enterprises, village and cottage industries artisans and craftsmen.

Conditions of 30% Sourcing from Small Scale Sector

- The 30% mandatory sourcing condition has been incorporated to encourage local value addition and manufacturing. The increased level of activity, in the front-end, as well as in the back-end, resulting from greater FDI inflows, is expected to create additional employment opportunities for rural and urban youth.
- It is, further, expected to encourage existing traders and retail outlets to upgrade and become more efficient, thereby providing better services to consumers and better remuneration to the producers from whom they source their products.

Global Retailing Scenario

AT Kearney (a globally famous international management consultancy) recognized India as the second most alluring and thriving retail destination of the world, among other thirty growing and emerging markets. At present, other profitable retail destinations of the world are China and Dubai of

Asia. Diverse foreign direct investment in Indian retail is greatly cherished by most of the major and leading retailers of USA and European countries, including Walmart (USA), Tesco (UK), Metro (Germany), and Carrefour (France). Liberalization of trade policy and loosening of barriers and restrictions to the foreign investment in the retail sector of India, have collectively made the FDI in retail sector quite easy and smooth.

Retail has played a major role in improving the productivity of the whole economy at large. The positive impact of organized retailing could be seen in USA, UK, and Mexico and also in China. Retail is the second largest industry in US. It is also one of the largest employment generators. It is also important to understand that Argentina, China, Brazil, Chile, Indonesia, Malaysia, Russia, Singapore and Thailand have allowed 100% FDI in multi brand retail. These countries benefited immensely from it. Also small retailers co-exist. The quality of the services has increased. China permitted FDI in retail in 1992 and has seen huge investment flowing into the sector. It has not affected the small or domestic retail chains on the contrary small retailers have increased since 2004 from 1.9 million to over 2.5 million.

Advantages of allowing FDI in multi brand retailing

Most Countries of the world which embarked on the road to economic development had to depend on foreign capital to some extent. The most important channel through which foreign Capital flows into the Country is FDI.

- FDI in multi-brand retail will give a boost to the organized retail sector, which positively impacts several stakeholders including producers, workers, employees, consumers, the government, and hence, the overall economy in spite of many disadvantages associated with that.
- Allowing FDI in multi – brand retail trade will benefit consumers and farmers, and will also aim at bringing down inflation.
- Farmers, in this case, may be protected from the domination of intermediaries who dominate the interface between the manufacturers or producers and consumers in most cases and major part of the share of profit is eaten by those middlemen causing loss to the farmers.
- Further, consumers will get variety of products at cheaper prices and will have more choice to get international brands at one place.
- Allowing international retailer such as Wal-Mart and Carrefour, which have already set up whole sale operations in the country, to set up multi-brand retail stores will assist in keeping commodity prices under control, will cut waste, as big players will build backend infrastructure.
- Public Distribution System is expected to be improved through allowing FDI in retail trade.
- FDI in retail trade, if permitted, more foreign companies will come here and set up their own infrastructure. Banking Sector will grow consequently as money required to build infrastructure would be provided by banks.
- Lack of infrastructure (e.g., cold storages) in the retailing chain has been one of the big issues for years which have led the process to an incompetent market mechanism. FDI might help India overcome such issues by channelizing the resources in the right manner.
- Permitting FDI in retail trade will open huge job opportunities. Estimate says it will touch not less than 80 lakh Jobs.
- Allowing FDI in multi-brand retail will contribute to foreign currency reserve and narrow the current account deficit as well.
- Further, Competition within the host country sector is a critical driver of improvements in sector performance as a result of FDI. FDI's potential for impact can be greater because of the combination of scale, capital, and global capabilities which allow MNCs to close existing large

Concerns about Opening up Indian Retail to FDI

A number of concerns have been raised about opening up the retail sector for FDI in India.

- The first concern is the potential impact of large foreign firms on employment. Following agriculture, the retail sector is the second largest employer in India. Moreover, the share of retail employment has risen significantly when compared to its share in 1993-1994. There are both male and female workers and is spread in rural and urban areas.
- A second related concern is that opening up FDI may lead to unfair competition and ultimately result in large-scale exit of incumbent domestic retailers, especially the small family-owned business. Given the large unorganized component of the retail sector, this is a major concern.
- A third concern raised by domestic incumbent firms in the organized retail sector is an infant industry argument: that this sector is under-developed and in a nascent stage. In this view, it is important that the domestic retail sector grow and consolidate first, before being exposed to foreign investors. Domestic firms in this sector oppose liberalizing retail to FDI as they view multinational companies as direct competitors.

Foreign Exchange Management Act (FEMA)

FEMA came in to effect from January.1, 2000, by replacing the Foreign Exchange Regulations Act (FERA) of 1973. FERA was an act to regulate certain payments dealing in foreign exchange, securities, the import & export of currency and acquisition of immovable property by foreigners. FEMA extends to the whole of India and also applies to all branches, offices and agencies outside India, owned or controlled by a person resident in India.

Objectives

1. To facilitate external trade and payments.
2. To promote the orderly development and maintenance of foreign exchange market.

The reserve bank of India is assigned an important role in the administration of this Act. This Act empowers the central government to impose restrictions on foreign exchange and foreign security dealings and payments to and receipts from any person outside India.

It imposes restrictions on persons resident in India on acquiring, holding or owning foreign exchange, foreign security, and immovable property abroad and transfer of foreign exchange or foreign security abroad.

The FEMA permits dealings in foreign exchange through authorized persons for current account transaction. However the central government can impose reasonable restrictions in public interest. For a capital account transaction, it needs the permission of RBI.

Multinational Corporations' Role and Recent Trends-Problems and Consequences

The multinational company is a conglomerate organization which carries out multiple and diverse economic activities and it consists of a parent company and a large number of subsidiaries operating in various countries of the world. (Dura, 2007).

MNC may be defined as a company, which operates in a number of countries and has production and service facilities outside the country of its origin. Their activities have both good and bad impacts on the economy. They take decisions on a global basis. They operate in different institutional forms like wholly owned Subsidiaries, joint venture etc. Soon after independence foreign capital began to flow in to India in the form of direct investments. The purpose of the government was to secure advanced, technical and industrial know how.

Features of MNCs

Following are the main features of MNCs:

- **Location** – MNCs have their headquarters in home countries and have their operational division spread across foreign countries to minimize the cost.

- **Capital Assets** – Major portion of the capital assets of the parent company is owned by the citizens of the company's home country.
- **Board of Directors** – Majority of the members of the Board of Directors are citizens of the home country.
- MNCs are large-sized corporation and exercise a great degree of economic dominance.

Merits of MNCs

3. **Economic Development:** -The Developing countries require both foreign capital and technology to take advantage of available resources for their economic and industrial growth. MNCs can supply the required financial, technical and other resources to needy countries in exchange for economic gains.
4. **Technology Gap:** - Technology is necessary to bring down cost of production and produce quality goods on a large scale. The services of MNCs can be of great help to bridge the technological gap between developed and developing countries.
5. **Industrial Growth:** - MNCs assist local producers to enter the global markets through their well established international network of production and marketing. And there by ensure industrial growth.
6. **Marketing Opportunities:** - MNCs have access to many markets in different countries. They have the necessary skills and expertise to market products at international level. For example, an Indian Company can enter into Joint Venture with a foreign company to sell its product in the international market.
7. **Work Culture:** - MNCs introduces a work culture of excellence, professionalism and fairness in deals. The sole objective of Multinational is profit Maximation. To achieve this, the Multinationals use various strategies like product innovation, technology up gradation, professional management etc.
8. **Export Promotion:** - MNCs assist developing countries in earnings foreign exchange. This can be done by promoting and developing export oriented and import substitute industries.
9. **Research and Development:** -The resources and experience of MNCs in the field of research enables the host country to establish efficient research and development system. It is a fact that many MNCs are now shifting their research units to countries like India to avail of monetary incentives and cheap labour.

10. Integration

MNCs provide an efficient means of integrating national economies.

Demerits of MNCs

1. **Problem of Technology:** The capital intensive technologies innovated and developed by MNCs may not fit the developmental need of developing economies.
2. **Political Interference:** The MNCs are often criticised for their interference in the political affairs of developing nations. They exert influence on the decision making process of the governments of developing nations through their financial and other resources.
3. **Self-Interest:** MNCs always give priority for their self-interest rather than considering the development of host country. They are more interested in making profits at any cost, by utilising the abundant resource base of host countries.
4. **Outflow of foreign Exchange:** The running of MNC is a trouble on the inadequate resources of developing countries. They charge high price in the form of commission and royalty paid by local subsidiary to its parent company. This leads to outflow of foreign exchange.
5. **Exploitation:** MNCs, being financially very strong, assume destructive marketing strategies to sell their products, adopt all ways to eradicate competition and build monopoly in the market.

6. **Investment:** Another allegation against MNCs is that they would like to invest either in low risk areas or in high profitability ventures and they avoid issues like social welfare, areas of national priority etc.
7. **Artificial Demand:** - MNCs often create artificial and unwarranted demand by making massive use of the advertising and sales promotion techniques.
8. **Cultural problems:** The MNCs undermine local culture and traditions. The spending pattern of the people may change in accordance with their marketing strategies.

Competition Law

In early nineties, a recognition gathered impetus in India that the existing Monopolistic and Restrictive Trade Practices Act, 1969 (MRTP Act) was not adequate to tackle the competition aspect of the Indian economy. The storm called globalization which blown to India at that time had thrown most of the Indian industries to cut throat competition and extreme rivalry from foreign firms. Hence, need arose with regard to competition laws to shift the focus from curbing monopolies to encouraging companies to invest and grow, thereby promoting competition while preventing any abuse of market power.

Competition: meaning and benefits

Competition is a condition in market, in which sellers autonomously endeavors for buyer's support to achieve business objectives. Competition and liberalization, jointly give a free rein to the entrepreneurial forces in the economy. Competition proffers wide collection of choices to consumers at reasonable prices, fuels innovation and productivity, and leads to the finest allotment of resources.

Abuse of market and need for new law

The enactment of Competition Act, 2002, was to cope up with the global phenomenon and changing realities. The Act is intended to succeed and replace the MRTP Act. This Act is procedure intensive and is configured in an uncomplicated manner that renders it more flexible and fulfillment-oriented.

Objectives

- o To check anti-competitive practices
- o To bar abuse of dominance.
- o To provide for the establishment of CCI, a quasi-judicial body to perform the following functions:
 - Prevent practices having adverse impact on competition
 - Promote and sustain competition in the market
 - Protect consumer interests at large
 - Ensure freedom of trade carried on by other participants in the market
 - Look into matters connected therewith or incidental thereto.

Competition Commission of India (CCI)

The objectives of the Act (Competition Law) are sought to be achieved through the Competition Commission of India (CCI), which has been established by the Central Government with effect from 14th October 2003. CCI consists of a Chairperson and 6 Members appointed by the Central Government. It is the duty of the Commission to eliminate practices having adverse effect on competition, promote and sustain competition, protect the interests of consumers and ensure freedom of trade in the markets of India. The Commission is also required to give opinion on competition issues on a reference received from a statutory authority established under any law and to undertake competition advocacy, create public awareness and impart training on competition issues.

The CCI, through its order dated 20 June 2012, imposed a penalty of approximately six thousand crores (approx. USD 1.1 billion) on cement manufacturers in India after holding them guilty of cartelisation in the cement industry. The penalty has been imposed at the rate of 0.5 times the net profit of such manufactures for the past two years. Such incidents exhibit the ability of CCI to regulate the affairs on competition in the Indian economy.

Review Questions

Short Answer Type:

1. Differentiate between Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI).
2. What are the major drawbacks of Foreign Portfolio Investment (FPI)?
3. Distinguish between Resource seeking FDI and efficiency seeking FDI.
4. Explain the ideas of Export Replacement and Domestic Substitution.
5. What are Brownfield investments?
6. What are the different routes for approving Foreign Direct Investments in India?
7. Name any two sectors in which FDI is prohibited in India.
8. What is FEMA?
9. What are MNCs?
10. What is Competition Commission of India?
11. Write any two disadvantages of a Multi National Corporation?

Essay type:

1. Unlike portfolio investors and foreign lenders, direct investors of foreign land will have a long term interest and perspective in the host country. Review the statement.
2. 'Merger and acquisition is a crucial tool for a firm's internationalization strategy'. Discuss.
3. Write a detailed account assessing the FDI policy of India.
4. Discuss the benefits and consequences of allowing FDI in Indian Retail Sector.
5. 'The Developing countries require both foreign capital and technology to take advantage of available resources for their economic and industrial growth'. Comment.
6. What is the role played by MNCs in today's international business scenario?

MODULE V

Unit 17

WTO

General Agreement on Tariffs and Trade (GATT)

The General Agreement on Tariffs and Trade (GATT), which was signed in 1947, is a multilateral agreement regulating trade among 153 countries. According to its preamble, the purpose of the GATT is the "substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis."

The GATT functioned *de facto* as an organization, conducting eight rounds of talks addressing various trade issues and resolving international trade disputes. Its approach was based on two non-discriminatory principles, the (1) Most favored nation and national treatment, and (2) Reciprocity. It worked to eliminate all non-tariff barriers and import quotas, and advocated use of countervailing duties to fight dumping and to negate the effects of subsidies.

The Uruguay Round, which was completed on December 15, 1993 after seven years of negotiations, resulted in an agreement among 117 countries (including the U.S.) to reduce trade barriers and to create more comprehensive and enforceable world trade rules. The agreement coming out of this round, the Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, was signed in April 1994. The Uruguay Round agreement was approved and implemented by the U.S. Congress in December 1994, and went into effect on January 1, 1995.

This agreement also created the World Trade Organization (WTO), which came into being on January 1, 1995. The WTO implements the agreement, provides a forum for negotiating additional reductions of trade barriers and for settling policy disputes, and enforces trade rules. The WTO launched the ninth round of multilateral trade negotiations under the "Doha Development Agenda" (DDA or Doha Round) in 2001.

World Trade Organization (WTO)

WTO is the only international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters and importers to conduct their business fairly.

Following the Uruguay round agreement, [name of the eighth round of multilateral trade negotiations held under the auspices of GATT (General Agreement on Trade and Tariffs)], GATT was converted from a provisional agreement into a formal international organization called WTO (World Trade Organization) with effect from Jan-1, 1995. WTO is directed by a ministerial conference that will meet at least once every two years and its regular business is overseen by a General Council. Its Secretariat is based in Geneva, Switzerland. The WTO ensures that trade is as fair as possible and as free as practicable by negotiating rules and obeying them.

Functions

1. Administering the WTO trade agreements.
2. Providing the forum for negotiations among its members concerning their multilateral trade relations.
3. Administering the mechanism for settling trade disputes between the member countries.
4. Monitoring national trade policies.
5. Providing technical assistance and training for developing countries.
6. Cooperating with other international organizations like the IMF, IBRD and its affiliated agencies with a view to achieving greater coherence in global economic policy making.

Functions of WTO Ministerial Conference

1. To supervise on a regular basis the operations of the revised agreements and ministerial declarations relating to goods, services and TRIPS.
2. To act as a dispute settlement body.
3. To serve as a trade review mechanism.
4. To establish Goods Council, Service Council, and TRIPS Council, as subsidiary bodies.

Organizational structure of WTO

Decisions in the WTO are made by the entire membership. This is done by consensus. The WTO's top level decision making body is the Ministerial Conference which meets at least once in every two years.

Below this is the General Council (Normally Ambassadors and heads of delegation in Geneva, but sometimes officials sent from member's capitals) which meets several times a year in the Geneva headquarters. It also meets as the Trade Policy Review Body and the Dispute Settlement Body.

At the next level, the Goods Council, Service Council, and the TRIPS council report to the General Council. All WTO members may participate in all Councils except Appellate body, Dispute Settlement Panels, Textiles Monitoring Body and Plurilateral Committees.

WTO And India

The Uruguay round agreements and WTO have come in for scathing criticisms in India. Many politicians and others have argued that India should withdraw from the WTO. Most of the criticisms are baseless or due to lack of knowledge of the international trading environment.

Should India Quit WTO?

Accepting the demand of some of the critics that India should withdraw from the WTO will be a great blunder that the nation can commit. By being a part of WTO, India enjoys the Most Favoured Nation (MTN) status with all the other members of the WTO. Opting out of the system would mean an infinitely laborious task of entering in to bilateral negotiations with each and every one of the trading partners which would amount to having one's arms twisted bilaterally by the US, the EC and Japan. It may be noted at this juncture that China got readmitted to the system after a long wait and lobbying.

One major controversy pertains to the abandonment of agricultural subsidies. Much hue and cry has been raised in India about this. However, it needs to be mentioned that the agreement would not adversely affects India's agricultural subsidies and its agricultural exports.

India's Trade gain

Even if India could gain much benefit in trade with the advent of WTO, it is much less than that of other developing countries likes China, and the newly industrialized economies owing to the following reasons:

- India's share in the world trade is very low.
- The gain will also depend on rate of growth of India's exports.

Compliance measures

India has taken several measures to comply with the TRIPS agreement of WTO. On copyrights and related rights, the Agreement requires compliance with the provisions of Bern convention to which India is a signatory and the new copyright Act of India already meets the requirements of the TRIPS agreement. Similarly, Trade and Merchandise Marks Act of 1958, was replaced by a new Act, namely, the Trade Marks Act, 1999, so as to provide for the protection of service marks also. Along with this, India amended its Geographical Indications of Goods Act, 1999 and Patent Law, in order to comply with the provisions of TRIPS agreement, and to protect its valuable intellectual properties.

An evaluation of WTO

WTO has come to play a very important role in the global and thereby national economies. National economic policies are significantly influenced by the provisions and principles of WTO. Because of this, there are several criticisms against the functioning of WTO, especially in the developing countries. Infact, WTO has both positive and negative impacts.

Benefits of WTO

1. It has made notable attempts in deducing tariff and non-tariff barriers to trade.
2. The liberalization of investments has been fostering the economic growth of a number of countries.
3. The liberalization of trade and investment has been resulting in increase in competition, efficiency of resource utilization, improvement in quality and productivity and fall in prices ultimately.
4. It provides a forum for multilateral trade negotiations and settling of disputes between member nations.
5. It monitors and controls the violation of trade agreements.
6. It undertakes, research activities about global trade and econmy, and disseminates valuable information.

Drawbacks of WTO

1. Negotiations and decision making in the WTO platform is dominated often by developed countries.
2. Many of the liberalization policies are implemented without considering the vulnerability of low income countries.
3. The WTO has not been successful in Imposing there disciplinary practice son developed countries.

Doha Declaration of WTO

The fourth session of the Ministerial Conference of the WTO was held in Doha (Qatar), in November 2011, in which ministers from 142 member countries participated. It attracted a lot of attention because of the differences in the opinion of developing and developed nations. At Doha, the developed countries wanted a new round of multilateral trade negotiations to be launched soon, by including the seven issues proposed in the meeting at Singapore, in 1196 such as, investment, competition policy, trade facilitation etc. But, developing countries, including India, opposed this and argued that the before going for a new round, the present issues on implementation should be resolved. Following this, the Doha round, ended up with a declaration namely Doha Development Agenda for new trade liberalization talks.

Agreements of WTO

Uruguay round is the name by which the eighth round of multilateral trade negotiations held under the auspice of the GATT is popularly known because it was launched in Punta del Este, in Uruguay, a developing country in September 1986. The agreements under WTO can be summarized as follows:

Trade Related Intellectual Property Rights (TRIPS)

One of the most controversial outcomes of the Uruguay Round Conference is the agreement on trade related aspects of intellectual property rights including trade in counterfeit goods.

Intellectual property rights may be defined as information with commercial value. According to WTO, these are the rights given to the persons over the creations of their minds. Such rights include patents, trademarks, copyright, geographic indications, trade secrets or undisclosed information, industrial designs and layout etc.

Objectives of protecting intellectual property rights

1. Encourage and reward creative work.
2. Technological innovation

3. Fair competition
4. Consumer protection.
5. Transfer of technology.
6. Balance of rights and obligations.

Disadvantages

- The developing countries, particularly poor among them are ill equipped for significant Research and development activities. Naturally, if the inventions and technologies developed by developed nations are protected by intellectual property rights, the poor countries will be forced to purchase them by paying huge price
- A strong IPR regime without adequate safeguards to protect the interests of poor countries can be a far reaching impact. Exorbitant price will make essential patented rights beyond the reach of the developing countries.

Benefits

- Stronger IPR protection may encourage investment.
- Countries can protect their indigenous property and traditional knowledge through IPR.

Trade Related Investment Measures (TRIMS)

The TRIMS agreement contains provisions primarily for eliminating the trade-distorting effects of investment measures taken by WTO members. It does not introduce any new obligations, but merely prohibits TRIMS considered inconsistent with the provisions of the 1994 General Agreement on Tariffs and Trade (GATT) for both agricultural and 235 industrial goods. An agreement on TRIMS provides that no contracting party shall apply any TRIM which is inconsistent with the WTO Articles.

Measures deemed inconsistent with the agreement were to be identified (by the countries where they were in effect) within 90 days of 1 January 1995, the day the WTO came into existence. Industrial country members were expected to eliminate these measures within two years, while developing countries were given five years and the least developed countries seven years.

The agreement provides flexibility on these deadlines if a country is experiencing implementation difficulties for development, finance or trade reasons. For example, some developing countries were recently granted an extension through 2003. The agreement does not define TRIMs or provide objective criteria for identifying them, leaving it to members to decide which of their TRIMs are illegal.

General Agreement on Trade in Services (GATS)

The GATS is a multilateral agreement under the WTO that was negotiated in the Uruguay Round and came into effect in 1995. This agreement extent multilateral rules and disciplines to services also, and is regarded as a landmark achievement of the Uruguay Round. In short, this agreement covers four modes of international delivery of services as:

- Cross border supply of services.
- Provision of services through FDI or representative offices.
- Consumption abroad (Tourism)
- Movement of personnel (entry and temporary stay of foreign consultants)

The framework of GATS includes basic obligation of all member countries on international trade in services, including financial services, telecommunications, transport, audiovisual, tourism and professional services, including the movement of workers.

The GATS lays down that increasing participation of developing countries in world trade shall be facilitated through negotiated commitments on access to technology, improvements on access to distribution channels and information networks and the liberalization of market access in sectors and modes of supply of export interest to them.

Unit 18

OTHER INTERNATIONAL FORUMS FOR TRADE FACILITATIONS

There several other international forums for trade facilitations such as:

BRICS

An association of five major emerging economies such as Brazil, Russia, India, China and South Africa is known as BRICS. South Africa came to that association only in 2010, and it was known in the name BRIC till that date. All the five economies are developing or newly industrialized, large, fast growing and have prominent command on the regional and global affairs. All this countries are members in G-20 association too. Since 2010, the BRICS nations have met annually at formal summits. Russia currently holds the chair of the BRICS group, and hosted the group's seventh summit in July 2015.

The BRICS nations together comprises of around 42 % of the world population, as all five members are in the top 25 of the world by population, and four are in the top 10. The five nations have a combined nominal GDP of US\$16.039 trillion, corresponding to roughly 20% of the gross world product, and an approximated US\$4 trillion in combined foreign reserves. This association, so far, has received both appreciation and criticisms from many parts of the world. Bilateral relations among BRICS nations have mainly been conducted on the basis of non-interference, equality, and mutual benefit (win-win). It is estimated that the combined GDP of BRICS would reach US\$50 trillion mark by 2020.

Since 2008, the leaders of Brazil, Russia, India and China — the BRIC countries — have met annually to discuss issues of global significance. At their third summit in China in 2011, the leaders invited South Africa to join, thus becoming the BRICS.

While the concept “BRICS” was first created by Jim O’Neill of Goldman Sachs to refer to the investment opportunities of the rising emerging economies, the leaders’ meetings exceed the financial context to embrace a wide range of summit-level issues relating to global governance, such as development, peace and security, energy and climate change, and social issues.

SAARC

SAARC is the name of the regional cooperation in South Asia. After consultations, the foreign secretaries of the seven founding countries—Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka—met for the first time in Colombo in April 1981. After several months, a meeting of the Committee distinguished five broad areas for regional cooperation. The foreign ministers, at their first meeting in New Delhi in August 1983, adopted the Declaration on South Asian Association for Regional Cooperation (SAARC) and formally launched the Integrated Program of Action (IPA) in the five agreed areas of cooperation: agriculture; rural development; telecommunications; meteorology; and health and population activities. Later, transport; postal services; scientific and technological cooperation; and sports, arts, and culture were added to the IPA. Afghanistan became the newest member of SAARC at the 13th annual summit in 2005. China an

Aims and Objectives of SAARC

The South Asian Association for Regional Cooperation (SAARC) comprising Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka is a forceful institutionalized regional cooperation in South Asia, essentially seen as an economic grouping to work together for accelerating the pace of socio-economic and cultural development. The objectives of the association as defined in the SAARC Charter are:

- To promote and strengthen collective self-reliance among the countries of South Asia. To contribute to develop mutual trust, understanding and appreciation of one another’s problem;
- To promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields;
- To strengthen cooperation with other developing countries;

- To strengthen cooperation among themselves in international forums on matters of common interest; and
- To cooperate with international and regional organizations with similar aims and purposes. Cooperation in the SAARC is based on respect for the principles of sovereign equality, territorial integrity, political independence, noninterference in internal affairs of the member states and mutual benefit. Regional cooperation is seen as a complement to the bilateral and multilateral relations of SAARC members. Decisions are taken on the basis of unanimity. Bilateral and contentious issues are excluded from the deliberations of SAARC.

ASEAN

The Association of Southeast Asian Nations (ASEAN) is a politico-economic organisation in South-East Asia which was set up in 1967.

The Association of Southeast Asian Nations, or ASEAN, was established on 8 August 1967 in Bangkok, Thailand, with the signing of the ASEAN Declaration (Bangkok Declaration) by the Founding Fathers of ASEAN, namely Indonesia, Malaysia, Philippines, Singapore and Thailand.

Brunei Darussalam then joined on 7 January 1984, Viet Nam on 28 July 1995, Lao PDR and Myanmar on 23 July 1997, and Cambodia on 30 April 1999, making up what is today the ten Member States of ASEAN.

Aims and Purposes

As set out in the ASEAN Declaration, the aims and purposes of ASEAN are:

1. To accelerate the economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of Southeast Asian Nations;
2. To promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries of the region and adherence to the principles of the United Nations Charter;
3. To promote active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields;
4. To provide assistance to each other in the form of training and research facilities in the educational, professional, technical and administrative spheres;
5. To collaborate more effectively for the greater utilisation of their agriculture and industries, the expansion of their trade, including the study of the problems of international commodity trade, the improvement of their transportation and communications facilities and the raising of the living standards of their peoples;
6. To promote Southeast Asian studies; and
7. To maintain close and beneficial cooperation with existing international and regional organisations with similar aims and purposes, and explore all avenues for even closer cooperation among themselves.

Fundamental Principles

In their relations with one another, the ASEAN Member States have adopted the following fundamental principles:

1. Mutual respect for the independence, sovereignty, equality, territorial integrity, and national identity of all nations;
2. The right of every State to lead its national existence free from external interference, subversion or coercion;
3. Non-interference in the internal affairs of one another;
4. Settlement of differences or disputes by peaceful manner;
5. Renunciation of the threat or use of force; and
6. Effective cooperation among themselves.

OPEC

The Organization of the Petroleum Exporting Countries (OPEC) is a permanent, intergovernmental Organization, created at the Baghdad Conference on September 10–14, 1960, by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. The five Founding Members were later joined by nine other Members: Qatar (1961); Indonesia (1962) – suspended its membership from January 2009–December 2015; Libya (1962); United Arab Emirates (1967); Algeria (1969); Nigeria (1971); Ecuador (1973) – suspended its membership from December 1992–October 2007; Angola (2007) and Gabon (1975–1994). OPEC had its headquarters in Geneva, Switzerland, in the first five years of its existence. This was moved to Vienna, Austria, on September 1, 1965.

OPEC's objective is to co-ordinate and unify petroleum policies among Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry.

The global economy represented the main risk to the oil market early in the decade, as global macroeconomic uncertainties and heightened risks surrounding the international financial system weighed on economies. Escalating social unrest in many parts of the world affected both supply and demand throughout the first half of the decade, although the market remained relatively balanced. Prices were stable between 2011 and mid-2014, before a combination of speculation and oversupply caused them to fall in 2014. Trade patterns continued to shift, with demand growing further in Asian countries and generally shrinking in the OECD. The world's focus on multilateral environmental matters began to sharpen, with expectations for a new UN-led climate change agreement. OPEC continued to seek stability in the market, and looked to further enhance its dialogue and cooperation with consumers, and non-OPEC producers.

The South Asia Free Trade Agreement (SAFTA)

The South Asia Free Trade Agreement (SAFTA) was agreed to among the seven South Asia countries that form the South Asian Association for Regional Cooperation (SAARC): Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka

SAFTA came into effect on 1 January 2006, with the aim of reducing Tariffs for intraregional trade among the seven SAARC members. Pakistan and India are to complete implementation by 2012, Sri Lanka by 2013 and Bangladesh, Bhutan, Maldives and Nepal by 2015. SAFTA replaces the earlier South Asia Preferential Trade Agreement (SAPTA) and may eventually lead to a full-fledged South Asia Economic Union. The road to implementation, however, is plagued by the overarching conflict between India and Pakistan.

The United Nations Conference on Trade and Development (UNCTAD)

- In the early 1960s, mounting concerns about the place of developing countries in international trade led many of these countries to call for the convening of a full-fledged conference specifically devoted to tackling these problems and identifying appropriate international actions.
- The first United Nations Conference on Trade and Development (UNCTAD) was held in Geneva in 1964.
- Concurrently, the developing countries established the Group of 77 to voice their concerns. (Today, the G77 has 131 members.)
- The well-known Argentinian economist Raúl Prebisch, who had headed the United Nations Economic Commission for Latin America and the Caribbean, became the organization's first Secretary-General.

Key developments in the international context:

- The conclusion of the Uruguay Round of trade negotiations under the GATT resulted in the establishment of the World Trade Organization in 1995, which led to a strengthening of the legal framework governing international trade.

- A spectacular increase in international financial flows led to increasing financial instability and volatility.
- Against this background, UNCTAD's analysis gave early warning concerning the risks and the destructive impact of financial crises on development. Consequently, UNCTAD emphasized the need for a more development-oriented "international financial architecture".
- Foreign direct investment flows became a major component of globalization.
- UNCTAD highlighted the need for a differentiated approach to the problems of developing countries. Its tenth conference, held in Bangkok in February 2000, adopted a political declaration – "The Spirit of Bangkok" – as a strategy to address the development agenda in a globalizing world.
- **In recent years, UNCTAD has**
 - Further focused its analytical research on the linkages between trade, investment, technology and enterprise development.
 - Put forward a "positive agenda" for developing countries in international trade negotiations, designed to assist developing countries in better understanding the complexity of the multilateral trade negotiations and in formulating their positions.
 - Expanded work on international investment issues, following the merger into UNCTAD of the New York-based United Nations Centre on Transnational Corporations in 1993.

The Organisation for Economic Co-operation and Development (OECD)

- The Organisation for Economic Co-operation and Development (OECD) was formally born on 30 September 1961.
- The mission of the Organisation for Economic Co-operation and Development (OECD) is to encourage policies that will advance the economic and social well-being of people around the world. The OECD provides a platform in which governments can work together to share experiences and seek solutions to common problems. They work with governments to understand what drives economic, social and environmental change. They measure productivity and global flows of trade and investment, analyse and compare data to predict future trends and set international standards on a wide range of things, from agriculture and tax to the safety of chemicals.

South Asian Preferential Trade Arrangement (SAPTA)

It is an inter-government group (IGG) formed by South Asian Association for Regional Cooperation (SAARC) members to negotiate matters on tariff reforms.

It was negotiated in the year 1993 by the 7 developing countries that were members of South Asian Association for Regional Cooperation (SAARC). The declared objectives of the SAPTA are:

- To promote and sustain mutual trade, and
- To develop economic co-operation among developing countries.

As a result of the First Round of Negotiations under SAPTA for the exchange of trade concessions among the Member-States, India, being the major participating economy in the region, has given deeper cuts (upto 50%) in the MFN tariff rates on imports of maximum number commodities (106) from the countries in the region, followed by Pakistan 10-20% in 35 commodities, Bangladesh 10% in 12 commodities and Bhutan 15% in 11 commodities.

The completion of Second round of SAPTA Negotiations has resulted in exchange of tariff concessions on 1972 tariff line. Out of this, India has offered concessions on 911 tariff line and received concessions on 456 tariff line at the six digit level. The Third Round of SAPTA Negotiations has also been completed to further deepen and enlarge exchange of tariff concessions and removal of non-tariff barriers.

Unit 19

INTELLECTUAL PROPERTY RIGHTS

Copyright and Related Rights

Copyright protects works like novels, computer programmes, plays, and paintings. Generally, the author of a copyright work has the right to reproduce, publish, perform, communicate and adapt his work. Copyright protects the expression of ideas (e.g. words and illustrations). Ideas alone are not protected.

The following may be protected under copyright law:

- Literary works (e.g., written works, source codes of computer programs)
- Dramatic works (e.g., scripts for films and dramas)
- Musical works (e.g., melodies)
- Artistic works (e.g., paintings, photographs)
- Published editions of the above works
- Sound recordings
- Films
- Television and radio broadcasts
- Cable programmes
- Performances

Trademark

A trade mark is a sign that we can use to distinguish our business' goods or services from those of other traders.

A trade mark can be represented graphically in the form of our company's logo or a signature.

Through a registered trade mark, we can protect our brand (or "mark") by restricting other people from using its name or logo.

Once acquired, a trade mark can last indefinitely as long as we renew it every 10 years. Because a registered trade mark is a form of IP, we can license or assign it to others.

Geographical Indications

A geographical indication (GI) is an indication employed on products that have an exact geographical origin and enjoy qualities or a reputation that are due to that origin. In order to function as a GI, a sign must identify a product as originating in a given place. In addition, the qualities, characteristics or reputation of the product should be essentially due to the place of origin. Since the qualities depend on the geographical place of production, there is a clear link between the product and its original place of production.

Patents

A patent is a right allowed to the owner of a creation that checks others from making, using, importing or selling the creation without his permission.

A patentable discovery can be a product or a process that provides a new technical solution to a problem. It can also be a new method of doing things, the composition of a new product, or a technical improvement on how certain objects work

The benefits of registering a patent

1. To prevent others from exploiting our invention,
2. we can employ it to raise funds for our business,
3. License it to third parties for commercial returns or sell the patented invention.

Industrial Designs

In a legal sense, an industrial design composes the ornamental or artistic aspect of an article. In a number of countries, industrial designs are shielded under patent law as "design patents". In other words, an Industrial design is a process of design applied to products that are to be manufactured through techniques of mass production

Protection of Undisclosed Information

Undisclosed information is also called Trade Secret. The member nations are required to proffer protection for trade secrets. The undisclosed information is deemed as trade secret. It is secret in the logic that it is not normally recognized among or readily available to persons within the circles that normally deal with the kind of information in question; It has commercial value because it is secret; and It has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.

Overview of Laws Related To Intellectual Property Rights In India

The Rules and Laws governing Intellectual Property Rights in India are as follows:

1. The Copyright Act, 1957, The Copyright Rules, 1958 and International Copyright Order, 1999
2. The Patents Act, 1970, The Patents Rules, 2003, The Intellectual Property Appellate Board (Patents Procedure) Rules, 2010 and The Patents (Appeals and Applications to the Intellectual Property Appellate Board) Rules, 2011
3. The Trade Marks Act, 1999, The Trade Marks Rules, 2002, The Trade Marks (Applications and Appeals to the Intellectual Property Appellate Board) Rules, 2003 and The Intellectual Property Appellate Board (Procedure) Rules, 2003
4. The Geographical Indications of Goods (Registration and Protection) Act, 1999 and The Geographical Indications of Goods (Registration and Protection) Rules, 2002
5. The Designs Act, 2000 and The Designs Rules, 2001
6. The Semiconductors Integrated Circuits Layout-Design Act, 2000 and The Semiconductors Integrated Circuits Layout-Design Rules, 2001
7. The Protection of Plant varieties and Farmers' Rights Act, 2001 and The Protection of Plant varieties and Farmers Rights' Rules, 2003
8. The Biological Diversity Act, 2002 and The Biological Diversity Rules, 2004
9. Intellectual Property Rights (Imported Goods) Rules, 2007

Barriers to Trade

One of the most important features of the international trading environment is the proliferation of the trade barriers. The main aim behind the imposition of the trade barriers are the protection of the domestic industries from foreign competition, promoting indigenous research and development, to conserve the foreign exchange resources of the country, to make the balance of payment positions favourable, to curb conspicuous consumption, to mobilize revenue for the government and to discriminate against certain countries. Broadly there are two types of trade barriers.

A) Tariffs

It refers to the duties or taxes imposed on internationally traded goods when they cross the national borders. With the recent economic liberalization, many countries have reduced their tariff barriers substantially. India had one of the highest tariff walls in the world. The government following the recommendations of the Chelliah Committee reduced the tariffs from its peak level of 300 percent in 1991 to 50 percent in 1995. Further import duties on capital goods, project imports, basic feed stocks etc were brought down.

B) Non tariff barriers

The export growth of many developing countries has been seriously affected by this kinds of newly originated tarred barriers.

Types of Non Tariff Barriers (NTBs)

There are two categories of NTBs. The first category includes those which are generally used by developing countries to prevent foreign exchange outflows or results from their chosen strategy of economic development.

The second category of NTBs is used mostly by developing countries to protect domestic industries which have lost international competitiveness. The NTBs which have significant restrictive effect are defined as hard core NTBs. A brief account of significant NTBs is given below:

1. Quotas

There are import quotas and export quotas. A quota from the export of a product from a country may be imposed if the government feels that exports in excess of that will affect the interests of the domestic consumers. The aim of import quota is to restrict the quantity of imports. The quantitative restrictions may be to protect the interests of the domestic producers or to conserve foreign exchange resources. Important types of import quotas are:

- **Tariff quota**

Under this quota regime, the imports of a commodity up to a specified volume are duty free, and beyond the limit, it is subject to taxation.

- **Unilateral quota**

Here, a country unilaterally fixes a ceiling on the quantity of a particular commodity that can be imported.

- **Bilateral quota**

This quota emerges as a result of the negotiations between the importing and exporting countries.

- **Mixing quota**

Here the producers of a good are obliged to use the domestically amassed raw materials for the production, up to a certain proportion.

2. Licensing

Quota regulations are generally administered by way of licensing. Under the import licensing system, the prospective importers are obliged to obtain a license from the licensing authorities. The possession of an import license is necessary to obtain foreign exchange for the imports.

3. Voluntary export restraints.

These are bilateral arrangements for restraining the rapid growth of export of specific manufactured goods.

Under this, the exporting country voluntarily restrains the export of the specified products in order to either help the other country to reduce its trade deficit or to protect domestic industry.

4. Administered protection

Administered protection encompasses temporary restrictions against surges threatening the viability of domestic industries, under WTO article 19. For instance, the health and product standards obliged by developed countries obstruct the exports of developing countries because of the added cost of technical requirements.

Similarly, difficult custom procedures of some countries can also act as trade barriers. Consular formalities become an export barrier when some countries insist on certain consular formalities like certification of export documents by the respective consulate, of the importing country, in the exporting nation.

Environmental protection laws of certain countries can also hinder the international business practices of some businesses.

Unit 20

FOREIGN TRADE POLICY OF INDIA (2015-2020)

The Foreign Trade Policy lays down the ground rules and also modifies them for carrying out the country's exports and imports. Apart from prescribing general provisions relating to imports and exports, it also provides special focus initiatives, duty exemption and remission schemes and promotional measures to help exporters compete in the global marketplace.

There is not much difference between Foreign Trade Policy and EXIM Policy. They are basically two names for the same policy. It was in 2004 that Commerce and Industry Minister Kamal Nath decided it would be more appropriate to call the policy the foreign trade policy. He argued that it was necessary for the policy to go beyond exports and imports and have an integrated approach to the developmental requirements of India's foreign trade.

Highlights of Foreign trade policy of India

1. Merchandise Exports from India Scheme (MEIS):

(a) Earlier there were 5 different schemes (Focus Product Scheme, Market Linked Focus Product Scheme, Focus Market Scheme, Agri. Infrastructure Incentive Scrip, VKGUY) for rewarding merchandise exports with different kinds of duty scrips with varying conditions (sector specific or actual user only) attached to their use. Now all these schemes have been merged into a single scheme, namely Merchandise Export from India Scheme (MEIS) and there would be no conditionality attached to the scrips is s used under the scheme.

- Rewards for export of notified goods to notified markets under 'Merchandise Exports from India Scheme (MEIS) shall be payable as percentage of realized FOB value (in free foreign exchange).

• Service Exports from India Scheme (SEIS):

- a) Served From India Scheme (SFIS) has been replaced with Service Exports from India Scheme (SEIS). SEIS shall apply to 'Service Providers located in India' instead of 'Indian Service Providers'. Thus SEIS provides for rewards to all Service providers of notified services, who are providing services from India, regardless of the constitution or profile of the service provider.

2. Incentives (MEIS & SEIS) to be available for SEZs:

It is now proposed to extend Incentives (MEIS & SEIS) to units located in SEZs also.

3. Duty credit scrips to be freely transferable and usable for payment of custom duty, excise duty and service tax:

- All scrips issued under MEIS and SEIS and the goods imported against these scrips would be fully transferable.
- Scrips issued under Exports from India Schemes can be used for the following:-
- Payment of customs duty for import of inputs / goods.
- Payment of excise duty on domestic procurement of inputs or goods.
- Payment of service tax on procurement of services.

4. Status Holders:

Business leaders who have excelled in international trade and have successfully contributed to country's foreign trade are proposed to be recognized as Status Holders and given special treatment and privileges to facilitate their trade transactions, in order to reduce their transaction costs and time.

5. Boost to Make in India initiative.

1. Reduced Export Obligation (EO) for domestic procurement under EPCG scheme: Specific Export Obligation under EPCG scheme, in case capital goods are procured from indigenous manufacturers, which is currently 90% of the normal export obligation (6 times at the duty saved amount) has been reduced to 75%, in order to promote domestic capital goods manufacturing industry.

2. Higher level of rewards under MEIS for export items with high domestic content and value addition.

It is proposed to give higher level of rewards to products with high domestic content and value addition, as compared to products with high import content and less value addition.

3. Online filing of documents/ applications and Paperless trade in 24x7 environment:

(a) DGFT already provides facility of Online filing of various applications under FTP by the exporters/ importers. However, certain documents like Certificates issued by Chartered Accountants/ Company Secretary / Cost Accountant etc. have to be filed in physical forms only. In order to move further towards paperless processing of reward schemes, it has been decided to develop an online procedure to upload digitally signed documents by Chartered Accountant / Company Secretary / Cost Accountant. In the new system, it will be possible to upload online documents like annexure attached to ANF 3B, ANF 3C and ANF 3D, which are at present signed by these signatories and submitted physically.

(b) Henceforth, hardcopies of applications and specified documents would not be required to be submitted to RA, saving paper as well as cost and time for the exporters. To start with, applications under Chapter 3 & 4 of FTP are being covered (which account for nearly 70% of total applications in DGFT). Applications 8 under Chapter-5 would be taken up in the next phase. (c) As a measure of ease of doing business, landing documents of export consignment as proofs for notified market can be digitally uploaded in the following manner:-

(i) Any exporter may upload the scanned copy of Bill of Entry under his digital signature.

(ii) Status holders falling in the category of Three Star, Four Star or Five Star Export House may upload scanned copies of documents.

4. Online inter-ministerial consultations:

It is proposed to have online inter -ministerial consultations for approval of export of SCOMET items, Norms fixation, Import Authorizations, Export Authorization, in a phased manner, with the objective to reduce time for approval. As a result, there would not be any need to submit hard copies of documents for these purposes by the exporters.

5. Simplification of procedures/processes, digitisation and e-governance:

(a) Under EPCG scheme, obtaining and submitting a certificate from an independent Chartered Engineer, confirming the use of spares, tools, refractory and catalysts imported for final redemption of EPCG authorizations has been dispensed with.

(b) At present, the EPCG Authorisation holders are required to maintain records for 3 years after redemption of Authorisations. Now the EPCG Authorization Holders shall be required to maintain records for a period of two years only. Government's endeavour is to gradually phase out this requirement as the relevant records such as Shipping Bills, e- BRC are likely to be available in electronic mode which can be archived and retrieved whenever required.

(c) Exporter Importer Profile: Facility has been created to upload documents in Exporter/Importer Profile. There will be no need to submit copies of permanent records/ documents (e.g. IEC, Manufacturing license, RCMC, PAN etc.) repeatedly with each application, once uploaded.

(d) Communication with Exporters/Importers: Certain information, like mobile number, e-mail address etc. has been added as mandatory fields, in IEC data base. This information once provided by exporters,

Review Questions

Short Answer Type:

1. Differentiate between GATT and WTO?
2. Explain the TRIMS agreement of WTO?
3. Describe the terminology of BRICS.
4. What are the objectives of OPEC?
5. What is the speciality of Doha Declaration of WTO?
6. What are the different types of non-tariff barriers?
7. Differentiate between Quota and Licensing.
8. What are Geographical Indications'?
9. What was the intention behind the formation of UNCTAD?
10. What do you mean by intellectual property rights?

Essay type:

1. Explain the arguments for and against India's membership in WTO.
2. 'One of the most controversial outcomes of the Uruguay Round Conference is the agreement on trade related aspects of intellectual property rights including trade in counterfeit goods'. Elucidate.
3. Discuss the role played by BRICS association in today's world economy.
4. What are trade barriers? How can they exert influence on international business?
5. Describe the provisions of the recent foreign trade policy of India.

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UNIVERSITY OF CALICUT
Master of Commerce (CSS)
Semester I- SYLLABUS
MC1C1: BUSINESS ENVIRONMENT

80 Hours

Marks: 80

Objectives:

- To familiarise students with the concepts of macro-economic in which a Business organization operates.
- To give an idea about the policies of the government and assess their impact on business.

Module I: Business Environment: Components and significance – Scope –political, Economic, Social, Technological, Legal, Cultural and Labour Environment – Trade Unions – Quality Circles – External Factors Influencing Business Environment – Dimensions of International Business Environment – Challenges.

15 hours

Module II: Structure of Indian Economy: Economic Systems – Economic Planning – Planning Commission and NITI Ayog – Public Sector – Changing Role – Relevance – Public Sector Reforms – Public Private Participation – Privatization and Disinvestments – Fiscal Policy – Monetary Policy – Structure of Union and State Budgets – Sources of Revenue – Management of Public Debt.

20 hours

Module III: Profile of Indian Economy: New Economic and Industrial Policy – Economic Reforms – Land Reforms – Liberalization – Problems of Growth – Unemployment – Poverty – Regional Imbalances – SEZ – Social Injustices – Inflation – Black Money – Lack of Technical Knowledge and Information – Globalization Various Aspects – Consequences

15 hours

Module IV: Foreign Direct Investment and Institutional Investment: Forms – Policy - FDI in Retail Trade – Problems and Consequences – FEMA – Multinational Corporations Role and Recent Trends – Problems and Consequences – Competition Law.

10 hours

Module V: International Agreements – An Overview: WTO – WTO and India – Trade Related Intellectual Property Rights (TRIPS) – Trade related Investment Measures (TRIMS) – General Agreement on Trade in Services (GATS) – BRICS – GAAT – SAARC – ASEAN – OPEC – Intellectual Property Rights – Barriers to Trade – Recent Foreign trade policy.

20 hours

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1st SEMESTER M.COM DEGREE EXAMINATION

MODEL QUESTION PAPER (CUCSS)

MC IC 01 Paper 1.1 Business environment

Time: 3 hours

maximum: 80 marks

PART – A

Answer all questions. Each question carries 2 Marks

1. What is meant by SEZ?
2. Define quality circle?
3. What do you mean by FEMA?
4. Write a note on TRIMS?
5. What do you mean by Black Money?

(5 X 2 – 10 Marks)

PART – B

Answer any five questions. Each question carries 8 Marks

6. Explain the structure and functions of WTO?
7. What are the arguments in favor of PPP?
8. What are the differences between planning commission and NITI Ayog?
9. Explain the features of MNC?
10. Write a short note on FDI in retail trade?
11. Write a short note on fiscal & monetary policy?
12. What do you mean by investment climate? How does it influence the working of private sector in India?
13. Write a short note on: - BRICS, SAARC.

(5X 8 – 40 Marks)

PART – C

Answer any two questions. Each question carries 15 marks

14. Explain various types of unemployment in India. Discuss the causes and consequences of unemployment.
15. Explain the features of new economic & industrial policy?
16. What do you mean by regional imbalances? How it can be rectified?

(2X 15 – 30 Marks)

