Param Pujya Dr. Babasaheb Ambedkar Smarak Samiti's
Dr. Ambedkar Institute of Management Studies & Research
Deeksha Bhoomi, Nagpur - 440010 (Maharashtra State) INDIA
NAAC Accredited with 'A' Grade
Tel: +91 712 6521204, 6521203 ,6501379
Email: info@daimsr.in

Economic Environment of Business

Unit I

Programme Educational Objectives

Our program will create graduates who:

1. *Will be recognized as a creative and an enterprising team leader.*
2. *Will be a flexible, adaptable and an ethical individual.*
3. *Will have a holistic approach to problem solving in the dynamic business environment.*

Course Objectives Of Economic Environment of Business

- **CO1-** Student will be able to **analyze** internal/external (micro & macro) environment for a firm.
- **CO2-** Student will be able to **assess** competitive structure of an industry.
- **CO3-** Student will be able to **discuss** & **evaluate** budgetary provisions in union budget.

Course Objectives Of EEB

- **CO4-** Student will be able to **determine** & **evaluate** technological "S" curve for product modification and determine the level of maturity of industry.
- **CO5-** Student will be able to **evaluate** the impact of currency devaluation on CAD.
- **CO6-** Student will be able to **Discuss** technological dynamics, in business environment.

Unit I: Glimpse of Business environment

A - Types of Environment; Internal, External, Micro & Macro Environment. Competitive Structure of Industries; Competitor and Environmental analysis; Nature and Structure of Indian Economy; Economic Conditions; Economic Planning; Five year plans in India, Economic reforms in India;

Lecture-1:Types of Environment Internal, External, Micro & Macro Environment

- On the basis of extent of intimacy with the firm, the environment factors many be classified in to different types.
- The **Internal** (Controllable) environment i.e. factors internal to the firm fro e.g. personnel, physical facilities, organization and functional means, such as marketing mix.
- The **External** (Uncontrollable) environment such as economic factors, socio-cultural etc.
- Some of the external factors have direct impact on the firm like, suppliers & distributors of the firm, such factors are classifies as **micro** environment also termed as operating environment.
- Likewise other external factors which affect an industry such as industrial policy, demographic factors they constitute what is called **macro** environment.

Internal/External/Micro/Macro Environment

Internal Environment

- Value system
- Vision Mission & Objectives
- Management Structure & Nature
- Human resources
- Company Image & Brand Equity
- Other miscellaneous Factors for e.g. physical assets & production capacity, R&D, financial policies, Marketing resources.

External Environment: (Micro & Macro)

Micro (Which includes)

- Suppliers
- Customers
- Competitors
- Financers

Macro (Which Includes)

- Economic
- Political & Regulatory
- Demographic
- Socio/cultural
- Technological
- Global Environment

Lecture-2 : Competitive Structure of Industries

- Competitive structure of industries is a very important business environment.
- Identification of forces affecting the competitive dynamics of an industry will be very useful in formulating strategies.
- According to Michael Porter a well known model of structural analysis of industries, the state of competition depends on five basic competitive forces, viz.,

a) Rivalry among existing firms.
b) Threat of new entrants
c) Threat of substitutes
d) Bargaining power of suppliers
e) Bargaining power of buyers.

How one can identify

Nothing but Description of the current state of a product's market indicating.

(1) number of **competitors**

(2) relative strength of each competitor,

(3) level of demand and supply, and

(4) ease of entry into the market.

What is competitive structure of Industry

Where the number and size distribution of competitors in an **industry**.

Some **industries**, such as the restaurants

Retailing **industries**,

In this sector contain many firms or competitors.

Other **industries** contain relatively few competitors.

What is a competitive industry?

A large number of firms and very low barriers to entry mean that firms in highly **competitive industries** face relentless **competition**.

So many firms exist in the **industry** that no mutual interdependence exists between firms. ...

They fight tooth and nail to gain advantages over other small **competitors**.

What are the components of industry Structure?

Competitors: ADVERTISEMENTS: ...

Potential competitors: Potential competitors who might have an interest in entering an industry. ...

Economies of scale: ...

Distribution channels: ...

Product differentiation: ...

Substitute products: ...

Customer power: ...

Supplier power:

What is the most competitive market structure?

The correct sequence of the market structure from most to least competitive is

perfect competition,

imperfect competition,

oligopoly, and

pure **monopoly**.

Lecture-3 : Competitor & Environmental analysis

Competitor analysis

- It is essential for formulating right strategies and determining the right positioning for the firm in the industry.
- Competitor analysis always seek to find answers to certain basic questions like

1. Who are the competitors of the firm?
2. What are their future goals & strategies?
3. What drives the competitor?

- Competitors analysis consists of four components

1. Future goals
2. Current strategy
3. Assumptions
4. Capabilities

Example: CEO of HUL revealed the intention to raise the company's contribution to the Unilever's global turnover from 5-10 percent within a decade

Environmental analysis

- An analysis of SWOT i.e. strength &weakness of company and the opportunities and threats in the environment.
- SWOT plays an important role in business policy or strategic management.
- Formulation of Mission & objectives is the first step in this process.
- Strategic management has come to assume great importance as a result of the liberalization.
- Liberalization substantially expanding the scope of private enterprise and removing the entry and growth restrictions.

Example: Japanese companies saw an opportunity in the US market segments for compact fuel efficient cars, which were rather neglected by the American firms, as Japanese marketing these products in the home market they were comfortable with these product.

Lecture-4: Nature & structure of Indian Economy (Nature)

- The general level of development of the economy has lot of implications for business.
- It has significant bearing on the nature and size demand, government policies affecting business.
- Different countries, and even different regions within country, show great differences in the level and pattern of economic development.
- Commonly used method of classification of the economies is based on per capita income. Based on this assumption countries are classified as Low income, High income, & Middle income Economies.
- Falling in between low & High income economy are the middle income economies, which is further subdivided as Lower middle income and upper middle income.
- Low income is just an indication of deprivation people in developing countries. Low income prevents access to even basic necessities, not only better and modern amenities.
- In developing economy inequality of income is very high as a result

Nature & Structure of Indian Economy (Structure)

- In most of countries unlike India the service sector is the largest and fastest growing sector. The service sector now contributes nearly 70% for the world GDP.
- Factors such as contribution of different sectors, [like Primary (Agri), Secondary (Indus), tertiary (medium, small &tiny)] are important to business because these factors indicate the prospects for different types of business.
- As the economy develops the share of primary sector in GDP & employment declines and those of other sectors increase, after certain stage share of manufacturing sector may also decline.
- The developed economies are primarily service economies, in the sense the service sector generates bulk of employment its contribution to GDP is substantially high.
- Although India is on e of the largest producer of several agricultural products, because of small and fragmented nature of land holdings, efficient collection and processing of the produce become difficult.

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- The land holding pattern also makes productivity improvements difficult.
- It also has implications for the agricultural inputs business.
- Tremendous growth of trade in services and electronic commerce, is a part of new trade pattern. Exports of commercial services have been growing on every continent (particularly Asia) throughout 1990’s and thereafter.
- This change has its own significance as series are frequently used in the production of goods and even other services.
- Enhanced international competition in services means reduction in price and improvement in quality will enhance competitiveness of downstream industries.
- Both industrial and developing economies have much to gain by opening their markets.
- Developing countries would derive large gains from an easing of barriers to agricultural products and to labour intensive construciton

contd

- Although the share of services in the GDP of developing economies is lower than in the developed ones, the services sector has been growing very fast in the developing world.
- The share of services in the GDP of India increased from 39 percent during 1980 to 54 percent in 2005.

Indian Economy at Present

Currently **India** is considered as one of the most developing **economy** of the world because of its **nature.**

Part of agriculture in total GDP is decreasing.

Part of service sector is increasing or the contribution of tertiary sector is increasing in the GDP on year to year basis.

What is nature of Indian economy?

India's large public sectors were responsible for rendering the country a 'mixed **economy**' feature.

Indian economy is basically based in the contribution of service sector (currently provides 60% share of GDP) and near about 53% of its population is dependent on the Agriculture.

What are the basic characteristics of Indian economy?

Low per capita income: ...
Excessive dependence of agriculture and primary producing: ...
High rate of population growth: ...
Existence of chronic unemployment and under-employment: ...
Poor rate of capital formation:
Inequality in distribution of wealth.
Low level of Technology
Under utilization of natural resources.
Lack of infrastructure.
Low level of living
Pure quality of human capital
Demographic Characteristics
Inadequate of development of Economic organizations.

What is the structure of the economy?

Economic structure is a term that describes the changing balance of output, trade, incomes and employment drawn from different economic sectors – ranging from **primary** (farming, fishing, mining etc) to **secondary** (manufacturing and construction industries) to **tertiary** and **quaternary** sectors (tourism, banking, software.

What is meant by Indian Economy

The **economy** of **India** is a developing mixed **economy**.

It is the world's sixth-largest **economy** by nominal GDP and the third-largest by purchasing power parity (PPP).

What is the main source of economy in India?

It is the service sector **which is the main source** of national **income**.

Therefore service sector contribute more than 50% of the **GDP**.

But it is the agricultural sector which employs more than 50% of the population. In that sense, more number of people in **India** are supported by agriculture.

Why is India called a mixed economy?

Indian **economy** is **called a mixed** economy because it is neither completely socialist nor capitalist .

In **India** private & public sector both operate in the market.

Unlike USA which has no public sector and Cuba which has no private sector.

Though privatisation in most sectors started only after 1991 it has provided a major much needed boost to the **economy**.

Public sector started as the dominant form of providing goods and services to Indian consumers sometimes even through rationing but now it competes in many sectors with private entities.

Public sectors like BHEL Durg, and Raurkela (CG), Airports Authority of India (A. A. I.) Limited., Bank of India (B. O. I), Bharat Sanchar Nigam Limited (B. S. N. L.), Coal India Limited (C. I. L.), Indian Oil Corporation Limited., Oil and Natural Gas Corporation (O. N. G. C.)., State Bank of India (S. B. I.).,

Contribution of Indian Public Sector in the Government of India

The public sector of the country has got a significant contribution to the development of Indian economy.

Being a powerful instrument of economic growth, this sector has got the following contributions towards the growth of this nation's economy:

Balancing Regional Development: Public sector has even reached those regions of India that lacked the primary civic as well as industrial facilities like water supply, electricity, manpower, township etc.

For example, the steel plants of Durgapur, Bhilai and Rourkela have contributed towards the growth of these regions.

Contribution towards Public Exchequer: According to the Indian Chamber of Commerce, the sector is responsible for more than 20 % of tax collections (Both direct taxes and indirect taxes).

Thus, in turn, this sector mobilizes financial funds for the requirement of the nation's planned development.

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<u>Employment</u>: Millions of employment opportunities were being created by this public sector that minimized the problem of unemployment in the nation.

Apart from ensuring job security to many people by taking over numerous sick units, this sector accounts for approximately two third of the country's total employment.

<u>Filling the space in Capital Goods</u>: During independence, there was a notable gap in India's industrial structure in terms of steel, oil refining, fertilizers, chemicals and many more, which was filled up by the rapid industrialization in the country.

<u>Foreign Earnings and Export Promotion</u>: Over the years, the earnings from the foreign exchange have increased remarkably.

Apart from that, public owned companies like State Trading Corporation (S. T. C.), Hindustan Steel Limited, Bharat Electronics Limited (B. E. L.), Minerals and Metals Trading Corporation (M. M. T. C.) etc. have worked well for the promotion of export in India.

Import Substitution: Public sector companies like Oil and Natural Gas Commission (O. N. G. C.), Bharat Electronics Limited (B. E. L.), Indian Oil Corporation Limited etc. were started solely for the production of goods, which earlier needed to be imported from foreign countries that involved huge expenses.

Enhanced Research and Development: Since majority of the public sector enterprises are involved in heavy industrial as well as high technological work, which necessitate the undertaking of programs related to research and development, the public sector in India has enhanced the quality and amount of research and development.

Besides the ones mentioned above, this sector has successfully achieved the following constitutional goals:

Forming a socialistic society

Increasing control over India's economy

Limitation of financial power in the hands of private sector

Private Sector

Private sector has boosted the Indian economy and this capitalist approach has worked much better.

Since its inception it has led the way in innovation, which can be especially seen in IT sector ,Banking and this has led to service sector experiencing a boom and now service sector contributes to 50% of our GDP.

This private ownership has led to India having one of the highest small business ownership as well as becoming a start-up hub or silicon valley of the east.

This approach has worked and Indian economy is on its way to 3rd largest economy by 2025.

How is GDP calculated in India?

The **GDP Calculation** Process.

The following equation is used to calculate the GDP:

GDP = C + I + G + (X – M) or GDP = private **consumption** + gross investment + government investment + government spending + (exports – imports). Nominal value changes due to shifts in quantity and price.

The most common approach to **measuring GDP** is the expenditure method: **GDP** = consumption + investment (government spending) + (exports - imports).

Summary Economic Planning

- India being an Agriculture country
- Plans for agriculture sector have a no of implications for industrial and commercial sectors.
- For example: Plans to boost Agricultural production may increase the demand for agricultural machinery like pump, inputs like fertilizers, pesticides, and better seed.
- Cement and Steel
- (To build irrigation systems)
- The increase agricultural income in turn would increase the demand for the output of the consumer goods industries. And other industries and services.

Planning Commission

- Planning commission was set in March 1950
- By Resolution of Government of India.
- Planning commission role is assessment of material capital human resource of country
- It was found all above resources were less than the National requirement so Planning is essential.
- Planning commission formulate plan for most effective balance utilization of countries resources.
- NDC, Working under Planning commission.
- NDC members are PM, Cm of states, UT, Members of planning commissions.
- Secretary of Planning commission is the secretary of NDC
- Functions of NDC are
- Prescribe guidelines for formulation of plan
- Consider national plan as formulated by planning commission
- Consider imp question of social and economical policy affecting national development.
- NITI Aayog

NITI Aayog

From last sixty ears or so 5 year plans were formulated by planning commission in India.

With effect from Jan 2015 Planning commission was replaced by NITI Aayog (National Institution for Transforming India).

Major Functions: NITI Aayog

- To evolve a shared vision of national development priorities sectors and strategies with the active involvement of states in the light of national objectives.
- To develop mechanism to formulate credible plans at the village level and aggregate these progressively at higher levels of government.
- To pay special attention to the sections of our society that may be at risk of not national security are incorporated in economic strategy and policy.
- To focus on technology upgradation and capacity building for implementation of programmes and initiatives.
- To offer a platform for resolution of inter-sectorial and inter-departmental issues in order to accelerate the implementation of the development agenda.

Lecture -5 : Economic Conditions & Economic Planning

- General economic conditions affect business.
- Economies pass through periods of boom and recession. A boom is characterized by high level of output, employment and rising demand and prices. A recession has the opposite of these.
- If the region depends to a significant extent on any particular industry or sector, business in that region would be significantly affected by fortunes of that industry.
- The economic conditions of a region may be linked to the prices of major crops of the region. for e.g. because of fall in prices coconut farmers of Kerala were estimated to have lost about rs. 10,000 crores between 1997-2000. this situation has very adversely affected the general economic and business conditions in the state.
- The current account and BOP positions of a country can significantly influence certain economic policies and business environment, for e.g. a sustain current account surplus may encourage the government to liberalize imports and capital movements

Economic Planning

- Economic Planning is the making of major economic decisions. What and how is to be produced and to whom it is to be allocated by the conscious decision of a determinate authority, on the basis of a comprehensive survey of the economic system as a whole.
- In an economy like India, the basis socioeconomic problems like poverty, unemployment, stagnation in agricultural and industrial production and inequality in the distribution of income and wealth can hardly be solved within the framework of an unplanned economy planning is required to remove these basic conditions.

We can identify the following characteristic features of economic planning:

Fixation of definite socio-economic targets;

Prudent efforts to achieve these targets within a given time period;

Existence of a central planning authority;

Complete knowledge about the economic resources of the country;

Efficient utilization of limited resources to get maximum output and welfare.

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- The Planning Commission of India is of the opinion that, “Planning is essentially a way of organizing and utilizing resources to get maximum advantage in terms of defined social ends.
- The two main-constituents of the concept of planning are:
- (a) a system of ends to be pursued, and
- (b) knowledge of available resources and their optimum allocation to achieve these ends. The availability of resources conditions the ends to be effectively achieved.”
- India is regarded as a good example of a mixed economy. Under the Directive Principles of the Indian Constitution, it has been laid down that the State should strive “to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of national life.”

Lecture-6: Five years plans in India

- **First Five-Year Plan (1951–1956)**
- The first Indian Prime Minister, Jawaharalal Nehru presented the first five-year plan to the Parliament of India on December 8, The plan addressed, mainly, the agrarian sector, including investments in dams and irrigation. The agricultural sector was hit hardest by the partition of India and needed urgent attention.
- **Second Five-Year Plan (1956–1961)**
- The second five-year plan focused on industry, especially heavy industry . Unlike the First plan, which focused mainly on agriculture, domestic production of industrial products was encouraged in the Second plan, particularly in the development of the public sector.
- **Third Five-Year Plan (1961–1966)**
- The third plan stressed on **agriculture** and improvement in the production of wheat, but the brief Sino-Indian War of 1962 exposed weaknesses in the economy and shifted the focus towards the [Defence industry]. In 1965–1966, India fought a [Indo-Pak] War with Pakistan. Due to this there was a severe drought in 1965. The war led to inflation and the priority was shifted to Price stabilization.
- **Fourth Five-Year Plan (1969–1974)**
- At this time Indira Gandhi was the Prime Minister. The Indira Gandhi government nationalized 14 major Indian banks and the Green Revolution in India advanced agriculture. In addition, the situation in East Pakistan (now Bangaladesh) was becoming dire as the Indo-Pakistani War of 1971 and Bangaladesh Liberation War took Funds earmarked for the industrial development had to be diverted for the war effort.

Plan Objectives, development priorities and situational emphasis

Plan -1 development priorities was Agriculture.

Plan-2 development priorities shifted from agriculture to basic and heavy industries.

Plan-3 It recognizes the importance of Export promotion

Plan-4 It emphasized on self reliance as objective of development.

Plan-5 Growth and social justice added emphasis in this plan. Eradication of poverty.

Plan-6 A significant step-up in rate of growth of economy, strengthen the public policies and services if favour of poor.

Plan-7 Focus of plan on food, work and productivity.

Plan-8 This plan was indicative in nature. Greater emphasis on private initiatives in industrial developments. (This plan recognize "Human development" as the core of all developmental effort.) (HDI)

continue

The priority sectors that were identified to contribute towards realization of this goal were, health, literacy and basic needs, including drinking water, housing and welfare programmes for the weaker sections.

Plan-9 Focus was on growth with social justice and equality. Gave priority to agriculture and rural development. With a view to generating adequate employment and eradication of poverty.

Plan-10 Emphasized the need to incorporate the quality parameter of development objective.

Economic growth cannot be the only objective for national planning and indeed over the years.

Development objectives were being defined not just in terms of GDP or per capita income but more broader in terms of enhancement of human well-being.

It also includes the expansions of economic and social opportunities for all individuals and groups and greater participation in decision-making.

Continue

The Tenth plan therefore sought to set suitable targets in these areas to ensure significant progress towards improvement in the quality of life of all people.

Plan-11 Faster and more Inclusive growth rightly acknowledges that faster growth and target specific programmes aimed at eradication of poverty and improvement of certain deficiency are needed to achieve fast reduction in poverty.

Lecture-7: Five years plans in India

- **Fifth Five-Year Plan (1974–1979)**
- Stress was by laid on employment, poverty improvement, and justice. The plan also focused on self-reliance in agricultural production and defence. In 1978 the newly elected Morarji Desai government rejected the plan. Electricity Supply Act was enacted in 1975, which enabled the Central Government to enter into power generation and transmission.
- **Sixth Five-Year Plan (1980–1985)**
- The sixth plan also marked the beginning of economic liberalization, price controls were eliminated and ration shops were closed. This led to an increase in food prices and an increase in the cost of living. This was the end of Nehruvian Plan and Rajiv Gandhi was prime minister during this period. Family planning was also expanded in order to prevent overpopulation. In contrast to China's strict and binding one-child policy, Indian policy did not rely on the threat of force. More prosperous areas of India adopted family planning more rapidly than less prosperous areas, which continued to have a high birth rate.
- **Seventh Five-Year Plan (1985–1990)**
- The Seventh Plan marked the comeback of the Congress party to power. The plan laid stress on improving the productivity level of industries by upgrading of technology. The main objectives of the 7th five-year plans were to establish growth in areas of increasing economic productivity, production of food grains, and generating employment.

Lecture-8: Five years plans in India

- **Eighth Five-Year Plan (1992–1997)**
- 1989–91 was a period of economic instability in India and hence no five-year plan was implemented. Between 1990 and 1992, there were only Annual Plans. In 1991, India faced a crisis in Foreign Exchange (Forex) reserves, left with reserves of only about US$1 billion. Thus, under pressure, the country took the risk of reforming the socialist economy. P.V. Narasimha Rao was the twelfth Prime Minister of the Republic of India and head of Congress party, and led one of the most important administrations in India's modern history overseeing a major economic transformation and several incidents affecting national security.
- **Ninth Five-Year Plan (1997–2002)**
- Ninth Five Year Plan India runs through the period from 1997 to 2002 with the main aim of attaining objectives like speedy industrialization, human development, full-scale employment, poverty reduction, and self-reliance on domestic resources.

The main objectives of the Ninth Five Year Plan of India are:

To prioritize agricultural sector and emphasize on the rural development

To generate adequate employment opportunities and promote poverty reduction

To stabilize the prices in order to accelerate the growth rate of the economy

To ensure food and nutritional security.

To provide for the basic infrastructural facilities like education for all, safe drinking water, primary health care, transport, energy

To check the growing population increase

To encourage social issues like women empowerment, conservation of certain benefits for the Special Groups of the society

To create a liberal market for increase in private investments

Lecture-8: Five years plans in India (Continue)

- **Tenth Five-Year Plan (2002–2007)**

Attain 8% GDP growth per year.

Reduction of poverty ratio by 5 percentage points by 2007.

Providing gainful and high-quality employment at least to the addition to the labour force.

Reduction in gender gaps in literacy and wage rates by at least 50% by 2007.

20 point program was introduced.

- **Eleventh Five-Year Plan (2007–2012)**
- The eleventh plan has the following objectives:
- Income & Poverty : Accelerate GDP growth from 8% to 10% and then maintain at 10% in the 12th Plan in order to double per capita income by 2016–17. Reduce educated unemployment to below 5%.
- Education : 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%
- Health : Reduce infant mortality rate to 28 and maternal mortality ratio to 1 per 1000 live births
- Infrastructure : Ensure electricity connection to all villages and BPL households by 2009 and round-the-clock power.
- Environment : Increase forest and tree cover by 5 percentage points. Attain WHO standards of air quality in all major cities by 2011–12.

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Twelfth (12th) Five Year Plan: The broad vision and aspiration from 12th plan

Faster, Sustainable, and more Inclusive Growth.

Multidimensional objectives were almost 25 monitorable targets but most imp in all this is GDP Growth.

Other targets cover the many features of development which measure inclusiveness and sustainability.

Individually states have also been encouraged to set state-specific targets in the same areas.

continue

Core indicators that are listed below reflect the vision of rapid, sustainable and more inclusive growth :

Economic Growth :

1) Real GDP Growth Rate of 8 %
2) Agriculture Growth Rate of 4 %
3) Mfg Growth Rate of 10 %
4) Every State must have an average growth rate in the Twelfth Plan preferable higher than that achieved in the Eleventh Plan.

continue

Poverty & Employment:

1) Head-count ratio of consumption poverty to be reduced by 10 % points over the preceding estimates by the end of 12^{th} Five year Plan.
2) Generate 50 million new work opportunities in the non-farm sector and provide skill certification to equivalent numbers during the 12^{th} Five year plan.

Education:

1) Mean years of schooling to increase to seven years by the end of 12^{th} Five year plan.
2) Enhance access to higher education by cereating two million additional seats for each age to the skill needs of the economy.
3) Eliminate gender and social gaps in school enrolment

continue

Health:

1) Reduce IMR to 25 and MMR (Vaccine) to 1 per 1000 live births, and improve child sex ration (0-6 years) to 950 by the end of 12^{th} Plan.
2) Reduce total fertility rate to 2.1 by the end of 12^{th} Plan.
3) Reduce under nutrition among children aged 0-3 years.

Infrastructure, Including Rural Infrastructure:

1) Increase investment in infrastructure as a percentage of GDP to 9 % be the end of 12^{th} Plan.
2) Provide electricity to all villages
3) Increase Gross irrigated area from 90 million to 103 million.
4) Connect all villages to all weather roads
5) Upgrade national and stare Highways
6) Increase rural tele density
7) Ensure 50 % rural population has access to 40 lpcd piped drinking water supply

continue

Environment and sustainability:

1) Increase green cover by 1 million hectare every year during the 12th Plan,.
2) Add 30,000 MW renewable energy capacity in the 12th Plan.
3) Reduce emission intensity of GDP in line with the target of 20 % to 25 % reduction over 2005 levels by 2020.

Service Delivery:

1) Provide access to banking services to 90 % Indian households by the end of 12th Plan.
2) Major subsidies and welfare related beneficiary payments to be shifted to a direct cash transfer be the end of 12th Plan. Using Aadhar Platform with linked bank accounts.

Lecture – 9 Industrial Policy Resolution 1948

➢**The industrial policy was designed to achieve the following objectives**

▪To establish a social order were in justice and equality of opportunity shall be secured to all the people.

▪To promote standard of living of people by exploiting resources.

▪To increase both agricultural & industrial production.

▪To offer employment opportunities to all.

➢Industries were classified into four broad categories.

▪State monopolies.

▪Basic and key industries to be undertaken in future only by the state.

▪Private industries to be regulated by the state and.

▪Fully private enterprises.

➢The Main thrust of the policy was to lay the foundation of a mixed economy in which both private and public enterprises would work together to accelerate Industrial development in the company.

Lecture – 10 : The New Industrial Policy 1991

- The new Industrial policy announced on July 24, 1991, Which heralded the economic reforms in India, has enormously expanded the scope of the private sector by opening up most of the industries for the private sector and substantially dismantling the entry and growth restrictions.
- The objectives of the new policy are as follows :
- To build on the gains already made.
- To correct the distortions or weakness that may have crept in.
- To maintain a sustained growth in productivity and gainful employment.
- To attain international competitiveness.
- **Redefinition of role of Public Sector.**
- The role of the public sector was redefined and the scope of the public sector has been drastically abbreviated.
- The number of industries reserved for he public sector was reduced to eight and it was later pruned, in stages, to two. (Atomic energy and railway transport)
- The policy also seeks selective privatization and withdrawal of the public sector from industries which do not confirm to its redefined role .
- Expansion of the scope of private sector and Dismantling of entry and growth restrictions.

Lecture – 10 : The New Industrial Policy (Continue)

- **Delicensing:** All but 18 industries were freed from licensing. Which was later reduced to 6 (six). The industries subject to industrial licensing account for only a very small share of the value added in the manufacturing sector.
- **Removal of MRTPA Restrictions:** Most of the provisions of MRTP act pertaining to concentration of economic power (i.e., those requiring prior permission for establishment of new undertaking, substantial expansion, manufacture of new items and mergers and acquisitions) were scrapped.
- **Liberalization of Foreign Investment:** The policy towards foreign capital and technology has been modified very significantly and progressively liberalized. FDI is allowed in all industries, except industries falling in a small and negative list, in varying levels, ranging from 26% to 100% of the total equity.
- Since, 1992-93, the Indian stock market is open for investment by Foreign institutional Investors (FIIs) and Indian companies satisfying certain conditions may access foreign capital market Euro issues.
- **Related Measures :** Progressive integration of the Indian economy with the global economy has been acknowledge as one of the objectives of the Exim Policy. The import policy has been made more liberal by drastically reducing the tariff levels and quantitative restrictions and procedural reforms.
- Price controls have been gradually eased out.

Lecture- 11-12 Economic Reforms in India

- The economy of India is one of the fastest growing economies in the world. Since its independence in the year 1947, a number of economic policies have been taken which have led to the gradual economic development of the country.
- **Economic reforms during the post independence period** :
- The post independence period of India was marked by economic policies which tried to make the country self sufficient.
- Under the economic reform, stress was given more to development of defense, infrastructure and agricultural sectors.
- Government companies were set up and investment was done more on the public sector.
- This was made to make the base of the country stronger. To strengthen the infrastructure, new roads, rail lines, bridges, dams and lots more were constructed.
- During the Five Years Plans initiated in the 1950s, the economic reforms of India somewhat followed the democratic socialist principle with more emphasis on the growth of the public and rural sector.
- Most of the policies were meant towards the increase of exports compared to imports, central planning, business regulation and also intervention of the state in the finance and labor markets.

What is Economic Reforms

"**Economic reform**" usually refers to deregulation, or at times to reduction in the size of government, to remove distortions caused by regulations or the presence of government, rather than new or increased regulations or government programs to reduce distortions caused by market failure.

Economic Reforms during 1960s and 1980s

- During the mid 1960's effort was made to make India self sufficient and also increase the production and export of the food grains. To make the plan a success, huge scale agricultural development was undertaken.
- The government initiated the 'Green Revolution' movement and stressed on better agricultural yield through the use of fertilizers, improved seed and lots more. New irrigation projects were undertaken and the rural banks were also set up to provide financial support to the farmers.
- The first step towards liberalization of the economy was taken up by Rajiv Gandhi. After he became the Prime Minister, a number of restrictions on various sectors were eased, control on pricing was removed, and stress was given on increased growth rate and so on.
- **Economic Reforms during 1990s to the present times**
- Due to the fall of the Soviet Union and the problems in balance of payment accounts, the country faced economic crisis and the IMF asked for the bailout loan.
- To get out of the situation, the then Finance Minister, Manmohan Singh initiated the economic liberation reform in the year 1991. This is considered to be one of the milestones in India economic reform as it changed the market and financial scenario of the country.
- Under the liberalization program, foreign direct investment was encouraged, public monopolies were stopped, and service and tertiary sectors were developed.
- Since the initiation of the liberalization plan in the 1990s, the economic reforms have put emphasis on the open market economic policies.
- Foreign investments have come in various sectors and there has been a good growth in the standard of living, per capital income and Gross Domestic Product.

Areas of Economic reforms

The *principal areas in which reforms were initiated in India* are listed below:

Financial Sector *Reforms*;

Fiscal *Reforms*;

Trade *Reforms*.

These are discussed as follows: 1. Financial Sector *Reforms*: Financial sector *reforms* in *India were initiated* in the early 1990s based on the recommendations of Mr. M.N. Narasimham.

What is economic development & economic Growth?

Economic development can be **defined** as efforts that seek to improve the **economic** well-being and quality of life for a community by creating and/or retaining jobs and supporting or growing incomes and the tax base.

Economic Growth: An increase in the amount of goods and services produced per head of the population over a period of time. OR

Economic growth is how much more the economy produces than it did in the prior period. To be accurate, the comparison must remove the effects of inflation.

GDP is the best way to measure economic growth.

Sector wise contribution in India’s economy :

- **TELECOM :** Indian telecom industry underwent a high pace of market liberalization and growth since 1990s and now has become the world's most competitive and one of the fastest growing telecom markets.
- The Industry has grown over twenty times in just ten years, from under 37 million subscribers in the year 2001 to over 846 million subscribers in the year 2011.
- India has the world’s second-largest mobile phone user base with over 929.37 million users as of May 2012 It has the world’s third-largest Internet user-base with over 137 million as of June 2012.
- **BANKING :** The Banking sector in India has always been one of the most preferred avenues of employment. In the current decade, this has emerged as a resurgent sector in the Indian economy.
- Today, banks have diversified their activities and are getting into new products and services that include opportunities in credit cards, consumer finance, wealth management, life and general insurance, investment banking, mutual funds, pension fund regulation, stock broking services, custodian services, private equity, etc. Further, most of the leading Indian banks are going global, setting up offices in foreign countries, by themselves or through their subsidiaries.

Sector wise contribution in India's economy : continue

- **INSURANCE :** Indian insurance sector has remained on rails even in the toughest of the times, thanks to the Insurance Regulatory and Development Authority (IRDA)'s tough and conservative apparatus.
- Keeping pace with international happenings, Indian insurance industry has remained in a good health and maintained absolute transparency and highest standards of corporate governance.
- **FMCG :** The Indian FMCG sector is the fourth largest in the Indian economy and has a market size of $13.1 billion. This industry primarily includes the production, distribution and marketing of consumer packaged goods, that is those categories of products which are consumed at regular intervals.
- The sector is growing at rapid pace with well-established distribution networks and intense competition between the organized and unorganized segments. It has a strong and competitive MNC presence across the entire value chain.
- **Indian FMCG Sector -** Fast Moving Consumer Goods (FMCG) goods are popularly named as **consumer packaged goods**. Items in this category include all consumables (other than groceries/pulses) people buy at regular intervals.
- The most common in the list are toilet soaps, detergents, shampoos, toothpaste, shaving products, shoe polish, packaged foodstuff, and household accessories and extends to certain electronic goods. These items are meant for daily of frequent consumption and have a high return.

FMCG Industry in India- Challenges

- Amidst all the promises spurred by the impressive estimated growth of the industry by the year 2015, there are still mountains to climb and challenges to combat.
- The non agricultural income of the rural population is on rise and as such they are in a position to spend more on the luxury goods.
- However, navigating the entire terrain of geographical complexities, that India has, is a herculean task in itself.
- As a result there are no supermarkets in the remote villages of the country, which is hurting the interests of the industry in a major way.
- Therefore the problem poor network distribution should be seriously looked into which again involves a whole range of concerns like distribution costs, pricing etc.

UNIT-2: Economic environment of Business

Concept of GDP; Overview of Union Budget, Budgetary Provisions and Fiscal deficit. Global Recession; Overview of Public, Private, Joint Venture and Cooperative Sectors with special reference to PPPs; Concept of Privatization, Disinvestment and Divestment; Industrial Sickness; Industrial Development Strategy; Consumer Rights, Consumerism and Overview of Consumer Protection Act and Trade Marks Act – 1999.

Overview of Union Budget

- Will discuss after the announcement Annual of Budget

Budgetary Provisions

Fiscal Deficit

- In order to understand the real meaning of Global Recession one must understand first the real Conceptual meaning of the following.

1) **Prosperity**
2) **Recession,**
3) **Depression &**
4) **Stagflation and its importance in business .**

History behind :To understand the conceptual meaning of these terms

- A capitalist economy passes through periods of prosperity and recession. The 1920's were the years of great prosperity for Americans.
- After World War I The production of cars, telephones and aeroplanes increased rapidly.
- Houses & apartments were built on a large scale
- All of a sudden without warning in October 1929, came an unpresented stock market crash.
- In the four succeeding years, there was a worst contraction in recorded history.
- In 1933 real GDP had fallen by 30 %, prices were down by25% & unemployment rate was as high as 30 %.
- In the West European economies the situation was not very much different.

Contd:

- Over the past two and half decades Americans have experienced two severe recessions. The worst of these occurred in 1982.
- The so-called "miracle" economies of Asia Viz; South Korea, Thailand, Indonesia & Malaysia were in the grip of recession during the latter half of the 1990's .
- There was a deep economic crisis in Japan.
- It seems that USA and Western Europe are finding it difficult to recover from economic melt-down.

Prosperity

- In view business, the prosperity phase of business cycle is ideal. In this phase the economy expands in response to growing aggregate demand and business firms have many options.
- Expectations of rising profits induce firms to expand the scope of their business.
- New products are introduced in this period and markets are created for these products.
- In Prosperity phase rapidly rising incomes of the people allow them to increase their consumption substantially and whichever firms can take advantage of this situation by taking appropriate policy decisions will register rapid growth.
- Lack of caution in this regards during prosperity phase may lead to losses when the economy takes a downturn.
- In the period of economic meltdown no strategic management can save an over expanded firm from its destiny.

contd

- During the prosperity phase itself certain forces activated which ultimately lead to recession.
- The most important of these factors is narrowing down of the profit margins due to a gradual increase in costs relative to prices.
- Business executives of modern firms often attempt to tackle this situation through aggressive marketing.
- They expect that the extensive advertising will allow them to raise prices of their products while costs are rising.
- This may happen some time, but ultimately at high prices demand will fall and the recession will set in.

Recession

- Forces of contraction get strengthened during recession. The recession usually gets reflected in the form of stock market crash and some fall in prices. The aggregate demand gradually declines and thus incentive for investment is killed.
- Sharp enterpruners observing consequential recession abandon new projects, resulting in sharp reduction in demand for capital equipment.
- The demand for consumption goods falls with a lag because people try to stick to their consumption which they had achieved in the expansion phase.
- Senior managers of the corporate enterprise like Nestle India, Hindustan Lever and Colgate-Palmolive India have greater chances of survival during this recessionary periods.
- These firms produce variety of consumer goods for which there is substantial demand in India.
- During the recession when demand diminishes these firms can easily modify their products to suit the shrinking budget of the people. Other firms which cannot show a similar dynamism may suffer losses.

Types of Recession

A recession is defined as a period of negative economic growth. However, there can be different causes and types of economic contraction. Different types of recession will influence the length, depth and effects of the recession.

These are some of the different types of recessions.

- **1. Boom and bust recession**
- Many recessions occur after a previous economic boom. In the economic boom, economic growth is well above the long run trend rate of growth; this rapid growth causes inflation and a current account deficit and the growth tends to be unsustainable.
- When government / Central Bank see inflation is getting out of control, they respond by implementing tight monetary policy (higher interest rates) and tight fiscal policy (higher taxes and lower government spending)
- In addition, an economic boom is often unsustainable, e.g. firms may be able to temporarily produce more through paying workers to do overtime, but this might not last.

Examples of boom and bust recession

- 1973 recession in UK – following Barber boom of 1972. (Though 1973 recession was also caused by oil price shock)

1990-92 recession – following Lawson boom of late 1980s. In late 1980s, UK growth increased to over 5% (annual), causing inflation to rise to double figures. In response, interest rates were increased, house prices fell and consumer confidence collapsed leading to recession of 1991-92.

2. Balance sheet recession

- A balance sheet recession occurs when banks and firms see a large decline in their balance sheets due to falling asset prices and bad loans. Because of large losses, they need to restrict bank lending – leading to a fall in investment spending and economic growth.

Example

2008-09 recession. In 2008, bank losses led to a fall in bank liquidity and banks found themselves short of cash. This led to a fall in bank lending and it was difficult to get funds for investment. Combined with collapse in confidence, the economy went into recession – despite interest rates being cut to zero.

3. Supply side shock recession

- A very rapid rise in oil prices could cause a recession due to the decline in living standards. In 1973, the world was highly dependent on oil. The tripling in the oil price caused a sharp fall in disposable income and also caused lost output due to lack of oil.

4. Demand side shock recession

An unexpected event that causes a sharp fall in aggregate demand. For example, the short lived recession of 2001 (GDP fell only 0.3%) was partly caused by fall in consumer confidence as a result of 9/11 terrorist attacks (and also end of dot com bubble).

Different shaped recessions

W shaped recession – refers to a double dip recession, where economy goes into recession shortly after recovering from first

V shaped recession – refers to a quick recovery after initial recession

L shaped recession – refers to a period of stagnant recovery after initial fall in GDP. Even though technically the economy may have positive growth (e.g. 0.5%) it still feels like a recession because growth is very slow and unemployment high.

Causes for recession

Economic recessions are caused by a loss of business and/or consumer confidence.

Depression

- Following recent recession some economies have moved into a period of sustained recovery. In cases when recessions persisted over a long period, economies got pushed into depression.
- Depression is characterized by low economic activity, a notable fall in production and employment, decline in general price level, deterioration in business prospects and continuous erosion in the profits of producers and traders.
- During the depression phase there is atmosphere of pessimism. These are the conditions in which certain firms suffer heavy losses and finding uncertain situation, these firms are not very hopeful of earning profits.
- These firms are reluctant to make investment. Deteriorating business prospects and leave behind the investment activity further deepens the crisis.
- However, sooner or later there is recovery in aggregate demand and with it depression comes to an end.

Stagflation

- Stagflation if relatively a phenomenon. It is characterized by inadequate growth, inflation and unemployment.
- Stagflation has been a common phenomenon in many Latin American countries (Brazil, Mexico, Chile, Argentina, Colombia, Peru, more) but did not exit in the developed countries before the 1970's.
- In India there have been just two periods when inflation was accompanied by little growth. In these period unemployment was also quite large.
- Stagflation results from wrong policies of government. When some governemnt atempts to aciveve a high rate of economic growth by resorting to inflationary policy, the result may be encouraging in the short-period but in the long-run such such as economy plunges into stagflation.
- During stagflation individual firms can do little to expand teh market for their products as most buyers attempt to defer purchases of all the goods other than necessities.
- Stagflation can, however, be corrected by implementing caetain effective measures.

Overview of Public sector wrt PPPs

Policy on the public sector has been guided by the Industrial Policy Resolutions 1956 & 1991 which gave the public sector a strategic role in the economy.

The Objective of accelerating the pace of economic development and the political ideology which agave the public sector a dominant role in the industrial development of the nation led to rapid growth of the state owned enterprises (SOE'S) sector in India.

At the time of India's independence in 1947, there were various problems confronting the country which needed to be tackled in a planned and systematic manner.

India is basically a agrarian economy with a weak industrial base, low level of savings and investment and near absence of infrastructural facilities.

Objectives

To help in the rapid economic growth and industrialization of the country and create the necessary infrastructure for economic development.

To earn return on investment and thus generate resources for development.

To promote redistribution of income and wealth.

To create employment opportunities.

To promote balanced regional development.

To assist the development of small-scale and ancillary industries.

To promote import substitution, save and earn foreign exchange for the economy.

Growth and Performance of Public sector

The industrial policy resolution 1956 enlarged the role of the public sector. It stated as under

"The adoption of the socialist pattern of society as a national objective as well as the need for planned and rapid development require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector."

Other industries which are essential and require investment on a scale which only the State, in present circumstances, could provide, have also to be in the public sector.

The state has therefore , to assume direct responsibility for the future development of industries over a wide area."

Schedule A to the resolution enumerated to 17 industries, the future development of which would be the exclusive right of the state.

Schedule B to the Industrial Policy Resolution/ 1956, contained a list of 12 industries which would be progressively state-owned and in which the state would, therefore, generally take the initiative in the established units.

Growth of Public Sector Enterprises

During 1st Plan (1-4-1951) Investment in Public Sector (Rs.29Cr) & Total no of Enterprises were (5).

During 6th Plan (1-4-1980) Investment in Public Sector (Rs.18,225 Cr) & Total no of Enterprises were (186).

During 11th Plan (1-4-2007) Investment in Public Sector (Rs.421,089 Cr) & Total no of Enterprises were (244).

A large number of PSE’s including several monopolies, have made huge losses. Despite the huge losses incurred by a number of enterprises, the PSE’S as a whole could make profits mainly because of the enormous profits made by several public sector monopolies.

The New Public Sector Policy

According to the industrial policy announced on 24/07/1991, the following have ben set as the priority areas for the growth of public enterprises.

Essential infrastructure goods and services.

Exploration and exploitation of oil and mineral resources.

Technology development and building of manufacturing capabilities in areas which are crucial in the long term development of the economy where private sector investment is inadequate.

Manufacture of products where strategic considerations predominate such as defence equipment.

Accordingly the no of industries reserved for the public sector was reduced to 8 which includes Arms & ammunition, Atomic energy, Coal & Ignite, Manganese ore, Mineral oils, Mining of iron, Zinc, chrome, Sulphur & Railway transport.

Further only two sectors Atomic energy, & Railways

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The new industrial policy also indicated that the public sector would withdraw from the following cases:

1. Industries based on low technology
2. Small-scale and non-strategic areas
3. Inefficient and unproductive areas
4. Areas with low or zero social responsibility or public purpose
5. Areas where private sector has developed sufficient enterprise and resources.

The main elements of current Government policy towards Public Sector undertakings are:

1. Brining down government equity in all non-strategic PSU’s to 265 percent or lower, if necessary
2. Restructure and revive potentially viable PSU’s
3. Close down PSU’s which cannot be revived
4. Fully protect the interest of workers.

Public Sector Rathnas

Government in July 1997 unfolded its strategy to grant autonomy to some PSU's on an experimental basis.

The objective of the new approach was to select some vanguard PSU's to support them in their drive to become global giants. The Government after a detailed and in-depth inter-ministerial discussions selected nine PSU's for making them truly world class entities and it euphemistically named these as ***NAVRATNAS***.

Few of them are BHEL, BPCL, HPCL, IOC, ONGC, SAIL, VSNL, GAIL, MTNL & HAL

Pricing policy in Public Enterprises

The public sector pricing policy is an issue that has been widely debated.

Should the Public Sector Undertakings earn profit? If they should earn profit, what should be the level of the Profits?

What are the areas where there are good prospects for making profits, Should they exploit the market to the maximum or should there be a limit to profit rates?

Should all the undertakings be run on commercial lines, or its it sufficient if the public sector as a whole makes Profits?

If the PSU are not required to make a profit, what should be the pricing policy?

- ***Should it be marginal cost pricing, average cost pricing, or no-profit, no loss pricing?***

What should be the factors that should determine the choice of any of the above policies?

These are the basic issues in Public sector pricing.

An understanding of the important theories of public sector pricing would make some of these issues more clear.

Pricing policy of the Public enterprises, should be such as to promote the growth of national income and the rate of this growth.

Public enterprises must make profits, and the larger the share of public enterprises in all enterprises, the greater is the need for their making profits.

Profits constitute the surplus available for savings and investments on the one hand and contribution to national social welfare programmes on the other.

If Public enterprises do not make profits, the national surplus available for stepping up the rate of investment and the increase of social welfare will suffer a corresponding reduction.

- ***Hence the need for giving up the irrational belief that Public enterprise should, by definition, be run on a "no-profit basis."***

Indian Public Sector & Profit Objective

Plan documents and statements from people like Prime Minister that the Public sector in India is expected to augment (increase or boost) resource availability for national development by making profits.

For making profits the Public Sector was advocated for mainly three reasons.

1. To gain control of commanding heights of the economy.
2. To promote critical development in terms of social gain or strategic value rather than primarily on consideration of profit.
3. To provide commercial surpluses with which to finance further economic development.

Thus making profits to make resources available for investment has been certainly an important objective of the Indian Public sector.

“A 12 percent return on investment in the public sector was generally regarded as reasonable.”

Lets test the Facts?

The Industrial Policy Resolution, 1956 states: " It is to be expected that public enterprises will augment the revenues of the state and provide resources for further development in the fresh fields."

Five Year Plan document pointed out that the public sector should make a significant contribution to the pool of investible funds by generating commercial surpluses. (Lets have a quick look at 4th ,5th , & 6th Plan)

The fourth plan which suggest that the government had accepted in the principle the recommendation of the committee on the working of State Electricity Boards (Venkatraman Committee) that the rate of return on capital employed should be raised to 11 percent per annum on the basis of a phased programme.

The Plan document further suggested as " Efforts should be directed to raise the rate of returns on capital employed to 15 percent by industrial and commercial undertakings other than the public utilities".

The Fifth plan also emphasize the need to ensure a reasonable return on public sector investments by improving their operational efficiency.

The draft from Five Year Plan, 1978-83, suggested that the Central government’s non-departmental undertakings should aim at earning a return on investment of 10 percent per annum.

The Sixth Plan also suggested “ Almost all the Central and State enterprises would need to adopt appropriate pricing policies in order to achieve an adequate rate of return on capital employed.

A substantial revision of tariffs, Freight rates & prices had been undertaken

The additional receipts have largely been absorbed by escalation of working expenses due to revision of emoluments to their employees, rise in inputs costs etc. Therefore it is essential to ensure that the additional resources generated by these enterprises during the Sixth Plan Period by way of revision of prices, tariffs.

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According to Industrial Policy Resolution, 1956, it was expected that the development of the industries outside the Schedules A & B would be undertaken ordinarily through the initiative and enterprise of the private sector, though it was open to the state to start any industry even in this category.

It was the policy of the state to encourage the development of these industries in the private sector, in accordance with the programmes formulated in the successive Five years plan, by ensuring the development of transport, power and other services, and by appropriate fiscal other measures.

The private sector enterprises that already existed in the industries included in the schedule A have been allowed to develop further.

The Industrial Policy Resolution, 1956, made it clear that, “Industrial undertakings in the private sector have necessarily to fit into the framework of the social and economic policy of the state and will be subject to control and regulation in terms of the Industries. (Development & Regulation Act)

contd

The areas where the private sector has been allowed, its operations and development have been regulated by the government in the public interest.

The large industrial houses of foreign concerns, particularly, had been subject to a number of checks and controls, Their role had been confined to certain important areas like heavy investment sector, the core sector, the export sector and backward areas development.

The Government policy was to prefer small and new enterpruners to a large industrial houses in the private sector.

The private sector has been dominant in most of the consumer goods industries. It plays an important role in a number of capital goods industries, too. In a number of important industries, it functions side by side with the Public sector.

Joint venture (Sector)

The term Joint sector refers to the enterprise owned and managed jointly by the private sector and the government / public sector undertaking.

The Dutt Committee (Industrial Licensing policy Inquiry Committee) has defined the concept of the joint sector in the following terms.

“ The joint sector would, in our view, include units in which both public and private investments have taken place and where the state takes and active part in direction and control.”

- **Joint sector** industries are owned **jointly** by the government and private individuals who have contributed to the capital.
- In **joint sector**, both public **sector** and private **sector** join hands to establish new enterprise. It combines the merits of both public and private sector.
- The concept of joint sector matches with the concept of mixed economy.
- As mixed economy is a combination of both capitalism and socialism, joint sector is a combination of both public sector & private sector.

Formation of Joint Sector Enterprises

Joint sector enterprises may be brought into being by any one of the following ways.

1. The Central Government and private entrepreneurs may jointly set up new enterprises. Sometimes, the Central Government and one or more State Governments together may set up enterprises in partnership with the private sector. (It may be pointed out that the public may also hold shares in joint sector enterprises).
2. State Governments or their industrial development corporations may set up new companies jointly with private partners, involving equity participation by both the partners.
3. Public financial institutions may, through equity participation or conversion of loans or debentures into equity, transform enterprisers promoted by private entrepreneurs into joint sector companies.
4. The existing private enterprises may be transformed into joint sector enterprises by the government or government companies acquiring a part of the equity or converting debt into equity or by contributing to an increase in the share capital.

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5. The existing public sector companies may be transformed into joint sector enterprises through the sale of some equity shares to private entrepreneurs or the general public. The disinvestment policy of the Government has been resulting in the transformation of several PSE’s to joint sector enterprises.

- Industrial investment corporations and industrial development corporations in a number of states have actively promoted joint sector enterprises. In a number of these cases, 26 percent of the equity is held by the SIIC/SIDC, 25 percent by the private promoters and 49 percent of the shares are offered to the public.

Rationale of Joint Sector

The Joint sector conceived as a marriage between the managerial expertise of the private sector and the financial resources and social orientation of the public sector. " In a sense, joint sector enterprises represent an application of the concept of mixed economy at the micro level".

- Objectives and advantages of the joint sector are:

- **Curbing (Cutting) concentration of Economic Power:** The Dutt committee advocated the joint sector, viewing it as an important means of curbing the increasing concentration of economic power. The committee even regarded as joint sector as possibly more effective than licensing in achieving this objective.
- **Social Control of Industry:** Government participation in equity and management is expected to give a social orientation to the enterprise. The joint sector would ensure that the management of industry is conducted according to the overall policies laid down by the government, and that public interest and not merely private profit would guide the operations of enterprises.

The concept of joint sector has thus the potential, if properly used, to get the best advantages out of the mixed economy which has been accepted in our country as a matter of state policy.

Acceleration of Economic Development: The Joint sector, by mobilizing and augmenting the productive resources, can accelerate the pace of economic development.

The resources of the private sector in savings, investments and entrepreneurship can be tie together in the joint sector with active stare help to supplement the efforts made by the state in the public sector without the private profit motive being allowed to vitiate the efforts.

Promotion of Mixed Economy: It is also expected that the joint sector will promote the mixed economy and help achieve development objectives.

The basic justification of the idea of mixed economy is to harness all the productive forces of society, state as well as private, to the task of economic development with a view to accelerating the process.

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By allowing the private sector to play its part in the process, the state is able to develop entrepreneurship outside the government, and enlist it to supplement its entrepreneurial role.

Broadcasting of Entrepreneurship : Another advantage of the joint sector is that it helps broad base entrepreneurship by encouraging new and small entrepreneurs.

Other listed advantages are :

- Large Financial resources
- Limited Liabilities
- Professional management
- Large scale production
- Research & development

Demerits of Joint Sector

Corruption

Quality of services

Evaluation

Wealth creation

Monopoly

Drawbacks of Public sector

Limitations of Private Sector

Concept of Privatization (The Privatization Reaction)

Privatization is an expected historical reaction to the indiscriminate (Unselective) expansion of the State sector and the associated problems.

Even in the “Communist” Countries (for e.g. China, Cuba, Laos, North Korea, and Vietnam.) privatization became a vital measure of economic rejuvenation (Transformation)

It may be noted here that as a result of privatisation the number of people owing shares in Britain almost tripled from 7 to 20 percent of the adult population between 1978-89.

In 1988 Britain experienced a symbolic crossover for the first time in history more British citizens were holders of shares than were members of unions.

As the proportion of shareholders in the total population increases and as the economic lot of the workers and the poor improves, leftist parties increasingly lose their ground.

In1988, for instance, the labour party in Britain lost 8 percent of its members, the biggest exodus since 1981.

Ways of Privatization

There are different ways of achieving privatization.

In Britain, the staff of the privatized company have a priority in buying shares, and are entitled to a discount.

For instance, 96 % of British telecom employees took a share in their company in defiance of the trade union opposition. Although some of them later sold them (at higher rate) they derived certain benefits from privatization.

The use of U.S. ESOP (Employees share ownership plan) practices is another interesting example.

ESOP provides for forming special fund which takes bank credit to buy a company's shares and distribute them among employees at the real value or free of charge. The credit is paid back out of the company's profit.

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One of the important ways of privatization is divestiture, or Privatization of Ownership, through the sale of equity.

In countries where there are well functioning capital markets, this involves selling stock to the public. In Industrial countries, privatization has come mainly through divestiture of government economic activities.

There are large number of cases where privatization has taken the form of denationalization or reprivatization. A considerably large number of enterprises were denationalized in countries like Chile, Bangladesh, & Pakistan.

Another way of Privatization is ***Contracting***. Governments may contract out services they have planned and specified to other organizations that produce and deliver them.

Contracting is common in public works, defence and many specialized services. Where suppliers compete for contracts and there is no loss of economies of scale,

Contracting is efficient, but there is scope for corruption in ***contracting***. Long term contracts tend to encourage monopolistic behaviour by the private supplier.

Another option for the government is to withdraw from the provision of certain goods, and services leaving them wholly or partly to the private sector.

Privatization may also take the form of Privatization of Management, using leases and Management contracts.

Government can shed the burden also by liquidation which can be either formal or informal. Formal liquidation involves the closure of an enterprise and the sale of its assets.

Under informal liquidation, a firm retains its legal status even though some or all of its operations may be suspended.

Major obstacles to Privatization

Underdevelopment of capital market and political factors pose problems for privatization in developing countries.

When compared to industrial countries, the progress of privatization is slow in developing countries.

According to World Bank report, government confront several obstacles, when they decide to divest SOE's.

Government usually want to sell the least profitable enterprises, those that the private sector is not willing to buy a price acceptable to the Government.

Divestiture tends to arouse political opposition from employees who may lose jobs from politicians who fear short-term unemployment as a consequences of liquidation or of cost reduction private owners.

Relatively developed capital markets sometimes make it difficult for governments to float shares and for individual buyers to finance large purchases.

Conditions responsible for success of Privatization

When we say that privatization is to succeed, in sense of raising of efficacy or effectiveness in the production or delivery of goods & services it must fulfill the followings: There are no of prerequisite for the success of privatization they are:

- Privatization cannot be sustained unless the political leadership is committed to it, and unless it reflects a shift in the preferences of the public arising out of dissatisfaction with the performance of other alternatives.
- Replacement of Government monopoly by a private monopoly may not increase public welfare, there must be multiplicity of private suppliers. This can be difficult where there are few competent suppliers.
- Freedom of entry to provide goods and services. Long term contracts and franchises limit competition and consumers choice.
- In services that are capital intensive freedom of entry difficult to achieve. But in others such as health services, the public will be better served by several private suppliers competing than by one agency monopolizing the market through a long-term contract.

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Public services to be provided by private sector must be specific or have measurable outcome.

Physical constructions or utility services, for example, can be measured, but most of educational services and police protection are not easy to quantify even though their inputs can be measured.

Consumer should be able to link the benefits they receive from a service to the costs they pay for it, since they will then shop more wisely for different services.

Importance of educating consumers and disseminating information to the public cannot be overemphasized here.

Privately provided services should be less susceptible to fraud than government services if they are to be effective.

Services provided through collective or co-operative action at the community level are probable the least susceptible to fraud.

Equity is an important consideration in the delivery of public services. Broadly speaking the benefits of privatization can accrue to the capital owner who supplies the service to consumer, who receives more efficient service and to the public in large.

Benefits of Privatization

Following are the major benefits of privatization.

- It reduces the fiscal burden of the State by relieving it of the losses of the SOE’s and reducing the size of Bureaucracy.
- Privatization helps the state to trim the size of the administrative machinery.
- It enables the government to concentrate more on the essential state functions.
- Privatization helps accelerate the pace of the economic development as it attracts more resources from the private sector for development.
- It may result In better management of the enterprises.
- Privatization may also encourage enterrprunership.
- Privatization may increase the number of workers and common man who are shareholders. This could make the enterprises subject to more public awareness.

Drawbacks of Privatization

- Lack of proper strategy
- Ambiguity of objectives
- Lack of political Consensus
- Wrong labour strategy
- Lack of political will
- Poor financial strategies
- Wrong environment
- Problem of cultural changes.

Disinvestment

The industrial policy changes since 1991 in respect of the public sector in India is one of the most significant privatization moves in the world.

Disinvestment Policy :

- The policy of the Government on ***disinvestment*** has evolved over a period. A brief account of it is given below in the chronological sequence.
- In most contexts, ***disinvestment*** typically refers to sale from the government, partly or fully, of a government-owned enterprise. A company or a government organisation will typically ***disinvest*** an asset either as a strategic move for the company, or for raising resources to meet general/specific needs.
- During the initial phase, the ***disinvestment policy*** enunciated by Chandrasekhar Government in the Interim budget 1991-92, was to divest up to 20% of the government equity in selected PSE's, in favour of public sector institutional investors. The objective of the policy was stated to be to broad-base equity, improve management, enhance availability of resources fro these PSE's and yield resources

Objectives of Disinvestment in India

Some of the objectivities of Disinvestment in India are follows:

- The Government in July 1991 initiated the disinvestment process in India, while launching the New Economic Policy (NEP). The Government had appointed the Krishnamurthy Committee in 1991 and C. Rangarajan Committee in 1992.
- Both the Committees, have recommended disinvestments to fulfill objectives of modernization of the public sector through strengthening R & D, initiating diversification/ expansion programmes, retraining and re-employment of employees, funding genuine needs of expansion, widening the capital market basis and mitigating fiscal deficit of the government.
- These committees distinguished between the short-term and long-term goals of disinvestment and advised the government not to sacrifice the long-term goals for the sake of fulfilling the short-term objectives. The Government has announced in its NEP that mitigating the fiscal deficits is the only objective of disinvestment.

contd

The crucial shift in the Government policy for disinvestment of PSU's was mainly attributable to poor performance of these enterprises and burden of financing their requirements through budget allocations.

Further the Government constituted a five member public sector Disinvestment Commission under the chairmanship of G.K. Ramakrishna in 1996 for drawing a long-term disinvestment programme for the PSUs.

The Disinvestment Commission submitted its report covering 58 enterprises, out of 70 enterprises referred to it by the Government Recommendations ranged from strategic sales in various proportions to disinvestments at varying levels. The Commission's recommendations are in various stages of implementation. The Disinvestment Commission was ultimately abolished in November 1999.

In 2001, the Government reconstituted the Disinvestment Commission with R.H. Patil as its chairman. The government has decided to refer all 'non-strategic' PSUs and their subsidiaries, excluding IOC, ONGC and GAIL to the Commission for its independent advice.

The government set up a new Department of Disinvestment in 1999 to establish a systematic policy approach to disinvestment and to give a fresh impetus to the program of disinvestment, which will increasingly emphasize strategic sales of identified PSU's.

The Objectives of Disinvestment:

To reduce the financial burden on the Government.

To improve public finances.

To encourage wider share of ownership.

To introduce, competition and market discipline.

To depoliticize essential services.

To help public enterprises upgrade their technology to become competitive.

To rationalize and retrain their workforce.

To build competence and strengthen their R & D.

To initiate diversification and expansion programmes.

Thus, the disinvestment is aimed to reduce or mitigate fiscal deficit, bring about a measure of economic stabilization or to improve efficiency in public enterprises through structural adjustments initiated to improve their efficiency and productivity.

The new Industrial Policy provides that, “In order to raise resources and encourage wide public participation, a part of the government share holding in the public sector would be offered to mutual funds, financial institutions, general public and employees”. This is a process for disinvestment in the public enterprises.

Concept of Divestment

- In finance and economics, **divestment** or divestiture is the reduction of some kind of asset for financial, ethical, or political objectives or sale of an existing business by a firm. A **divestment** is the opposite of an investment.

What is Divestment ?

- ***Divestment,*** also known as divestiture, is the opposite of an investment, and it is the process of selling an asset for either financial, social or political goals. Assets that can be divested include a subsidiary, business department, real estate, equipment and other property.
- ***Divestment*** can be part of following either a corporate optimization strategy or political agenda, when investments are reduced and firms withdraw from a particular geographic region or industry due to political or social pressure.

Industrial Sickness

- Industrial sickness is a universal phenomenon.
- Industrial sickness is easily manifested in Market economy.
- It may be concealed in the economy where Market Mechanism does not operate.
- There has been a fear that the liberalization and concomitant(Associated) increase in competition, both domestic and foreign, would increase sickness.
- The first several years of liberalization did not witnessed any significant change in the magnitude of sickness, between 1998-99 there was a substantial increase in industrial sickness. (Quote: Govt policy of promoting MSME on other hand giving policy assistance to big private players in terms of technology upgradation and many more to quote in continuation)

How one can see towards Industrial sickness ?

- Industrial sickness is a matter of serious national concern because besides affecting the owners, employees, creditors & suppliers, it causes wastage of national resources and social conflict.
- Example to quote here are : DCL polyester Mauda, v/s Indorama

Common symptoms of Industrial sickness

- It includes failure to pay statutory liabilities like Provident Funds and E.S.I. contributions.
- Failure to pay timely installment of capital and interest on loans taken from financial institutions and through public deposits.
- Increase in inventories with a large number of slow or non-moving items.
- High rates of rejection of goods manufactured, low capacity utilization and frequent industrial disputes.

Weak Units :

Reserve bank has advised to commercial banks to identify sickness at the incipient stage and take necessary remedial measures, at the stage of 50 percent erosion of the their net worth. Such units are termed as ***Weak Units.***

Causes of Sickness

- Industrial units become sick at different stages due to different reasons.
- ***Born Sick : Right from birth***

Reasons:

- Faulty Project appraisals
- Financial problems
- Locational problems
- Technological problems
- ***Achieved Sickness: Fail after becoming operational***

Reasons:

- ***Internal:***
- Bad Management
- Unwanted expansion or Diversion resources
- ***External :*** Shortage of coal, power, oil

Preventive Measures Taken

- There are some laws which enable the Central Government to monitor and control the functioning of industrial undertakings and to deal with the problem of sickness.
- For Example
- Sick Industrial companies Act.1985

Industrial Development Strategy

Lets discuss What is Importance of Industrialization?

- Provide Employment
- Development of Social overhead
- Increase in income and savings
- Increasing Economies of scale
- Increase farm productivity
- Better utilization of Raw material

Strategies for Industrialization

- State intervention of industrial development
- Role of Public Sector
- Regulations for control and direction of Industrial sector
- Industrial Licensing to regulate private sector (IDR Act 1951)
- Industrial policy

Policies Amended Time to Time :

- Industrial Licensing policies (Initially 18 industries were under licensing which was further brought to 5)
- Foreign Investment Policy (FDI which was 51 % increased up to 71% FERA change to FEMA)
- Automatic approval of import of capital goods (limit up to 2 crore)

Consumer Rights ? Consumerism/ Consumer Protection Act

Government of India provided following rights to all the consumers under the Consumer Protection Act:

Right to Safety: ...

Right to Information: ...

Right to Choice: ...

Right to be Heard or Right to Representation: ...

Right to Seek Redressal: ...

Right to Consumer Education:

Consumerism : Consumerism is a social as well as economic order which encourages the buying of goods and services in ever-greater amounts. This term is sometimes associated with critics of consumption beginning.

The newly emerging middle class coming up at the threshold of the twentieth century, is coming to full fruition by twentieth century end through the globalization process.

contd

- As per economics, consumerism means economic policies laying emphasis on consumption. In a sense, it is believed that the consumers are free to make choice and should dictate the society’s economic structure.
- The term "consumerism" had been first used in the year 1915 and referred to "advocacy of the rights and interests of consumers" defined in Oxford English Dictionary but here in this article the term "consumerism" means the sense which was first used in 1960, "emphasis on or preoccupation with the acquisition of consumer goods’.

Trade marks Act -1999

- Trade mark act was passed by both the houses of parliament and received the assent of President of India on 3rd Jan 2000.
- However it has not yet come into force since the rules to be framed thereunder have not been published.

Definition of Trade Mark.

- Section 2(1) (zb) under the 1999 act define the term Trade Mark as
- Trade Mark means the Mark capable of being represented geographically and which is capable of distinguishing the good s and services of one person from those of the others and may include shape of goods, there packaging and combination of colours.
- Section 2 (1) (m) defines mark includes device, brand , heading, label, ticket, name, signature, words, letters numerals, shape of goods,

UNIT-3 International Business Environment

Concept of Balance of Payment; Current & Capital Account; Importance of Current Account Deficit/Surplus; Currency Convertibility; Concept of FI & FII; Concept of Currency Devaluation and its Impact on CAD; Overview of GAAR & FEMA.

India's Overall Balance of Payment

APPENDIX TABLE 8: INDIA'S OVERALL BALANCE OF PAYMENTS

(US $ million)

	2011-12	2012-13	2013-14 PR	2014-15 PR	2015-16 P
1	2	3	4	5	6
A. CURRENT ACCOUNT					
1 Exports, f.o.b.	309,774	306,581	318,607	316,545	266,365
2 Imports, c.i.f.	499,533	502,237	466,216	461,484	396,444
3 Trade Balance	-189,759	-195,656	-147,609	-144,940	-130,079
4 Invisibles, Net	111,604	107,493	115,313	118,081	107,928
a) 'Non-Factor' Services of which :	64,098	64,915	73,066	76,529	69,676
Software Services	60,957	63,504	67,002	70,400	71,454
b) Income	-15,988	-21,455	-23,028	-24,140	-24,375
c) Private Transfers	63,469	64,342	65,481	66,264	63,139
5 Current Account Balance	-78,155	-88,163	-32,296	-26,859	-22,151
B. CAPITAL ACCOUNT					
1 Foreign Investment, Net (a+b)	39,231	46,711	26,386	73,456	31,891
a) Direct Investment	22,061	19,819	21,564	31,251	36,021
b) Portfolio Investment	17,170	26,891	4,822	42,205	-4,130
2 External Assistance, Net	2,296	982	1,032	1,725	1,505
3 Commercial Borrowings, Net	10,344	8,485	11,777	1,570	-4,529
4 Short Term Credit, Net	6,668	21,657	-5,044	-111	-1,610
5 Banking Capital of which :	16,226	16,570	25,449	11,618	10,630
NRI Deposits, Net	11,918	14,842	38,892	14,057	16,052
6 Rupee Debt Service	-79	-58	-52	-81	-73
7 Other Capital, Net*	-6,929	-5,047	-10,761	1,109	3,315
8 Total Capital Account	67,755	89,300	48,787	89,286	41,128
C. Errors & Omissions	-2,432	2,689	-983	-1,021	-1,073
D. Overall Balance [A(5)+B(8)+C]	-12,831	3,826	15,508	61,406	17,905
E. Monetary Movements (F+G)	12,831	-3,826	-15,508	-61,406	-17,905
F. IMF, Net					
G. Reserves and Monetary Gold (Increase -, Decrease +) of which : SDR allocation	12,831	-3,826	-15,508	-61,406	-17,905
Memo: As a ratio to GDP					
1 Trade Balance	-10.4	-10.7	-7.9	-7.1	-6.3
2 Net Services	3.5	3.5	3.9	3.7	3.4
3 Net Income	-0.9	-1.2	-1.2	-1.2	-1.2
4 Current Account Balance	-4.2	-4.8	-1.7	-1.3	-1.1
5 Capital Net (Excld. changes in reserves)	3.7	4.9	2.6	4.4	2.0
6 Foreign Investment, Net	2.2	2.6	1.4	3.6	1.5

PR: Partially Revised. P: Provisional.

* : Includes delayed export receipts, advance payments against imports, net funds held abroad and advances received pending issue of shares under FDI.

Note: 1. Gold and silver brought by returning Indians have been included under imports, with a contra entry in private transfer receipts.
2. Data on exports and imports differ from those given by DGCI&S on account of differences in coverage, valuation and timing.

Balance of Payment

- The **balance of payments**, also known as **balance** of international **payments** and abbreviated **BoP**, of a country is the record of all economic transactions between the residents of the country and the rest of the world in a particular period (over a quarter of a year or more commonly over a year).
- Most of exports and imports involve finance i.e. receipts and payments in money. An account of all receipts and payments is termed as Balance of Payments (BOP).
- According to **Kindle berger**, "The balance of payments of a country is a systematic record of all economic transactions between the residents of the reporting country and residents of foreign countries during a given period of time".
- The balance of payment record is maintained in a standard double-entry book-keeping method. International transactions enter in to the record as credit or debit. The payments received from foreign countries enter as credit and payments made to other countries as debit

Structure of Balance of Payment (BOP)

Receipts (Credits)	Payments (Debits)
1) Exports of goods	1) Imports of goods
Trade Account Balance	
2) Exports of services	2) Imports of services
3) Interests, profits and dividends received	3) Interests, profits and dividends paid
4) Unilateral receipts	4) Unilateral Payments
Current Account Balance (1 to 4)	
5) Foreign Investments	5) Investments abroad
6) Short term borrowing	6) Short term lending
7) Medium and long term borrowing	7) Medium and long term lending
8) Statistical discrepancy (Errors and omission)	
Capital Account Balance (5 to 8)	
9) Change in reserves (+)	9) Change in reserves
Total Receipts = Total payments	

Trade Account Balance

- It is the difference between exports and imports of goods, usually referred as visible or tangible items.

- Trade account balance tells as whether a country enjoys a surplus or deficit on that account. An industrial country with its industrial products comprising consumer and capital goods always had an advantageous position.

- Developing countries with its export of primary goods had most of the time suffered from a deficit in their balance of payments. Most of the OPEC countries are in better position on trade account balance.

Current Account Balance

- It is difference between the receipts and payments on account of current account which includes trade balance.

- The current account includes export of services, interests, profits, dividends and unilateral receipts from abroad, and the import of services, interests, profits, dividends and unilateral Payments to abroad. There can be either surplus or deficit in current account.

- The deficit will take place when the debits are more than credits or when payments are more than receipts and the current account surplus will take place when the credits are more than debits.

Capital Account Balance

- It is difference between the receipts and payments on account of capital account.
- The capital account involves inflows and outflows relating to investments, short tern borrowings/lending, and medium term to long term borrowing/lending. There can be surplus or deficit in capital account.
- The surplus will take place when the credits are more than debits and the deficit will take place when the debits are more than credits.

Foreign Exchange Reserves

- Foreign exchange reserves (forex) are used to meet the deficit in the balance of payments.

- The entry is in the receipt side as we receive the forex for the particular year by reducing the balance from the reserves.

- When surplus is transferred to the foreign exchange reserve, it is shown as minus in that particular year's balance of payment account.

- The minus sign (-) indicates an increase in forex and plus sign (+) shows the borrowing of foreign exchange from the forex account to meet the deficit.

Errors and Omission

- The errors may be due to statistical discrepancies & omission may be due to certain transactions may not be recorded.

- For eg: A remittance by an Indian working abroad to India may not yet recorded, or a payment of dividend abroad by an MNC operating in India may not yet recorded or so on. The errors and omissions amount equals to the amount necessary to balance both the sides.

Current Account Deficit/ Surplus

- ***What is current account deficit? What are the features of India's current account deficit?***

The current account of country shows its profile in goods and services trade.

Technically, the current account of the balance of payments explains the money value of goods and service (services is contained under invisibles) exported and imported by the country during an accounting period.

To understand the Current Account Deficit (CAD), we should have an idea about Balance of Payments.

Current account deficit is a measurement of a country's trade where the value of the goods and services it imports exceeds the value of the goods and services it exports.

CAD a Concept

- Current account deficit (CAD) has been the most deliberated topic universally at the moment.
- In order to understand CAD we need to understand what do we mean by current account since the issue of current account deficit originates from current account component of the balance of payments of a nation. (***Need to study BOP***)
- A country engaged in foreign trade receives payments from countries which it receives exports goods and services and requires making payments from where it imports. Accordingly a country with foreign trade maintains an account of all its receipts and payments from and to the rest of the world. Such an account is called ***balance of payment.***
- Facing ***BOP*** and ***CAD*** crisis faces lot of challenges in terms of its currency value, hurdles in its foreign investment , global competitiveness and hence overall economic growth.
- **Current Account Deficit : Refers to ;**

"Current account deficit is when payments exceed receipts from trade of goods & services, transfers and net income".

Implications of Current Account Deficit

Calculation of Current account deficit?

- Balance of payment is made up of two components They are
- 1) Current Account & 2) Capital Account
- Now lets look at Current Account it is made up of Three parts
- 1) Balance of trade, 2) Earning from Investment (FDI & FII), & 3) Cash Transfer (Money Transfer without exchange of Goods & services) For e. g. Someone from family is working in Dubai (overseas), & sending money to his or her family in Maharashtra in India. Donations are also a part of cash transfer.

Implications of Current Account Deficit:

A large current account deficit which is fuelled by a trade gap is the, biggest strain on the Indian rupee. The rupee weakened by more than 3% against the dollar in 2012.

What Happen when a country has a current Account Deficit?

- When a country has a current account deficit, It becomes debtor to the whole world. It owes foreign exchange to the tune of the deficit.
- To nullify this debt, Government has to attract overseas investors who bring capital to invest in India. This can be in form of investment in real assets like factories, airports, roads, etc. They can also give financial assets like equity, debt, treasury bills, bank deposits etc.
- The inflows are part of the capital account which complement the current account by financing its deficit.
- A deficit in the current account leads to Depletion (reduction) of foreign currency assets as these assets are used as a source to fund deficit which forms part of capital account.
- Depletion of foreign currency assets reduces money supply which in turn results to liquidity issues.

Importance of CAD

- In the long run, a current account deficit can sap economic vitality.
- Foreign investors may begin to question whether economic growth can provide an adequate return on their investment.
- Demand could weaken for the country's assets, including the country's government bonds.
- As this happens, the national currency will gradually lose value relative to other currencies.
- This automatically lowers the value of the assets in the foreign investors' currency. This further depresses the demand for the country's assets.
- Regardless of whether the current account deficit calm down via a tragic currency crash or a slow, controlled decline, the consequences of a current account deficit would be the same -- a lower standard of living for the country's residents.

CA Surplus Effects

- A Current account surplus means an economy is exporting a greater value of goods and services than it is importing.
- A country with a current account surplus will have a deficit on the financial / capital account. i.e. a country with a current account surplus will have surplus foreign exchange it can use to invest in other countries.
- There is no hard and fast rule about what will happen if a country has a current account surplus. It depends on the size of the current account and the reasons for the current account surplus.
- ***NEWS :*** (News ET, Sep 14, 2016)

INDIA: India is likely to post its first ***current account surplus*** in nine years in the latest quarter, which should bolster the rupee though it is not a good sign for the economy as it reflects weak investment demand at home and subdued exports.

CONTD

- For the full year ending in March 2017, India is likely to post a deficit even lower than last year's 1.1 per cent of GDP, as foreign investment inflows remain steady - and that should be broadly supportive for the rupee.

- For a developing economy like India slow import growth is a negative sign, as it reflects weak investment demand because Indian firms need to buy capital goods and machinery from abroad.

- That weakness in the economy, could persuade the Reserve Bank of India to keep liquidity easy for now. RBI is also unlikely to let the rupee strengthen too much, and any central bank action to take dollars out of the market will add to rupee liquidity.

- "The improvement in current account deficit is definitely positive for the rupee..." "But it is not a cause for

Currency Convertibility

- Currency convertibility means “the freedom to convert one currency into other internationally accepted currencies. Full convertibility of **rupees** means unified market determined exchange rate regime, converting **rupees** in to foreign currencies on both sides i.e. from “current account” and from “capital account” side. ***(A Professional meaning in Trade in India).***

What do you mean by currency convertibility?

Currency convertibility is the ease with which a country's **currency** can be converted into gold or another **currency**. **Convertibility** is extremely important for international commerce. When a **currency** in inconvertible, it poses a risk and barrier to trade with foreigners who have no need for the domestic **currency**.

Is the Indian Rupee is fully convertible?

- A currency is fully **convertible**, when there are no current account or capital account restrictions for free movement of funds into the country and out of the country. As there are lot of restrictions for free movement of funds from **India**.
- ***Why Indian Rupee is not fully convertible?***
- India is still a developing economy and has lot of inherent weaknesses. We don't have surplus current account, meaning our exports and services earnings and other invisible exports are far less than imports. This always leads to pressure on Indian Rupee.
- Ours is relatively closed economy, in the sense INR is not fully convertible. Typically when countries have opened their capital account, except a few occasions , countries have suffered financially. It may slow you down in good times, but it can be a protection during bad times.
- But does not mean, you can be a partially closed economy always. You need to strengthen in all fronts and then open the economy towards taking the Indian Rupee fully convertible.

FI in India

FI to take place in economy through direct or indirect ways they are

In comparison with the other emerging Asian economies though India's achievement in attracting FI is not is so emphatic, there is no doubt this has helped developmental prospects of economy.

FI plays following role

Supplying capital for investment, that too in the form of hard currency.

Giving domestic industries and the economy better competitiveness.

Increasing India's Forex reserves. &

More asset creation & bridging the gap between demand and supply of goods & services in economy.

Now the Two ways are

FDI

PIS (Portfolio Investment Schemes) For NRI's

PIS—a scheme of Reserve Bank of **India**—enables NRIs and OCBs to purchase and sell shares and convertible debentures of **Indian** companies on a recognized stock exchange by routing such purchase/sale transactions through their NRI Savings **Account** with a designated bank branch.

contd

Can US NRI invest in stocks in India?

An **NRI can** open an NRE (Non-Resident External) account, which enables you to **invest in Indian** stocks in the secondary **market**. An **NRI** also needs approval under the PIS (Portfolio **Investment** Scheme) by the RBI, which allows one to **invest** in the **Indian stock market**. ... And this applies to all the investors including **NRIs**.

FII Concept

What is FII?

- **Foreign Institutional Investor** (**FII**) means an institution established or incorporated outside India which proposes to make investment in securities in India. They are registered as **FIIs** in accordance with Section 2 (f) of the SEBI (**FII**) Regulations 1995.
- Definition of FII
- Foreign institutional investors (FIIs) are those institutional investors which invest in the assets belonging to a different country other than that where these organizations are based.
- Foreign institutional investors play a very important role in any economy.
- These are the big companies such as investment banks, mutual funds etc, who invest considerable amount of money in the Indian markets.
- Market regulator SEBI has over 1450 foreign institutional investors registered with it.

Currency Devaluation Concept

- The bout of devaluation in 1991 was not the first time India flirted with currency devaluation. On **6 June 1966**, the rupee was devalued dramatically in response to the first significant balance of payments crisis faced by independent India. It had barely been two decades since India had achieved independence.

Some Facts regarding Currency Devaluation

What do you mean by devaluation of currency?

- "**Devaluation**" means official lowering of the value of a country's currency within a fixed exchange rate system, by which the monetary authority formally sets a new fixed rate with respect to a foreign reference currency.

Why are currencies devalued?

- One reason a country may devaluate its **currency** is to combat trade imbalances. **Devaluation** causes a country's exports to become less expensive, making them more competitive in the global market. ... Higher exports relative to imports can also increase aggregate demand, which can lead to inflation.

When was the Indian currency devalued for the first time?

- Since India was under British rule rupee was pegged to pounds. From 1927 to **1966**, it was 13 rupees = 1 pound. This was maintained until **1966**, when the rupee was devalued and pegged to the U.S. dollar at a rate of 7.5 rupees = 1 dollar.

Currency Devaluation and Its impact on CAD

- Currency Devaluation creates an imbalance on the Balance of Payments especially for import driven economies
- Country like India which imports majority of essential commodities like Oil, pays much more in terms of the value in ***INR*** imports get expensive thereby increasing the ***CAD.***
- This will further devaluate the currency.
- This is a welcome change for a company which is into the export of goods or services.

Reasons for devaluation of Currency

- **Current Account Deficits (CAD):**
- **Government Deficit is high:**
- **Inflation:**
- **High Interest Rates:**
- **Slow Growth Rate:**
- **Dollar is in Demand:**
- **Fall of Stock Markets:**
- **The global uncertainty:**
- **Declining Foreign Investments:**
- **Political Uncertainty and Scams:**

GAAR & FEMA

- GAAR is an abbreviation for General Anti-Avoidance Rules
- Tax Avoidance is an area of concern across the world. The rules are framed in different countries to minimize such avoidance of tax.
- Such rules in simple terms are known as " General Anti Avoidance Rules " or GAAR. Thus GAAR is a set of general rules enacted so as to check the tax avoidance.
- GAAR is a concept which generally empowers the Revenue Authorities in a country to deny the tax benefits of transactions or arrangements which do not have any commercial substance or consideration other than achieving the tax benefit.
- ***FEMA:*** The **Foreign Exchange Management Act**, 1999 (**FEMA**) is an **Act** of the Parliament of India "to consolidate and amend the law relating to foreign exchange with the objective of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange market in India".

UNIT-4-Technological Environment

Technological Innovation, Product & Process Innovation, Technological „S" curve, Technological Leadership and Followership, Technology and Competitive Advantage, Technological Dynamics, Time lags in Technology, Introduction/Absorption, Adaptation, Transfer of Technology.

UNIT-4

TECHNOLOGICAL ENVIORNMENT

OPENING QUESTIONS

1) WHY WE STUDY THIS UNIT
2) ROLE OF TECHNOLOGICAL ENVIRONMENT
3) IS IT IN CONTEXT OF BUSINESSES IN COUNTRY
4) WHAT IS THE OBJECTIVE OF DISCUSSING THIS IN THE SUBJECT CONTEXT.

An overview of Global competitiveness

- We define competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country.
- The Global Competitiveness Report 2013-2014assesses the competitiveness landscape of 148 economies, providing insight into the drivers of their productivity and prosperity.
- The Report series remains the most comprehensive assessment of national competitiveness worldwide.
- The concept of competitiveness thus involves static and dynamic components.
- Although the productivity of a country determines its ability to sustain a high level of income, it is also one of the central determinants of its returns on investment, which is one of the key factors explaining an economy’s growth potential.
- Many determinants drive productivity and competitiveness.
- Understanding the factors behind this process has occupied the minds of economists for hundreds of years, engendering theories ranging from Adam Smith’s focus on specialization and the division of labor to neoclassical economists’ emphasis on investment in physical capital and infrastructure, and, more recently, to interest in other mechanisms such as education and training, technological progress, macroeconomic stability, good governance, firm sophistication, and market efficiency, among others.

cont

These components are grouped into 12 pillars of competitiveness:

Institutions

Infrastructure

Macroeconomic environment (Need to specify)

Health and primary education

Higher education and training

Goods market efficiency

Labor market efficiency

Financial market development

Technological readiness

Market size

Business sophistication

Innovation

contd

The stability of the macroeconomic environment is important for business and, therefore, is significant for the overall competitiveness of a country.

Although it is certainly true that macroeconomic stability alone increase the productivity of a nation, it is also recognized that macroeconomic disarray harms the economy.

The government cannot provide services efficiently if it has to make high-interest payments on its past debts.

Running fiscal deficits limits the government’s future ability to react to business cycles.

Firms cannot operate efficiently when inflation rates are out of hand.

In sum, the economy cannot grow in a sustainable manner unless the macro environment is stable.

It is important to note that this pillar focuses only on macroeconomic environment stability, so it does not directly take into account the way in which public accounts are managed by the government.

This qualitative dimension is captured in the institutions pillar described above.

An Overview of study

- The type of Technology in use. The level of Technological developments in Business.
- The speed with which new technologies are adopted and diffused.
- The type of technologies that are appropriate, the technological policies etc., that are important in business.
- ***Technology*** one of the important determinants of success of a firm as well as the economic & social developments of the nation.
- ***Technology*** includes the tools 1) Machine, (Hard ***Technology***) 2) Ways of thinking (Soft ***Technology***)
- ***Technology*** is defined as “Systematic knowledge for the manufacture of a product, for the application of a process or for the rendering of a service and does not extend transactions involving mere sale or lease of goods”.

- “***Technology*** includes not only knowledge or methods that are necessary to carry on or to improve the existing production and distribution of goods and services, but also entrepreneurial expertise and professional knowhow.”
- MNC’s are often in a particularly advantageous position in this regards.
- ***Technology*** is one of the eight factors to evaluate the global competitiveness.
- The 1999 Global competitiveness report continued to increase its focus on ***IT*** as anew source of competitiveness.
- ***E-mail*** has greatly expanded the possibilities for interpersonal, inter-firm & international communication.
- ***Internet*** has allowed for much more extensive and rapid dissemination of information.
- Emerging areas of ***e-commerce*** offers a potentially huge increase in the customer base for companies.
- This suggest ***Technology*** is one of the important determinants of global competitiveness.

Technological innovation: Product & process Innovation

- ***Innovations*** may help companies to increase market share.
- Capture new markets, create new market segments or even to create entirely new industries and markets.
- Although ***Innovation*** is expected to give a company a competitive advantage or success in the market, it is not uncommon that some other company or substitute product steals away the show.
- Innovation can be of the following types:

1) New product introduction (Product Patent)
2) Use of New method of production (Process Patent)
3) Opening of New Market (May not be direct technological Innovation)
4) Takeover of a new source of raw material supply. (May not be direct technological Innovation)
5) Reorientation of an Industry.

Pharmaceutical Industry

Classification of Innovation

- In Business context ***Innovation*** means:
- The technical, industrial and commercial steps which lead to the marketing of new manufactured products and to commercial use of new technical processes and equipment.
- ***Innovation*** is classified based on its size of impact does ***Technology*** change make on applications.

1) ***Radical Innovation***: A basic ***technological Innovation*** that establishes a new functionality (E.g. Steam engine or steamboat)
2) ***Incremental Innovation:*** A change in an existing technology system that does not alter functionality but incrementally increase performance, features, safety, or quality (e.g. governor on steam engine)
3) ***Next–generation Technology Innovation:*** A change in an existing technology system that does not alter functionality but incrementally increase performance, features, (Substitution of jet force for propellers on airplanes)

TECHNOLOGY S-CURVE

- The different ***rates of progress of technology*** over time through technology stages of invention, improvement and maturity generally produce a “S” shaped curve.
- Opportunities in areas of Technical improvements, Inventions, overcoming limitations,
- Rapid flush of New ideas provides exponential increase in performance, and further progress in New technology become harder.
- Thus begins the linear phase of technology progress on the “S”curve. (**HOW**)
- Rate of improvement slows down as it approaches to its limit. Which may be technological (E.g. Some physical limit on performance),
- Economic (e.g. diminishing returns from further research and development)
- Social (e.g. production of undesirable by-products)
- At this point there will be considerable economic and competitive benefits in changing to an alternative technology to which the limit does not apply.
- Consequently in due course a new technology will emerge and be

Technological Leadership & Followership

- ***Technology Leadership*** is abroad issue of ***Technology Strategy*** which firm must address.
- A Firms seeks to be first to introduce technological changes that support the generic strategy, leadership can be established in technologies.
- On the other hand ***Technological Leadership*** refers to a conscious and active strategy in which a firm explicitly chooses not to be first on innovation.
- The decision to become a technological leader or follower can be a way of achieving either low cost or differentiation.
- Sustainability of the Technological lead depends on

1) First Mover advantage
2) First disadvantage

- Technological uniqueness and sustained innovative competence are essential for technological leadership.

Technology & Competitive Advantage

- ***Technological change*** is the Principal drivers of Competition.

- ***Technological change*** plays major role in Industry structural change, as well in creating new industries.

- Technological change that id diffused can potentially affect each of the Five competitive forces, & improve industry attractiveness.

- Thus even if technology does not yield competitive advantage to any one firm, it may affect the profit potential of all the firms.

- Technological change that improves firm's competitive advantage may deteriorate structure as it is imitated.

contd

- ***Technological change*** by a firm will lead to sustainable competitive advantage when:

1) The ***Technological change*** itself lowers cost or enhances differentiation and the firm's technological lead is sustainable.
2) The ***Technological change*** shifts costs or uniqueness drivers in favour of a firm.
3) Pioneering the ***Technological change*** translate into first mover advantages besides those inherent in the technology itself.
4) ***Technological change*** improves overall industry structure.

- Technology can help influence all the Five competitive forces viz., Inter-firm rivalry, threats of new entrants, substitutes , & bargaining power of suppliers and buyers.

Example: India, its R&D spend is very less, but MNC's India is best R & D hub, (Cheap cost, Extraordinary talent) in research in addition new R& D. budgets, New patent regime, In overall Global competitiveness India rank 48th on other hand China rank 34th. But in terms of Innovation & business sophistication India, far ahead than China (26th v/s 50th)

Technological Dynamics

"Innovation can result from the internal drive of the company or from external forces."

- ❖ There are no of factors which determine the ***Technological Dynamics*** of a company, irrespective of the sources which internal or external.
- ❖ Important factors which determine the ***Technological Dynamics*** of a company are:

1) Innovative drive of company
2) Customer Needs/Expectations
3) Demand conditions
4) Suppliers offerings
5) Substitutes
6) Competitive Dynamics
7) Social forces
8) Government policy

Time Lags in Technology Introduction/Absorption

- The time and pace of absorption/penetration of technology may differ significantly between markets.
- Considerable time lag have been observed between countries in respect of introduction or absorption of technologies.
- This time lag is not specifically in the context of developed v/s developing.

1) For e.g. In India TV came late whereas the colour TV had quite common in other developed and few developing countries.

2) Cable TV came in India during early 1990.

- Late introduction and slow expansion affected not only TV business but also advertising and product promotion industries.
- The time lags in the introduction of technologies may even result in some products not being able to reap the market.

1) E.g. Electronic typewriter could not achieve growth because of the advent of computer.

Technology Adaptation

- Appropriateness of the technology depends on the characteristics of the environment.
- Given a choice in this case it need to select technology which is most appropriate for the country/comp
- Technology suits in one environment may not be suitable for the other environment.
- It is because of changes in topographical, climatic, soil conditions.

OR

- Difference in Income level, scale of operation, demand conditions, customer characteristics etc.

e.g. : Japan's successful growth has been due to its systematic purchase of appropriate purchase of technologies from abroad. Since Japan possessed a body of competent scientist / Engineers who for the most part were employed by the government & worked in government labs.

(Japanese most famous 3- A principle)

Transfer of Technology

- ***Technology Transfer*** refers to the formal process of transfer of technology from the proprietor to other firms.
- ***Technology Transfer*** is the process by which commercial technology is dispersed or scattered, moreover which is not a legally binding contract, but it will involve communication by transfer of relevant knowledge to the beneficiary.
- Among the various transaction few are noted by ***UNCTAD*** are :

1) **The assignment, sale and licensing of all forms of industrial property, except for trade marks, service marks and trade names when they are not part of transfer of technology transactions.**
2) **The provision of technological knowledge necessary for the installation, operation and functioning of plant and equipment, & turnkey projects.**
3) **The provision of technological contents of industrial and technical cooperation arrangements.**

Note: The modus operand of Technology Transfer is influenced by the

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