UNIT I ECONOMIC ENVIRONMENT

External and Internal Environment, PEST/ PESTEL analysis, Environmental Analysis- scanning, monitoring, Forecasting and assessing the current and Future Environmental changes. Liberalization, Privatization and Globalization of Economy. Social, Political and Economic Consequences of globalization. Structure of the Economy, Inflation and GDP

BUSINESS;

According to L. H. Haney "Business may be defined as human activity directed towards producing or acquiring wealth through buying or selling of goods"

Business may be defined as the organized efforts of enterprise to supply consumers with goods and services for a profit.

ENVIRONMENT;

Environment refers to all external forces, which have a bearing on the functioning of business

Business Goals

Profit: Making profit is the primary goal of business enterprise**.**

Growth: Business should grow in all directions over a period.

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

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

Quality products or services: persistent quality of products earns brand loyalty, a vital ingredient of success.

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

Challenging: Business offers vast scope and poses formidable challenges.

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

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

Importance of Environmental Study

- Development of broad strategies and long-term policies of the firm.
- Development of action plans to deal with technological advancements.
- To foresee the impact of socio – economic changes at the national and international levels on the firm's stability.
- Analysis of competitor's strategies and formulation of effective counter measures.
- To keep oneself dynamic

Factors Determining Business Environment

Meaning

Every business enterprise should operate within the business environment. Environment refers to the factors or the factors in the company's environment that affect the performance of the enterprises. The success of every business depends upon partly on its capability and partly on its ability to adapt itself to the changed environment.

The factors that determine the business environment are studied under two headings:

- Internal environment
- External environment

Internal environment

The factors, which are internal to the business, are called the internal environment. Internal factors are controllable that is within the limit of the management.

Internal factors reveal the strength and weakness of the business enterprise.

The following are the internal factors:

Value system:

While setting up the business enterprise the founders specify for themselves the value that must guide their functioning or business.

For example: Tata company has given importance to social and moral responsibility of the business.

Management structure:

The organizational structure, the composition of the board of directors the extent of professionalization introduced in the business influences the business decision. There must be a proper planning for carrying out the activities of the business that is called as organization structure.

Internal Power Relationship:

. The nature of relationship between the top management and the employees at all levels, relationship among shareholders and board of directors and with the outsiders must be smooth. Hence, it is considered as an essential factor for every business.

Human Resources:

The level of attainment of the employee in respect of technical skills, educational standard and other skills of the employees has to be identified and their attitude to work during the time of introducing modernization to the firm.

Company image and brand name:

Reputation of the company and their brand are major factors. A company with an excellent reputation can raise fund without any difficulties. It can also easily form joint venture, secure good market intermediaries, introduce new products and can have a good purchase and sales contracts.

Physical Asset:

The nature, age and type of physical asset the enterprise own and their technology efficiency will state the strength of the concern. Therefore, every concern should possess the sufficient physical asset.

Research and Development

R& D place a major role in the collection of data for the sake of the business and thereby it increases the profitability of the business by its new innovations.

Financial Position

It plays a vital role in building the status of the business in the society. It depicts a clear picture of the strength and weaknesses of the business thereby focus the area to be concentrated for the survival of the business.

External Environment

The factors that are external to the business are called external environment. External factors are uncontrollable. This factor reveals the opportunities and threats to the business.

External Environment can be divided into:

- Micro environment
- Macro environment

Micro environment:

Micro environment factors are studied under following headings:

Supplier:

An enterprise can function smoothly and without any interruption, if it has got a reliable and unfailing supplier of input or raw materials. A single source of supply is not advisable.

Customers:

A company success depends upon is ability to satisfy his customers. Customers may belong to different categories in respect of taste and preferences demand for the product, life style etc.,

Competitors:

Competition is nothing but a rivalry group or opponent group offering a substitute for our product. There are various types of competitions such as desired competition, brand competition, product competition etc. every business people as to find out the nature of competition and then to introduce the product in the market.

Market Intermediaries:

Market intermediaries are connecting link between producers and consumers. Every firm must motivate their intermediaries in promoting, selling and distributing its product to the final buyer.

Public:

Public is any group that as actual or potential interest in an organization’s ability to achieve its goal. For e.g., we have media public, citizen action public and local public.

Macro Environment

The macro environment is determined by the following factors:

Economic Environment:

The level of economic development of a country largely determines the scope and nature of the activities of a business enterprise.

- The nature, diversity and size of the availability of the resources in a country lead greatly to the success of the enterprise.

- Where the level of income is low, any commodity cannot be sold unless its price is low. Therefore this may cause the manufacture of a low cost product.

- The policies of the Government fix limits to the scope of private sector. Therefore, a business should have a friendly relationship with the Government to create good business environment.

- The monetary (flow of fund) and fiscal policies (financial) have a great barring on business enterprise can do.

Political and Government Factor:

- Political ideas and political parties in power shape the policies of the government, relating to the size of the business enterprises. For e.g., MRTP act
- Certain types of advertising may not be permitted by the government. The enterprises may be required to specify in detail the nature

Socio-cultural Environment:

- The socio cultural environment differs from country to country a business would do well when it takes into account such difference while planning a product and while planning the marketing strategies.
- The difference in languages must be given due importance similar sounding words in different languages have opposite meanings.
- Traditional belief and social attitude may stop the acceptance of certain products.
- The age on sex composition of the population of a country is also an important factor.

Demographic Environment:

- The demand for goods and services is affected by demographic factors such as population growth rate, death rate, birth rate, age composition, life expectancy family size, occupational status, employment pattern etc.
- The demand for many goods rises with increase in population.
- Mobility of labourer ensures adequate supply of labourers at different places.

Natural Environment:

Geographical and ecological factors such as natural resources, weather and climatic condition are the main aspects of the natural environment. We have to fix the product mix , location of the enterprise, demand pattern, and many other matter in relation to what the business decides to produce ,where to produce, when to produce, how to produce etc.,

Ecological factors:

It has got greater importance of later stage. Government policies requiring the maintenance of environmental purity, ecological balance and conservation of resources become an important responsibility for the business.

Physical and Technological Environment:

Physical factors such as climate and weather leads to the modification of the product sold. Technological factors account for the introduction of the new product, the expansion of the market, introduction of the new machine, introduction of the new idea etc.

International Environment

Certain types of business rely upon export and imports. Therefore, international environment is of greater importance. The onset of recession or depression in foreign countries may spell decline to the industries.

On the Contrary, boom in other countries will lead to prosperity and generate profit.

PEST/PESTEL ANALYSIS

PEST Analysis;

A Pest Analysis is an analysis of the external macro environment that affects all firms. P.E.S. T is an acronym for the political, social and technological factors of the external macro environment. Such external factors usually are beyond the firms control and sometimes present themselves as threats.

Many macro environmental factors are country specific and a PEST analysis will need to be performed for all countries of interest. The following are examples of some of the factors that might be considered in a PEST analysis.

POLITICAL ANALYSIS;

- Political stability
- Risk of military invasion
- Legal framework for contract enforcement
- Intellectual property protection
- Trade regulation and tariffs
- Favored trading partners
- Pricing regulations
- Taxation – tax rates and incentives

ECONOMIC ANALYSIS'

- Types of economic system in countries of operation
- Government intervention in free market
- Skill level of workforce
- Labour cost
- Inflation rates
- Interest rates

SOCIAL ANALYSIS

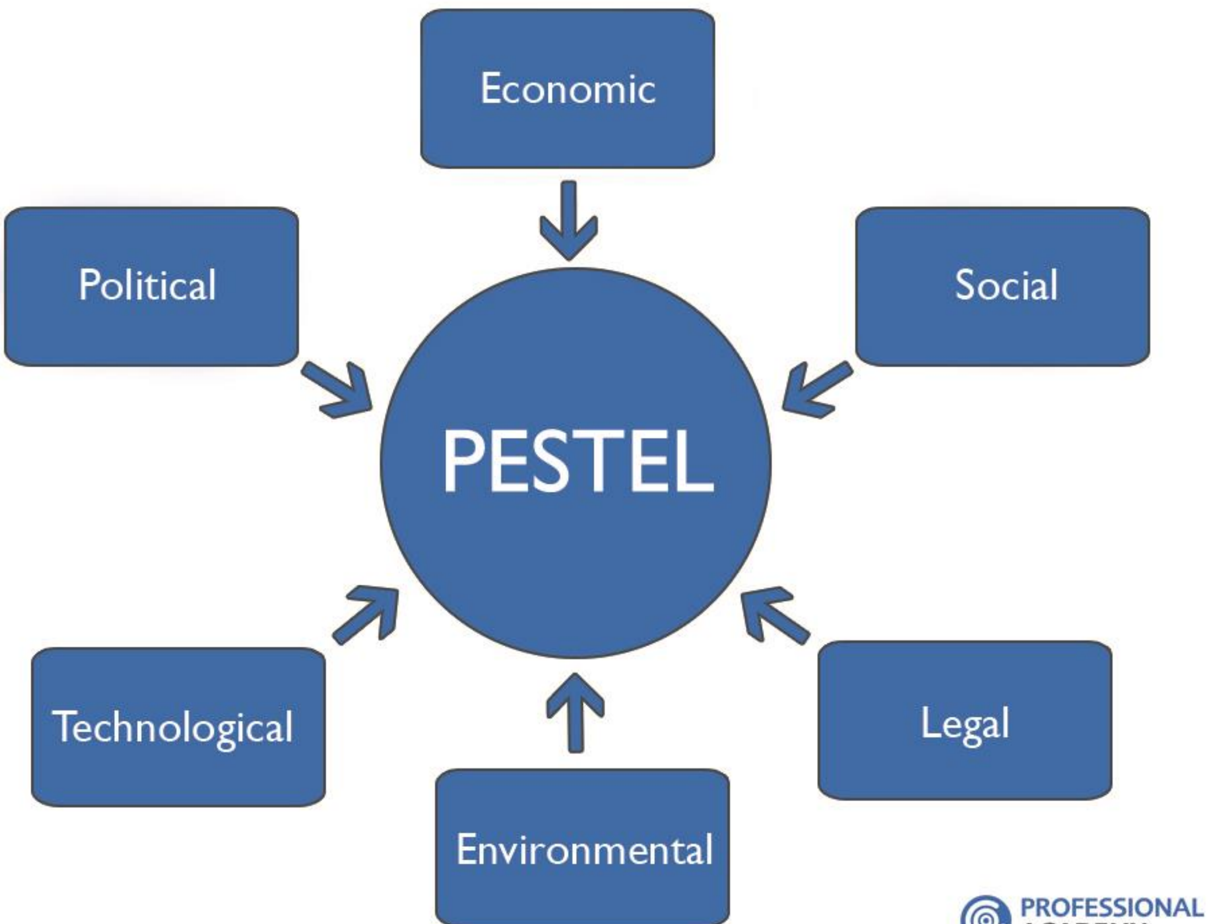
- Demographics
- Class structure
- Attitudes
- Entrepreneurial sprit

TECHNOLOGICAL ANALYSIS

- Recent technological developments
- Impact on cost structure
- Rate of technological diffusion

PESTEL ANALYSIS;

The PESTLE Analysis is a framework used to scan the organization's external macro environment. The letters stand for Political, Economic Socio-cultural, Technological, Legal and Environmental.



All the external environmental factors (PESTEL factors)

Political Factors

These are all about how and to what degree a government intervenes in the economy. This can include – government policy, political stability or instability in overseas markets, foreign trade policy, tax policy, labor law, environmental law, trade restrictions and so on. It is clear from the list above that political factors often have an impact on organizations and how they do business. Organizations need to be able to respond to the current and anticipated future legislation, and adjust their marketing policy accordingly.

Economic Factors

Economic factors have a significant impact on how an organisation does business and also how profitable they are. Factors include – economic growth, interest rates, exchange rates, inflation, disposable income of consumers and businesses and so on. These factors can be further broken down into macro-economical and micro-economical factors. Macro-economical factors deal with the management of demand in any given economy. Governments use interest rate control, taxation policy and government expenditure as their main mechanisms they use for this.
Micro-economic factors are all about the way people spend their incomes. This has a large impact on B2C organisations in particular.

Social Factors

Also known as socio-cultural factors, are the areas that involve the shared belief and attitudes of the population. These factors include – population growth, age distribution, health consciousness, career attitudes and so on. These factors are of particular interest as they have a direct effect on how marketers understand customers and what drives them.

Technological Factors

We all know how fast the technological landscape changes and how this impacts the way we market our products. Technological factors affect marketing and the management thereof in three distinct ways:

- New ways of producing goods and services
- New ways of distributing goods and services
- New ways of communicating with target markets

Environmental Factors

These factors have only really come to the forefront in the last fifteen years or so. They have become important due to the increasing scarcity of raw materials, polution targets, doing business as an ethical and sustainable company, carbon footprint targets set by governments (this is a good example were one factor could be classes as political and environmental at the same time). These are just some of the issues marketers are facing within this factor. More and more consumers are demanding that the products they buy are sourced ethically, and if possible from a sustainable source.

Legal Factors

Legal factors include - health and safety, equal opportunities, advertising standards, consumer rights and laws, product labelling and product safety. It is clear that companies need to know what is and what is not legal in order to trade successfully. If an organisation trades globally this becomes a very tricky area to get right as each country has its own set of rules and regulations.

ENVIRONMENTAL ANALYSIS;

A process for identifying all external and internal elements that an affect the performance of the organization and evaluating the level of threat or opportunity they present.

Stages of Environmental Analysis;

The process of environmental analysis may be divided into the following four stages;

- Scanning the environment to detect warning signals
- Monitoring specific environmental trends
- Forecasting the direction of future environmental changes
- Assessing current and future environmental changes for their organization

Scanning;

Scanning is the process of analyzing the environment for the identification of the factors which impact on or have implications for the business. Such factors may include those which have appeared suddenly or evolved over time. Identification of emerging trends is a critical purpose of the environmental scanning. In this prospective mode scanning focuses on identifying precursors or indicators of potential environmental changes and issues.

Monitoring;

Monitoring entails perspective follow up and a more in depth analysis of the relevant environmental trends identified at the scanning stage. The effort here is more focused and systematic than in scanning. Scanning is essentially exploratory in nature and therefore it often involves a very wide examination the environment. As the relevant factors have already been identified monitoring lends itself for a focused and systematic approach. “The purpose of monitoring is to assemble sufficient data to discern whether certain patterns are emerging”

Forecasting;

Anticipating the future is essential for identifying the future threats and opportunities and formulating strategic plans. Forecasting is concerned with the development of plausible directions, scope, speed, and intensity of environmental change, to lay out the evolutionary path of anticipatory change.

Assessment;

The purpose of environmental analysis is to assess the impact of the environmental factors of an organization’s business or their implications for the organization. Assessment thus involves drawing up implications/ possible impacts. “ In assessment the frame of reference moves from understanding the environment of the focus of scanning, monitoring and forecasting- to identify what that understanding of environment means for the organization.

APPROACHES TO ENVIRONMENTAL ANALYSIS;

There are broadly two approaches to environmental analysis;

- Outside in (macro) approach
- Inside out(Micro) approach

The outside in or macro approach takes a very broad view of the business environment with a long term perspective and develops alternative scenarios of the future. The implications of the alternative scenarios for the industry and the organization are drawn up with the reference to the different scenarios.

Thus scenario analysis is a technique used to forecast the occurrence of complex environmental events. It is particularly useful for forecasting events in which many variables play a role. Scenarios allow integrated consideration of these multiple variable in explaining the emergence of future conditions. A scenario is a detailed description of how certain events may occur in the future and their consequences for the organization.

The following steps have been suggested to develop scenarios

1) Identify strategic environmental issues that are likely to affect the industry/ firm. Prioritize these issues in order of their importance to the firm

2) Select the most important issues as the focus for scenario development. List the organizational assumptions with respect to these issues and identify the possible variations in these assumptions.

3) Prepare a preliminary description of these issues and how they evolved. Include the key economic, social, political and cultural influences that affect them

4) Draw out the issue for organizational performance. What has the organization done and what can it do to cope with the issues? Identify those variables shaping the issues that the management can control and partially control. Also identify those variables over which management has no control.

5) Develop detailed descriptions of the future in the form of scenarios. Scenarios are constructed under a worst case, best case, and most likely case set of assumptions. Draw out the implications of these scenarios for future performance of the company.

6) Discuss the scenarios with top management and refine them

7) Develop contingency action plans for each scenario.

The inside our approach which takes a rather narrow view of the environment forecasts the immediate future environment on the basis of the ongoing environmental monitoring and derives the implications of it for the industry and firm out of it.

LIBERLISATION;

The new economic policy provides freedom to entrepreneur to enter in any industry, produce any product and earn any amount of money.

Reason for Liberlisation;

- Lower credit rating
- Increasing burden of national debt
- High price level
- Export incapability
- Oil crisis
- Other countries borrow in world bank

Roles of Liberalization:

- To encourage the growth of entrepreneurship
- To improve production, competition, exports and employment
- Removing the hindrances of production, exports etc.
- Help the domestic market
- Easy trade and foreign investment
- Avoid high inflation
- Improve the infrastructure
- Increasing competitive strength

Liberalization in India;

Liberalization is an essential tool for privatization. Without the liberalized rules and regulations, the private sector will not succeed in their ventures. The industrial policy of 1991 announced by the government of India to mainly concentrate on economic and industrial liberalization. The liberalization policy of the Government has strengthened the performance of Indian industries by becoming more competitive. The increase in competition is reflected in the increase in marketing costs and fall in profitability, but total profits have increased, due to higher sales. Another indication of increasing competitive strength of Indian companies is the rise in their export intensity i.e the ration of exports to total sales. The growth impulse provided by the liberalization has increased competition in the domestic market and also larger business opportunities in foreigh markets.

Several Indian firms have entered into licensing agreements and strategic alliances to do business abroad. Further, the policy has given a boosting effect on foreign investments. The business environment in India has undergone a radical change. It is for the government and the bureaucratic attitudes, which should properly orient towards the liberalized environment, which would help the economy to move towards globalization.

PRIVATIZATION;

It refers to the transfer of ownership of an industry or company from the state to private ownership.

Privatization is a process by which the government transfers the productive activity from the public sector to the private sector.

According to the supporters of privatization, the rationale for privatization and disinvestment as follows;

- Improvement in efficiency and performance
- Fixing responsibility is easier
- Private units are subject to capital market discipline
- Political interface is unavoidable in public enterprises
- Succession planning
- Response time in the case of private sector is less
- Remedial measure are taken early in private sector
- Political consideration make improvement in efficiency difficult in public enterprises
- Privatization leads to better service to customers

Ways of Privatization

1. Divestiture or privatization of ownership through sale of equity.
2. Re-Privatization or denationalization.
3. Franchising.
4. Contracting
5. Leasing

1. Divestiture

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

2. Denationalization

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

3. Franchising

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

4. Contracting

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

5. Leasing

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

Objects

The objects are:

▪ To improve the performance of psus, so as to lessen the financial burden on taxpayers.

▪ To increase the size and dynamism of the private sector, distributing ownership more widely in the population at large.

▪ To encourage and to facilitate private sector investments, from both domestic and foreign sources.

▪ To generate revenues for the state.

▪ To reduce the administrative burden on the state.

▪ Launching and sustaining the transformation of the economy from a command to a market model.

Privatization Routes

The important ways of privatization are:

▪Divestiture, or Privatization of ownership, through the sales of equity.Denationalization or rePrivatization.

▪Contracting – under which government contracts out services to other organizations that produce and deliver them.

▪Franchising – authorizing the delivery of certain services in designated geographical areas – is common in utilities and urban transport.

▪Government withdrawing from the provision of certain goods and services leaving them wholly or partly to the private sector.

▪Privatization of management uses leases and management contracts

▪Liquidation, which can be either formal or informal. Formal liquidation involves the closure of an enterprise and the sale of its assets. Under informal liquidation, a firm retains its legal status even though some or all of its operations may be suspended.

Benefits

The benefits of Privatization may be listed down as follows:

▪It reduces the fiscal burden of the state by relieving it of the losses of the soes and reducing the size of the bureaucracy.

▪Privatization of soes enables the government to mop up funds.

▪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 to accelerate the pace of economic developments as it attracts more resources from the private sector for development.

▪It may result in better management of the enterprises.

▪Privatization may also encourage entrepreneurship.

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

Criticisms

Some of the important arguments against Privatization are as follows:

▪The public sector has been developed with certain noble objectives and Privatization means discarding them in one stroke.

▪Privatization will encourage concentration of economic power to the common detriment.

▪If Privatization results in the substitution of the monopoly power of the public enterprises by the monopoly power of private enterprises, it will be very dangerous.

▪Privatization, many a time, results in the acquisition of national firms by foreign firms.

▪Privatization of profitable enterprises, including potentially profitable, means foregoing future streams of income for the government.

▪Privatization of strategic and vital sectors is against national interests.

▪There are well managed and ill-managed firms both in the public and private sectors. It is not sector that matters, but the quality and commitment of the management.

▪The capital markets of developing countries are not developed enough for efficiently carrying out Privatization.

▪Privatization, in many instances, is a half-hearted measure and therefore it is not properly carried out. As a result, that the expected results may not be achieved.

▪In many instance, there are vested interested behind Privatization and it amounts deceiving the nation. In many countries Privatization often has been a “garage sale” to favored individuals and groups.

Conditions for Success

▪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 a government monopoly by a private monopoly may not increase public welfare. There must a multiplicity of private suppliers and freedom of entry to provide goods and services.

▪Public services provided by the private sector must be specific or should have measurable outcome.

▪Lack of specificity makes it more difficult to control services provided by the private sector. Service delivery by non-governmental organizations or local governments may be more appropriate under these conditions.

▪Consumers should be able to link the benefits they receive from a service to the costs they pay for it, and then they will shop more wisely for difficult services.

▪The importance of educating consumers and disseminating information to the public are necessary.

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

▪Equity is an important consideration in the delivery of public services. Broadly speaking, the benefits of Privatization can accrue to the capital owner, to the consumer and to the public at large.

Privatization in India

In India, although there were some isolated cases of Privatization, no definite policy decision was taken until the new economic policy was been ushered in. The accumulated loses of many SOEs, including some state transport corporations, are larger than the capital invested in them. Privatization of certain sectors and enterprises are, therefore, necessary to reduce the budgetary burden on the public, in order to make more resources available for the developmental activities, and to enable the government to concentrate more on the essential and priority areas. The new industrial policy, which has abolished the public sector monopoly in all but a very few industries, is a significant step towards Privatization. The new policy also proposes Privatization of enterprises by selling shares to mutual funds, workers and the public. The central government has been reviewing the existing portfolio of public investment with a view to offloading public investment.

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

GLOBALIZATION;

Globalization can be defined as the expansion of economic activities across political boundaries of nation states. Perhaps it refers to process of deepening economic integration, increasing economic openness and growing economic interdependence between countries in the world.

Globalization is the process by which businesses or other organizations develop international influence or start operating on an international scale.

Globalization is the tendency of investment funds and businesses to move beyond domestic and national markets to other markets around the globe, thereby increasing the interconnection of the world

STAGES OF GLOBALIZATION

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

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

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

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

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

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

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

GLOBALIZATION STRATEGIES

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

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

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

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

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

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

Turnkey Contracts - A turnkey operation is an agreement by the seller to supply a buyer with a facility fully equipped and ready to be operated by the buyer's personnel, who will be trained by the seller. Turnkey contracts are common in international business in the supply, erection and commissioning of plants, as in the case of oil refineries, steel mills, cement and fertilizer plants etc.

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

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

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

Sharing of ownership and management in an enterprise

Licensing / franchising agreements

Contract manufacturing

Management contracts

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

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

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

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

Benefits

The important arguments in favor of globalization are:

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

▪Living standards can go up faster.

▪Global competition and imports keep a lid on prices, so inflation is less likely to derail economic growth.

▪An open economy spurs innovation with fresh ideas from abroad.

▪Export jobs often pay more than other jobs.

▪Unfettered capital flows give access to foreign investment and keep interest rates low.

Disadvantages

Following are the cases against globalization:

▪Millions have lost jobs due to imports or production shifts abroad. Most find new jobs that pay less.

▪Millions of others fear losing their jobs, especially at those companies operating under competitive pressure.

▪Workers face pay cut demands from employers, which often threaten to export jobs.

▪Services and white-collar jobs are increasingly vulnerable to operations moving offshore.

▪Employees can lose their comparative advantage when companies build advanced factories in low-wage countries, making them as productive as those at home.

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 industries).

Economic Policies;

There are several economic policies which can have a very great impact on business. Important economic policies are industrial policy, trade policy, foreign exchange policy , monetary policy, fiscal policy and foreign investment and technology policy.

Industrial Policy: Industrial Policy can even define the scope and role of different sectors like private, public, joint and cooperative, or large, medium, small and tiny. It may influence the location of industrial undertakings, choice of technology , scale of operation, product mix and so on.

Trade Policy; the trade policy can significantly affect the fortunes of firms. For example, a restrictive import policy or a policy protecting the home industries, may greatly help the import competing industries, while a liberalization of the import policy may create difficulties for such industries.

Foreign Exchange policy; Exchange rate policy and the policy in respect of cross border movement of capital are important for business.

Fiscal policy; Government's strategy in respect of public expenditure and revenue can have impact on the business. The pattern of public expenditure may affect the development of various regions, sectors and or industries differently.

Monetary policy; the central bank by its policy towards the cost and availability of credit, can significantly influence the savings, investment and consumer spending in the economy.

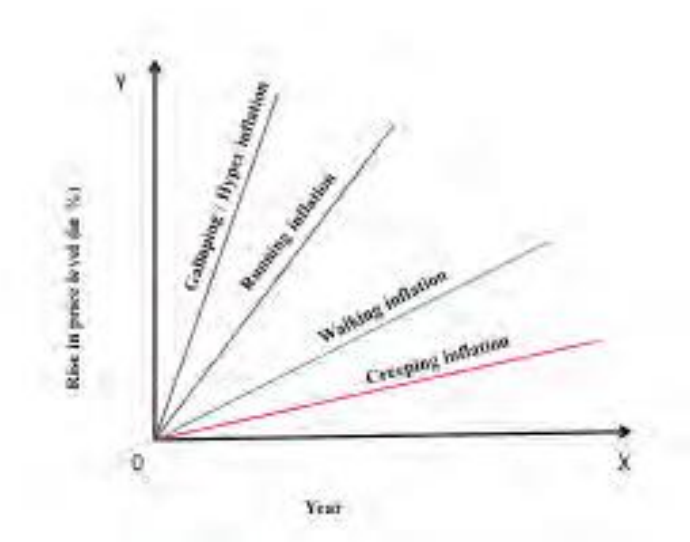
INFLATION;

Inflation is the rate of increase in the prices of goods per period.

Types Of Inflation

On The Basis Of Speed:

1. Creeping inflation: the inflationary rate is less than 2% that means prices are increasing gradually.
2. Walking inflation: the inflationary rate of a country is around 5% little more than creeping.
3. Running inflation: the rate of growth in prices are more i.e. the inflation is growing at the rate of 10%.
4. Galloping inflation: higher growth rate compared to the earlier stages i.e. the change is around 25%



The major four types of inflation is depicted graphically in the following graph. ‘X’ axis denotes the year and ‘Y’ axis for rise in price level. Based on the elasticity and slope we can understand over a period of time sustainable inflationary situation leads to higher level of inflation in the economy.

On The Basis Of Inducement:

1. Deficit induced: the deficit in the balance of payments of the country or fiscal deficit is the reasons for inflation. The value of the currency is falling due to the above mentioned reasons.

2. Wage induced: due to higher wages and salaries the money supply in the country increases leading to inflation.

3. Profit induced: higher the profit the organizations earn, they tend to share with their stakeholders which induces the money supply and reduces the value of money.

4. Scarcity induced: the raw material and other input factor scarcity (for example petrol) may induce the price hike in the market.

5. Currency induced: the value of currency fluctuates due to various internal and external forces.

6. Sectoral inflation: a particular sector of a country may be the reason for economic growth or money supply. (for example in India the growth in service sector particularly IT)

7. Foreign trade induced: if the country has unfavorable balance of payments, that means the country's exports are less than the imports, then we need more of foreign currency to make payments to the exporters ultimately this increases the demand for other currencies in the market.

8. War time, Post war, Peace time: During war period the government expenditure on various amenities will induce the inflation and the production, availability of the commodities will be low which leads to price hike. To settle down the economy after war or natural calamities the government spending will be more.

On the basis of extent of coverage:

Based on the coverage, economists classify the inflation as open and repressed; Comprehensive and sporadic.

Effects Of Inflation On Various Economic Activities Of The Country:

On Producers: Producers will earn more profit due to higher prices.

On debtors and creditors: Creditors will be happy to receive more returns on their lending.

On wage and salary earners: Wage holders will struggle to purchase the goods and services.

On fixed income group: Income is fixed but the value of the currency is falling and prices are increasing therefore it is difficult to manage the normal life. i.e. they are affected.

On investors: Investors will receive more returns on their investments.

On farmers: Farmers will suffer.

On social, moral and political effects: Due to money supply and higher the cash in hand the social, moral values are declining in the society with political disturbances.

Demand Pull Inflation:

Inflation will result if there is too much spending when compared to output. Aggregate demand is greater than aggregate supply which leads to price hike and inflation. An increase in aggregate demand when the economy is at less than full employment level will result in an increase in both price and output. If the economy is at full employment then the demand will increase which leads to inflation.

Cost Push Inflation:

Inflation is caused by change in the supply side of the economy, it increases cost of production, prices and inflation. Initially increase in costs leads to a chain of wage increases which leads to increase in demand and cost.

Methods Of Controlling Inflation

Control Of Inflation:

It is clear that the inflationary situation in the long run is not going to help the economy to grow. Therefore the Government has to take many steps to overcome this problem. The given list of measures was taken through monetary and fiscal policy of our country and is explained in detail in the following ;

1.**Monetary measures :** to control inflation are:

- Bank rate
- Open market operations
- Higher reserve ratio
- Consumer credit control
- Higher margin requirements

2.**Fiscal measures:**

- Regulating to Government expenditure
- Taxation
- Public borrowing
- Debt management
- Over valuation of home currency

3.**Others:**

- Wage policy
- Price control measures and rationing the essential supplies
- Moral suasion

National Income

The purpose of national income accounting is to obtain some measure of the performance of the aggregate economy. The major concepts used in the national income calculation are Gross Domestic Product (GDP), Gross National Product (GNP), Net National Product (NNP), personal income and Disposable income.

Gross Domestic Product is the total market value of all final goods and services currently produced within the domestic territory of a country in a year. It measures the market value of annual output of goods and services currently produced and counted only once to avoid double counting. It includes only final goods and services. It includes the value of goods and services produced within the domestic territory of a country by nationals and non nationals. Gross National Product is the market value of all final goods and services produced in a year. GNP includes net factor income from abroad.

GNP = GDP + Net factor income from abroad (income received by Indian's abroad – income paid to foreign nationals working in India)

Net National Product at market price is the market value of all final goods and services after providing for depreciation.

NNP = GNP – Depreciation

Depreciation means fall in the value of fixed capital due to wear and tear. NNP at factor cost is called as National Income:

National income is the sum of the wages, rent, interest and profits paid to factors for their contribution to the production of goods and services in a year.

Nnp = Nnp (Market Price) – Indirect Tax + Subsidies

Personal income (PI) is the sum of all incomes earned by all individuals / households during a given year. Certain incomes are received but not earned such as old age pension etc.,

Pi = Ni – Social Security Contribution – Corporate Income Tax –

Undistributed Corporate Profits + Transfer Payments.

Disposable income is calculated by deducting the personal taxes like income tax, personal property tax from the personal income (PI).

Disposable Income = Personal Income – Personal Taxes =

Consumption + Saving

Supernumerary income: the expenditure to meet necessary living costs deducted from disposable consumer income is called as supernumerary income.

The economy is divided into different sectors such as agriculture, fisheries, mining, construction, manufacturing, trade, transport, communication and other services. The gross production is found out by adding up the net values of all the production that has taken place in these sectors during a given year. This method helps to understand the importance of various sectors of the economy.

Approaches To Calculate National Income:

The Income Approach:

The income of individuals from employment and business, the profits of the firms and public sector earnings are taken into consideration.

National Income is the income of individuals + self employment + profits of firms and public corporate bodies + rent + interest (transfer payments, scholarships, pensions are not included) this includes the sum of the income earned by individuals from various input factors such as rent of land, wages and salaries of employees, interest on capital, profits of entrepreneurs and income of self employed people. This method indicates the income distribution among various income groups of people.

The Expenditure Approach:

In this approach national income is calculated by using the expenditure of individuals, private, government and foreign sectors. i.e. the sum of all the expenditure made on goods and services during a year.i.e.

National Income = Expenditure Of Individuals + Govt. + Private Firms + Foreigners

GDP = C + I + G + (X-M)

Where,

C = expenditure on consumer goods and services by
individuals and households

I = expenditure by private business enterprises on capital
goods

G = government expenditure on goods and services
(government purchase)

X-M = exports – import

The Output Approach:

In this approach we measure the value of output produced by firms and other organization in a particular time period. i.e. the

National Income = income from agriculture + fishery + forestry + construction + transportation + manufacturing + tourism + water + energy …

Gdp At Market Price + Subsidies –Taxes

Gnp At Factor Cost + Net Income From Abroad

Factors Determining National Income:

1. Quantity of goods and services produced by the country. Higher the quantity of production, higher shall be the national income.
2. Quality of products and services produced in the country will also determine the national income of a country.
3. Innovation of more technical skills will improve the productivity which will reflect on national income of the country.
4. Political stability strengthens the national income of an economy.

Difficulties In The Calculation Of National Income:

1. Any income earned abroad have to be included
2. To avoid double counting, value added method should be considered
3. Services rendered free of charges are not to be included
4. Capital gains, transfer payments are not to be included
5. Changes in price level will also affect the calculation

6. Value of military services will not be taken into consideration.

UNIT-II : Political and Legal Environment;

Democracy, Political Diversity, Politics and Markets, Bureaucracy, Corruption Level, Societal Outlook and Orientation Roles of Government: a) Regulatory Role – Fiscal, Monetary and Industrial Policies, Tax Policies, Education and Employment Laws b) Promotional Role c) Entrepreneurial Role d) Planning Role

Political and legal environment

Meaning of Political Environment

Political environment includes factors such as ideology and policies of the government, nature and type of economic system, relation with other nations, political stability, etc. it has significant impact on the economic development of the nation. A stable and dynamic political environment is indispensable for business growth. Economic policy of ruling party has serious economic and business implications. Political environment mainly include the following Components**:**

- Political ideology of government.
- Political stability in the country.
- Relation of government with other countries.
- Defence and military policy.
- Welfare activities of government.
- Centre-state relationship.
- Approach of opposition parties towards business.

Meaning of Legal Environment

Legal environment refers to rules and regulations framed by government to regulate business units. Government is responsible for enacting laws and making rules which make the business units function smoothly, safeguard the interest of consumers, protect the interest of workers, protect environment and channelize the investment in desired direction. Changes in legal environment may provide opportunity for some business units or pose threat for some other business units. Foreign trade is regulated by rules framed by domestic country, foreign country and by international organisation like WTO, UNCTAD, IMF, SAARC, ASEAN, etc. legal environment mainly includes economic legislations passed by government to regulate the functioning of business units in desired direction.

<u>Democracy</u>

Definition of Democracy:

U.S. president **Abraham Lincoln** (1809-1865) defined democracy as:“Government of the people, by the people, for the people”

Meaning of Democracy:

Democracy refers to a political arrangement in which supreme power is vested in the people. Democracy may manifest itself in any of two fundamental manners. If each individual is given the right to rule and vote on every matter, the result is pure democracy which is not, however, workable in a complex society with a large constituency. Hence, the republican forms of organization follow whereby the public, in a democratic manner, elect their representatives who do ruling.

TYPES OF DEMOCRACY;

We can identify five prominent types of democracy;

Parliamentary Democracy; In parliamentary democracy, citizens exercise political power by electing representatives to a legislative branch of government called a parliament. The executive branch typically consists of a cabinet headed by a prime minister regarded as the head of the government. There is an independent judiciary but no formal separations of powers between the executive and legislative branches. Examples; India, Australia

Liberal Democracy; it originates in a constitution that specifically protects certain individual freedoms, such as freedom of speech, assembly, and religion and certain individual liberties, such as the right to private property and privacy. All citizens, both public and private, are treated equally before the law and receive due process under it. All liberal democracies are representative democracies. Eg. Japan , New Zealand

Multiparty democracy; when three or more political parties have the capacity to gain control of government whether separately or part of a coalition, the system is known as a multiparty democracy. The multiparty system prevents the leadership of a single party from setting policy without checks and balances imposed by opposition parties. Eg, Canada, Germany Italy

Representative democracy; It is one in which the people's elected representatives hold ultimate sovereignty. Representatives are charged with the responsibility of acting in the people interest, though not merely as their proxy representatives. In other words they enjoy sufficient authority to deal directly and as they see fit with changing circumstances but not enough to act according to their own preferences. Eg, USA

Social democracy; a social democracy advocates the use of democratic means to achieve a gradual transition from capitalism to socialism. Motivating this position is the belief that society must reform capitalism to remove its intrinsic injustices. Eg. Norway Sweden

Political Diversity

Meaning of Political Diversity

The political scenario in a country is the outcome of the interacting influence of the various interest groups such as individual households, firms, politicians, bureaucrats, and many others. The stronger a particular interest group, the more prominent its ideology will manifest in the overall political scenario. In a country with federal character, where different interest groups are prominent at different levels, ideologies, exist side by side at the same juncture. The political scenario in different states may be different. Even at the centre, the political scenario may change with changes in the dominant interest group.

As opposed to diverse political environment in a particular country, a particular political ideology may be found in more than one country. It is because the ethnic background, language, religion, and so on brings many countries within the fold of one common political ideology. For example, it was the ethnic consideration that brought Serbs of the neighbouring regions into one political umbrella known as greater Serbia. Thus political environment is marked by political diversity.

Politics and Markets

Getting acquainted with how politics and law affect business activities around the world is a critical concern of today's successful global organizations. Especially in the past ten years, there have been substantial political changes around the world that have shaped business operations. New markets have opened, old ones have closed, and the level of uncertainty that exists presents many marketing challenges.

Politics

Politics is the process of making decisions applying to all members of each group. More narrowly, it refers to achieving and exercising positions of governance — organized control over a human community, particularly a state. Furthermore, politics is the study or practice of the distribution of power and resources within a given community (a usually hierarchically organized population) as well as the interrelationship(s) between communities.

Causes of Politics in International Markets

There are 5 main political causes of instability that affect the international markets:

- Some forms of government seem to be inherently unstable
- Changes in ruling political parties
- Extreme nationalism
- Animosity targeted toward specific countries
- Trade disputes

Political risks in business

Below is a brief list of the kinds of political risks a company faces when doing business internationally.

- Confiscation, Expropriation and Domestication
- Economic risks associated with the political environment (exchange controls, local-content laws, import restrictions, tax controls, price controls, labour problems)

- Political Sanctions (boycotting trade altogether or on specific products by one country to another)
- Political and Social Activist and Non-governmental Organizations
- Violence, Terrorism and War
- Cyber terrorism and Cyber crime

In order to understand how the political environment impacts your business, you must analyse how politically vulnerable your company is. Unfortunately, there are no universal guidelines to do so, but understanding how much your business is affected by the political environment can identify threats to your firm. It also important to note that high priority products and industries in a country may have more favourable government restrictions.

To decrease how vulnerable your business is to political conditions, it is especially important for the marketer to forecast risk and engage in business ventures that may benefit them. Some examples of these practices include forming joint-ventures, expanding your investment base, licensing your products/services, or political bargaining through lobbying.

Markets

There are two types of market (i) Money Market (ii) Capital Market

MONEY MARKET;

Money market is the market for short term funds. A money market is a place where the lending and borrowing of short term funds and it comprises the short term credit instruments and the institutions and individuals who participate in the lending and borrowing business.

FUNCTIONS OF MONEY MARKET;

The important functions of a well developed money market may be listed down in more precise terms as follows;

- By providing various kinds of credit instruments suitable and attractive for different sections, a money market augments the supply of funds

- Efficient working of money market helps to minimize the gluts and stringencies in the money market due to the seasonal variations in the flow of and demand for funds.
- A money market helps to avoid wide seasonal fluctuations in the interest rates
- A money market, by augmenting the supply of funds and making them readily available to the legitimate borrowers, helps in making funds available at cheaper rates.
- A well organized money market, through quick transfer of funds from one place to another, helps to avoid the regional gluts and stringencies of funds.

MONEY MARKET AND INSTRUMENTS AND CONSTITUENTS

The money market instruments in India mainly compromise; (i) call money (ii) certificates of deposit, (iii) treasury bills (iv) other short term government securities transactions, such as repos (v) bankers acceptances/ commercial bills (vi) commercial paper and (vii) inter corporate funds

Call/ Notice money Markets; Call and notice money are money dealt for one to 14 days. The period of term money ranges from 14 to 90 days. This is sometimes a very volatile market and the interest rate is determined by the market forces. This market is of vital importance's to banks and financial institutions because of the revenue it provides for investing surplus funds and meeting the deficits. The interbank lending is the major component of this market.

Term Money Market; the term money market in India is still not developed. Select financial institutions (IDBI, ICICI, IFCI, IIBI, SIDBI, EXIM BANK, NABARD, IDFC AND NHB) are permitted to borrow from the term money market for 3-6 months maturity, within stipulated limits for each institutions.

Repos; Repo is a money market instrument, which enables collateralized short term borrowing and lending through sale/ purchase operations in debt instruments. Under a Repo transaction, a holder of securities sells them to an investor with an agreement to repurchase at a pre-determined date and rate. In the case of a repo, the forward clean price of the bonds is set in advance at interest coupon earned on the security.

Repo is also called a ready forward transaction as it is a means of funding by selling a security held on a spot basis and repurchasing the same on a forward basis. Reverse repo is a mirror image of repo as in the case of former, securities are acquired with a simultaneous commitment to resell.

Commercial Paper; commercial papers are unsecured promissory notes of short term maturity of highly rated companies, issued to meet working capital requirements. The CP is subject to credit rating by any of the recognized credit rating agencies in India.

Certificates of Deposit; Certificates of Deposit introduced in June 1989, are essentially securitized short term time deposits issued by banks during periods of tight liquidity at relatively high interested rates. But the transactions cost of CDs is often lower as compared with that of retail deposits.

Commercial Bills Market; commercial bills are important instruments used to facilitate credit sales. Commercial bills can be discounted with banks and the banks, when they are in need of funds, may rediscount them in the money market.

Treasury Bills; Treasury bills are promissory notes issued by the central government to raise short term funds to bridge short term mismatches between receipts and expenditures. The RBI which issue the TBs on behalf of the government does not purchase them before maturity but investors can sell them in the secondary market through the DFHI or get it rediscounted.

CAPITAL MARKET

Meaning:

Capital market is the market for lending and borrowing of medium and long term funds

Essential things of capital market:

Borrowing:
The demand for long-term funds comes from industry, trade, agriculture and government (central and state).

Lending:

The supply for funds comes from individual savers, corporate savings, banks, insurance companies, specialized financial institutions and government.

Importance /Role and Significance of Capital Market:

Capital Formation:

Capital formation as it ensures speedy economic development. The process of capital formation includes collection of saving effective mobilization of these savings for productive investment.

Revival of Sick Units:

Commercial and financial institutions provide adequate funds to viable sick unit to overcome their industrial sickness.~ Bank and FIs may also write off a part of the loan or re-schedule the loan to offer payment flexibility to weak units.

Economic Development:

Capital market plays a vital role in the growth and development of an economy by channelizing funds in developmental and productive investments.

Technical Assistance:

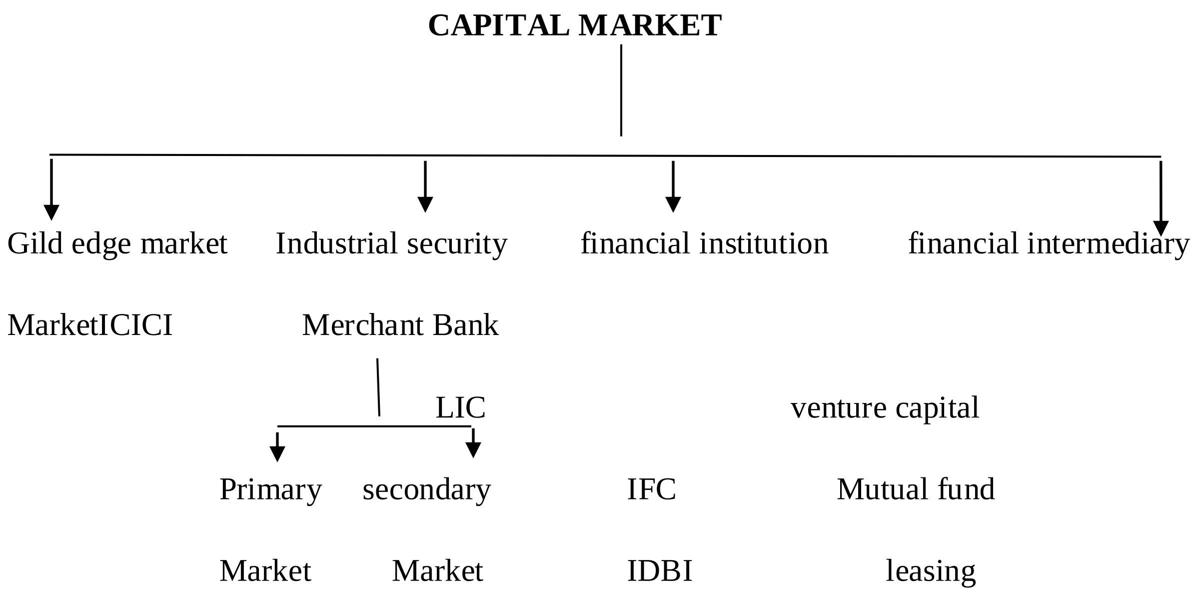
The financial intermediaries in the capital market stimulate industrial entrepreneurship by providing technical and advisory services like preparation of feasibility reports, identifying growth potential, and training entrepreneurs in project management.

Expansion of business:

Capital markets also contribute towards modernization and rehabilitation of industries. Developmental financial institutions like IDBI, IFCI, ICICI, etc provide finance to industries to adopt modern techniques and new upgraded machinery. They also participate in the equity capital of industries.

GILD-EDGED MARKET:

This market deals in government and semi government securities and so it is also called 'Government securities market. This market deals with securities such as bonds issued by Central / State Government and these securities carry fixed interest rates.



CORPORATE / INDUSTRIAL SECURITIES MARKET:

The Corporate Security Market provides long – term funds to the companies. It deals with shares and debentures of old and new companies. This market is further divided into:

Primary market (new issues market):

It is a market for new issues. It deals with those securities that are issued to the public for the first time. So, it is also called New Issues Market. It deals with the raising of fresh capital in the form of equity shares, preference shares, debentures, bonus, right issues, deposits, etc.

Secondary Market (old issues market):

The secondary market deals with securities that are already issued by companies. It facilitates trading in securities and operates through stock exchanges. The secondary market helps to provide liquidity and marketability to the outstanding equity and debt instruments.

FINANCIALINSTITUTIONS:

Developmental financial institutions were established to provide medium term / long term loans to the industrial sector. The long term loans obtained from these institutions can be used for expansion and modernization~

These institutions include:

- Industrial Finance Corporation of India
- Industrial Development Bank of India
- Industrial Development Bank of India
- Industrial Investment Bank of India
- The Export and Import Bank of India
- State Finance Corporations (SFCs),
- State Industrial Corporations

Three essential functions of financial institutions:

- Term loans market: Developmental financial institutions provide term loans for a period of 1 year. Thus, they encourage new entrepreneurs, help in identifying investment opportunities and support modernization efforts.
- Mortgages market: financial institutions provide loans against security of immovable assets such as land and building. The transfer of interest in an immovable property to the lender is called' mortgage.
- Financial guarantee market: Financial Institutions provide financial guarantee on behalf of their clients. Incase the client does not perform the contract appropriately; a penalty is imposed on the client. If the client fails to pay the imposed penalty the financial institution issuing the guarantee is held liable.

FINANCIAL INTERMEDIARIES:

- Merchant banks manage and underwrite new issues, and advise corporate on various financial aspects.
- Leasing companies provide funds for purchasing plant and machinery.
- Mutual funds mobilize savings of the people and invest them in stock markets.
- Venture capital companies provide financial support to new ideas and technology.

BUREAUCRACY;

A bureaucracy is an organization made up of many departments and divisions that are administered by lots of people.

A **bureaucracy** is a way of administratively organizing large numbers of people who need to work together. Organizations in the public and private sector, including universities and governments, rely on bureaucracies to function.

Bureaucracy is a large administrative organization that handles the day-to-day business of a government or society. In America, the government's bureaucracy operates on national, state, and local levels.

A system of administration distinguished by its

- Clear hierarchy of authority,
- Rigid division of labour.
- Written and inflexible rules, regulations, and procedures, and
- Impersonal relationships.

Once instituted, bureaucracies are difficult to dislodge or change.

Characteristic of bureaucracy

Bureaucracies have four key characteristics that make their resemblance to beehives all the more apparent.

- **A clear hierarchy** - Bureaucracies have a firm chain of command. Every worker has his or her own place in the chain, and everyone's work is overseen by someone on the next level up. Power flows down from the top of the hierarchy and diminishes as it approaches the bottom. Just think of the beehive. The queen bee stands at the top, and each worker bee or drone has its own place in the hive's chain of command.

- **Specialization** - Everyone in a bureaucracy has a specific job to do and often becomes an expert at it. Bees have specific jobs, too, collecting pollen, making honey, or populating the hive.

- **A division of labour** - In a bureaucracy, nearly every task is broken down into its component parts, and different people work on different parts of the task. Together they get the job done, just like bees in a hive who divide their labour for maximum efficiency.

A set of formal rules - These so-called **standard operating procedures** are the clear, written instructions for each specialized job at every level of the hierarchy. Workers who follow them can be sure that they are on the same page as their colleagues and are doing their jobs properly. According to beekeepers, bees, too, have a sophisticated system of communication that keeps their hives running smoothly

Models of Bureaucracy:

Some political scientists have devised few models of bureaucracy. We shall discuss here three main models. The first one is rational administrative model Secondly conservative power bloc model and, finally government over supply model.

The above mentioned three models are explained below:

(i) Rational-Administrative Model:

The first model of bureaucracy is rational-administrative model. Bureaucracy is run by rational administrative machine and because of the rationality Weber calls it an ideal type. We have just now analyzed Weberian theory of bureaucracy which states that it is hierarchical, the area of each official is strictly demarcated, it is based on rules and laws, the authority of officers is impersonal and appointments are done on the basis of recruitment and through open and public examination. Seniority, experience and efficiency are recognized and duly rewarded. These are the reasons of why bureaucracy is an ideal type.

Because bureaucracy is rational it has earned tremendous popularity during the last one century and every state, both small and big, has adopted the bureaucratic mode of administration. It has also been asserted by Weber that bureaucratic authority or administration is superior to traditional or charismatic authority. The administration is, everywhere, being gradually bureaucratised. Weber believes that it is efficient and reliable. Above all, it is a rational method of administration.

The advance of democracy or the rapid growth of democratisation has considerably accelerated the growth of bureaucracy in recent years. People's faith on traditional authority and charismatic authority began to fade away with the rise of democratisation.

They began to pin their hopes on an efficient and people's welfare oriented administration, on experience it was found that only an efficient, experienced and permanent team of administrative staff can meet this need and ultimately people looked to the efficient, independent and neutral officials.

So we can say that the concept of rationality revolves around the ideas of efficiency, experience and neutrality. Some men today raise question about these qualities of bureaucracy. But there is no doubt that it is far better than the traditional or charismatic authority.

Rapid industrialisation has also made the bureaucratic form of administration a must for every industrial society. It is due to the reason that the management of large scale industries requires a particular class which is called managerial class—and this is another name of bureaucracy. Today many people call it managerialism. Following Weber, James Burnham also threw ample light on managerialism in his work, The Managerial Revolution, published more than after two decades of Weber's death.

All these sufficiently strengthen-the rational aspect of bureaucratic administration. We are at the threshold of the twenty first century and in this age there has arisen an immense importance if bureaucracy which has been accentuated by the rapid growth of industrialisation and globalisation.

(ii) The Power Bloc Model:

In our analysis of power theory we referred to the corporatist theory which deals with how big corporations in advanced capitalism are controlling political and economic power. Repetition of some arguments in this section is inevitable. Like Weber, Marx did not develop a well-knit theory of bureaucracy, but he was quite aware of its existence and importance in capitalist country.

He believed that bureaucracy was a machine used by the bourgeoisie for the attainment of the goals. "He was thus concerned less with the bureaucratisation as a broader social phenomenon, but more with the class role played by the state bureaucracy. In particular, he saw the bureaucracy as a mechanism through which bourgeois interests are upheld and the capitalist system defended”.

We, therefore, find that in Weber’s analysis, bureaucracy has been viewed as a mechanism of administration whereas in Marxian analysis it has been seen as a mechanism of class rule. Bureaucracy and capitalists work in tandem for the furtherance of the economy controlled by capitalists. In some capitalist countries the socialist elements may be quite active and these create pressures upon the state authority to adopt pro-labour and pro-common people policies.

This attempt is thwarted by the top and experienced bureaucrats. These bureaucrats are members of the higher class and have received their education from the best schools and naturally they have, from the very childhood, developed strong affinity to their own class—the capitalist class. Ralph Miliband has said: “the social provenance and the education and class situation of top civil servants make them part of a specific milieu whose ideas, prejudices and outlook they are most likely to share and which is bound to influence their view of the national interests”.

Miliband further maintains that the top civil servants are conservative in their outlook and political ideology and this makes them very much close to the capitalist class. Wherever any anti-capitalist measure is going to be adopted the top bureaucrats of the state administration—by hook or by crook—scuttle the attempt.

Heywood concludes: “The major implication is that if senior bureaucrats are wedded to their interests of capitalism, a major obstacle stands or the way of any attempt to achieve socialism through constitutional means”. To sum up, it is the enormous affinity of the top bureaucrats of all advanced capitalist countries which has always foiled the implementation of pro-socialist or pro-labour policies.

It (bureaucracy) acts as a power bloc. Whether Weber was aware of it or not we do not know. Of course, in his time, bureaucracy was not used in abundant measure as a weapon to further the interests of the capitalist. It was generally concerned with the administration of the state. The socialist wave or feeling made bureaucracy more conscious and its role as a machine of class rule was sharpened.

(iii) Bureaucratic Over-Supply Model:

So far as bureaucracy is concerned there are two opposite views. The exponent of one view is Marx who has branded it as an instrument of class rule; the spokesperson of another view is the other German thinker Max Weber who believes that to tackle the complex of any modern administration the bureaucracy is an inevitable instrument.

According to Weber, bureaucracy is not a machine of class rule but a machine of administration. From this conception arises a different model which is known as bureaucratic over supply model. "Central to this model of bureaucracy is a concern with the interests and motivations of bureaucrats themselves".

Bureaucracy is not only inevitable for the management of modern state but also it is the most rational choice. It is rational in the sense that no other better instrument has yet been devised to run efficiently and honestly the administration of a modern state. At least Max Weber thinks so. We have already discussed the rationality of bureaucracy.

There is another interpretation of the rational choice model/theory of bureaucracy. It is generally observed that men are self-interest seeking and bureaucrats are no exception. Whatever may be their rank and position all of them attempt to fulfill their personal interests and to that end they use and utilise all the legal and possible ways.

The fulfilment of self interests implies improvement of their position and rank, guarantee in service, favourable placement etc. They also want better scale of pay and other pecuniary benefits. As bureaucrats they do not neglect these aspects. Since bureaucrats are all rational human being it is quite natural that they will make attempts for the realisation of these objectives.

In 1971 William Niskane's thought-provoking work—Bureaucracy and Representative Government has dealt with this interesting aspect of bureaucracy. All bureaucrats, irrespective of their rank and images, try to build up their career. Career- building is a multifaceted idea, which includes improvement of position, higher salary, better placement etc. The bureaucrats try to achieve these keeping themselves within the legal framework and political structure-of society.

Nevertheless, they very often adopt political tactics. The bureaucrats, particularly the departmental secretaries and top ranking officials, influence their political bosses—the ministers or representatives. The political bosses succumb to the bureaucrats because without them they will not be able to shoulder the burden of decision-making and policy implementing activities. In parliamentary system the ministers are completely dependent on the officials and the latter fully utilize this situation to satisfy their various needs. In almost all modern states this situation prevails.

Roles of Government

The environment is full of examples to help you to understand the role that political environment plays on business. Some examples are listed here.

1. The central government disallowed tobacco advertising in 2001. After that, ITC, the cigarette major, had to stop sponsoring the Indian cricket team and displaying their 'WILLS' logo on their T-shirts. Now 'Sahara' is sponsoring them.
2. When the congress led UPA, alliance won the general elections in May 2004 the syllabus of some subjects of some classes was changed by NCERT to accommodate the new government's ideologies.
3. After the gas leak from the Union Carbide plant in the Bhopal, the government disallowed them from continuing operations.
4. The Tamil Nadu government introduces the CAS system for television subscribers in the city of Chennai in 2003. As a result of this, many set-top-boxes were imported and are also being manufactured, which has given business opportunities to many.
5. In 2003, the Tamil Nadu government started encouraging RAIN WATER HARVESTING (RWH) to raise the water table and to reduce the water problem. This also let to a lot of opportunities for businessmen who started RWH as a profitable business.

In his book 'business and government, Marshal E Dimock (1961) observes-" the two most powerful institutions in society today are business and government, where they meet on common ground- amicably or otherwise, together, they determine public policy, both foreign and domestic, or a nation'. Even in predominantly private enterprise economies, government interference is necessitated. This is because market forces and mechanisms cannot take care of the entire public policy. They cannot perform all the economic functions. The government is a very powerful mechanism, which shapes the national economy. Almost all countries ok the world have realised the role of the government in creating a favourable business environment.

The government plays four important roles in an economy which can be categorised as follows**:**

1. **The Regulatory Role:**the government acts as a regulator of business through all stages of the business life-cycle. Through the licensing systems, the entry itself may be regulated. There may be entry barriers in some sectors and other reserved sectors like those for SSI's, e.g.; safety matches, Agarbattis, co-operative sectors and public sectors like railways, may not be allowed. The regulatory role may be evident in direct or indirect controls or a combination of both. The direct controls are more administrative in nature with regards to physical developments. The regulatory controls have an objectives of maintaining equilibrium in the allocation of resources or balanced regional development,

They can be in the form of the following:

- Placing restraints on private activities
- Control of monopoly
- Control of big business
- Starting of public enterprises together with private companies.
- Regulate promotional activities
- Control the product-mix
- Impose ceiling on profit margins
- Put a ceiling on dividends.

Indirect controls are exercised by the government through subtle measures. These can be in the form of fiscal and monetary means.

- By imposing penalties

- Adopting disincentive measures
- Extending incentives
- Giving subsidies

Fiscal policy relates to government spending and revenue collection. For example, when demand is low in the economy, the government can step in and increase its spending to stimulate demand. Or it can lower taxes to increase disposable income for people as well as corporations.

Monetary policy relates to the supply of money, which is controlled via factors such as interest rates and reserve requirements (CRR) for banks. For example, to control high inflation, policy-makers (usually an independent central bank) can raise interest rates thereby reducing money supply.

- These methods are applicable in a market economy, but not in a fascist, communist. John Maynard Keynes was a key proponent of government action or intervention using these policy tools to stimulate an economy during a recession.

Industrial policy

Industrial policy is a statement which defines the role of government in industrial development. The place of the public and private sectors in industrialisation of the country. The relative role of large and small industries.

The role of foreign capital etc. In brief, it is a statement of objectives to be achieved in the area of industrial development and the measures to be adopted towards achieving these objectives. The industrial policy thus formally indicates the spheres of activity of the public and the private sectors.

It lays down rules and procedures that would govern the growth and pattern of industrial activity. The industrial policy is neither fixed nor inflexible. It is amended, modified and redrafted according to the changed situations, requirements and perspectives of developments.

Tax policies

Taxes are the main source of revenue of government. Government invites both direct and indirect taxes in India. Direct taxes are those taxes which are paid directly by the assesses to the government e.g.; income tax, wealth tax, etc. indirect taxes are paid indirectly by the public to the government , i.e.; these taxes are changed by trader/manufacturer from the public and then paid to government e.g., excise duty, custom duty, value added tax(VAT) , service tax, etc. ., the direct taxes are progressive in nature, i.e., that rate of tax increases with the increase in level of income/wealth, so people with low income pay tax at lower rates and people with higher income pay tax at higher rates.. Indirect taxes are not progressive. The main objective of taxation policy in India is as follows,

- Mobilisation of resources
- To promote saving
- To promote investment
- To bring equality of income and wealth

Comparison chart

Fiscal Policy versus Monetary Policy comparison chart

	Fiscal Policy	**Monetary Policy**
Definition	Fiscal policy is the use of government expenditure and revenue collection to influence the economy.	Monetary policy is the process by which the monetary authority of a country controls the supply of money, often targeting a rate of interest to attain a set of objectives oriented towards the growth and stability of the economy.

Fiscal Policy versus Monetary Policy comparison chart

	Fiscal Policy	**Monetary Policy**
Principle	Manipulating the level of aggregate demand in the economy to achieve economic objectives of price stability, full employment, and economic growth.	Manipulating the supply of money to influence outcomes like economic growth, inflation, exchange rates with other currencies and unemployment.
Policy-maker	Government (e.g. U.S. Congress, Treasury Secretary)	Central Bank (e.g. U.S. Federal Reserve or European Central Bank)
Policy Tools	Taxes; amount of government spending	Interest rates; reserve requirements; currency peg; discount window; quantitative easing; open market operations; signalling

EDUCATION, SCIENCE AND TECHNOLOGY

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

Jawaharlal Nehru believed in the spread of science of scientific temper. He was responsible for the setting up of a chain of national laboratories devoted to basic and applied research, develop indigenous technology and processes and help industrial enterprises in solving their technological problems. The Council of Scientific and Industrial Research (CSIR) as well as the Department of Atomic energy was set up. The Indian Council of Agricultural Research (ICAR) was strengthened. Then came the Department of Space technology, The Indian Space

Research Organization (ISRO) etc., in 1958 the science Policy Resolution was adopted to provide positive incentives for the development and utilization of S and T in nation building activities.

The major aims of this policy were:

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

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

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

MEASURES TO PROMOTE S & T

Following are the measures necessary to promote S & T:

Education for the knowledge economy

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

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

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

Technology acquisition and diffusion (using existing knowledge to improve the competitiveness)

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

Science & Technology Policy Making Capacity

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

SCIENCE AND TECHNOLOGY MANPOWER DEVELOPMENT AND EMPLOYMENT

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

- Motivating S&T personnel to capture the full potential of self employment.
- Creating awareness about entrepreneurship leading to self employment among the college and school students
- Introducing greater capital investment in the areas where the outlay per work place is minimal
- Restructuring government policies to minimize import of goods
- Creating entrepreneurship development cells in all Science /Engineering/IITs and other academic institutions by the concerned central /state agencies
- Introducing automated techniques selectively from the viewpoint of safety, reduction of drudgery, improvements in productivity/efficiency etc
- Examining export strategy to enable the country to pay for imports through exports and thereby simultaneously generating greater employment
- Encouraging the establishment o sophisticated industries in the emerging areas of technology as also encouraging the service sectors requiring inputs from high technology so that highly trained S&T personnel could be retained and gainfully employed
- Maintaining centers of excellence in various branches of Science and Technology to retain highly trained persons within the country
- Providing proper working atmosphere and adequate amenities (e.g. housing in urban areas) to S&T personnel

2. **The Promotional Role:**this role is important in developed, developing and underdevelopedeconomies. However, it becomes more crucial in the latter two situations, where there is a deplorable scarcity of industry and entrepreneurial related options. This role ensures that the government assists, promotes and develops industrial labour, consumer and agricultural interests, rather than regulating them. In this role, the government performs a variety of functions such as,

    - Builds and strengthens the infrastructure of the place, such as power, roads, ports, electricity, etc.
    - Creates institutions for training and guidance and other promotional activities.
    - Provides subsidies
    - Provides tax holidays
    - Initiates special economic zones
    - Develops certain priority sectors ad activities.

3. **The Entrepreneurial Role:**the government plays the role of a social entrepreneur and does not hesitate to take up certain industries that are required in the country and not already existent. Initially, public, state-owned enterprises were capital intensive and dealt in heavy industry, e.g., steel mills in Jamshedpur, Rourkela, etc. But, now, of late, in India, the Government has started taking on other industries also. Private players are seen in earlier risky ventures like airlines, telecommunication, etc. this entrepreneur to promote industrialization and development, is indeed commendable and has become a high focus area, especially in developing countries. This role is played mainly due to a host of reasons like,

    - Unprofitable, essential sectors.
    - Dearth of private entrepreneurship
    - Neglect of some sectors by the private business
    - Absence of adequate competition causing exploitation of the consumers
    - Socio-political ideologies of the government
    - Get control from foreign owners or minority groups.
    - To preserve national security
    - To revive sick private units

4. Planning Role:the primary role of the government is to administer and bring around overall prosperity. From economies, we know that this indeed is a difficult task in the light of 'scarcity of resources' and 'competing needs'. The modern state is the custodian of the welfare of its residents and hence the need to 'plan' resource allocation assumes primary significance. All nations have limited resources and more so, the smaller, underdeveloped or developing nations. Resource constraints demand that the urgent needs and national priorities should be determined, and there should be optimal allocation of the limited resources for the common good.

In India, we have the 5-year plan which has the primary role of focusing on this, where resources are abundant, it does not matter how they are used, but in a limited scenario, the government has to see that they are directed towards the right purpose and for the general good. Planning is done after formulating socio-economic objectives and their translation in quantitative terms.

After the individual targets are set, the issue is on proper execution, implementation, supervision and then correction. In this enhanced role of a planner, the government reinforces its role as a caretaker of national interest.

AN OVERVIEW OF WTO

World Trade Organization (WTO)

- ***The World Trade Organization (WTO) deals with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible.***
- ***WTO is an organization for liberalizing trade, a forum for governments to negotiate trade agreements and a place for them to settle trade disputes***
- *At the heart* ***of the system — known as the multilateral trading system — are the WTO's agreements, negotiated and signed by a large majority of the world's trading nations, and ratified in their parliaments.***
- ***The WTO has larger membership than GATT, with the numbers being 153. India is one of the founder members of GATT.***

Functions of WTO:

WTO is based in Geneva, Switzerland. Its functions are:

- ***Administering the multilateral trade agreements which together make up the WTO***
- ***Acting as a forum for multilateral trade negotiations***
- ***Seeking to resolve trade disputes***
- ***WTO is not a "Free trade" institution. It permits tariffs and other forms of protection but only in limited circumstances.***

Principles of WTO

- ***Non discrimination***
- ***Free Trade: Promote free trade between nations through negotiations.***
- ***Stability in the trading system: Member countries are committed not to raise tariff and non tariffs barriers arbitrarily.***
- ***Promotion of Fair Competition: WTO provides for transparent, fair and undistorted competition.***
- ***It discourages unfair competitive practices such as export subsidies and dumping.***

TRIPS (Trade Related Intellectual Property Rights Agreement)

- ***The agreement requires member countries to provide patent protection to all products or processes in all fields. The protection is granted subject to the following three conditions:***
  - **The product or process is a new one.**
  - **It contains an inventive step.**
  - **It is capable of industrial application for 20 years from the grant of the patent**

- ***TRIPS agreement covers the following seven intellectual properties:***
  - **Patents**
  - **Copyright and other related Rights**
  - **Geographical Indications**
  - **Industrial Designs**
  - **Trade marks**
  - **Layout design of integrated circuits**
  - **Undisclosed information including trade secrets**

TRIMS (Trade Related Investment Measures)

- ***TRIMS refer to certain conditions or restrictions imposed by a government in respect of foreign investment in the country.***
- ***In the late 1980's, there was a significant increase in foreign direct investment throughout the world.***
- ***TRIMS are widely employed by developing countries. The Agreement on TRIMs provides that no contracting party shall apply any TRIM which is inconsistent with the WTO articles***

GATS (General Agreement on Trade in Services)

The GATS agreement covers four modes of supply for the delivery of services in cross-border trade:

	Criteria	Supplier Presence
Mode 1: Cross-border supply	Service delivered within the territory of the Member, from the territory of another Member. Eg: transborder data flows	Service supplier not present within the territory of the member
Mode 2: Consumption abroad	Service delivered outside the territory of the Member, in the territory of another Member, to a service consumer of the Member. Eg : Tourism	
Mode 3: Commercial presence	Service delivered within the territory of the Member, through the commercial presence of the supplier (provision of services abroad through FDI or representative offices).	Service supplier present within the territory of the Member
Mode 4: Presence of a natural person	Service delivered within the territory of the Member, with supplier present as a natural person (entry and temporary stay of foreign consultants)	

Anti Dumping Measures:

- ***The WTO Agreement provides clarity in the method of determining that a product is dumped.***
- ***A product is regarded as dumped when its export price is less than the normal price in the exporting country or its cost of production plus a reasonable amount of administrative, selling and any other costs.***
- ***Anti-dumping duties are to be imposed on goods that are deemed to be dumped and causing injury to producers of competing products in the importing country. These duties are equal to the difference between the goods' export price and their normal value, if dumping causes injury.***
- ***Countervailing measures - Action taken by the importing country, usually in the form of increased duties to offset subsidies given to producers or exporters in the exporting country.***

Evaluation of WTO

- ***The WTO members now account for over 97% of the international trade indicating the potential of bringing about an orderly development of international trade.***

Benefits of WTO:

- ***GATT / WTO has made significant achievements in reducing tariff and non tariff barriers to trade. Developing countries too have been benefiting significantly.***
- ***Liberalization of investments has been fostering economic growth of a number of countries.***
- ***It has a system in place to settle trade disputes between nations.***
- ***It has a mechanism to deal with violation of trade agreements.***

Drawbacks:

- ***Negotiations and decision making in the WTO are dominated by the developed countries.***
- ***Many developing countries do not have the financial and knowledge resources to effectively participate in WTO discussions and negotiations.***
- ***Due to the dependence of developing countries on the developed ones, the developed countries are able to resort to arms twisting tactics.***

Points to Remember

- Tariff*: **A tariff is a tax. It adds to the cost of imported goods and is one of several trade policies that a country can enact.***
- Non-tariff barriers to trade ***(NTBs) are trade barriers that restrict imports but are***

not in the usual form of a tariff. Some common examples of NTB's are anti-dumping measures and countervailing duties.

- Sanitary and Phytosanitary Measures (SPS): ***SPS measures refer to any measure, procedure, requirement, or regulation, taken by governments to protect human, animal, or plant life or health from the risks arising from the spread of pests, diseases, disease -causing organisms, or from additives, toxins, or contaminants found in food, beverages, or feedstuffs.***
- Specific Tariffs: ***A fixed fee levied on one unit of an imported good is referred to as a specific tariff. For example, a country could levy a $15 tariff on each pair of shoes imported, but levy a $300 tariff on each computer imported.***
- Ad Valorem Tariffs: ***This type of tariff is levied on a good based on a percentage of that good's value. An example of an ad valorem tariff would be a 15% tariff levied by Japan on U.S. automobiles.***
- Import Quotas: ***An import quota is a restriction placed on the amount of a particular good that can be imported.***
- Free Trade Area*:* ***Trade within the group is duty free but members set their own tariffs on imports from non-members (e.g. NAFTA).***

UNIT-III: SOCIO-CULTURAL ENVIRONNENT

Population & its Growth Rate Education Levels, Age Distribution and Life Expectancy Rates

Family Size and Structures, Gender Distribution Religion, Nationality and Beliefs and Minorities

Social classes and Lifestyle, Average Disposable Income

POPULATION GROWTH

India and many other third world war countries are now passing through the phase of population explosion. It is being argued that this situation has arisen because economic development in these countries has failed to maintain pace with population growth.

According to the demographic theory of transition every country passes through three stages ;

- In first stage both birth rate and death rate is high
- In second stage rapid growth of population because despite substantial reduction in the morality rate there is no corresponding decline in the birth rate.
- In the third stage the birth rate declines significantly and thus the rate of population growth remains low

SIZE OF POPULATION;

As far as the size of population is concerned, India ranks second in the world next to china. India Landscape is just 2.4 % of total world area, whereas its population is nearly 16.85% of the world population. India accounted for 19.96% of the estimated population of developing countries in 2001. These facts clearly explain the pressure of population on the land in this country is very high.

India's population according to the census of 2001 was 102.9 crore. It is estimated to have risen to 111.2 crore in 2006. According to the census of 1901, the population of the country was 23.83 crore. Since then, in a period of 100 years, the population of the country is very high and alarming and also the national income of India is eventually or less than 1.2% of the world income.

RATE OF POPULATION GROWTH;

Since independence there has been a rapid decline in the mortality rate, particularly due to control of epidemics and improved medical facilities. The magnitude of fall in the mortality rate is far greater than what was expected in early 1950s. The planning commission and the census commissioner had envisaged a continuation of the 1941-51 trends in 1951-61. Therefore when the actual rate of population growth out to be about 1.96 % in 1951-61, the planners were taken by surprise. This unexpected development caused great anxiety to the government. The rate of population growth was 2.22% per annum during 1961-71 which was still higher than that in the preceding decade.

The census of 2001 has shown that the rate of population growth remained as high as 1.93% per annum during the 1990s. Hence this country even now remains in the second stage of demographic transition and is encountering a population explosion. It is both a cause and a consequence of underdevelopment of the country.

THE POPULATION GROWTH AND ECONOMIC DEVELOPMENT:

India and many other Third World Countries are now passing through the phase of population explosion. It is being argued that this situation has arisen because economic development in these countries has failed to maintain pace with population growth. The thrust of this argument is that since rapid growth of population causes poverty and proves to be a barrier to development these countries should take care of their population growth if they seriously wish to solve their poverty problem and put their economy on the path of economic development.

Three stages of Demographic Transition:

According to the theory of demographic transition, every country passes through three stages of demographic transition. These stages are empirically verifiable.

- 1st stage both birth and death rates are high. Hence the population remains more or less stable (or)

- In the first stage of demographic transition, high rate in matched by equally high death rate, and thus population stable over a long period.
- 2nd stage of demographic transition is characterized by rapid growth of population because despite substantial reduction in the mortality rate there is no corresponding decline in the birth rate.
- 3rd stage of demographic transition the birth rate declines significantly and thus the rate of population growth remains low.

Size of population:

- As far as the size of population is concerned, India ranks second in the world next only to china. India's landscape in just 2.4 per cent of the total world area, Whereas its population is nearly 16.85 percent of the world population. India accounted for 19.96 percent of the estimated population of developing countries in 2001.
- These facts clearly indicate that " the pressure of population on the land in this country is very high"
- How alarming is the situation in this country can be easily followed from the fact that the national income of India is presently even less than 1.2 percent of the total world income.
- "India's population according to the census of 2001 was 102.90 cr". It is estimated to have risen to 111.2 cr in 2006.
- According to census 1901 the population of the country was 23.83 cr. Since then, in a period of 100years,the population of the country increased by 78.87 cr .
- This, if viewed in the context of a relatively slow economic growth is really an alarming situation. However the population has not increased in this country at a uniform rate.

Rate of population growth:

- Since independence there has been a rapid decline in the mortality rate, particularly due to control of epidemics and improved medical facilities.
- The magnitude of fall in the mortality rate is far greater than what was expected in the early 1950's.
- The planning commission and the census commissioner had envisaged a continuation of the 1941-51 trend in 1951-61.therefore, when the actual rate of population growth turned out to be about 1.96 percent in 1951-61, the planner were taken by surprise.
- This unexpected development caused great anxiety to the government. the rate population growth was 2.22 percent annum during 1961-71 which was still higher than that in the preceding decade.
- The census of 2001 has shown that the rate of population growth remained as high as 1.93 percent per annum during 1990's.hence this country even now remains in the second stage of demographic transition and is encountering a 'population explosion'. It is both a cause and a consequence of underdevelopment of the country.

Birth and Death Rates:

- Population trends are function of not only birth and death rates, but also of the levels and direction of migration.Since the Indian migration is not a significant factor, we shall not consider it.
- A mere perusal makes it clear that from 1951 to 2006 there was only some decline in the birth rate. In the same period the death rate has however declined significantly.

- In the second decade of the twentieth century, infant mortality rate was 218 per 1000 live births whereas in 2006,it was 57 per 1000 live births

Causes of the rapid growth of population:

Broadly speaking there are only three possible causes of an increase in the population of a country.

1. A high birth rate
2. A relatively lower death rate
3. Immigration (India's population has not increased much due to immigration)

- In india the population has rapidly increased leading to population explosion. Factors leading to steady decline in the death rate while birth rate remained high.

Causes of decline in the mortality rate:

- The causes of death is not generally accurately reported, and it is thus difficult to say as to what factors brought down the death rate since independence.
- Nevertheless from the survey data and the studies of village and urban areas it is possible to identify at leastsom factors which have contributed to the decline of mortality during the past few decades.

Elimination of famines:

Recurrence of famines in india under the british was a major cause of high mortality rate. Since independence the situation has considerably improved. During the 1970s and 1980s the government capacity to cope with the condition created by drought was put to test several times. Lately in 2002-03 when the production of foodgrains has declined by about 13.6% as compared to that in 2001-02 the government faced the cries without food imports as it could gear up its distribution system to meet challenges.

Control of epidemics and decline in the incidence of malaria and tuberculosis:

1.Cholera and small pox were the two major causes of epidemics before independence. Now small pox is completely eradicated and cholera is very much under control. consequently the mortality rate has registered some decline.

2. In the late 1930s when death rate was around 31 per thousand people, malaria accounted for 16%of total death .Now overall death rate is 8.0 and ”a substantial share of the decline in mortality since world war II must be attributed to malaria control which saved millions of lives not only from malaria but also from diseases which afflicted those whose defences malaria had lowered”.

Other factors:

1.Elimination of famines control of epidemics and reduction in the incidence of lethal diseases like malaria and tuberculosis do not fully explain the decline in mortality during past five years decades. But there is no much information about other factors. Since independence there has been no visible improvement in the nutrition level of the people.

2. poverty is widespread and nearly 35%of the people subsists under sub-human living condition. however supplies of pure drinking water have improved both urban and rural areas and they are believed to have made some impact of mortality. Little is known about sanitation and hygiene in cities or villages but surely efforts in these direction however limited they may be must have helped in lowering down the mortality rate.

3. Further spread of education and expanded medical facilities particularly immunization againt various preventable diseases must have reduced the incidence of various diseases though no concrete estimates of their impact on the mortality are available. In future level of mortality in India will probably improved.

Causes of the high birth rate:

The birth rate is still high in India and the expectations that it would decline significantly as a result of family planning programme have been belied. Excepting in the state of kerala,tamilnadu and goa, birth rate has not declined significantly in the country during the last five decades because a number of economic and social factors continue to favour high fertility.

- Economic factor
- Social factor

Economic Factor:

Economic environment of a country influences human behaviour to a great extent. Even fertility has its basis in the economic life of the country.these economic factors,viz., the occupational distribution of the population, the extent of urbanization and the spread of poverty,have considerable bearing on the birth rate of the country.We shall examine how these factors have operated in this country and have not allowed any spectacular decline in fertility.**Even as last as 2005 the total fertility rate remained as high as 2.9 .**during the three declades since 1971 fertility per women in India probably declined by nearly 50%.According to Leela Visaria, ”this is not poor progress”.

- Predominance of Agriculture
- Slow urbanization process and predominance of village
- Poverty

Predominance of Agriculture:

In agrarian societies children have never been considered an economic burden.In India, where techniques of production in agriculture are generally primitive ”the rhythm of work corresponds to rhythm of nature and is uneven. Periods if intense work alternate with periods of low activity. Harvesting, weeding and sowing times-covering over half the year-are the peaks of productive activity corresponding to an acute need of labour”. It is, in fact in this period that child labour is required in agriculture.

Slow urbanization process and predominance of village:

The proportion of urban population in india in 2001 was 27.78% as against 17.62%in 1951. Due to staggering industrialization, the process of urbanization has been slow in this country, and it has failed to generate social forces which usually bring down the birth rate.

Robert Cassen had noted this fact in the late 1960s.His observations are even now relevant as the situation has not changed since then.cassen had remarked,”urbanization which figures importantly in the theory of demographic transition does not yet appear to be having much effect on overall birth rate.The urbanization which taken place in India has not been accomplished by the types of social change which favour lower birth rates. Indeed the social system and family structure of rural life seem to survive transplantation to the town or city quite remarkably, according to sociological studies”.

Census data reveal that fertility is somewhat lower in cities than in the countrysite but it is a consequence of mainly the high male-female ratio in cities. Moreover, fertility differentials between cities rural areas are not very significant. Further, according to pravin visaria,**”**in the context of the need to accelerate decline in fertility, it does not seem a feasible option to adopt conscious policies to promote urbanization. The processes underlying urbanization are not easily amenable to state intervention, particularly in view of the severe resource crunch. At the same time,the experience of SriLanka and Thailand demonstrates that a low level of urbanization is not,per se, a hindrance to decline in fertility**”**.

Poverty:

Poverty in underdeveloped countries usually results in high fertility. Mahmood Mamdani argues,"**People are not poor because they have large families. Quite the contrary, they have large families because they are poor**".Let us now understand the economic rationale behind high fertility.At a lower income level of the family the benefits having additional child to the family generally excess the cost of his upbringing.Benefit accuruing to the family from child taken the form of expected services, income and social security provided by the child.P.C.Joshi is perhaps right in his assertion that in a **"**circumstance of economic insecurity the poorer classes tend to associate economic security not with a reduction but with an increase in the number of children. The poor have no other economic asset than their own labour and the more the number of earners in the family,the more the amount of family earning.The lower survival rate further reinforces the preference for children**"**.World development report 1984 has also noted, "**There are good reasons why, for poor parents, the economic cost of children are low. The economic (and other) benefits of children are high and having many children makes economic sense**".

Social Factors:

Contribution of social factor to the high birth rate is tremendous in this county. Universality of marriage relatively lower age at the time of marriage religious and social superstitions,joint family system, lack of education and a very limited use of contraceptives are only a few important social factor which arrest significant decline in fertility. Let us now examine these factor in some detail.

- Near Universality of marriage
- Lower age at the time of marriage
- Religious and social superstitions
- Joint family system
- Lack of education.

Near Universality Of Marriage:

Marriage is both a religious and a social necessity in India. The custom of arranged marriage under which parents feel that marrying daughters is a social obligation result in near universality of marriage. Presently in india by the age of 50 only 5 out of 1000 Indian women remain unmarried. It is believed that with the spread of education, attitudes of people towards marriage would change and an increased proportion ofwomen might then decide not to marry at all. But in a slow moving society where education is also not spreading fast enough prospects of this situation appearing soon are not bright.

Lower age at the time of marriage:

The relatively lower age at the time of marriage in the country is also believed to be responsible for high fertility. N.C.Das on the basis of an empirical study has claimed that women marrying between 20 and 24 have the same fertility, as those marrying before 20. Only when the marriage age reaches 25 or over, some reduction in fertility occurs, In India, since the average age of women at marriage is still around 18 years the fertility is bound to remain high, particularly when other factor which could bring it down are non-existent.

Religious and social superstitions:

Most Indians on account of their religious and social superstitions desire to have children having no regard for their economic conditions. Hindus in any case must have a son, because according to their religion certain rites can be performed only by him and none else. These irrational attitudes based on wrong social and religious norms laid down by manu and others get reflected in the ideology in peasant cultures.

Joint Family System:

In India, where social relations in the countryside are still by and large pre-capitalist, joint family system is very much common as it conforms to the concrete reality of the time.

In cities however the process of its disintegration has started. The joint family system induces young couple to have children though they may not be in a position to support them.

Lack of Education:

Illiteracy is widespread in India. According to the 2001 census,65.38% of the population is literate in this country.the percentage of literacy among women is much lower i.e 54.16 %as compared to 75.85%among men . moreover whatever female literacy we now have in this country is largely concentrated in urban areas and the incidence of female illiteracy is the highest in large north Indian states (Uttar Pradesh, Bihar, Rajasthan, and Madhya Pradesh).

SOCIAL CLASS AND LIFESTYLE;

A **social class** is a large group of people who occupy a similar position in an economic system. There are several different dimensions of social class, including:

1. Income
2. Wealth
3. Power
4. Occupation
5. Education
6. Race
7. Ethnicity

While defining social classes in the U.S. is difficult, most sociologists recognize four main categories: upper class, middle class, working class, and the lower class. Let's examine these concepts further.

DIMENSIONS OF SOCIAL CLASS

Income refers to earnings from work or investments, while **wealth** refers to all of those assets an individual owns, such as cash, savings and checking accounts, stocks, bonds, real estate, etc. minus outstanding debts. Most people make money from work, but for the wealthy, much of theirs is inherited. As a result, wealth is distributed much more unevenly than income, because wealth is typically passed down from generation to generation. In the United States, wealth is an important source of power. The small number of people who control most of the wealth can more easily shape the agenda of society

Work is considered an important dimension of social class as well. People commonly give greater respect to those who have more prestigious occupations. In any society, those with high-prestige occupations often belong to more privileged categories of people. When it comes to occupational prestige, the highest-ranked occupations, such as physicians, dentists, and engineers, are typically held by men. Women and people of color often dominate the less prestigious occupations.

Likewise, **education** is an important dimension of social class. In fact, education is one of the strongest predictors of occupation, income, and wealth later in life. Most better-paying white collar jobs require a college degree, while most blue collar jobs require less schooling, and bring less income and prestige).

Finally, it is argued that nothing affects social standing as much as being born into a particular **family**. The family we are born into has a strong bearing on schooling, occupation, and income. Likewise, race and ethnicity are links to social class in the United States as well

TYPES OF SOCIAL CLASSES OF PEOPLE

Lower Class;

The lower class is typified by poverty, homelessness, and unemployment. People of this class, few of whom have finished high school, suffer from lack of medical care, adequate housing and food, decent clothing, safety, and vocational training. The media often stigmatize the lower class as “the underclass,” inaccurately characterizing poor people as welfare mothers who abuse the system by having more and more babies, welfare fathers who are able to work but do not, drug abusers, criminals, and societal “trash.”

Working class;

The working class are those minimally educated people who engage in “manual labor” with little or no prestige. Unskilled workers in the class—dishwashers, cashiers, maids, and waitresses—

usually are underpaid and have no opportunity for career advancement. They are often called the **working poor**. Skilled workers in this class—carpenters, plumbers, and electricians—are often called **blue collar workers**. They may make more money than workers in the middle class—secretaries, teachers, and computer technicians; however, their jobs are usually more physically taxing, and in some cases quite dangerous.

Middle class

The middle class are the "sandwich" class. These **white collar workers**have more money than those below them on the "social ladder," but less than those above them. They divide into two levels according to wealth, education, and prestige. The **lower middle class** is often made up of less educated people with lower incomes, such as managers, small business owners, teachers, and secretaries. The **upper middle class** is often made up of highly educated business and professional people with high incomes, such as doctors, lawyers, stockbrokers, and CEOs.

UPPER CLASS

The **upper-upper class** includes those aristocratic and "high-society" families with "old money" who have been rich for generations. These extremely wealthy people live off the income from their inherited riches. The upper-upper class is more prestigious than the lower-upper class.

Wherever their money comes from, both segments of the upper class are exceptionally rich. Both groups have more money than they could possibly spend, which leaves them with much leisure time for cultivating a variety of interests. They live in exclusive neighborhoods, gather at expensive social clubs, and send their children to the finest schools. As might be expected, they also exercise a great deal of influence and power both nationally and globally.

AVERAGE DISPOSABLE INCOME;

Disposable income, also known as **disposable** personal **income** (DPI), is the amount of money that households have available for spending and saving after **income** taxes have been accounted for.

ATTITUDE TOWARDS PRODUCT QUALITY AND CUSTOMER SERVICE;

CUSTOMER ATTITUDE;

Customer Attitudes are a composite of three elements: cognitive information, affective information and information concerning a consumer's past behavior and future intentions. In other words, attitude consists of thoughts or beliefs, feelings, and behaviors or intentions towards a particular thing, which in this case is usually a good or service. For example, you may have a very positive view of a particular sports car (for example, you believe it performs better than most), it makes you feel good, and you intend to buy it.

CUSTOMER LOYALTY AND CUSTOMER PERCEPTION

The consequence for companies is that they have to adapt their ways of competing for customers. Traditionally, companies have focused their efforts of customer relationship management on issues like customer satisfaction and targeted marketing activities like event marketing, direct marketing or advertising. Although doubtless necessary and beneficial, these activities are not longer enough. They narrow the relationship between company and customer down to a particular set of contacts in which the company invests its efforts. Most likely this will produce not more than a satisfied customer who is well aware of the companies offerings and has a positive attitude towards them. However, a satisfied customer is not necessarily a loyal one

If a customer is satisfied that means that a product of service has met his expectations and that he was not dissatisfied by it. Customer satisfaction is doubtlessly very important. It is the precondition for repeat purchases and it prevents the customer from telling others about his disappointing experiences. A loyal customer, however, is more than a customer who frequently purchases from a company.

The difference is the emotional bond which links the customer so closely to the company that he develops a clear preference for these products or brands and is even willing to recommend them to others. Loyal customers truly prefer a product, brand or company over competitive offerings.

Thus loyalty goes beyond a rational decision for known quality or superior price-performance-ratio. It is about the customers' feelings and the customer perception about the brand or product.

When the customer makes his buying decision, he evaluates the benefits he perceives from a particular product and compares them with the costs. The value a customer perceives when buying and using a product or service go beyond usability. There is a set of emotional values as well, such as social status, exclusivity, friendliness and responsiveness or the degree to which personal expectations and preferences are met. Similarly, the costs perceived by the customer, normally comprise more than the actual price. They also include costs of usage, the lost opportunity to use an other offering, potential switching costs etc. Hence, the customer establishes an equation between perceived benefits and perceived costs of one product and compares this to similar equations of other products.

Based on this, customer loyalty can be understood as to how customers feel about a product, service or brand and whether their perceived total investments with a it live up to their expectations.The important point here is the involvement of feelings, emotions and perceptions. In today's competitive marketplace, these perceptions are becoming much more important for gaining sustainable competitive advantage.

Impact factors on customer perception

Customer perception is influenced by a variety of factors. Besides the actual outcome – i.e. did the product or service deliver the expected function and did it fulfil the customers need – the whole process of consumption and all interactions involved are of crucial importance. In today's globalised information driven economy this can also comprise issues like

- How other customers or influencing groups perceive the product or brand
- The degree to which the customer feels the actual marketing campaign addresses the most important issues
- Responsiveness and service quality of any affiliates, e.g. distribution partners

Customer perception is dynamic. First of all, with the developing relationship between customer and company, his perceptions of the company and its products or services will change.

The more experience the customer accumulates, the more his perceptions will shift from fact-based judgements to a more general meaning the whole relationship gains for him. Over time, he puts a stronger focus on the consequence of the product or service consumption.

Moreover, if the customers' circumstances change, their needs and preferences often change too. In the external environment, the offerings of competitors, with which a customer compares a product or service will change, thus altering his perception of the best offer around. Another point is that the public opinion towards certain issues can change. This effect can reach from fashion trends to the public expectation of good corporate citizenship. Shells intention to dump its Brent Spar platform into the ocean significantly altered many customers perception of which company was worth buying fuel from.

Positive effects of increasing market share on customer perception

- Increasing market share can send out positive signals by acting as an indicator of superior quality that is recognised by more and more other customers. This effect is particularly strong for premium priced products. Customers normally assume that a product must be of exceptional quality if it can gain such an unexpected market success despite its high price.
- Many brands offer positive emotional benefits of using a product that is popular in the markets.
- The value of a product or service can rise through increasing number of users of the same product, e.g. number of members of an online community, better availability of software for popular computer systems.

Negative effects of increasing market share on customer perception

- For premium and luxury products, customers may translate an increasing market share into a loss of exclusivity and thus perceive it as less valuable.
- The quality of services may suffer if they are consumed by increasing numbers of users. Diseconomies of scales and congestions can be observed with busy airports and many

other services so that customers may look out for other providers that promise more timely service and convenience.

The concept of customer perception does not only relate to individual customers in consumer markets. It is also valid in business to business situations. For example, a competitor benchmarking survey of a large industrial supplier revealed that the market leader, although recognized for excellent quality and service and known to be highly innovative, was perceived as arrogant in some regions.

If we take into consideration that there are about four other large players with a similar level of quality and innovative ideas, this perceived arrogance could develop into a serious problem. Customers here are well aware the main characteristics of all the offerings available at the market are largely comparable. So they might use the development of a new product generation of their own to switch to a supplier that can serve them not better or worse, but with more responsiveness and understanding.

Companies have done a lot to improve customer satisfaction and customer relationships in the past

Measuring customer perception

Any serious effort to manage customer perceptions starts with a good measurement system. Companies must be truly willing to look at the whole process of interaction through the customers eyes. For many companies, this requires a more or less extensive shift in mindset, since most departments from development to sales will be involved.

Work and leisure

he concept “Leisure Time” has been defined such as: “free time as a result of temporary exemption from work or duties”, “ freedom or spare time provided by the cessation of activites”, “a state of mind which ordinarily is characterised by un-obligated time and willing optimism”, “the condition of having one’s time free from the demands of work or duty”, “a time at one’s own command that is free of engagements or responsibilities”. As seen in the given definitions, the core meaning of the concept leisure time is related with the idea of “to be free of work obligations”. Thus, the very idea related with leisure time is, it is defined only by “work”. Another important point which should be emphasized is that leisure time is a granted right for a person who has completed his/her obligation of work. Therefore, leisure time is a conditional right.

On the other hand, defining “leisure time” as a free time period, is questionable. Hence, many activites related with leisure time usage, can be associated with consumer culture, such as: going on a holiday, shopping, watching TV and even hobbies. It means that, individuals who take a part in the production are led to consumption, which, in turn, is another duty of the individuals to keep the economic system alive. Hence, the leisure time has gained another implicit meaning which is far from the traditional definitions: “an obligated time period to consume”. Therefore, individuals continue to work for the economic system, not only by producing but by consuming as well.

The purpose of this paper is to argue, by a theoretical analysis, that the concept leisure time is in need to be redefined. Leisure time may still be defined as “to be free of work obligations”, but it cannot be defined as “to be out of economic system’s control”.

NATIONALITY AND BELIEF

Culture, in the broadest sense, refers to how and why we think and function. It encompasses all sorts of things—how we eat, play, dress, work, think, interact, and communicate. Everything we do, in essence, has been shaped by the cultures in which we are raised. Similarly, a person in another country is also shaped by his or her cultural influences.

Political, economic, and social philosophies all impact the way people’s values are shaped. Our cultural base of reference—formed by our education, religion, or social structure—also impacts business interactions in critical ways. As we study cultures, it is very important to remember that all cultures are constantly evolving. When we say “cultural,” we don’t always just mean people from different countries. Every group of people has its own unique culture—that is, its own way of thinking, values, beliefs, and mind-sets. For our purposes in this chapter, we’ll focus on national and ethnic cultures, although there are subcultures within a country or ethnic group.

Precisely where a culture begins and ends can be murky. Some cultures fall within geographic boundaries; others, of course, overlap. Cultures within one border can turn up within other geographic boundaries looking dramatically different or pretty much the same

Nationalities

A national culture is—as it sounds—defined by its geographic and political boundaries and includes even regional cultures within a nation as well as among several neighboring countries. What is important about nations is that boundaries have changed throughout history. These changes in what territory makes up a country and what the country is named impact the culture of each country.

In the past century alone, we have seen many changes as new nations emerged from the gradual dismantling of the British and Dutch empires at the turn of the 1900s. For example, today the physical territories that constitute the countries of India and Indonesia are far different than they were a hundred years ago. While it’s easy to forget that the British ran India for two hundred years and that the Dutch ran Indonesia for more than one hundred and fifty years, what is clearer is the impact of the British and the Dutch on the respective bureaucracies and business environments. The British and the Dutch were well known for establishing large government bureaucracies in the countries they controlled. Unlike the British colonial rulers in India, the Dutch did little to develop Indonesia’s infrastructure, civil service, or educational system. The British, on the other hand, tended to hire locals for administrative positions, thereby establishing a strong and well-educated Indian bureaucracy. Even though many businesspeople today complain that this Indian bureaucracy is too slow and focused on rules and regulations, the government infrastructure and English-language education system laid out by the British helped position India for its emergence as a strong high-tech economy.

Even within a national culture, there are often distinct regional cultures—the United States is a great example of diverse and distinct cultures all living within the same physical borders. In the

United States, there's a national culture embodied in the symbolic concept of "all-American" values and traits, but there are also other cultures based on geographically different regions—the South, Southwest, West Coast, East Coast, Northeast, Mid-Atlantic, and Midwest.

Subcultures

Many groups are defined by ethnicity, gender, generation, religion, or other characteristics with cultures that are unique to them. For example, the ethnic Chinese business community has a distinctive culture even though it may include Chinese businesspeople in several countries. This is particularly evident throughout Asia, as many people often refer to Chinese businesses as making up a single business community. The overseas Chinese business community tends to support one another and forge business bonds whether they are from Indonesia, Malaysia, Singapore, or other ASEAN (Association of Southeast Asian Nations) countries. This group is perceived differently than Chinese from mainland China or Taiwan. Their common experience being a minority ethnic community with strong business interests has led to a shared understanding of how to quietly operate large businesses in countries. Just as in mainland China, *guanxi*, or "connections," are essential to admission into this overseas Chinese business network. But once in the network, the Chinese tend to prefer doing business with one another and offer preferential pricing and other business services.

Organizations

Every organization has its own workplace culture, referred to as the organizational culture. This defines simple aspects such as how people dress (casual or formal), how they perceive and value employees, or how they make decisions (as a group or by the manager alone). When we talk about an entrepreneurial culture in a company, it might imply that the company encourages people to think creatively and respond to new ideas fairly quickly without a long internal approval process. One of the issues managers often have to consider when operating with colleagues, employees, or customers in other countries is how the local country's culture will blend or contrast with the company's culture.

For example, Apple, Google, and Microsoft all have distinct business cultures that are influenced both by their industries and by the types of technology-savvy employees that they hire, as well as by the personalities of their founders. When these firms operate in a country, they have to assess how new employees will fit their respective corporate cultures, which usually emphasize creativity, innovation, teamwork balanced with individual accomplishment, and a keen sense of privacy. Their global employees may appear relaxed in casual work clothes, but underneath there is often a fierce competitiveness.

UNIT IV

BASIC INFRASTRUCTURE LEVEL; Energy- Transport- Communication- Science and Technology- research and development, product and process innovation, rate of technological change and penetration levels, protection of intellectual property rights technological leadership and followers, technology and competitive advantage, time lags in technology introduction, adaptation, transfer of technology, internet infrastructure

SOURCES OF ENERGY IN INDIA;

OVERVIEW OF POWER SECTOR

Power Sector is at a crucial juncture of its evolution from a controlled environment to a competitive, market driven regime which endeavors to provide affordable, reliable and quality power at reasonable prices to all sectors of the economy. The Gross Domestic Product (GDP) of our country has been growing at the rate of about 8% for the last several years. The liberalization and globalization of the economy is leading to an increased tempo in industrial and commercial activities and this, coupled with penetration of technology and I.T. in the day-to-day life of the common man, is expected to result in a high growth in power demand. It is accordingly essential that development of the Power Sector shall be commensurate with the overall economic growth of the nation.

The Indian power sector is one of the most diversified in the world. Sources for power generation range from commercial sources like coal, lignite, natural gas, oil, hydro and nuclear power to other viable non-conventional sources like wind, solar and agriculture and domestic waste. The demand for electricity in the country has been growing at a rapid rate and is expected to grow further in the years to come. In order to meet the increasing requirement of electricity, massive addition to the installed generating capacity in the country is required. While planning the capacity addition programme, the overall objective of sustainable development has been kept in mind.

Since its structured growth post Independence, Indian power sector has made substantial progress both in terms of enhancing power generation and in making available power to widely distributed geographical boundaries. The Installed generation capacity in the Utility sector has increased to about 1,81,500 MW at the end of August 2011. The Indian power sector is largely coal based with the total Installed Capacity comprising of 99,503 MW (55 %) coal based, 17,706 MW (10%) gas based, 1200 MW (1%) diesel generation, 38,206 MW (21%) hydro, 4,780 MW (2 %) nuclear and 20,162 MW (11%) from renewable energy sources. Development of Renewable Energy Sources is being accorded special emphasis in view of their inherent advantages. The Installed Capacity from Renewable Sources has grown to 20,162 MW in June 2011 comprising 3,226 MW in State Sector & 16,936 MW in Private Sector.

The total annual power generation has grown to about 811 BU, whereas the thermal generation has grown to 665 BU in 2011. The performance of thermal power plants in the country has steadfastly improved and the Plant Load Factor of coal based stations has increased from 52.4% during 1985-86 to 77.68 % in 2009-2010 & 75.06% during 2010-11. The Installed Capacity of captive power plants having more than or equal to 1MW capacity has grown to more than 30,000 MW at present.

Over decades, a robust inter-state and inter- regional transmission system has evolved in the country which facilitates widespread reach of power over the vast area of the country. In 1947 the maximum voltage level of transmission line was 132 kV which was subsequently increased to 220 kV in 1960 and 400 kV in 1977. To reduce Right of Way requirement for transmission lines and overcome constraints in availability of land for substations, 765 kV transmission voltages is being increasingly adopted and Gas Insulated Stations are being provided wherever availability of land is a problem. HVDC 500 kV back to back was introduced in the year 2000.

Recognizing the need for development of National Grid, thrust was given to enhancement of the interregional capacity in a phased manner. The total Inter-regional transmission capacity by the end of 10th Plan was 14,050 MW which is now planned to grow to about 25,650 MW by 11th Plan end. The per capita consumption of electricity in the country has increased from 15.6 units in 1950 to about 766 units during the year 2009-10. The National Electricity Policy of the Government of India stipulates that this is to be increased to over 1000 units per annum in 2012.

At the time of Independence, only about 1500 villages of the country had access to electricity. The scenario has changed significantly since then. It has been possible to extend electricity to about 5,38,296 numbers of villages out of a total of 5.93,732 as per census of 2001 villages thereby electrifying 90.8% of villages. As per rough estimates, out of this about 18,000 villages are located in remote and difficult areas and it is not possible to extend power supply to these villages through the existing power grid. Electrification of these villages, therefore, is proposed to be done through various sources of distributed generation including non-conventional sources of energy. In spite of the massive addition in generation, transmission and distribution capacity over the last over sixty years, growth in demand for power has always exceeded the generation capacity augmentation. Although the country has achieved capacity addition of about 1,81,500 MW over the last Six decades, peak and energy shortages of varying magnitude are being experienced. During the year 2010-11, the country faced an energy shortage of 73,236 MU (8.5%) and a peak shortage of 12,031 MW (9.8%).

During the 11th Five Year Plan, a capacity addition of about 52,000 MW is expected which is over 250% of the achievement during 10th Plan and highest ever since independence. The high achievements of the 11th Plan have been facilitated due to the stringent monitoring of ongoing power projects at various levels in CEA/MOP. Other Initiatives of the Government have been the formulation of the New Hydro Policy, setting up of Ultra Mega Power Projects, enhancing the partnership of private sector in manufacture of power equipments and Bulk ordering of 11 units of 660 MW each with supercritical technology with mandatory phased indigenous manufacturing programme to promote indigenous manufacturing capability.

The Working Group on Power was constituted by the Planning Commission vide its Office Order No.1-15/1/2011-P&E dated 4th March, 2011 to formulate the power programme for 12th Plan. Secretary (Power) was the Chairman of the Working Group and Member (Planning), CEA was the Member Secretary of the Working Group. The Composition and Terms of Reference of the Working Group for Twelfth Plan are given in Appendix-A. The first meeting of the Working Group was held on 20th April, 2011 under the Chairmanship of Secretary (Power). It was decided to constitute 9 specialized Sub-Groups to go into the specific areas to cover comprehensively all the Terms of Reference of the Working Group. Subsequently, review meetings of the Working Group were held in MOP on a regular basis to assess the progress of the Sub-Groups from time to time. Details of the various Sub Groups and Term of Reference are enclosed in Appendix- B

The Sub-Groups discussed various issues regarding Demand, Generation, Transmission & Distribution Expansion Planning, Households & Rural Electrification, Demand Side Management & Energy Efficiency Issues, Research & Development, Manpower Planning & Training and Fund Requirement. A separate chapter has also been included on development of North Eastern Region. The report is based on 11th Plan likely capacity addition of 62,374 MW corresponding to which the 12th Plan capacity addition requirement is 75,785 MW and 13th Plan capacity addition requirement is 93,400 MW (assuming a capacity addition of 62,374 MW in 11th Plan & 75,785 MW in 12th Plan from conventional sources). However, it is felt that the likely capacity addition during the 11th Plan would be of the order of about 52,000 MW.

Various Sub-Groups submitted their Reports to the main Working Group. Based on the recommendations of these Sub-Groups the Report of the Working Group for 12th Plan has been formulated for submission to the Planning Commission.

The Power Sector is endeavoring to meet the challenge of providing adequate power needed to fuel the growing economy of the country. However, this growth of the Power Sector has to be within the realms of the principles of sustainable development. A Low carbon growth strategy has been adopted in our planning process and highest priority is accorded to development of generation based on renewable energy sources. Thrust is also accorded to maximizing efficiency in the entire electricity chain, which has the duel advantage of conserving scarce resources and minimizing the effect on the environment. It is in this context that this Report has drawn up the Plans for development of the Power Sector during the 12th Plan

Reserves and Potential for Generation

India’s energy-mix comprises both non-renewable (coal, lignite, petroleum and natural gas) and renewable energy sources (wind, solar, small hydro, biomass, cogeneration bagasse etc.). Information on reserves of non-renewable sources of energy like coal, lignite, petroleum, natural gas and the potential for generation of renewable energy sources is a pre- requisite for assessing the country’s potential for meeting its future energy needs. The changes in the reserves over time indicate the research and development going into the discovery of new reserves and the pace of their exploitation.

They also facilitate in devising effective conservation and management strategies for optimal utilization of these resources.

Coal and Lignite

India has a good reserve of coal and lignite. As on 31.03.11 the estimated reserves of coal was around 286 billion tones, an addition of 9 billion over the last year. Coal deposits are mainly confined to eastern and south central parts of the country. The states of Jharkhand, Orissa, Chhattisgarh, West Bengal, Andhra Pradesh, Maharashtra and Madhya Pradesh account for more than 99% of the total coal reserves in the country. The total estimated reserve of coal in India as on 31.03.10 was around 277 billion tonnes. There has been an increase of 3.1% in the estimated coal reserves during the year 2010-11 with Madhya Pradesh accounting for the maximum increase of 5 %. The estimated reserve of lignite as on 31.03.11 was 41 billion tonnes, of which 80 % was in the southern State of Tamil Nadu. (Table 1.1(A)). The increase in the estimated reserve of lignite during the year 2010-11 was 2.4%, Tamil Nadu accounting for the maximum increase of 2.7%.

Petroleum and Natural gas

The estimated reserves of crude oil and natural gas in India as on 31.03.2011 stood at 757 million tonnes (MT) and 1241 billion cubic meters (BCM), respectively (Table 1.2). Geographical distribution of Crude oil indicates that the maximum reserves are in the Western Offshore (43%) followed by Assam (22%), whereas the maximum reserves of Natural Gas are in the Eastern Offshore (35%) followed by Western offshore (33%). There was an increase of estimated Crude Oil reserves by 33% in Andhra Pradesh followed by Tamil Nadu (8%). However there was a decrease of 2% in the estimated reserve of crude oil for the country as a whole during 2010-11. In case of Natural Gas, the increase in the estimated reserves over the last year was 8%. The maximum contribution to this increase has been from CBM (145%), followed by Tamil Nadu (7%).

Renewable energy sources

There is high potential for generation of renewable energy from various sources- wind, solar, biomass, small hydro and cogeneration bagasse. The total potential for renewable power generation in the country as on 31.03.11 is estimated at 89760 MW (Table 1.3). This includes an estimated wind power potential of 49132 MW (55%), SHP (small-hydro power) potential of 15,385 MW (17%), Biomass power potential of 17,538 MW(20%) and 5000 MW (6%) from bagasse-based cogeneration in sugar mills. The geographic distribution of the estimated potential across States reveals that Gujarat has the highest share of about 14% (12,489 MW), followed by Karnataka with 12% share (11,071 MW) and Maharashtra with 11% share (9596 MW), mainly on account of wind power potential.

The telecom services have been recognized the world-over as an important tool for socio-economic development for a nation. Telecommunication is one of the prime support services needed for rapid growth and modernization of various sectors of the economy. It has become especially important in recent years because of enormous growth of information technology and its significant potential for the impact on the rest of the economy. In the past decade or so the distinction between communications & IT has been diminishing with emerging common infrastructures blurring the differentiation between content & carrier methods. At the same time, as has been the case in most of the developed world, the combination of enhanced computing power and improved telecommunications- equated by some to the introduction of steam power in the 18th century and electricity in the 19th, has spurred a major improvement in the productive capacities of the economies.

India is perceived to have a special comparative advantage in information technology and in IT enabled services. The extent of advantage depends critically on high quality telecommunication infrastructure. Telecom infrastructure is treated as a crucial factor to realize the socio-economic objectives in India.

NON CONVENTIONAL ENERGY SOURCES;

The government has accorded a high priority to promotion and utilization of renewable resources of energy to supplement conventional sources of energy. These new `non conventional

TRANSPORT

Railways

The growth in rail infrastructure has not matched the demand, with many projects running behind schedule, leading to time and cost overruns of more than 100%. Only 1,750 km of new lines was added from 2006 to 2011, as compared to 14,000 in China. The Indian Railways launched "Vision 2020" in 2009, which outlined needs and targets to be achieved by 2020.

Some of the major issues affecting the sector include insufficient funds, misplaced investment priorities, lack of timely reforms in organizations and inability to attract private investments. Furthermore, the internal revenue surplus is too small to fund investments and private investments only constitute 4% of the total investment in the sector. This is primarily because the role of the private sector in almost all railway PPP projects is limited to creation of infrastructure. On the other hand, the function of the railways is that of the customer and the regulator, and in most cases, a competitor as well. This is not a conducive environment for attracting private investment. Moreover, most of the PPP projects announced are still at the project development phase. They have been stalled due to various bureaucratic and regulatory issues including land acquisition, approvals from state governments, the absence of model concession agreements, etc. In addition, many proposals for introducing reforms in the railways have not been implemented. As a result, its ability to keep pace with users' needs is increasingly falling short of requirements. There is a need to reform the railways in terms of policy actions and organizational ones and also make concerted efforts to attract meaningful private investments. Without meeting these conditions, the railways will not able to meet the ambitious targets laid down in Vision 2020

Ports

India's 13 major ports and 60 operational non-major ports handle 95% of the country's external trade by volume and 70% by value. Port traffic has increased at CAGR of 8.1% to reach 884.6 million tones with an average utilization of ~90%, as compared to the international average of 70%. The main issues faced by ports include the level of containerization, custom procedures and insufficient connectivity to their hinterlands.

The Maritime Agenda proposes an investment of INR1,280 billion in 424 projects in major ports and INR 1,680 billion in non-major ports by 2020. It is proposed that more than 80% of the investment in major ports will be made by the private sector. This is 96% in the case of non-major ports — a very ambitious target, given the experience of PPP projects in the ports sector. Some of the key challenges facing PPP projects include environmental clearances, the slow bureaucratic procedures at most major ports in pre-tendering and the post-award stage, e.g., delays in dredging, the lengthy tariff-fixing process and poor connectivity to the hinterland.

Tariff setting is another major issue, which limits private sector investments in the sector. The Ports Regulatory Authority Bill 2011 has potential to overhaul the regulatory structure of ports and the tariff-setting process but concerns of private sector need to be addressed.

Roads and highways

Road infrastructure is of prime importance for the growth of the economy, since around 60% of freight and 85% of passenger traffic moves by road in India. The National Highways only constitute around 1.7% of the road network, but carry 40% of the total road traffic. Yet only 24% of the country's national highways are four-lane and meet the required standards. The National Highway Development Programme (NHDP) is the largest and foremost infrastructure program being undertaken in country. The program envisages upgrading or strengthening of around 54,000 km of the highways in several phases with an investment of around INR3,000 billion. The last five years have been particularly rough for development of highways in the country and physical achievement has fallen short of its intended target, and is dropping with time. In 2009–10, the National Highways Authority of India was able to build highways at an average of 13.72 km per day. This dropped further to an average of 10.39 km per day in 2011–12, against the much higher and seemingly formidable target of 20 kms a day. Over the last quarter, the Government has taken various initiatives to boost development of infrastructure in the country. These include setting infrastructure targets for various sectors, putting in place an institutional mechanism to monitor the progress of PPP projects at the Central and state levels and facilitating land transfer between government agencies for PPP projects.

Roadblocks to achieving infrastructure goals

However, the initiatives taken are not comprehensive and there are still multiple roadblocks that adversely affect infrastructure development. These need to be addressed to accelerate implementation of projects. The process of land acquisition needs to be streamlined, key policies and regulation reforms fast-tracked for enhanced implementation, a robust dispute resolution framework put in place, enhanced monitoring of projects implemented and funding facilitated. These are some of the major action points the Government needs to take up on a priority basis.

Land acquisition is the single largest roadblock for infrastructure development because of multiple reasons. Inadequate compensation and poorly planned rehabilitation packages have led to this issue. To address it, a new Bill, the Land Acquisition and Rehabilitation & Resettlement Bill (LARR), has been proposed. This Bill, in its current form, includes improved provisions for compensation and rehabilitation, and is expected to streamline the land acquisition process and reduce the number of litigations in the country. However, the cost of acquiring land will increase significantly, which could affect the viability of projects in the long term. Moreover, there is and ambiguity over the term “public purpose,” which may hinder acquisition of land by the Government in the case of infrastructure or PPP projects.

AIR TRANSPORT

Air transport is the modern, the quickest and latest addition to the modes of transport. Because of the speed with which airplane can fly, travel by air is increasingly popular. As far as the world trade is concerned it is still dominated by sea transport because air transport is very expensive and is also unsuitable for carrying heavy bulky goods. However transportation of high value light goods and perishable goods is increasingly being done by air transport.

In india a beginning in air transport was made in 1920, when the government first decided to prepare air routes between Mumbai and kolkatta and kolkatta and rangooon. The civil aviation works were actually started in 1924-25 but progress was slow until the second world war. Between 1947 and commencement the first plan about 6.6 crore were spent on these works. The government appointed the Air transport inquiry committee with justice G. S. rajadhyaksha as chairman in 1950. The committee examined the conditions of the various airline companies operating in the country and found that there was a good ease of transport service being owned and operated by the state on the ground that a unit incharge of all operations could use the available resources .

During the Tenth five year plan an outlay of rs 12,928 crore was provided to the ministry of civil aviation out of which 792 crore was spent. There was a massive expansion during this plan to opening up of domestic skies to private carriers. Important development in the airline and airport sector included;

- Modernization of restructuring of Delhi and Mumbai Airport launched through joint venture
- Development of Greenfield airports at Bangalore and Hyderabad on a build own operate transfer basis
- Approval of modernization and restructuring of 35 metro airports and 13 other airports to world class standards
- Acquisition of modern and technologically advanced aircraft for Air India ltd
- Liberalization of bilateral air services agreement in line with the contemporary developments in international civil aviation

TELECOM SECTOR

Growth in Telecom Sector

The Telecommunication services were introduced in India soon after the invention of telegraph and telephone. The first Telegraph line between Kolkata and Diamond Harbour was opened for traffic in 1851. By March 1884, telegraph messages could be sent from Agra to

Kolkata. As in the case of telegraph, telephone service was also introduced in Kolkata in 1881-82, barely six years after the invention of telephone. By 1900, telegraph and telephone started serving Indian Railways. The first automatic exchange was commissioned at Shimla in 1913-14 with a capacity of 700 lines.

The Telecommunication services in India have improved significantly since independence. India operates one of the largest telecom networks in Asia and the 10th largest in the world measured in terms of number of phones (as of end of 2004- 05). As on April 30, 2005, the network comprises of 99.17 million telephone connections and over 2.15 million Public Call Offices (PCOs). There are over 42.12 million cellular subscribers in India and the cellular customer base is growing at the rate of over one million per month. The number of departmental exchanges which was around 321 as on March 31, 1948, has increased to 37,565 by April 2005.

Tele density per hundred populations has grown from 7.08 in March 2004 to 8.95 in March 2005 and to a level of 12.74 in March 2006. Fully automatic International Subscriber Dialing (ISD) service is available to almost all the countries. The total number of stations connected to National Subscriber Dialing (NSD) is over 31,686. The growth in rural demand has outstripped urban demand with telecom penetration in villages increasing in multiples. Higher telecom dispersal is indicative of reduced economic disparities, experts point out.

Initially, the telephone exchanges were of manual type, which were subsequently upgraded to Automatic Electro-Mechanical type. In the last one-and-a-half decades, a significant qualitative improvement has been brought about by inducting Digital Electronic Exchanges in the network on a very large scale. Today all the telephone exchanges in India are of electronic type.

The voice and non-voice telecom services, which include data transmission, facsimile, mobile radio, radio paging and leased line service, cater to a wide variety of needs of both residential and business customers. Integrated Services Digital Network (ISDN) facility is available in a number of cities. A dedicated Packet Switched Public Data Network (I-NET) with international access for computer communication services is also made available.

In the field of basic telecom service, there were 31 private Licenses and two public sector Licenses at the end of March 2004. After the introduction of Unified Access Service License

Regime in November 2003, 27 Licenses out of these 31 Licenses were converted to Unified Access Service Licenses. Eighteen more Licenses were issued for Unified Access Service during 2004- 05.

In the area of mobile telephone, of the total 78 Licenses, 55 were in the private sector and 23 in public sector. Of the total roll out of telephone connections (basic and cellular) as on April 30, 2005, private sector accounted for about 47 per cent and public sector accounted for 53 per cent.

In the field of international communications, tremendous progress was made by the use of extensive infrastructure of satellite earth stations, state-of-the-art digital gateways, optical fibre multi media submarine cables and multimedia data switches.

Reforms in Telecom Sector

Telecommunications is one of the few sectors in India, which has witnessed the most fundamental structural and institutional reforms since 1991. Considering the great potential for the growth of telephone demand with the accelerated growth of economic activities, the Government of India announced the National Telecom Policy in 1994 and the New Telecom Policy in 1999. The National Telecom Policy provides for private sector participation to supplement the efforts of DOT in basic telephone services. The opening up of the basic services provided a big opportunity for private & foreign investors. More policy initiatives included Addendum to NTP -1999, Broadband Policy 2004, and Amendment to Broadband Policy 2004 etc.

To a great extent the perceived linkage between communications, information technology and growth has shaped the Indian telecommunications policy, market perception and consequently industry activity. Access to information infrastructure has been seen as a prerequisite not just to a robust IT industry but also to broad based growth and competitiveness in all other services and industries.

The entire sector is now open to unrestricted competition in all segments except cellular services where spectrum is a limiting factor. The reforms process in the telecom sector is still on, aiming to remove the balance hurdles and limitations. One such hurdle is ensuring expansion of sustainable connectivity in rural areas. To encourage rural telephony, the government has set up a universal service fund earlier. Broadband policy has been announced with a view to providing better quality of services. One of the aims of this policy is to make rural connectivity remunerative and sustainable.

The opening of the sector has not only lead to rapid growth but also helped a great deal towards maximization of consumer benefits. The tariffs have been falling continuously across the board as result of healthy and unrestricted competition. Besides, as a result of the various measures and initiatives taken by the Government, India is now fast emerging as one of the leading telecom nations. Since beginning of the Ninth Plan, the telecom services have registered a consistently high growth rate of more than 20 percent per annum. The robust private sector participation has resulted in unprecedented growth in the cellular and WLL services. The growth of network has been very encouraging but still a lot need to be done so that India remains a front-runner in information revolution.

Department of Telecom

The Department of Telecom has been formulating developmental policies for the accelerated growth of the telecommunication services. The Department is also responsible for grant of licenses for various telecom services like Unified Access Service Internet and VSAT service. The Department is also responsible for frequency management in the field of radio communication in close coordination with the international bodies. It also enforces wireless regulatory measures by monitoring wireless transmission of all users in India.

Telecom Commission

The Telecom Commission was set up by the Government of India vide Notification dated April 11, 1989 with administrative and financial powers of the Government of India to deal with various aspects of Telecommunications. The Commission consists of a Chairman, four full time members, who are ex-officio Secretary to the Government of India in the Department of Telecommunications and four part time members who are the Secretaries to the Government of India of the concerned Departments.

The Telecom Commission and the Department of Telecommunications are responsible for policy formulation, licensing, wireless spectrum management, administrative monitoring of PSUs, research and development and standardization/validation of equipment etc. The multi-pronged strategies followed by the Telecom Commission have not only transformed the very structure of this sector but have motivated all the partners to contribute in accelerating the growth of the sector.

SCIENCE AND TECHNOLOGY

Introduction

India is amongst the top-ranking countries in the field of basic research. Indian Science is one of the most powerful segments for growth and development, especially in the emerging scenario and competitive economy. With an annual growth of over 9.7 per cent in the number of scientific publications in Science Citation Indexed journals during 2011-12, India has registered the second highest growth rate in the world. Scientific knowledge and expertise, innovation, high technology, industrial infrastructure and skilled workforce are the key factors that have driven the progress of the country to a major extent.

The Indian science and technology space has been instrumental to bring social and economic changes. The country has not only endeavoured to upgrade traditional skills to make them relevant and competitive, but has also been on a spur to develop advanced technologies, which has eventually played a pivotal role in transforming the nation into a modern, industrialized society.

The Department of Science & Technology plays a vital role in promotion of science & technology in the country. The department has wide ranging activities ranging from promoting high end basic research and development (R&D) of cutting edge technologies on one hand to service the technological requirements of the common man through development of appropriate skills and technologies on the other.

The year 2011-12 is a land mark year for the Department of Science & Technology. It earmarked the completion of 40 years of service by the Department to the Science & Technology sector since its establishment.

Market Size

Thomson Reuters, one of the global agencies involved in gathering "Evidence" have been commissioned to undertake an India specific study. The "evidence" report has presented a large volume of data and trends in research outputs from India.

The analysis of the report indicated a growth rate of about 66 per cent between 2006-10 as compared to 2001-05. This amounts to average growth rate of about 13 per cent per year. The study also reveals that Chemistry, Physics, Materials Science, Engineering and Clinical medicine are the active areas of research outputs from India during the study period.

According to E&Y's recent report 'Beyond borders: Global biotechnology report - 2011', India's domestic biotech industry has crossed US$ 4 billion mark in fiscal 2011. The report highlighted vaccines, diagnostics & devices and personalized medicine as the major innovative growth areas for the domestic biotech sector.

Investments

"We need a new wave of investment from the private sector so that young people will be encouraged to seek a career in science," according to Dr Manmohan Singh, the Prime Minister of India.

Some of the major investment in Indian science and technology sector are as follows:

- An exclusive research facility for Zebrafish has been set up at the Centre for Cellular and Molecular Biology (CCMB). The genome of Zebrafish is similar to the genome of human beings. This has prompted the lab to deal exclusively with this fish to investigate developmental biology in vertebrates, according to Dr Ch Mohan Rao, Director, CCMB
- Deutsche Forschungs Gemeinschaft (DFG), the German Research Foundation, has expanded its India presence with the formal launch of a Centre in Hyderabad. It is collaborating with the

Department of Science & Technology on about 40 bilateral research projects in science and engineering currently, said Dr Torsten Fischer, Director, DFG India

• Crompton Greaves (CG) Ltd has acquired 100 per cent stake in Spain-based ZIV Applications Y Technologies, SL for an enterprise value of €150 million (US$ 196.19 million). ZIV deals in high value smart grid and automation solutions for industrial and utilities segments

• Intel Future Scientist programme developed in India, aims to sustain the innovative streak in students, has been launched by the global chip maker. The programme empowers teachers to transform science and math education in their classrooms and aims to reach about 50,000 girls to help them develop scientific skills and expertise

• Bosch Group will set up an independent research centre at the Indian Institute of Science (IISc) with an investment of Rs 140 crores (US$ 25.75 million). The proposed investment will be from the German major's global Bosch Inter-Campus programme

Government Initiatives

The Government of India has taken some initiatives to further promote science and technology in the country:

• R&D Services excluding basic research and setting of R&D/academic institutions which would award degrees/diplomas/certificates would be allowed 100 per cent foreign direct investments (FDI) under the automatic route

• The Government of India has proposed to create an electronics development fund of US$ 2 billion to promote innovation, intellectual property, R&D, nano electronics and help commercialize made-in-India products

• British Deputy High Commission-Kolkata and Confederation of Indian Industry (CII) along with West Bengal Industrial Development Corporation (WBIDC) are working with technical partners, on a first-of-its-kind project in India titled "Fiscal Instruments for Climate - Friendly Industrial Development in West Bengal and Odisha"

• The African Union Commission will continue to engage with the Department of Science & Technology, to identify areas of common research interest which have regional and continental relevance

• The Union Budget proposal to extend the weighted tax exemption for in-house R&D by another five years to the year 2017 is expected to encourage pharmaceutical companies to invest more in the field of R&D. The budget has extended the weighted tax exemption for in-house R&D, which is a significant step in promoting R&D investments by companies

• In the Union Budget - 2012-2013, Departments of Science & Technology, Scientific and Industrial Research and Biotechnology under the Ministry of Science & Technology have each got a hike of about 10 per cent over the revised estimates or the actual expenditures during the current financial year

• India and the US pledged to step up their bilateral collaboration in the field of science and technology to boost innovation in key areas of clean energy, environment and high technology to spur economic growth

Road Ahead

The future of scientific research in India is very promising. Advances in scientific and technological research are having a significant impact in India's present and therefore, future, with the country being the primary source for many outsourcing companies. In addition, India has a large pool of professionals who are highly skilled and a valuable asset to the country.

India is also witnessing R&D growth in areas such as genetic modification, bio-energy sources, biochemistry, atomic energy, organ donation and biomedical science.

India is leading in many areas and evolving in others. Industrial R&D competitiveness must be encouraged more, as most of the effort goes into the field of space, defense, oceanography, and atomic energy. However, India is strong in software technology and computer science.

INNOVATION

The concept of innovation is quite diverse, depending mainly on its application. Briefly, Inventta believes that innovation is the successful exploitation of new ideas. And companies' success, for example, means increased revenues, access to new markets, increased profit margins, among other benefits.

Product innovation:

It consists of changes in product attributes with a change in how the product is noticed by consumers.

Example: car with automatic transmission compared to "conventional"one.

Process innovation:

It consists of changes regarding the product or the service production process. It does not necessarily have an impact on the final product but produces benefits in the production process, generally increasing the productivity and reducing costs.

Example: automobile produced by robots compared to that produced by human workers.

PRODUCT INNOVATION

A **product innovation** is the introduction of a good or service that is new or has significantly improved characteristics or intended uses; a **process innovation** refers to the implementation of a new or significantly improved production or delivery method.

Step 1: Generating

Utilizing basic internal and external SWOT analyses, as well as current marketing trends, one can distance themselves from the competition by generating ideologies which take affordability, ROI, and widespread distribution costs into account.

Lean, mean and scalable are the key points to keep in mind. During the NPD process, keep the system nimble and use flexible discretion over which activities are executed. You may want to develop multiple versions of your road map scaled to suit different types and risk levels of projects.

Step 2: Screening The Idea

Wichita, possessing more aviation industry than most other states, is seeing many new innovations stop with Step 2 – screening. Do you go/no go? Set specific criteria for ideas that should be continued or dropped. Stick to the agreed upon criteria so poor projects can be sent back to the idea-hopper early on.

Because product development costs are being cut in areas like Wichita, "prescreening product ideas,"means taking your Top 3 competitors' new innovations into account, how much market share they're chomping up, what benefits end consumers could expect etc. An interesting industry fact: Aviation industrialists will often compare growth with metals markets; therefore, when Boeing is idle, never assume that all airplanes are grounded, per se.

Step 3: Testing The Concept

As Gaurav Akrani has said, "Concept testing is done after idea screening." And it is important to note, it is different from test marketing.

Aside from patent research, design due diligence, and other legalities involved with new product development; knowing where the marketing messages will work best is often the biggest part of testing the concept. Does the consumer understand, need, or want the product or service?

Step 4: Business Analytics

During the New Product Development process, build a system of metrics to monitor progress. Include input metrics, such as average time in each stage, as well as output metrics that measure the value of launched products, percentage of new product sales and other figures that provide valuable feedback. It is important for an organization to be in agreement for these criteria and metrics.

Even if an idea doesn't turn into product, keep it in the hopper because it can prove to be a valuable asset for future products and a basis for learning and growth.

Step 5: Beta / Marketability Tests

Arranging private tests groups, launching beta versions, and then forming test panels after the product or products have been tested will provide you with valuable information allowing last minute improvements and tweaks. Not to mention helping to generate a small amount of buzz. WordPress is becoming synonymous with beta testing, and it's effective; Thousands of programmers contribute code, millions test it, and finally even more download the completed end-product.

Step 6: Technicalities + Product Development

Provided the technical aspects can be perfected without alterations to post-beta products, heading towards a smooth step 7 is imminent. According to Akrani, in this step, "The production department will make plans to produce the product. The marketing department will make plans to distribute the product. The finance department will provide the finance for introducing the new product".

As an example; In manufacturing, the process before sending technical specs to machinery involves printing MSDS sheets, a requirement for retaining an ISO 9001 certification (the organizational structure, procedures, processes and resources needed to implement quality management.)

In internet jargon, honing the technicalities after beta testing involves final database preparations, estimation of server resources, and planning automated logistics. Be sure to have your technicalities in line when moving forward.

Step 7: Commercialize

At this stage, your new product developments have gone mainstream, consumers are purchasing your good or service, and technical support is consistently monitoring progress. Keeping your distribution pipelines loaded with products is an integral part of this process too, as one prefers not to give physical (or perpetual) shelf space to competition. Refreshing advertisements during this stage will keep your product's name firmly supplanted into the minds of those in the contemplation stages of purchase.

Step 8: Post Launch Review and Perfect Pricing

Review the NPD process efficiency and look for continues improvements. Most new products are introduced with introductory pricing, in which final prices are nailed down after consumers have 'gotten in'. In this final stage, you'll gauge overall value relevant to COGS (cost of goods sold), making sure internal costs aren't overshadowing new product profits. You continuously differentiate consumer needs as your products age, forecast profits and improve delivery process whether physical, or digital, products are being perpetuated.

TECHNOLOGY;

Technology is defined as 'the sum of knowledge of the means and methods of producing Goods and services'

Technological change leads to the introduction of new products, changes in the methods and organization of production, changes in the quality of resources and products, new ways of distributing the product and new ways of storing and disseminating information. Technology has a very big impact upon the world of business in all of these areas and has an important effect on the level and type of investment that takes place in an economy and therefore the rate of economic growth.

Information technology

Developments in **information technology** have had the effect of transforming existing business activities as well as creating entirely new ones, involving the collection, handling, analysis and transmission of information. There has been a massive increase in the demand for information, and, on the supply side, continued advances in the miniaturization of components. These will continue even when the capabilities of the silicon chip have been exhausted, with the development of superconductors and optronics. There are also the advances in the computing area such as the development of new languages and artificial intelligence. Advances in information technology have many impacts upon business. They are creating new products and making old products more profitable to produce through things like **computer-aided design (CAD)**. The effects they are having on the different functions carried out by businesses can easily be seen:

- Administration; The administration of businesses has been revolutionized by the introduction of information technology. Most businesses have computer systems, records have been computerized and filing has become unnecessary.
- *Communication*. This has been eased by the introduction of fax machines and email.
- Video conferencing has contributed to the change in working practices by making it possible for people to work anywhere. Telecommunications companies, such as BT, are working on desktop video conferencing systems, where the video camera is attached to the desktop PC.

- *Production*. The use of CAD will shorten the design and planning phase of the product and shorten the life cycle of the product. Japan applied this very early on in the field of consumer electronics and many of the products are withdrawn from sale and redesigned within a very short period of time.
- *Storage and distribution*. The computerization of stock control has had implications for the storage requirements of firms. It has made implementation of the just-in-time method of stock control possible. This is easily seen in the case of supermarkets where the use of bar-codes on products makes it possible to carry out a stock check of a whole supermarket in a matter of hours. The shelves can then be loaded up as the stock check continues. Similarly, the use of bar-codes with Electronic Point of Sale (EPOS) makes stock control simpler.
- *Electronic Funds Transfer at Point of Sale (EFTPOS)*. This system has also had a revolutionary effect in the area of retailing. Most shops now accept credit cards or Switch cards where funds are immediately transferred from bank accounts to the supermarkets.
- The Internet. The potential for the Internet is enormous, although it is still, relatively speaking, in its infancy. In October 2005 there were an estimated 958 million people wired to the Internet, 224 million in the USA. Japan had 78 million users, Germany 47 million, the UK 36 million and China 103 million.

Other technological developments

- *New materials*. There are two main developments in this area: the development of materials in the high-tech industries like technical ceramics and the upgrading of materials used in lower-range products like coated sheet metal.
- *Biotechnology*. This is expected to have wide-ranging effects on many fields. The development of new products like computers that can imitate the activity of the brain can shorten the development process for certain products by speeding up existing processes.
- *Energy*. The kind of developments that can take place in this field are the use of Superconductors to transport electricity and research which might make solar Energy a viable source of energy.

Research and development

Most, but not all, technological changes have occurred through the process of **research and development** (R&D). 'Research' can be theoretical or applied, and 'development' refers to the using of the research in the production process. Most research and development carried out by private companies is directed towards applied research and development. It is designed to develop new products and production processes which will render production more profitable. It is also aimed at improving existing products and processes.

Limits to technological change

Technological change has many effects on the economy and the environment and if uncontrolled can lead to problems, like high levels of unemployment or the exhaustion of natural resources. One area of concern is energy. The world's stock of energy is finite and we are still heavily dependent upon fuel which was formed millions of years ago. The development of nuclear power again represents a finite source of energy, and also carries with it other problems like the disposal of nuclear waste and the possibility of accidents.

BUSINESS APPLICATIONS 1: BUSINESS-TO-BUSINESS (B2B) COMMERCE

Business-to-business (B2B) transactions account for, in terms of value, about 80 per cent of all Internet transactions. Both the buyer and seller are business organizations. The technological and legal aspects of B2B commerce tend to be more complex than business-to-consumer (B2C) commerce, and it often requires sophisticated software. It can be arranged through either inter-organizational systems (IOS) or electronic markets.

B2B commerce is characterized by a number of key features, many of which differentiate it from B2C commerce. Turban and colleagues2 suggest that the following are some of its salient aspects:

- an automated trading process;
- high volumes of goods traded;
- high net value of goods traded;

- multiple forms of electronic payment and funds transfer are permitted, unlike B2C commerce, which tends to be restricted to credit cards and smart cards;
- high level of information exchange, including shared databases, between the different trading partners. This often involves the use of extranets;
- prior agreements or contracts between the business partners requiring a higher level of documentation;
- different types of legal and taxation regimes depending on where the two parties are based, and what type of goods or services are the subject of the transaction; multiple levels of authorization of purchases, each level having its own limits on expenditure or types of goods.

Benefits of B2B

On examination there appear to be a number of potential benefits and drivers of B2B commerce. The first of these is that it encourages the adoption of an Internet electronic data interchange (EDI) system to improve the efficiency of business processes. The DTI describes EDI as ‘the computer-to-computer exchange of structured data, sent in a form that allows for automatic processing with no manual intervention. This is usually carried out over specialist EDI networks’.3 Using EDI to streamline business processes has a number of discernible benefits. These would include the following:

- A safe, secure and verifiable electronic environment that allows manufacturers or retailers to link their stock databases directly to suppliers. This reduces lead times by reducing the time taken in placing and receiving orders.
- Lower costs in creating, processing, distributing, storing, retrieving and destroying paper-based information; fewer errors in data entry; improved inventory control, and reduced staff time involved in the process.
- Improved warehouse logistics, and improved co-ordination for moving goods to the appropriate place, at the defined time and in the correct quantities.
- Better and more efficient integration of support functions such as human resources, inventory control, order processing, accounting and payment processing.
- More efficient strategic alliances and partnering with suppliers, customers and competitors. For instance, in the motor industry, leading firms such as General Motors, Ford and Chrysler have set up a joint extranet with suppliers.

Other benefits and drivers of B2B commerce include the following:

- That it provides an opportunity to market, sell and distribute goods and services to other businesses for 24 hours a day, 365 days a year, the so-called 'martini effect'.
- That it can sometimes significantly reduce fixed costs, perhaps through savings on premises, where a website has effectively become the organization's showroom.
- That it also has the potential to improve pull-type supply chain management, such as JIT manufacture and delivery, based on integrated and fully-automatic **supply chain management (SCM)** and **demand chain management (DCM)** systems.
- That it can encourage organizations to adopt a more customer-centric approach, in which the business tracks consumers' preferences and re-engineers itself quickly to meet consumer needs

Potential problems and limitations of B2B

As we have illustrated, there are a number of significant advantages to the widespread adoption of B2B commerce. However, it should be noted that there are also some potential limitations or barriers that may serve to delay or hamper the growth in B2B commerce. These include:

- Internet technology is continually developing, encouraging some organisations to postpone investment in the short term;
- technical limitations such as lack of system security, reliability and protocols – there are also currently some problems with telecommunications bandwidth and speed;
- the cost and difficulty of integrating existing (legacy) IT applications and databases with Internet and related software;
- the slow progress made in achieving universal international standards for the electronic transfer of information documentation;
- many legal, taxation and regulatory issues remain unresolved.

Business applications 2: business-to-consumer
(B2C) commerce

The **business-to-consumer (B2C)** model was the first to mature on the Internet, and has generated the most publicity. It involves a simple, singular retailing transaction between a business and a consumer. About one-fifth of e-business is between businesses and consumers. One example of the successful development and use of a B2C business model is by the e-retailer Amazon.com,

B2C commerce can be characterized by a number of key features, including:

- Goods or services are offered for sale and purchased over the Internet; these may include both *digitised* products, such as music, airline tickets or computer software that can be delivered *virtually* direct on the Internet, or physical products such as books, flowers and groceries that are delivered by post or courier.
- .Transactions are typically quick and interactive.
- There are no pre-established business agreements.
- Security is primarily an issue for the buyer, rather than the seller.
- Low volume between each individual purchaser and supplier, often for relatively inexpensive items and/or frequently purchased items such as groceries.
- Well known packaged items, which have standard specifications.
- Items backed by a security guarantee and/or high brand recognition. The remoteness from the customer means that a strong reputation may be required to establish consumer confidence.
- Items whose operating procedures can be most effectively demonstrated by animation or video.
- Well designed websites, which are attractive and easy to use, are essential.

Emerging B2C and e-retailing business models

There are a number of ways of classifying the various B2C business models that are emerging:

- Direct marketing product websites – where manufacturers advertise and distribute their own products to customers via Internet-based stores, bypassing the use of intermediaries. Examples include Dell Computers, Nike, Cisco, The Gap and Sony.

- Pure electronic retailers (e-retailers) that have no physical stores, being purely cyber-based, such as Amazon.com.
- Traditional retailers with websites – sometimes called brick-and-click organisations
- where the Internet provides an additional distribution channel for an existing business. Examples include Wal-Mart, Tesco and Barnes & Noble.
- Best price searching agents – intermediaries, such as BestBuyBooks.com and Buy.com, that use software to search for the lowest prices available on the Net.
- Buyer sets the price – the customer nominates a price which they are willing to pay for certain goods or services, and the intermediary then tries to find a seller willing to sell at that price or lower. An example is Priceline.com.
- Electronic (on-line) auctions – host sites, such as eBay, act like brokers, offering website services where sellers post their goods for sale, thereby allowing buyers to bid on those items.

Benefits of B2C commerce

There are a number of potential benefits and drivers of B2C commerce. Some of the more important are as follows:

1 For existing business organizations, many of the benefits are similar to B2B commerce, in that B2C commerce can expand the marketplace, lower costs, and improve management support systems, internal communications and knowledge sharing. It can also allow firms to focus more effectively on customer relationships. However, it might also promote more competition.

2 For new businesses, the Internet can reduce barriers to entry, and thus make it easier to enter new markets. One example would be Amazon.com, which did not need to incur the expense of opening up high street shops in order to successfully enter the retail book industry.

3 For customers, B2C on average provides faster and more complete information, a wider choice, and cheaper products and services. It also allows greater interaction with other customers.

4 For the wider community, an increase in B2C commerce may well have an impact in employment patterns, perhaps with an increase in home-working.

Possible limitations

While B2C commerce has some obvious benefits for the parties involved in transactions of this kind, as one might anticipate there are a number of potential limitations to its future growth and development. These include:

- lack of trust and consumer resistance;
- unresolved security, legal and privacy issues;
- insufficient buyers and sellers on-line;
- technical issues such as poor reliability, insufficient bandwidth, and speed;
- hardware and software tools are rapidly evolving and changing;
- the very expensive off-line marketing costs involved in building brand recognition for new on-line companies;
- lower barriers to entry will increase competition, and potentially increase rather than decrease consumer search and selection costs, as well as possible reduced industry profits overall;
- there are still significant distribution and storage costs involved for the sale of physical goods;
- existing bricks-and-mortar companies will not go away, and will continue to
- compete hard to maintain existing market share.

INTERNET INFRASTRUCTURE;

The physical hardware, transmission media and software used to interconnect computers and users on the Internet. Internet includes internet servers, web servers, internet storage, internet network equipment and infrastructure software.

<u>Technology and international business</u>

MEANING OF TECHNOLOGY

Technology is a sort of knowledge or skill used for employing and controlling factors of production that, inturn, could lead to the output of products and services.baranson (1978) mention three types of technology. They are:

1. Product technology
2. Process technology
3. Management technology

Product technology is the information that specifies a product ‘s feature and uses.Process technology is the knowledge used in the processing or manufacturing of a product . management technology is the managerial skills required for running a business .It helps the firm in optimal utilisation of its resources. A firm possessing superiority in any , or all, of these three types of technology maintaine an edge over other firms.

In the literature available on the subject, some other terms are also used to denote different types of technology.The term hard technology is used to denote blue-prints, specification, capital goods, and so on which are used for the purpose of production. Soft technology is concerned with management and administrative techniques. Similarly , proprietary technology is controlled as a trade secret. Bundled technology is also a controlled technology and is transferred by the owner as a part of the package.

Here proprietary technology needs some more explanation.It is that innovated technology which is unavailable to other firms in the market place. It is analogous to Magee’s(1977) appropriability approach where the innovator of the technology does not pass it on to other firms with a view to enjoying a monopolistic position in the market .It does not mean that proprietary technology is not diffused or transferred. It is diffused, but among different units of the same firm.The intra-firm diffusion of technology is often known as internalisation of technology.

Technology as a strategic Asset

Technology is a strategic asset. It enhances the firm’s product portfolio. It helps produce items with new features. New features attract consumers who are ready to pay a higher price for the novel product. When the technology matures, the consumers do not like to pay a high price. But since the process of innovation is often a continuous phenomenon a new technology is innovated and takes the place of the mature one. A products performance picks up fast; and consequently, the firms is able to charge a high price for the product.It is because of this fact that

Abernathy and Utterback(1978) analogies the product performance(in the wake of technological innovation) with a “S” shaped curve.The curve shows that product performance rises fast with the use of new technology. It shows down with the ageing of the technology, but picks up pace again with the introduction of the new technology.

It is not only the product innovation that helps a firm to earn large profits. The process innovation also acts in the same way. The reason is that such an innovation leads to lowering of the cost of production. The product cost is normally reduced on account of shortening of lead time and a shorter manufacturing cycle. The use of computers in designing a component is a major factor in cutting of the manufacturing cycle.

On the basis of above discussion, one can say that technology has much to do with international business. There are studies to confirm that the major factor behind the growth of US exports has been the higher technological intensity in its products.Similarly,technology has been a major factor behind large growth of multinationlism among US firms.

TECHNOLOGICAL STRATEGY

The proceding section mentions the benefits of innovated technology in the form of new features of products and the reduced production cost. The present section discusses how proper management of technology could enhance the firm’s competitive advantage.

The technological strategy or the proper management of the technology has various aspects that need adequate consideration. Some more important of these are

1. Technology audit
2. Development of technology
3. Acquisition/transfer of technology
4. Modification of technology
5. Protection of technology

Technology Audit

At the very first step, prior to the development or acquisition of technology, it is essential to identify the specific technological competence and its relevance to the business opportunities lying ahead .It is also essential to identify the existing technological gap that needs to be filled up. Goodman and lawless (1994) Term this process as technology audit.

The process of technology audit has three aspects. Firstly, to identifying the risk involved in the use of technology: whether the new product will be liked by the consumers or the life span of the technology is too short to get ample returns.Secondly,identifying the firms capabilities to develop the required technology. The capabilities include the level of expertise among the R&D staff, the cost that is borne by the firm, and their ability to commercialise the developed technology. The third aspect concerns identifying the amount of investment issue.If the technological foundation of business is not the exclusive asset of the firm, large investment is not suggested. But if the new technology is significant for the building of competitive advantage, liberal investment may be made. Again ,if the technology has the potential to alter the very basis of competition, even in the long run, selective investment is suggested with continuous monitoring.

Development if technology

The aspect of the technology development is an extension of technology audit. Product or process technology can be developed through research and development (R&D) activities. Most of the large MNCs,especially the technology intensive ones, rely on internally generated technology that is derived through R&D .But as far as R&D is concerned, it is sometimes very expensive and may not be justified on the grounds of cost efficiency.Thus,a firm, as mentioned above,must evaluate the cost aspect before setting up its R&D activities.How-AT&T,and MIT formed a research consortium to explore new possibility in the area of high temperature super-conductivity. Nevertheless, in such cases, the possibilities of competition among the partners themselves for access to the market cannot be ruled out completely.

It is not only the cost involved in R&D ,but also it is how far the cost of the product diminishes and how far the quality of the product improves that should be considered. If a new product is designed not keeping in mind the capabilities of the production department,the attempt will be a failure.It will require redesigning,which will involve additional cost .All this ,means that there should be close integration between the R&D and production departments.

Again R&D activities involve great uncertainties,It may be that the product innovated on the basis of R&D is not successful in the market and is not accepted by the consumers.If it is so,there would be huge wastage.But if the new product succeeds,the firm would be able to reap unusually large profits.We can quote the experiences of Hoffman la Rosch,a Swiss pharmaceutical company that earned huge profits by development of a new technology confers on the firm technological superiority and market leadership that is not found in case of the technology bought that is unless and until the purchased technology undergoes substantial modification in the hands of the purchaser. However ,it cannot be easily predicted whether the new technology would really succeed in the market.So there should be effective integration between the R&D department and the marketing department. In order to reduce uncertainty,many firms have started bringing refinements on the already proven technology through the process of continuous R&D instead of initiating fundamental research.

Another issue that concerns R&D is the place where such activities are located..Normally R&D activities are vcentralied at the firm's headquarters.But it can easily be decentralised if situation warrents.Stonehouse at el.(2000) feel that ifR&D activities are decentralised at some subsideries,the transctional's competitive position will be enhanced greatly as the developed technology is greatly in consonance with the sonsumption pattern of that region.hewlett-packard (HP) ia an apposite example here.HP maintains four basic research centers.They located at Palo Alto in California,Bristol in England,Haifa in Ireal,and Tokyo in japan.These centers work on different aspects of technology and they are complementary in nature.It was on palo alto centre that pioneered the thermal ink-jet technology.The Headquarters at San Diego designs, develops and manufactures various products based on this technology for the world market. The subsidiaries customise the product to suit the consumers in their own geographic area.For example, the Singapore subsidiary of HP designs and manufactures thermal ink jet or inters for japan and Asian countries.

Many international firm's have created cross-functional teams composed of the representives of the three departments-R&D, production,and marketing.Because these functions are located in different countries, the team normally has international representation.The team facilitates the communication of the information about the market and the production possibilites to The R&D department, making R&D more effective.

Thus, in the view of the problems involved in the R&D activities, the firm has to take vital decisions with regard to the cost involved in R&D ,focus of the R&D effort, its location, and nature of R&D at the subsidiary level.

Acquisition of the technology through purchase

Purchase of already developed technology is found to be a good substitute for the R&D activities. In the developing countries, where funds are too limited to undertaker&D,import of the technology is more frequent, although firms located in industrialised countries too purchase technology. There are two ways to transfer technology. While one is point to point transfer, other is diffusion. In the case of point to point transfer, technology passes on form one firm to other along with a strict guard on its secrecy. On the countrary,in case of diffusion, the recipients are many and all have access to tha same technology son in case of diffusion, secrecy is not assured.

Policy of the Host-Country Government:

The policy of host country government towards the acquisition of technology varies from one case to other.If the strategy is to allow continuous flow of technology ,the policy involves minimum of restriction.It rather provides a numbe of incentives to this end.On this comtrary,If the strategy is to reduce gradually reliance on the imported technology,the policy puts conditions on its import and encourages R&D within the country.yet again,if the strategy is to have a full grip over the import technology,the host-country government targets specific MNC's and provides them incentives for ungrading technology.However,in majority of the cases,it is a mix of all the three strategies stated above.

Inter-firm and intra-firm Transfer:

Transfer of technology may be either inter-firm or intra-firm transfer normally takes place when:

1.The price of technology is within the reach of the buying firm.

2.It is difficult to protect the innovated technology with the help of patents,trademarks,and so on,and there is every possibility of its being copied by others

3.Technolgy does not lie at the very root of the competitive advantage of the innovating firm.

4.the technologu supplying firm lags with respect to marketing the final product.

5. The cost of the technology is exorbitant and technology innovating firm likes that substancial part of the cost is recovered through sale of the technology to some other firm.

In case of intra-firm transfer ,the price of the technology is not a crucial factor as it can be manoeuvred in tandem with the firm's objective.However ,there are factors that encourage the intra-firm transfer of technology.They are when:

1.The firm is sure that the technology cannot be copied easily.

2.Technology forms the very backborn of the firm's competitiveness.The firm fears that if technology is available to rival firms,it will lose its competitive strength.

3.The firms relies more on the sale of the product using the innovated technology.

4.The firm considers the technology more valuble than the potential buyers of the technology.

5..The technology is too costly to be purchased by other firms in normal circumstances.

Problems in Technology Transfer:

Transfer of technology whether it is between developed country and a developing country,between two developed countries or between two developing country is fraught with problems.

1.The developer of the technology does not generally like to transfer the latest technology to some other firm because it does not want its market leadership to be shared by others.Baranson(1970)has observed that international firms are not willing to part with technology under joint-venture agreements because it comes in the way of maintaining secrecy.The sale to an independent firms is even more of a remote possibility. However,inter-firm transfer of technology is often found: and in large number of cases, the traded technology is obsolete.

2.The developer of the technology charges an exorbitant price for the technology .Infact,it likes that a substancial part of the expenses on R&D is recovered.Sometimes the selling firm ties unnecessary technology to a contract for one desired item so that it covers payment for all instead of just one product .the high price of technology entails upon the cost of production and thereby, the very competitive edge of the technology buying firm.sttistics reveal that technology payments by developing countries have grown steadily since the 1980's.In 1981-1985 they grew by 4 percent a year,despite a fall in FDI inflows of 12 percent a year and in 1991-1995 by 13percent ,growth that continued in the second half of the 1990s.FDI grew by 15percent in developing countries in the latter half of the 1990s.

3.It is often necessary to ascertain whether the purchased technology is appropriate .In case of transfer of technology between two developed countries or between two developing countries,the problem is not great on the count because the consumption pattern,the size of market,capital –labour ratio ,and other factors are almost similar .But when the tecvhnology country ,it is often inappropriate.R&D department in developed countries design technology from the view point of a large market,which is more capital intensive.But the size of the market in the developing countries is small .Moreover, the capital-labour ratio is low.Therefore,the technology is often inappropriate .However this problem is more often redressed through modification of technology,which is explained in the subsequent section.

Intra_firm transfer of technology is more common than inter_firm transfer .as stated above,it dose not infringe upon the secrecy of the technology,rather ,it works behind the internationalisation of the firms.but in this case,the price of the technology is arbitrarily fixed.when the demand for the final product is expected to be price-elastic,the parent company charge a very low price from its subsidiary for the use of the technology . it is because the cost of production will remain confined within the lower limits, leading to greater demand for the product.on the other hand ,if the demand for the final product is price-inelastics, the parent unit will try to recover the cost of R&Das far as possible and inflate the price of technology,without impairing the revenue of the subsidiary

Again, the appropriateness of the technology even in case of intra-firm transfer cannot be guaranteed. The problem in this respect is the same as in the case of inter-firm transfer.however, the subsidiaries can modify the technology if it is not suitable. Thus, modification of technology is crucial to the process of technology diffusion .

4) There are a lot of governmental restrictions on the transfer of technology from one country to another . in industrialised countries , the restrictions are not as many as in the developing countries . yet they exist. They are mainly regarding the size of royalty to be paid . immigration laws are sometimes restrictive as they do not permit the technical personnel to accompany the technology.

Developing countries place greater restrictions on the transfer of technology and demand greater participation in the process of technology creation and diffusion. However, they offer lower patent protection. This is so despite the fact that these countries need a greater amount of new technology.

MULTINATIONAL CORPORATIONS (MNCs):

MNCs are defined as an enterprise that is headquartered in one country but has operations in one or more countries. Sometimes it is difficult to know if a firm is an MNC because multinationals often downplay the fact that they are foreign held.

Multinational corporations (MNCs) are huge industrial organisations which extend their industrial and marketing operations through a network of their branches or their majority owned foreign affiliates (MOFAs).

MNCs are also known as transnational corporations (TNCs). Instead of aiming for maximization of their profits from one or two products, the MNCs operate in a number of field and from this point of view, their business strategy extends over a number of products and over a number of countries.

Multinational, Global, Multi-domestic and Transnational

Multinational, Global, International and Transnational are terms which are frequently used to describe the organizations which are operating in more than one nation. Though usually these terms are used interchangeably, they have specific meanings.

1. ***Multinational Enterprise (MNE)*** is a company that takes a global approach to foreign markets and production; it is thus willing to consider market and production location anywhere in the world. The term multinational corporation (MNC) is also commonly used in the international business arena and often is a synonym for MNE. Usually, most authors prefer MNE as there are many international firms which are not organized as corporations.

2. ***Transnational Companies (TNC)*** is a term used by United Nations and most of the developing nations for multinational firms. This term is used in two contexts though some writers use this term for a company that is:

(a) trying to achieve economies of scale through global integrations of its functional area while at the same time.
(b) highly responsive to different locational environment (a newer name is multiculturals multinational).

Global Company: The term Global Company is widely used for MNE but every MNE is not a Global MNE. A global company is one that has a global vision. It is a company which looks for opportunities worldwide, it sources it products, raw material, and financing and personnel worldwide, seeks to maintain a presence in key markets of world and look for similarities, not differences among markets. The biggest characteristic of these companies is that they look at the whole world as a single market and standardise operations and products worldwide in one or more of the firm's functional areas.
Example: There are firms who to an extent can be classified as global firms, such as Coco Cola, Pepsi, Kellogg's, SONY, etc.
These are the companies who keep their product portfolio same and manufacture the product for the whole world considering them as a single market, though they change their functional strategy according to the local requirements.
4. ***Multi-domestic Company:*** It is a company which treats each of its units operating in different countries as an independent profit centre. It allows its foreign country operations to act fairly and independently such as by designing and producing a product or service in India for the Indian market and in China for the Chinese market.

Benefits of Being MNCs

Undoubtedly, firms cross national boundaries and accept the risk of operating in an unknown environment in the hope of earning more profit and increasing their shareholders wealth. Besides this, there are many other reasons such as survival, new sources of supplies, cheap human resource and even just to keep busy the nearest rival in its home country. Some of the key reasons of crossing national boundaries are as follows:

1. ***Survival:*** Most countries are not as fortunate as that of India, Russia, China or the US in terms of size, resources and opportunities. Most European nations are small in size or most Middle East and South East countries are rich in only one or very few resources. In these countries organizations are bound to do business in and with other countries to survive. Even organisations of big countries are bound to look out for new markets for their products and cheap resources to remain competitive and to survive.

2. ***Growth of Overseas Market (Sales):*** This has been the biggest reason for more and more Companies expanding overseas. In the last 20 years many economies have opened their doors for the world. This resulted in a big opportunity in terms of Market. Most of the European nations, USA, Canada, Japan, etc., have a stagnant population growth and very low GDP growth.

All these factors led to companies searching for a new market. Emerging economies like India, China, and South East Asia form a significant market-perhaps more than 35% of the world market. This has given them opportunities and MNCs have started expanding their wings in these parts of the world.

India and China are amongst the top five countries of the world in terms of Purchasing Power Parity. All this attracted many organizations to tap new markets in emerging economies. Besides this agreements/groups like GATT, GATS, ASEAN, EU, SAPTA, NAFTA, etc., have also created huge opportunities of business for organizations and to tap these, they are going abroad.

3. ***Diversification:*** No organization wishes to keep all its eggs in one basket. Every organization wants to diversify its risk and internationalization is a good manner to do that, along with sticking to its core competency or old business. Different countries have different trade cycles for the same product. When there is a recession in one economy, there could be a boom in the other and an organization can cover losses in one country by profits.

4. ***Resources:*** In today's cut-throat competition, cost cutting is the key to success. Prices are controlled by consumers and the only thing which can be manipulated to increase profit is cost. Organizations go abroad in search of economical sources of supply. A truly global firm always locates its processing in the best available location in the world and outsource HR and other

physical resources from the best suited place available. In fact, this is the reason that more and more companies are establishing their call centres in India.

5. ***To Protect Market Share:*** Firms also become MNEs in response to increased foreign competition and a desire to protect their home market share. Using a "follow the competitor" strategy, a growing number of MNEs have now set up operations in the home countries of their own major competitors. This approach serves as a dual purpose:
(1) it takes away business from their competitors by offering customers other varied choices and
(2) it lets competitors know that, if they attack the MNEs home markets, they will face a similar response.

6. ***Tariff and Non-Tariff Barrier:*** Organizations establish their operation overseas to deal with tariff and non-tariff barriers. Many time countries impose tariff and non-tariff restrictions on import in such cases. Organizations establish their production unit in the host country so that it can be treated as a local company.

7. ***Technology Expertise:*** One reason for becoming an MNE is to take advantage of technological expertise by manufacturing goods directly (by FDI) rather than allowing others to do it under a license. Many MNCs feel it unwise to give another firm access to proprietary information such as patent, trademarks or technological expertise.

8. ***Access to Economical Human Resources:*** Many times companies cross borders to have access to economical human resource. Organizations which used to earlier import Human Resource from our country are now establishing their operations in India itself, only to take advantage of economical human resource. Various companies are crossing borders because the cost of human resource is rising.

Demerits of MNCs Notes

Multinational corporations have become too powerful in absolute terms as well as relative to governments.

The enormous resources controlled by multinational corporations give them a tremendous amount of power, especially over individuals and governments. The ongoing erosion of national barriers to trade and investment enables these firms to close shop and head overseas if government, workers or NGOs place restrictions (e.g., minimum wage, taxation, labour standards, fines for pollution, etc.) on them or otherwise inhibit their ability to earn profits. Certainly, there is a danger to any organization that controls resources and market share on par with giant conglomerates like HLL, Reliance, TATA, or AV Birla may abuse their power in ways that undermine democratic processes or hurt consumers. But these corporations earn their profits through efficiency and innovation, without which they would quickly lose market share to rivals.

They employ millions of workers with competitive wages, provide relatively low-cost/ high-quality goods and services to consumers and enrich shareholders. Moreover, they must accomplish all of this without stepping beyond the boundaries of Competition/Antitrust Law/ Consumer Act in the countries in which they operate. In light of the profit motive, firms spend money to influence legislation to its favour in case doing so is likely to enhance profitability.

REASONS FOR THE GROWTH OF MNCs:

Reasons for the growth of multinationals are manifold, the important ones beings as follows:

1. **Expansion of market territory:** As the operations of a large-sized firm expand and as its international image builds up, it seeks more and more extension of its activities beyond the physical boundaries of the country in which it is incorporated.
2. **Marketing superiorities:** A multinational firm enjoys a number of marketing superiorities over the national firms: (a) It possesses a more reliable and upto date market information system; (b) It enjoys market reputation and faces less difficulty in selling its products; (c) It adopts more effective advertising and sales promotion

techniques; and (d) It has efficient warehousing facilities due to lower inventory requirements.

3. **Financial superiorities:** A multinational firm enjoys the following financial superiorities over the national firms: (a) It has huge financial resources with which it can easily turn all circumstances in its favour; (b) It maintains a high level of fund utilization by generating funds in one country and using them in another; (c) It has easier access to external capital markets; and (d) Because of its international reputation it is able to raise more international resources. Even investors and banks of the host country are eager to invest in it.
4. **Technological superiorities:** The main reason why MNCs have been encouraged by the underdeveloped countries to participate in their industrial development is on account of the technological superiorities which these firms possess as compared to national companies. The underdeveloped countries regard transfer of technology from MNCs useful on account of the following reasons: (a)Industrialization represents the most important way out of underdevelopment and the resources of these countries are insufficient to sustain the industrial progress on their own; (b) Local manpower, material, local capital equipments etc. Have to be optimally exploited and these countries are unable to accomplish this; (c) Depending totally on local companies would require heavy imports of raw materials, capital equipment, machinery and technical knowledge whereas MNCs bring these on their own; (d) The underdeveloped countries have to face stiff competition for selling their products in international markets. Unless their goods meet international standards and quality specifications, they cannot sell. MNCs help them in producing such goods.
5. **Product innovations:** MNCs have research and development departments engaged in the task of developing new products and superior designs of existing products. Therefore their production opportunities are far greater as compared to national companies.

A CRITICAL APPRAISAL OF MNC OPERATIONS ON INDIAN ECONOMY:

The operations of MNCs open up the possibilities of interference in the industrial (and other) activities of the recipient country and are thus resented by the 'nationalist' thinker. Their arguments against the operations of MNCs can be summed up as follows:

1. **Payment of dividends and royalty:** A large sum of money flows out of the country in terms of payment of dividends, profits, royalties, technical fees and interest to the foreign investors.
2. **Distortion of economic structure:** MNCs can inflict heavy damage on the host country in various forms such as suppression of domestic entrepreneurship, extension of oligopolistic practices (such as unnecessary product differentiation, heavy advertising, or excessive profit talking), supplying the economy with unsuitable technology and unsuitable products, worsening of income distribution by distorting the production structure to meet the requirements of high-income elites, etc.
3. **Political interference:** Because of their immense financial and technical power, the MNCs have gained the necessary strength to influence the decision making processes in underdeveloped countries. Through they do help in transferring technology to underdeveloped countries, it has been often found that models and patterns of industrial development and technologies transferred and not in harmony with the interest of the host countries. The governments of underdeveloped countries have also felt threatened by the direct and indirect interference of MNCs in their internal affairs. The autonomy and sovereignty of the host countries is in danger. Because of these reason, the governments of various countries have sought to restrict the activities of MNCs in their economies through a battery of administrative controls and legal provisions.
4. **Technology transfer not necessarily conducive to development:** As far as transfer of technology to underdeveloped countries is concerned, the behaviour pattern of MNCs reveals that they do not engage in R and D activities within the underdeveloped countries. Their R and D efforts are concentrated in laboratories in the home country or in other industrialised countries. Through R and D activities continue to be centralized in the parent country, the host countries have to bear the

bulk of their costs since the affiliates of the MNCs in these countries remit payments on this account generally in relation to their sales volume. Such payments by the affiliates are generally over and above those remitted in the form of royalties and technical fees to the parent firm.

In many cases, the technology transferred is of a capital-intensive nature which is not useful from the point of view of a labour surplus economy. In fact, continued insistence on the import of such technology can have serious consequences for the economy of the host country since unemployment will increase. Also market will fail to grow and this constraint alone would suffice to restrain the rate of growth from increasing.

CONTROL OVER MULTINATIONAL CORPORATIONS

The responsibility of controlling the activities of multinational corporations in India rests on different government agencies. These agencies are: (i) The ministry of company affairs, (ii) The reserve bank of India, (iii) The ministry of industrial development, and (iv) The ministry of finance. However, these agencies do not work in close cooperation with each other. As a result, there is no coordination in their functioning. Each case is discussed on its own merits by the authorities. There are no objective criteria for approving applications and the procedure resorted to by the various ministries is lengthy and cumbersome.

As a result of a study by Michael Kidron entitled foreign investment in India published in 1965 (and the follow-up discussions in which many economists participated) and the appearance of the industrial licensing policy inquiry committee report in 1968, the belief got strengthened that import of foreign technology were overpriced and were designed to perpetrate dependence.

As a consequence, the government policy was progressive tightened in the following directions: [3]

(1) some industries were not allowed to import technology to all, the underlying principles of the policy being that (a) no 'inessential' articles should be produced with the fresh import of technology and (b) where domestic capacity was adequate no technology should be imported;

(2) Among industries where technology imports were allowed, the maximum rate of royalty was laid down;

(3) In some designated industries, foreign investment was allowed in principles, but sanction in individual cases was a matter of administrative decision;

(4) The normal permissible period of agreements was reduced from ten years to five, and renewals were generally frowned upon;

(5) Export and other marketing restrictions were generally not allowed, and often an obligation to export a certain proportion of the output was insisted upon;

(6) A clause was often inserted in the agreements granting permission to the imported to sub-licence the technology;

(7) The CSIR was allowed to look at applications for approval of technology imports, and if it expressed willingness to supply the technology, approval was withheld or at least delayed.

The most effective curb on the activities of foreign companies, especially MNCs, was support to come with the passing of the foreign exchange regulation act (FERA) in 1973 to which we now turn.

FOREIGN EXCHANGE REGULATION ACT (FERA), 1973:

Foreign exchange regulation act (FERA) was promulgated in 1973 and it came into force on January 1, 1974. **Section 29 of this act referred directly to the operations of MNCs in India. According to the section, all non-banking foreign branches and subsidiaries with foreign equity exceeding 40 per cent had to obtain permission to establish new undertakings, to purchase shares in existing companies, or to acquire wholly or partly and other company.**

Guidelines for administering this Section of FERA were announced in 1973 and later amended in 1976.

According to these guidelines, the principal rule was that all branches of foreign companies operating in India should convert themselves into India companies with at least 60 per cent local equity participation. Furthermore, all subsidiaries of foreign companies should bring down the foreign equity share to 40 per cent or less. Exempted from these rules were, however, companies exporting a substantial part of their production, and companies engaged in core sectors and priority industries. In these cases, the guidelines provided for higher levels of foreign equity.

According to Martinussen, "this exception to the general rule reflected the government's endeavours to induces TNCs to use their superior access to global distribution and marketing system, with a further view to improving India's balance of payments position. Besides, they reflected a desire on the part of the India government to channel TNCs away from certain industries and into core sectors and high priority industries. The latter included primarily basic intermediates and capital goods, whereas the former group comprised mainly consumer goods. As a rule, the manufacture of priority items required sophisticated technology not available from indigenous source".[4]

Implementation of FERA: There were substantial delays in implementing FERA. According to Martinussen, by June 1979, only about half the companies directed to dilute the foreign holdings had carried out the process as stipulated. Most of the companies were in the process of diluting, but 64 companies had, at that time, yet to initiate the process. Not until 1982, i.e., eight year after FERA came into force, did the last group of 28 companies receive final direction pursuant to the act. Moreover, upto the end of 1985, a total of 252 foreign controlled companies were exempted from the general rule stipulating a maximum of 40 per cent non-resident interest.[5]

In regard to the companies that did not comply with FERA regulations, martinussen observes a certain pattern. For instance, he found that almost all these companies belonged to only three groups. They were either engaged in tea plantation activities or in the manufacture of drugs and pharmaceuticals, or they were affiliated with particularly large TNCs. The special treatment to tea companies was due to importance of tea in India's foreign trade. As far as the drugs and pharmaceuticals industry is concerned, India's heavy dependence of MNCs for bulk drugs came in the way of compliances of FERA regulations. As far as the third category of powerful MNCs in concerned. Martinussen given in detail the experience with regard to Hindustan lever Ltd.[6] this company managed to secure concessions from the government on flimsy grounds. For instance, it succeeded in getting 60 per cent of its toiletries manufacturing classified by government as high technology activity as it helped in ‘import substitution’.

The general conclusion that emerges from a review of FERA is that it did not in any significant way restrict the expansion and activities of TNC affiliated companies in general. In fact, “the overwhelming majority of large, well established and experienced TNC affiliated companies were able to extract sizeable benefits from the working of the approval system, not necessarily in keeping with government policy. In other word, the approval system proved ineffective as a regulatory framework in relation to resourceful TNCs that close to come to term with the system.”[7]

FOREIGN EXCHANGE MANAGEMENT ACT (FEMA), 1999

The foreign exchange management bill (FEMA) was introduced by the government of India in parliament on August 4, 1998. The bill aims **“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.”**

It was adopted by the parliament in 1999 and is known as the foreign exchange management act, 1999. Chapter II of FEMA deals with the regulation and management of foreign exchange. Section 3 states that except as otherwise provided in this act, no person shall any manner deal in or transfer any foreign exchange, foreign security or any immovable property situated outside India.

Current account and capital account transactions: Section 5 and 6 deal with current account and capital account transactions. According to section 5, any person may sell or draw foreign exchange to or from an authorised person if such sale or drawal is a current account transaction. However, the central government may, in a public interest and in consultation with the reserve bank, impose such reasonable restrictions for current account transactions as may be prescribed.

According to sub-section 1 of section 6, any person may sell or draw foreign exchange to or from an authorised person for a capital account transaction subject to provisions of sub-section 2. Sub-section states that reserve bank may, in consultation with the central government, specify... (a) Any class or classes of capital account transactions which are permissible; (b) The limit upto which foreign exchange shall be admissible for such transactions.

Sub-section 4 of section 6 states that a person resident in India may hold, own, transfer or invest in foreign currency, foreign security or any immovable property situated outside India if such or any immovable property was acquired, held or owned by such person when he was resident outside India or inherited from a person who was resident outside India. Sub-section 5 states that a person resident outside India may hold, own, transfer or invest in India currency, security or any immovable property situated in India if such currency, security or property was acquired, held or owned by such person when he was resident in India or inherited from a person who was resident in India.

Realisation and repatriation of foreign exchange: section 8 lays down that save as otherwise provided in the act, where any amount of foreign exchange is due or has accrued to any person resident in India such person shall take all reasonable steps to realise and repatriate to India such foreign exchange within such period and in such manner as may be specified by the reserved bank.

Section 9 provides the following exemptions from realisation and repatriate of foreign exchange: (a) possession of foreign currency of foreign coins by any person up to such limit as the reserve bank may specify; (b) foreign currency account held or operated by such person or class of person and the limit up to which the reserve bank may specified; (c) foreign exchange acquired or received before the 8th day of July, 1947 or any income arising or accruing thereon which is held outside India by any person in pursuance of permission granted by the reserve bank; (d) Foreign exchange held by a person resident in India upto such limit as the reserve bank may specify, if such foreign exchange was acquired by way of gift or inheritance from a person referred to in clause (c), including any income arising therefrom; (e) foreign exchange acquired from employment, business, trade, vocation, services, honourarium, gifts, inheritance or any other legitimate means upto such limit as the reserve bank may specified; and (f) such other receipts in foreign exchange as the reserve bank may specified.

Contravention and penalties: chapter IV deals with the issue of contravenes and penalties. Section 13 says that if any person contravenes any provisions of this act he shall upon adjudication, be liable to a penalty upto thrice the sum involved in such contravention where such amount is qualifiable, or upto two lakh rupees where the amount is not quantifiable, and where such contravention is a continuing one, further penalty which may extend to five thousand rupees for every day after the first day during which the contravention continues. Section 14 says that if the person concerned fails to make full payment of the penalty imposed on him within a period of ninety days, he shall be liable to civil imprisonment.

Adjudication and appeal: chapter V deals with the issues of adjudication and appeal. Section 16 that the central government may appoint adjudicating authorities for holding an inquiry in the manner prescribed after giving the accused person a reasonable opportunity of being heard for the purpose of imposing any penalty.

Section 17 provides for the appointment of one or more special directors (appeals) to hear appeals against the order of the adjudicating authorities. Section 18 says that the central government shall, by notification, establish an Appellate Tribunal to be known as the Appellate tribunal for foreign exchange to hear appeals against the orders of the adjudicating authorities and the special director (Appeals) under this Act.

Directorate of Enforcement: chapter VI deals with the establishment of the directorate of enforcement and its power, etc. Sub-section 1 of section 36 states that the central government shall established a directorate of enforcement with a director and such other officers or class of officers as it thinks fit, who shall be called officers of enforcements, for the purpose of this Act. Sub-section 3 of section 37 states that the director of enforcement and other officers of enforcement shall exercise the like power which are conferred on income-tax authorities under the income-tax act, 1961 and shall exercise such power, subject to such limitations laid down under the Act.

Miscellaneous: The last chapter VII consisting of section 39 to 49 deals with miscellaneous issues. Sub-section 1 of section 40 empowers the central government in the public interest and by notification to suspend or relax the provisions of the Act in certain circumstances.

Section 41 empowers the central government to give general or special direction to the reserve bank.

Section 42 provides that where contravention of any of the provision of this Act is committed by a company, the person responsible for the conduct of its business shall be deemed to be guilty of the contravention. Section 44 bars the prosecution of legal producing against the officer of the central government or the Reserve Bank or any other person exercising any power or discharging any function or performing any duties under the provisions of this Act for anything done in good faith.

Section 45 empowers the central government to removes the difficulties in giving effects to the provisions of the Act. Section 46 empowers the central government to frame the rule and the section 47 empowers the Reserve Bank to make regulation to carry out the provisions of this Act and the rule made there under. Section 48 provides for laying before parliament the rules and regulation made under this Act. Section 49 provides for repeal for the foreign exchange regulation Act, 1973 and for dissolution of the appellate Board constituted under section 52 of the said Act.

FOREIGN DIRECT INVESTMENT;

Foreign direct investment (**FDI**) is an **investment** made by a company or individual in one country in business interests in another country, in the form of either establishing business operations or acquiring business assets in the other country, such as ownership or controlling interest in a **foreign** company.

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Foreign direct investment is one of the most important sources of foreign investment in developing counties like India. It is seen as a means to supplement domestic investment for achieving a higher level of growth and development. FDI is permitted under the following forms of investments.

1. Through financial collaborations/capital/equity participation.
2. Through joint ventures and technical collaborations.
3. Through capital markets (Euro Issues).
4. Through private placements or preferential allotment

From investors' point of view, the FDI inflows can be classified into the following three groups:

(a) Market seeking. The investors are attracted by the size of the local market, which depends on the income of the country and its growth rate.

(b) Lower cost. Investors are more cost-conscious. They are influenced by infrastructure facilities and labour costs.

(c) Location and other factors. Technological status of a country, brand name, goodwill enjoyed by the local firms, favourable location, openness of the economy, policies of the Government and intellectual property protection granted by the Government are some of the factors that attract investors to undertake investments.

Industrial Policy (1991) announced by the Congress Government accepted the fact that foreign investment is essential for modernization, technology upgradation and industrial development of India. The policy, therefore overbent to cajole foreign capital to come to India. The main points of the policy were :

(i) Approval would be given for direct foreign investment up to 51 per cent foreign equity in high priority industries. Clearance would be available if foreign equity covers the foreign exchange requirement for imported capital goods.

(ii) The payment of dividends would be monitored through the Reserve Bank of India so as to ensure that outflows on account of dividend payments are balanced by export earnings over a period of time.

(iii) To provide access to international markets, majority foreign equity holding up to 51% equity would be allowed for trading companies primarily engaged in export activities.

(iv) Automatic permission would be given for foreign technology agreements in high priority industries up to a lump sum payment of Rs. 1 crore, 5% royalty for domestic sales and 8% for exports, subject to a total payment of 5% of sales over a 10 year period from date of agreement or 7 years from commencement of production.

Factors that Attracts FDIs in India

The following factors can be held responsible for the flow of foreign direct investments in India :

1. India has a well developed network of banking and financial institutions and an organized capital market open to foreign institutional investors that attracts them to undertake investments.
2. India has vast potential of young entrepreneurs in the private sector. Indian skills and competence is used as a base for carrying out production activities and export to neighbour countries.
3. For the last few years there has been political stability in the country.
4. India enjoys good reputation among other countries as to honouring of its commitments about repayment obligations, remittance of dividends etc.
5. India has vast pool of unskilled labour available at cheap rates as compared to other countries, and vast natural resources that attract foreign investors.

Factors that Discourage FDIs

Factors that discourage foreign investors to undertake investments in India include:

(i) High rates of taxation.

(ii) Lack of infrastructure facilities.

(iii) Favouritism in the selection of investment.

(iv) Complicated legal framework of rules, regulations procedures for foreign direct investment into India.
(v) Lack of transparency

TYPES OF INVESTORS;

Individual:

- FVCI (Foreign Venture Capital Investors)
- Pension/Provident Fund
- Financial Institutions

Company:

- Foreign Trust
- Sovereign Wealth Funds
- NRIs (Non Resident Indians)/ PIOs (Persons of Indian Origin)

Foreign Institutional Investors:

- Private Equity Funds
- Partnership / Proprietorship Firm
- Others

Types of Foreign Direct Investment: An Overview

FDIs can be broadly classified into two types: outward FDIs and inward FDIs. This classification is based on the types of restrictions imposed, and the various prerequisites required for these investments. An outward-bound FDI is backed by the government against all types of associated risks. This form of FDI is subject to tax incentives as well as disincentives of various forms. Risk coverage provided to the domestic industries and subsidies granted to the local firms stand in the way of outward FDIs, which are also known as "direct investments abroad." Different economic factors encourage inward FDIs. These include interest loans, tax breaks, grants, subsidies, and the removal of restrictions and limitations. Factors detrimental to the growth of FDIs include necessities of differential performance and limitations related with ownership patterns. Other categorizations of FDI exist as well.

Vertical Foreign Direct Investment

Vertical Foreign Direct Investment takes place when a multinational corporation owns some shares of a foreign enterprise, which supplies input for it or uses the output produced by the MNC.

Horizontal foreign direct investments

Horizontal foreign direct investments happen when a multinational company carries out a similar business operation in different nations. Foreign Direct Investment is guided by different motives. FDIs that are undertaken to strengthen the existing market structure or explore the opportunities of new markets can be called "market-seeking FDIs." "Resource-seeking FDIs" are aimed at factors of production which have more operational efficiency than those available in the home country of the investor. Some foreign direct investments involve the transfer of strategic assets. FDI activities may also be carried out to ensure optimization of available opportunities and economies of scale. In this case, the foreign direct investment is termed as "efficiency-seeking."

Advantages

Economic development

Foreign direct investment is that it helps in the economic development of the particular country where the investment is being made. This is especially applicable for the economically developing countries. During the decade of the 90s foreign direct investment was one of the major external sources of financing for most of the countries that were growing from an economic perspective. It has also been observed that foreign direct investment has helped several countries when they have faced economic hardships. An example of this could be seen in some countries of the East Asian region. It was observed during the financial problems of 1997-98 that the amount of foreign direct investment made in these countries was pretty steady. The other forms of cash inflows in a country like debt flows and portfolio equity had suffered major setbacks. Similar observations have been made in Latin America in the 1980s and in Mexico in 1994-95.

Transfer of technologies

Foreign direct investment also permits the transfer of technologies. This is done basically in the way of provision of capital inputs. The importance of this factor lies in the fact that this transfer of technologies cannot be accomplished by way of trading of goods and services as well as investment of financial resources. It also assists in the promotion of the competition within the local input market of a country.

Human capital resources

The countries that get foreign direct investment from another country can also develop the human capital resources by getting their employees to receive training on the operations of a particular business. The profits that are generated by the foreign direct investments that are made in that country can be used for the purpose of making contributions to the revenues of corporate taxes of the recipient country.

Job opportunity

Foreign direct investment helps in the creation of new jobs in a particular country. It also helps in increasing the salaries of the workers. This enables them to get access to a better lifestyle and more facilities in life. It has normally been observed that foreign direct investment allows for the development of the manufacturing sector of the recipient country. Foreign direct investment can also bring in advanced technology and skill set in a country. There is also some scope for new research activities being undertaken.

Income generation

Foreign direct investment assists in increasing the income that is generated through revenues realized through taxation. It also plays a crucial role in the context of rise in the productivity of the host countries. In case of countries that make foreign direct investment in other countries this process has positive impact as well. In case of these countries, their companies get an opportunity to explore newer markets and thereby generate more income and profits.

Export/Import

It also opens up the export window that allows these countries the opportunity to cash in on their superior technological resources. It has also been observed that as a result of receiving foreign direct investment from other countries, it has been possible for the recipient countries to keep their rates of interest at a lower level.

It becomes easier for the business entities to borrow finance at lesser rates of interest. The biggest beneficiaries of these facilities are the small and medium-sized business enterprises.

FOREIGN PORTFOLIO INVESTMENT;

Foreign portfolio investment (FPI) consists of securities and other financial assets passively held by foreign investors. It does not provide the investor with direct ownership of financial assets and is relatively liquid depending on the volatility of the market.

Foreign Portfolio Investment (FPI) is investment by non-residents in Indian securities including shares, government bonds, corporate bonds, convertible securities, infrastructure securities etc. The class of investors who make investment in these securities are known as Foreign Portfolio Investors.

SPECIAL ECONOMIC ZONE;

A **special economic zone** (SEZ) is an area in which business and trade laws differ from the rest of the country. SEZs are located within a country's national borders, and their aims include: increased trade, increased investment, job creation and effective administration.

Objectives of SEZ Scheme

The main objectives of the SEZ Act are:

1. Generation of additional economic activity
2. Promotion of exports of goods and services
3. Promotion of investment from domestic and foreign sources
4. Creation of employment opportunities
5. Development of infrastructure facilities

Benefits of SEZ Scheme

It is expected that this will trigger a large flow of foreign and domestic investment in SEZs, in infrastructure and productive capacity, leading to generation of additional economic activity and creation of employment opportunities.

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

1. Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units.
2. 100% Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years.
3. Exemption from minimum alternate tax under section 115JB of the Income Tax Act.
4. External commercial borrowing by SEZ units up to US $ 500 million in a year without any maturity restriction through recognized banking channels.
5. Exemption from Central Sales Tax.
6. Exemption from Service Tax.
7. Single window clearance for Central and State level approvals.

8. Exemption from State sales tax and other levies as extended by the respective State Governments.

The major incentives and facilities available to SEZ developers include:

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

Economic Development and Environmental Issues

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

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

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

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

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

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

Measure of output

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

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

▪Population factor

▪Per capita availability of goods

▪Pollution per unit of economic good

The Environmental Impact (**EI**) is given as follows

$$\mathbf{EI} = \text{Population} * \frac{\text{Economic Good}}{\text{Population}} * \frac{\text{Pollutant}}{\text{Economic Good}}$$

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

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

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

Key Words

▪**Micro Environment**: The microenvironment refers to the forces that are close to the company and affect its ability to serve its customers. It includes the company itself, its suppliers, marketing intermediaries, customer markets, competitors, and publics.

▪**Macro Environment:** The macro environment refers to all forces that are part of the larger society and affect the microenvironment. It includes concepts such as demography, economy, natural forces, technology, politics, and culture.

▪**Privatization:** It is the incidence or process of transferring ownership of a business, enterprise, agency, public service or property from the public sector to the private sector or to private non-profit organizations.

▪**Business Ethics**: It is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations.

▪**Globalization:** It has to do with processes of international integration arising from increasing human connectivity and interchange of worldviews, products, ideas, and other aspects of culture.

▪**Economic System:** An economic system is the combination of the various agencies, entities (or even sectors as described by some authors) that provide the economic structure that defines the social community. These agencies are joined by lines of trade and exchange along which goods, money etc.

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Outsourcing

Outsourcing

- "The strategic use of outside resources to perform activities traditionally handled by internal staff and resources" Dave Griffiths

Why Outsource?

- Provide services that are scalable, secure, and efficient, while improving overall service and reducing costs

Reasons for Outsourcing

Traditional role - Reaction to problem

- Reduction and control of costs
- Avoid large capital investment costs
- Insufficient resources available

Modern role – Business strategy

- Allows company to focus on their core competencies
- Keeping up with cutting-edge technology
- Creating value for the organization and its customers
- Building partnerships

Layers of an Organization

- Strategy
- Process Design
- Operation
- System

The Key Layers in Outsourcing

Retain in-house

- Strategy - governance, policy setting, decision-making and direction
- Process Design - design, and "consultative" activities

Outsource

- Operations - administration, clerical activities and day-to-day execution
- System - technology, infrastructure and transactional processing

When to Outsource; What Can be Outsourced:

- System integration
- Data network
- Mainframe data center
- Voice network, internet/intranet
- Maintenance/repair
- Applications development
- E-commerce
- End-user support system

How to Implement Outsourcing:

- Program initiation
  - Opinions and ideas shared to form draft contract
- Program implementation
  - Transferring staff
  - Service Level Agreement (SLA)
  - Establish communications between partners
  - Actual transfer of the service
  - Establish management procedures
- Contract agreement
- Contract fulfillment

Problems with Outsourcing

- Loss of Control
- Increased cash outflow
- Confidentiality and security
- Selection of supplier

- Too dependent on service provider
- Loss of staff or moral problems
- Time consuming
- Provider may not understand business environment
- Provider slow to react to changes in strategy

Pros and Cons of Outsourcing

Pros:

- Lower labor costs
- Low investment risk
- On-demand talent: Product development & management skills available if not found in-house
- Time-to-market improvement: Products can be launched closer to the point of consumption
- Time-to-market improvement
- Introduction of new and legacy products in new markets is more efficient

Cons:

- Potential security problems
- Identifying qualified and reliable suppliers
- Disruption of supplies
- Low product quality and slow time to market
- Difficulty in protecting confidentiality

Typical Sourcing Decisions

- **Single sourcing:** Choosing a single supplier
- **Multiple sourcing:** Choosing several qualified suppliers
- **Cross sourcing:** A sourcing strategy in which the company uses a single supplier for a certain part or service in one area of business, and another supplier with the same capabilities for the similar part or service in another area of business.

Outsourcing Examples:

BPO; KPO; ITO; EPO; LPO; RPO; 3PL

Foreign Collaboration. In recent years there has been joint participation of foreign and domestic capital. India has been encouraging this form of import of foreign capital. There are three types of foreign collaborations—joint participation between private parties, between foreign firms and Indian Government and between foreign governments and Indian Government.

CONCEPT AND HISTORY OF SEZs

The concept of SEZ would be clear from the following description given by Arvind panagariya, "conceptually, SEZs operate like foreign entities within the territory of a country. They are usually separated by physical barriers from each other and from the rest of the country. They have no trade barriers. The country's trade barriers apply strictly within the area excluding the SEZs which is called the domestic tariff area (DTA). Any goods sold by agents within the DTA to agents inside the SEZ are treated as exports of the country, and those purchased by agents in the DTA from those in the SEZ, as imports subject to customs duty. Any trade between the SEZ and the outside world is allowed to bypass all custom requirements applicable to the DTA. That is, foreign goods enter the SEZ free of custom duty, and exit abroad without being subject to any domestic taxes or customs regulations.'

With a view to overcoming the above shortcomings and attract larger foreign investments in India, the special economic zone (SEZ) policy was announced in April 2000. **The major difference between an SEZ and EPZ is that the former is an integrated township with fully developed infrastructure, whereas an EPZ is just an industrial enclave.The SEZ** policy, 2000, was intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the centre and the state level, with minimum possible regulations. Under the new scheme, all the eight existing EPZs located at Kandla and Surat(Gujarat), santa cruz (Maharashtra), cochin (kerala), Chennai (Tamil Nadu), Visakhapatnam (Andhra Pradesh), falta (west Bengal) and Noida (U.P) have been converted into SEZs. The salient features of the SEZ scheme are:

1. A designated duty free enclave to be treated as foreign territory only for trade operations and duties and tariffs.

2. No licence required for import.
3. Manufacturing or service activities allowed.
4. SEZ units to be positive net foreign exchange earners within three years.
5. Domestic sales subject to full customs duty and import policy in force.
6. Full freedom for subcontracting.
7. No routine examination by custom authorities of export/import cargo.

SEZ act, 2005

To instil confidence in investors and signal the government's commitment to a stable SEZ policy regime, the special economic zones act, 2005, was passed by parliament in May 2005. The SEZ act, 2005, supported by SEZ rules, came into effect on February 10, 2006. The main objectives of the SEZ act are generation of additional economic activity, promotion of export of goods and service, promotion of investment from domestic and foreign source, creation

Of employment opportunities and development of infrastructure facilities. The salient features of the act are as follows:

Governance. An important feature of the act is that it provides a comprehensive SEZ policy framework to satisfy the requirements of all principal stakeholders in an SEZ – the developer and operator and, occupant enterprise, out zone supplier and residents. Earlier, the policy relating to EPZs/SEZs was contained in the foreign trade policy while incentives and other facilities offered to the SEZ developer and units were implemented through various notifications and circulars issued by the concerned ministries/departments. This system did not give confidence to investors commit large funds for the development of infrastructure and for setting up units.

Another major feature of the act is that it claims to provide expeditious and single window clearance mechanisms. The responsibility for promoting and ensuring orderly development of SEZs is assigned to the board of approval (BOA) constituted by the central government. At the zone level, approval committees are constituted to approve/reject/modify proposals for setting up SEZ units. The administrative control over the zone is to be exercised by the development commissioner (DC) to be appointed by the central government. The labour commissioner powers are also delegated to the DC. Thus, the development commissioner may be in a position to exercise effective power to allow the units in the SEZ to reduce the number of workers if required. Finally, clause 23 requires that designated court will be set up by the state governments to try all suits of a civil nature and notified offences committed in the SEZs. Affected parties may appeal to high court against the orders of the designated courts.

INCENTIVES. The act offers a highly attractive fiscal incentive package, which ensures (1) exemption from custom duties, central excise duties, service tax, central sales tax and securities transactions tax to both the developers and the units; (2)tax holidays for 15 years, i.e., 100 per cent tax exemption for 5 years, 50 per cent for the next 5 years, and 50 per cent of the ploughed back export profits for the next five years; and (3) 100 per cent income tax exemption for 10 years in a block period of 15 years for SEZ developers.

INFRASTUCTURE. Provision have been made for (1) the establishment of free trade and warehousing zones to create world class trade-related infrastructure to facilitate import and export of goods aimed at making India a global trading-hub; (2) the setting up of offshore banking units and units in an international financial service centre in SEZs; (3) the public-private participation in infrastructure development; and (4) the setting up of a “SEZ authority’’ in each central government SEZ for developing new infrastructure and strengthening the existing one.

SPECIAL ECONOMIC ZONES IN INDIA

As is clear from the above discussion, a large number of incentives and facilities have been providing to SEZs. As a result, there was a tremendous rush to set up SEZs. Consequent upon the SEZ rules coming into effect from February 10, 2006, as many as 462 formal approvals were granted till May 2008. Out of these 462, Maharashtra accounts for the largest number (89), followed by Andhra Pradesh (75) and Tamil Nadu (59).

(1) In most of the states, the largest number of SEZs approved is in the field of IT/ITES (information technology/information technology enabled service). In Chandigarh and Chhattisgarh, all SEZs, in Madhya Pradesh 63 per cent SEZs, and in TamilNadu 58 per cent SEZs are in the field of IT/ITES. For the country as a whole, 62 per cent of the approved SEZs are in the field of IT/ITES, 5 per cent in the field of biotech, 4 per cent in pharmaceuticals, 4 per cent in textiles, 5 per cent in multi-products, and the balance 20 per cent in others; (2) a large amount of area i.e.,1,26,077 hectares would be required in setting up the SEZs (Tamil Nadu would require 58,501 hectares of land, Gujarat 33,803 hectares of land, Maharashtra 11, 361 hectares of land and Andhra Pradesh 10,826 hectares of land). Acquisition of such a large area of land is bound to displace a number of people and these most contentious issues that has cropped up in recent times.

BENEFITS OF SEZs

The main arguments in favour of SEZs are follows:

1. According to Arvind Panagariya, "international trade in India remains subjects to substantial bureaucratic red tape. Goods move into and out of the country at a slow pace. Faster movement is particularly important for export that involves bringing components from abroad for assembly and re-exports. Domestic indirect taxes that must be reimbursed when goods are exported are not always fully reimbursed. The SEZs help overcome these inefficiencies''.
2. The organised sector in India has been hamstrung by stringent labour market laws which do not allow the firm to hire and fire workers as they desire. According to Panagariya, this has hampered the emergence of large-scale manufacturing in the labour intensive sectors. Through the instrumentality of SEZs, some of the most burdensome provisions in the labour- laws can be relaxed with the result that such firms can emerge.
3. Through the promotion of SEZs it would become possible to provide world class infrastructure which is necessary to ensure unhindered production. Moreover, since country-wide development of infrastructure is expensive and implementation of structural

reforms would require time, the establishment of SEZs is an important strategic tool for expediting the process of industrialisation.

4. SEZs can reduce procedural complexities, bureaucratic hassles and barriers raised by monetary, trade, fiscal, taxation, tariff and labour policies.
5. SEZs offer numerous benefits like (1) tax incentives, (2) provision of standard factories/plots at low rents with extended lease period, (3) provisions for infrastructure and utilities,(4)single window clearance,(5)simplified procedures, and (6)exemption from various restrictions that characterise the investment climate in the domestic economy. These benefits foster a conducive business environment to attract local and foreign investment which would not otherwise be forthcoming.
6. SEZs are expected to give a big push to exports, employment and investment. The ministry of commerce claims that by December 2009, investment of the order of rs.2, 83,219 crore is expected and 21.09,589 additional jobs are likely to be created. As far as exports are concerned, SEZs contributed rs.22, 840 crore of export earnings in 2005-2006. These rose to rs.34, 615 crore in 2006-07 (an increase of 52 per cent). In 2007-08, they were projected to increase to rs.67, 088 crore.

In fact, the government of India has been systematically projecting SEZs as “carriers of economic prosperity’’ that would (1) boost economic growth at an extremely fast rate, (2) usher in affluence in rural area, (3) provide large number of jabs in manufacturing and others services, (4)attract global manufacturing and technological shill, (5) bring in private and public sector investment from both home and abroad, (6) develop infrastructure facilities, (7) help slow down rural-urban migration. In short, “they are the officially acclaimed carriers of India’s modern industrialisation that would create all round transformation and lead the country towards a modern mode of living.’’ The logic of establishing SEZs rests on the concepts of ‘growth’ and ‘competition’ and supposed economic magic they can achieve. It is now widely accepted in official circles that to succeed in the global market a country must have competitive advantage and this competitive advantage can be achieved through the setting up of SEZs.

SUSTAINABLE DEVELOPMENT;

The Brundtland Commission's brief definition of sustainable development as the "ability to make development sustainable—to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs"

sustainable development means adopting **business** strategies and activities that meet the needs of the enterprise and its stakeholders today while protecting, sustaining and enhancing the human and natural resources that will be needed in the future