CHAPTER 3

GLOBALISATION AND LIBERALISATION OF THE INDIAN ECONOMY

3.1 Introduction

Globalisation, since World War II, is largely the result of planning by statesmen to breakdown borders hampering trade to increase prosperity and interdependence thereby decreasing the chance of future war. Their work led to the Brettonwoods Conference, an agreement by the world's leading statesmen to lay down the framework for international commerce and finance, and the founding of several international institutions intended to oversee the process of globalisation. These institutions include the International Bank for Reconstruction and Development (the World Bank), and the International Monetary Fund.

Globalisation, the integration of the world economy – has been a persistent theme of the past quarter century. Growth of cross border economic activity has changed the structure of economics and the political and social organisation of countries. Not all effects of globalisation can be measured directly. But the scope and pace of change can be monitored along four key dimensions – trade in goods and services, financial blows, movement of people and communication[13].

Globalisation has been facilitated by advances in technology which has reduced the costs of trade, and trade negotiation rounds, originally under the auspices of the General Agreement on Tariffs and Trade (GATT), which led to

[13] World Development Indication-World Bank Report 2009

a series of agreements to remove restrictions on free trade. Free trade and free market are the key factors of globalisation. Free trade was proceeded by British and French from the seventeenth to eighteenth centuries. The British did not adopt free trade until the 1840s. But they began imposing free trade on their colonies including India. The other European Countries were free trading nations throughout the nineteenth century. The Americans were among the first nine to start protecting their industries against foreign competition especially from British products.

India was having trade relations with all parts of the world as far back as historical records can ascertain. But at each point of time there were different kinds of political regimes and corresponding patterns of Government regulations controlling these relations. What makes the recent changes remarkable is that they involved a revision of the fairly restrictive trade regulations that independent India had developed over a period of forty-five years. Moreover, this revision was not a random process but was to follow a pattern and this pattern was part of an entire package of policies that the International Monetary Fund (IMF) and the World Bank had been recommending to developing countries as a key to faster economic growth.[14]

3.2 International Agreements

Since World War II, barriers to international trade have been considerably lowered through international agreements. Particular initiatives carried out as a result of GATT and the World Trade Organization (WTO), for which GATT is the foundation, have included:

- Promotion of free trade
- Reduction or elimination of tariffs; creation of free trade zones with small or no tariffs

[14] Nirmala Banerji(2004) as quoted in pp-70 of Globalisation perspectives in women studies edited by Malini Bhattacharya

- Reduced transportation costs, especially resulting from development of containerization for ocean shipping.
- Reduction or elimination of capital controls
- Reduction, elimination, or harmonization of subsidies for local businesses
- Creation of subsidies for global corporations
- Harmonization of intellectual property laws across the majority of states, with more restrictions. Supranational recognition of intellectual property restrictions (e.g. patents granted by China would be recognized in the United States).

Coming to the fore as one of the most talked about issues of the late twentieth century and the new millennium, the phenomenon of globalisation has captured world attention in various ways. From the information superhighway to the international trade in drugs and arms, to the free and easy movement of people and goods, the world has become global.

3.3 Definition of Globalisation

The International Monetary Fund (IMF) describes it as “the growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology.”

The United Nations ESCWA has written that globalisation “is a widely used term that can be defined in a number of ways. When used in economic terms it refers to the reduction and removal of barriers between national borders in order to facilitate the flow of goods, capital, services and labour although considerable barriers remain to the flow of labour.

Friedman (1999) defined Globalisation as the “inexorable integration of markets, nation-states and technologies to a degree never before in a way that is enabling individuals, corporations and nation- states to reach around farther,

faster, deeper and cheaper than ever before and in a way that is enabling the world to reach into individuals, corporations and nation- states farther, faster, deeper and cheaper than ever before. This process of globalisation is also producing a powerful backlash from those brutalized or left behind by this new system.

Globalisation is the integration of national economies leading to the notion of a borderless global or planetary, an interwoven net of factories, fields and forests, governments, labouring populations, cities and transports spread over the surface of the earth (Avinash, 2000).

Jagdish Bhagwati (2004) defines 'Globalisation' as integration of national economies into the international economy through trade, direct foreign investment (by corporations and multinationals), short-term capital flows, international flows of workers and humanity generally, and flows of technology.

3.4 Dimensions of Globalisation

Theoretically the concept of globalisation may be viewed as the expansion of the world system, accompaniment of modernity, creation of a single world market and a resultant of modernity.[15]

Globalisation is a phenomenon that has many dimensions in economic, cultural, environmental and political. Almost every aspect pertaining to the issue of globalisation is a subject matter of vital academic debate. The term globalisation is widely and generally applicable in the economic and commercial perspective. Nevertheless its impact-range encompasses cultural and philosophical dimensions as much as fundamental principles pertaining to the culture and philosophy of a particular nation or society are likely to interact with the changed situations arising in the state of globalisation.

3.5 Impact of Globalisation on National Economies

While governments had no choice but to float their currencies, doing so was just a short-term fix rather than a long-term solution. In the new economy if

[15] JB Valsan Arasu(2008) Globa`lisation and Infrastructural Development in India –PP-12

countries did not join in and deregulate their currencies (and economies) they became sitting ducks for global money speculators, foremost among which are multinational banks. The floating of national currencies was an inevitable result of the US severance from regulated currency. It was an offer to weaker economies that could not be refused - either join the club of globalised currency or be clubbed by globalised currency. The floating of currencies partly addressed the threat from global money speculators, but it did not fix the fault in the global monetary system, which continues to hamstring national economies through debt.

3.6 Foreign Debts

Foreign debt is largely a misnomer. The debt is *foreign* in the sense that it is not owed within the same country and its economy. The word *foreign* implies that the debt is owed to another country. These days that is not entirely the case either, because most countries on Earth have excessive foreign debts. Foreign debt is mostly owed to multinational banks, which have no loyalties to any nations and are in the business of creating debt.

Privatisation and deregulation also ignore the fact that debt growth outpaces economic growth in the post-1970's global money system. Just as private debts had bankrupted citizens and companies through the 1980’s and 1990’s, debts are now preparing to bankrupt whole countries in one go. Australia has about the same growth averages as the entire global economy. Both have economic growth of about 4% and debt growth of about 10%. At that rate, by about 2030 Australia’s annual growth in debt will be larger than Australia’s annual gross income. Australia will be in economic ruins well before 2030. Yet Australia is classed as one of the best performing economies in the developed world.

In the new global economy, all the banks need to do is keep running steady as she goes, and within a few years they will theoretically be able to foreclose upon entire nations. Society is induced into thinking that the global economy is resilient enough, and is the best alternative possible.

Privatized and deregulated national economies have allowed multinationals to take control over the business, infrastructures and economies that run countries and shape their futures. In reality, the world is really run by an oligarchy of global corporations. After deregulation, national governments just take care of lesser, more trivial tasks that still need doing, like building roads and taxing the nation. A country's economic destiny is dictated to it and life for everyday citizens falls into line accordingly. Meanwhile, nobody is meant to notice that their nation is steadily marching towards a precipice of debt.

3.7 Cultural Globalisation

Since Globalisation has many dimensions it affects not only the economy and politics of a Nation but potentially can alter its culture, way of life, languages and even environment. Long before the globalisation measures were initiated. India had cultural break through which was initiated by the British and had created a readiness to accept technical and industrial advancements.

Cultural globalisation, driven by communication technology and the worldwide marketing of western cultural industries, was understood at first as a process of homogenization, as the global domination of American culture at the expense of traditional diversity. However, a contrasting trend soon became evident in the emergence of movements protesting against globalisation and giving new momentum to the defence of local uniqueness, individuality, and identity. The overpowering and multifaceted impact of globalisation is very typical and complicated for India as it has a rich and strong multitude of traditional as well as regional cultures, religions and philosophies with an earnest desire to preserve and enrich them on the one hand and a sympathetic and democratic openness on the other hand. In case of Asian countries, especially India, different endeavours made by UNESCO (United Nations Educational, Scientific and Cultural Organisation) in building international consensus on newly required norms and principles to respond to emergency ethical challenges and dilemmas is note worthy.

3.8 World Trade Organisation

The Uruguay Round (1986 to 1994) led to a treaty to create the WTO to mediate trade disputes and set up a uniform platform of trading. Other bilateral and multilateral trade agreements, including sections of Europe's Maastricht Treaty and the North American Free Trade Agreement (NAFTA) have also been signed in pursuit of the goal of reducing tariffs and barriers to trade. The WTO did not come into existence as a mere extension of GATT. There were several aspects that separated the WTO from GATT, some of which are as follows. First, unlike GATT that was concerned only with trade in goods, the WTO covers all three aspects of Global trade such as trade in goods, trade in services covered under General Agreement on Trade in Services(GATS) and trade in products of innovations, that is intellectual properties, covered under the Agreement on Trade-Related Intellectual Property Rights (TRIPs). In other Words WTO=GATT + TRIPs.[16]

3.8.1 Objectives of WTO

1. To improve the standard of living of people in the member Countries.
2. To ensure full employment and broad Increase in effective demand.
3. To enlarge production and trade of goods.
4. To enlarge production and trade of services.
5. To ensure optimum utilization of world resources.
6. To accept the concept of sustainable development.
7. To protect environment.

3.8.2 Functions of WTO

1. To provide facilities for implementation, administration and operation of multi-lateral and bilateral agreements of the world trade.
2. To provide a platform to member Countries to decide further strategies related to trade tariff.

[16] Bhaumik T.K., The WTO, A discordant Orchestra – Page-35

3. To administer the rules and processes related to dispute settlement.
4. To implement rules and provisions related to trade policy review mechanism.
5. To assist International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD) for establishing coherence in universal economic policy determination.
6. To ensure optimum use of World's resources.

3.9 Impact on Economies

The wave of globalisation has been driven by policies that have opened economies domestically and internationally. In the years since the Second World War, and especially during the past two decades, many governments have adopted free-market economic systems, vastly increasing their own productive potential and creating myriad new opportunities for international trade and investment. Governments also have negotiated dramatic reductions in barriers to commerce and have established international agreements to promote trade in goods, services, and investment. Taking advantage of new opportunities in foreign markets, corporations have built foreign factories and established production and marketing arrangements with foreign partners. A defining feature of globalisation, therefore, is an international industrial and financial business structure.

3.10 Trade Policy

Asian share of world trade went up from 11.5 percent in 1983 to 19% by 1995, a major achievement, drawing the attention of the developed world. In this period, Indian share of world trade had remained static and its share of Asian trade went lower. This indicates that other Asian countries grew much faster than India and incidentally all of them had opened up their economics with progressive trade policies. China, Malaysia and Thailand recorded significant increase in their share of world and Asian international trade.

3.11 Foreign Direct Investment

In an increasingly interdependent, open and competitive world, no country can succeed in isolation or without keeping abreast rapidly changing pattern of financial flows across countries. The source of capital once primarily domestic, are now worldwide pools that begin in a number of currencies and cross borders. In such a global economy characterized by competitive environment, the role of foreign capital in the economic development of a country cannot be ignored.

Foreign capital can come into a country in various forms such as

a) Foreign Direct Investment

b) Foreign Collaboration

c) Port folio Investment

d) Loans from International Institutions

e) Inter-Governmental Loans

f) External Commercial Borrowings

Of all these FDI has been the most prominent source in creating assets in an economy.

3.11.1 Significance of FDI

Developing countries, emerging economies and countries in transition increasingly see FDI as a source of economic development, modernization and employment generation and have liberalized their FDI policies to attract investment. FDI triggers technology spill-overs, assist human capital formation, contributes to international trade integration, helps to create a more competitive business environment and enhances enterprise development. All these contribute to higher economic growth.

However, FDI is not an unmixed blessing. While it can add to country's capital resources and help in achieving rapid development, it can also distort the

economic properties and cause misallocation of resources, corrupt administrative machinery and promote inappropriate technology.

3.12 Information Technology

Technology has been the other principal driver of globalisation. Advances in information technology, in particular, have dramatically transformed economic life. Information technology has given all sorts of individual economic actors—consumers, investors, businesses—valuable new tools for identifying and pursuing economic opportunities, including faster and more informed analysis of economic trends around the world, easy transfers of assets, and collaboration with far-flung partners.

3.13 Contradicting Views

Globalisation is deeply controversial. However, proponents of globalisation argue that it allows poor countries and their citizens to develop economically and raise their standard of living, while opponents of globalisation claim that the creation of an unfettered international free market has benefited multinational corporations in the western world at the expense of local enterprises, local cultures, and common people. Resistance to globalisation has therefore taken shape both at a popular and at a governmental level as people and governments try to manage the flow of capital, labour, goods, and ideas that constitute the current wave of globalisation.

Globalisation cannot be held responsible for all threats to diversity but the scale and rapidity of globalisation process today are exhibiting an added dimension of danger, one that need timely and effective remedy.[17]

3.14 Privatisation and Deregulation

The machine that powers globalisation, is the global economy. At the heart of the global economy are the twin policies of privatisation and deregulation, which national governments have adopted worldwide since the 1980's. Terms

[17] Dr.Narendra Kumar Shukla, et. al Globaliztion and its impact on Indian Economy

like free market economy, level playing field, monetarism, market economy, and neo-liberalism embrace processes such as privatisation and deregulation.

Privatisation is about putting governments out of business. The economic theory behind privatisation is that, *Business knows best*. In this age of globalisation, our governments cheerfully tell us that they are too incompetent to manage our economy, so as a service to the public they will instead let the free market run it. Then our governments sell off publicly owned businesses and assets, which usually end up controlled by multinationals and financed by public shareholders. Competition within the marketplace rather than government management, we are told, will allegedly produce lower prices and better services for consumers. This is called *a better standard of living*, which implies that the public are better off for having a privatized economy so they should be happy about it.

In the early 1980's, England under Margaret Thatcher was the first country to embrace the principles of privatisation and deregulation, which the Chicago School of US economists had been promoting since the 70's. The USA under Ronald Reagan quickly joined in. As other countries around the world fell into economic chaos, the US economists were close at hand to sell them the benefits of government privatisation and deregulation. The magic fix of the market led deregulated economy seemed to work in the failing economies, and the economies began to stabilize. But as countries bit the bullet through loss of national assets and jobs all that really happened was that their economies were being painfully reset to an even ledger again after selling the farm to pay off crippling debts.

The illusion was that the globalisation mantra of '*Business knows best*' was an axiom of economic reality, a fundamental truth. This was because government privatisation and deregulation seemed to stabilize economies. However, the quick fix of privatisation and deregulation was not a long-term solution for the global economy because the debt fault still remained. This meant that nations would eventually fall victim to uncontrollable, escalating debt again.

3.15 Global Economic Integration

Globalisation has several dimensions arising out of enhanced connectivity among people across national borders. In particular, economic integration occurs through three channels, ie. movement of people, of goods and, of finance or capital (Reddy 2004). In managing the process of economic integration, developing countries face challenges from a world order that is particularly burdensome on them. Accumulated international experience in this regard favours a well-managed and appropriate integration into the global process, supported by effective- but not necessarily intrusive or extensive-interventions by governments in order to minimize adverse consequences, especially on the poor, the vulnerable and the underprivileged sections of the society.[18]

3.16 Liberalisation of Indian Economy

The new economic liberalisation policy of the Government of India announced in 1991 has brought in drastic changes in the way in which business is organized and managed in our country. Prior to the reforms of 1991, the statesmen had a very firm grip on factors of production through license and *permitraj*. After reform not only this vice like grip has loosened; many such powers have slipped from their hands and are now controlled by the market forces[19]. The process of liberalisation has had maximum impact on industries, as it had drastically changed the business environment and future growth dynamics.

3.17 Immediate Cause for the 1991-92 Reforms

The short-term impetus for the reforms announced in July 1991 was the severe balance of payments (BOP) crisis that occurred in this period .The immediate cause of the loss of reserves beginning September 1990 was the rise in oil import costs, as result of the sharp spurt in oil prices after the annexation of

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[18] Rakesh Mohan, “ Indian Economy in the Global Setting”, Reserve Bank of India Bulletin, October 2005

[19] Anil Thankir, General Secretary, Indian Economic Association, as quoted in “Globalisation and its impact on Indian Economy”.

Kuwait by Iraq. Indian workers in Kuwait had to be airlifted and inflows from Non-resident Indians (NRIs) in the Middle East were reduced considerably. Further, cessation of exports to Iraq and Kuwait also reduced the inflow of foreign exchange.

The payment crisis was worsened by a deterioration of the capital account. Short-term credits for imports dipped as creditors were concerned about the government's ability to manage the situation. Amount of foreign currency medium term loans used by financial institutions and PSUs to finance imports declined and net outflow of NRI deposits, which began in October 1990, continued in 1991.

The rapid loss of reserves in the second half of 1990-91 prompted the Government to take several short-term measures, restricting imports and raising price of petroleum products. At the same time, there was a significant dip in industrial production, which was negative for most months of 1991-92. The government presented this as evidence that the import compression policies were counter-productive; it argued that "import compression had reached a stage when it threatened widespread loss of production and employment, and verged on economic chaos." and that "the economy needed substantial reforms if the crisis was to be fully overcome". The government initiated a program of structural reforms of the trade, industrial and public sector policies with the objective of evolving "an industrial and trade policy frame work which would promote efficiency, reduce the bias in favour of excessive capital intensity and encourage employment oriented pattern of industrialization".

Another impetus for the reform came from multilateral aid agencies. Consequent to the BOP crisis, the government had to borrow from the IMF and the World Bank, who negotiated stabilization measures and structural reforms as part of the loan package.

The tremendous change that took place globally during the second half of eighties necessitated every nation to incorporate corresponding changes in its economy to survive and develop in a global market oriented environment.

Therefore for obvious reasons India also had to rise to the occasion and adopted a policy to be part of the emerging global economy.

3.18 Impact of Globalisation on Indian Industries

Structural changes in the Indian industrial sector and globalisation were initiated because the government wanted to encourage growth by doing away with supply bottlenecks that stopped efficiency and competitiveness.

The structural changes in the Indian industrial sector were brought about by the New Economic Policy of 1991 which did away with many of the regulations and restrictions. The various advantages of globalisation and structural changes in the Indian industrial sector are that it brought in huge amounts of foreign investments and this gave a major boost to this sector. Many foreign companies entered the Indian market and they brought in highly technologically advanced machines into the country as a result of which the Indian industrial sector became technologically advanced. With new companies being set up in the Indian industrial sector it provided employment opportunities for many people in the country which in its turn helped to reduce the level of poverty in the country. The number of factories in India in 1990-1991 stood at 110,179 and in 2003-2004, the figure increased to 129,074.

Structural reforms have increased the competitiveness of Indian industries and this is reflected quite vividly in the robust merchandise export growth since 2002-03.Exports have grown (in US $ terms) by more than 20% per annum in each of the last three years. Concomitantly, the services sector contributes more than one half of GDP, with growing contributions from new impulses of growth such as the information technology, telecommunication and transport sectors and tourism, through a revival of foreign tourist arrivals.

“Turning to the industrial sector, reforms which encompassed removal of industrial licensing, de-reservation, substantial opening of foreign direct investment and trade liberalisation have imparted a competitive edge to Indian industry. This is reflected in a resurgence of activity in the manufacturing sector, and the present phase appears to be sustainable, in contrast to the

exuberance-which turned out to be temporary- reflected in high growth in investment and production in industry during 1993-94 to 1996-97."[20]

The monopoly enjoyed by most of the Indian companies in the protected market compelled the Indian customer to satisfy his needs with the available products and services. The new market oriented business environment offered the Indian customer new choices of products and services, which delighted his needs and desires. The new culture transformed the Indian consumers also and which made them demand new and innovative products. The hitherto reluctant Indian manufacturers had no option but to search for innovative ideas from among his employees including workers to satisfy customer demands. An industrial culture that suppressed new ideas and suggestions gave way to one which promoted and encouraged innovative approaches at different levels of operations. Incentives and gift schemes for customers, designer products, personal services etc., were consequential benefits for the customer.

In the market driven free economy the customer is flooded with choices regarding quality and services, and product quality plays a decisive role in the profitability and success of an organization. Having appropriate quality certificates, making quality assurances through guaranty and warranty and announcing systems for compensating for quality failures etc. are widely used techniques of successful companies for instilling customer confidence in their products.

Most of the Indian industries had assured and protected markets for their products as a result of which marketing activities were given a back seat in the pre-liberalized period. The opening up of market witnessed flooding of products and services into our country which challenged and threatened the safe markets of Indian companies. This phenomenon prompted many of them to design and develop marketing divisions or separate companies for taking up marketing of their products.

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[20] Rakesh Mohan, " Indian Economy in the Global Setting", Reserve Bank of India Bulletin, October 2005

The government and government undertakings deprived public sector undertakings of the preference hitherto enjoyed by them through the policy of price preference and purchase preference. The new policy forced them to compete at par with their counterparts in the private sector and even with multinational companies operating from other countries for their supplies to governments and government departments.

3.18.1 New Economic Policy (NEP)

The objectives of the Economic Reforms as per the New Economic Policies (NEP) were "Committed to the pursuit of equity and social justice and blessed with a political system with a proven capability to provide both governance and freedom, the Government's key objective is to restore sustained high growth which is essential to alleviate poverty and raise the standard of living. In pursuit of these objectives the Governments reform strategies aimed at achieving in five year time-

(a) A liberalised trade regime characterized by tariff rates comparable to other industrializing developing countries and the absence of discretionary import licensing.

(b) An exchange rate system which is free of the allocative restrictions of trade;

(c) A financial system operating in a competitive market environment and regulated by sound prudent norms and standards;

(d) An efficient and dynamic industrial sector subject only to regulations relating to environment security, strategic concerns, industrial safety and unfair trading and monopolistic practices;

(e) An autonomous ,competitive and streamlined public enterprise sector geared to the provision of essential infrastructure goods and services, the development of key natural resources and areas of concern.''

3.18.2 Liberalisation Programme

Under the liberalisation programme substantial reforms have been initiated and implemented mainly in the following five sectors.

a) Industrial policy

b) Trade policy

c) Fiscal policy

d) Monetary policy

e) Financial sector reforms

3.18.3 New Industrial Policy (NIP)

The New Industrial Policy [NIP] was tabled in parliament by the Government of India on 24th July 1991.The main provisions of NIP were

1. (a)The list of industries reserved for the public sector by the earlier industrial policy was cut down from 17 to 8.The industries retained in the public sector were

    - Arms and ammunitions and allied items of defence equipment, defence aircraft and warships
    - Atomic energy
    - Coal and lignite
    - Mineral oils
    - Mining of Iron Ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond
    - Mining of copper, lead, zinc, tin, molybdenum and wolfram;
    - Minerals specified in the scheduled to the Atomic Energy Order 1853 and
    - Railway Transport

(b) Government decided to undertake a review of the existing portfolio of public investment particularly in respect of industries based on low technology inefficient or non-productive areas.

(c) Government disinvested a part of its equity in some selected public sector undertakings.

2. (a) All industries except a few have been freed from the need to obtain license from government. The exceptions are industries related to security and strategic concerns, social reasons, hazardous products, environment aspects etc

   (b) Existing industries allowed to expand without obtaining government clearance.

   (c) Certain locational restrictions enforced in order to prevent excessive crowding of industries in and around major industrial centres.

3. There will be no pressure on industries for progressive indigenization through phased manufacturing programmes.
4. Financial institutions will not impose mandatory convertibility clauses.
5. Restrictions on expansion of large industrial houses abolished.
6. For a specified list of high technology, high investment priority industries, import of foreign technology has automatic clearance.
7. Foreign investment will be automatically permitted in the priority industries preferred to in 6 above up to a limit of 51% of their equity.
8. A special empowered board will be set up to engage on purposive negotiations with a large number of foreign firms, large international firms and to invite substantial investments to provide access to high technology and world markets.
9. Repatriation of dividends on foreign investments will be permitted provided it is covered by the export earnings of the concerned industrial unit.

3.19 Major Changes

The major changes that affected the industrial scenario of the country were as follows:-

(a) Abolition of Industrial licensing:-

Major changes were brought about in the area of industrial policy. India's Industrial policy was characterized by a complex system of industrial licensing under which investors setting up new units as well as undertaking major expansions, had to obtain an industrial license from the Ministry of Industry. The reform in this area was comprehensive. Requirements of industrial licensing was abolished except for a small list of strategic industries and those reserved for small scale sector. For most of the industries, however, investment was effectively delicensed and investors were forced to set up units of appropriate capacities to exploit scale of economics and location advantages, subject only to the environmental clearances.

(b) Dilution of Monopolies and Restrictive Trade Practices Act (MRTP)

MRTP Act was enacted with the explicit intention to distribute industrial activity throughout the country and to avoid concentration of industrial power in few hands. However, the implementation of this Act vitiated the basic economic laws of scale. The requirement that companies must obtain prior permission under MRTP Act for undertaking any expansion or merger was abolished. This enabled existing companies to expand or take over sick units to enlarge their operations.

(c) Relaxation of Foreign Exchange Regulation Act

Foreign investments were permitted, as per India's earlier policy, only in high technology areas but was discouraged in low technology consumer goods industries where the markets were most attractive. Foreign equity was restricted to 40% and such firms were subjected to additional restrictions.

The reforms were aimed at attracting foreign investment and to eliminate restrictions on foreign holding. Foreign investment, as per the new policy, was

allowed up to 51% and foreign ownership beyond 51% subject to clearance from Foreign Investment Promotion Board. Restrictive provisions earlier applicable were abolished and all companies registered in India were treated equally.

(d) Abolition of Import Licensing

Import restrictions were removed except for finished goods. Export subsidies were withdrawn and rupee exchange rate was unified. Another policy change involved total convertibility of the currency on trade account. These reforms were focused on exposing Indian industries to international competition.

e) Lowering of Tariffs

India was operating with very high import duties to protect the domestic industry. This has contributed to inefficiency and high cost domestic production. Through the new policy, government opened up Indian economy to global competition by lowering the tariffs. The peak rate of import duty was lowered from 200% to 65% in the Finance Bill of 1994-95. The intermediates went down to 30% from 110 percent in 1991 and Capital goods to 35% from the level of 95% in 1991.

(f) Public Sector Reforms

The budgetary support to public undertakings was drastically cut down, forcing them to improve their performance. Many areas reserved for only Public Sector was opened to private sector. Public Sector Disinvestment Commission was set up to formulate policy on public sector disinvestment.

Also, the government while maintaining the public character of PSUs by maintaining 51%, directed such undertakings to privatize their equity or to go for fresh funds from the public. This helped the Government to generate funds for supporting other infrastructural works.

3.20 Globalisation of Business in India

Globalisation of business is complementary to globalisation of market. Countries chalk out strategies to open up the doors for foreign investment

through global companies, multinational business firms and transnational enterprises. Through the process of globalisation, business enterprises in developed countries develop new markets, new expertise is achieved, and efficiency increased to global levels.

The liberalisation of 1991 has exposed the Indian companies, which were under protection for over decades, to the process of globalisation. Prior to 1991, some Indian companies considered it a prestige to export their products. Now to face the challenges of globalisation they have to extend their operational canvas to other nations and had to improve their efficiency and quality to suit the global standard.

There are many companies which accepted the new challenge and extended their business abroad. Globalisation undoubtedly provides greater opportunities for Indian companies on the one hand, and a vast market, a cheap production base, and a conducive environment for the multinationals, transnational and foreign investors on the other. Large influx of capital and technology into India would also be a part of global business in India. Ultimately the Indian economy will achieve a leap forward as a result of greater economic activities and employment opportunities.

3.21 McKinsey Report on India's Economy

McKinsey Global Institute (MGI), an American management consultancy firm, conducted a study of the economic reforms in India, during 2001. The agency submitted its report to the Prime Minister of India, offering recommendations to raise India's GDP growth from the prevailing 5.50 pc to 10.00 pc in the next 10 years. MGI also projects that, in the process, 75 million new jobs will be created.

MGI identified three major barriers to accelerated economic growth in India, market barriers, land barriers and trade barriers.

3.21.1Product – Market Barriers

In this respect MGI recommended total removal of small-scale sector (SSS) reservations, rationalization of duty rates and their strict enforcement. Generally, they felt that all regulations should be made pro-competition. The report suggested that, initially, the government should concentrate on 68 items, out of the total 836 items, which account for 80 pc of the total output. MGI expected that if the product – market regulations are removed India's GDP growth can increase by another 2.30 pc (refer table 3.1).

TABLE 3.1:- India's Growth Potential as per MGI report

Policy Changes	GDP Growth %
With current policies	5.50
Addressing product –market barriers	2.30
Addressing land market barriers	1.30
Privatization of PSU's	0.70
Other reforms	0.30
After completing reforms	10.10

Source: Mckinsey Report – August 2001

3.21.2 Distortions in Land Market

The agency felt that obsolete tenancy laws keep land prices artificially high, preventing the evolution of large supermarkets in urban areas, in the retail sector. By totally eliminating land market barriers the dispensation of the retail markets would bolster the GDP growth by 1.30 pc.

3.21.3 Trade Barriers - Widespread Ownership of Businesses by Govt.

MGI has uncovered that the Indian government controlled 43 pc of the country's capital stock and 15 pc of non-agricultural employment. Employees in the government sector are grossly inefficient compared with similar private entities. For example, the productivity of Indian private entities is several times higher than government controlled ones in different sectors – ranging from 2 times in power generation to 9 times in dairy processing. By privatizing public sector enterprises the country should be able to increase the GDP growth by 0.70 pc.

The agency also identified two other areas that needed attention:

a) Inflexible labour laws

b) Poor transport infrastructure

Surprisingly, the report feels that lack of education is not a significant handicap for growth. The report argues that the current skill profile of Indians is more than adequate to support the new jobs generated / productivity improvements. However, education should be given priority for other reasons like family planning, health improvement etc.

3.21.4 Obstacles to Globalisation

The Indian business suffers from a number of disadvantages in respect of globalisation of business. The important problems are the following.

(a) Resistance to Change: There are several socio-political factors that resist change and this comes in the way of modernization, rationalization and efficiency improvement. Technological modernization is resisted due to fear of unemployment. The extent of excess labour employed by the Indian industry is alarming. Because of this labour productivity is very low and this in some cases more than offsets the advantages of cheap labour.

(b) Government Policy and Procedures: Government policy and procedures in India are among the most complex, confusing and cumbersome in the world.

Even after the much published liberalisation, they do not present a very conducive situation. One prerequisite for success in globalisation is swift and efficient action. Government policy and the bureaucratic culture in India in this respect are not that encouraging.

(c) High cost: High cost of many vital inputs and other factors like raw materials and intermediates, power, finance, infrastructural facilities like port, etc. tend to reduce the international competitiveness of the Indian business.

(d) Poor Infrastructure: Infrastructure in India is generally inadequate and inefficient and, therefore, very costly. This is a serious problem affecting the growth as well as competitiveness.

(e) Obsolescence: The technology employed mode and style of operations etc are in general, obsolete and these seriously affect the competitiveness.

(f) Poor Quality Image: Due to various reasons, the quality of many Indian products is poor. Even when the quality is good, the poor quality image of India becomes a handicap.

(g) Supply Problems: Due to various reasons like low production capacity, shortage of raw materials and infrastructure like power and port facilities, Indian companies in many instances are not able to accept large orders or to keep up delivery schedules.

(h) Small Size: Because of the small size and the low level of resources, in many cases Indian firms are not able to compete with the giants of other countries. Even the largest of the Indian companies are small compared to the multinational giants.

(i) Lack of Experience: The general lack of experience in managing international business is another important problem.

(j) Limited R & D and Marketing Research: Marketing Research and R & D in other areas are vital inputs for development of international business. However, these are poor in Indian business. Expenditure on R&D in India is less than one per cent of the GNP while it is two to three per cent in most of the developed

countries. In 1994-95, India's per capita R&D expenditure was less than $ 3 when it was between $ 100 and $ 825 for most of the developed nations.

(k) Growing Competition: The competition is growing not only from the firms in the developed countries but also from the developing country firms. Indeed, the growing competition from the developing country firms is a serious challenge to India's international business.

(l) Trade Barriers: Although the tariff barriers to trade have been progressively reduced thanks to the GATT/WTO, the non-tariff barriers have been increasing, particularly in the developed countries. Further, the trading blocks like the NAFTA, EU, etc. could also adversely affect India's business.

3.21.5 Strategic Responses Adopted by Indian Industries

The impact created by the changed business environment, fuelled by globalisation and liberalisation forces, made Indian business organizations to make various strategic responses for their existence and growth. The major strategic responses are reflected in the priorities given by various organizations in the under mentioned new areas.

a) Quality products:

Majority of Indian companies were enjoying the patronage of Indian customers who had no other option, got thrilled and excited by the quality of products which flooded Indian markets and they started demanding better quality products from Indian manufacturers also. As a result of the changed customer demand product quality got an overriding priority for all types of manufactures.

b) Competitive prices:

Under the earlier regime of protection, "Cost-Plus" pricing was the norm in most of the cases. The burden of higher cost and inefficiencies was passed on to the customer who had no other choice. In the changed environment, companies were forced to redefine their pricing policy, for their survival in the competitive global market.

c) <u>Consumer preferences</u>:

In the protected business environment, the influence and capability of the manufacturer to obtain the various licenses through contacts in government assured the success of his business whereas in the new business scenario, the preferences of the customers decided the success of business. Accordingly business organizations started assessing consumer preferences and came out with programmes for delighting the loyal customers.

d) <u>New processes, techniques and technologies</u>:

The success in the new environment was decided by the ability of an organization to develop and manufacture new and customer friendly products of better quality at competitive price. This forced Indian companies to look for new processes, techniques and technologies.

e) <u>Corporate Restructuring</u>:

Corporate restructuring which may go with globalisation can be envisaged in the perspective planning for a global business. Every business organization is supposed to project itself to a specific customer need, market or market segment. A general purpose business approach may not be appropriate in the context of a global business.

The perspective planning of each firm must represent its own specialized product line, brand speciality, technical expertise and customer knowledge. The product or services offered by the company should be market specific and has to be supported by self developed R & D efforts. All the above mean a lot of investment on analysis, forecasting, innovation and invention.

In the new consumer driven business environment, organizations had to sharpen their skills for offering the best products for their demanding consumers and hence restructured them to be lean and efficient with trained and talented people offering their best efforts for the success of their companies.

f) Market expansion:

Many companies formed joint ventures with others to enter into new business and to exploit the emerging market. Some other companies entered into strategic alliance for collaboration with others to enter into new markets and to expand the existing ones.

3.22 Corporate Restructuring Programmes

A study conducted by the All India Management Association on Corporate Restructuring in over 400 companies found that a number of Indian private and public sector companies have introduced various restructuring programmes like;

- Mergers and acquisitions
- Collaborations
- Flattening the organizational structures
- Strategic business units
- Quality assurance programmes
- Marketing strategies
- Cost effective strategies
- ISO Certification
- Increasing use of Information Technology
- Vision and mission statements.

The strategies most commonly adopted by the industries are detailed below

3.22.1 Mergers and Acquisitions

A number of Indian companies have resorted to acquisition of companies abroad to gain a foothold in the foreign market and to increase the overseas business. Apart from the big players, a host of lesser-known companies have bought out cash strapped plants in Europe, USA, etc.

The actual wave of mergers and acquisitions in the Indian context is said to have started after 1994 when the necessity of formulating a new takeover code was felt by the regulatory agencies. (Shivaramu, 1998). During the period from 1991 to 1998, a total of 241 mergers and acquisitions have taken place, of which 185 acquisitions were complete, whereas 56 are in the process (Chakravarty, 1998). In India, hostile takeovers are expected to become a major mode of acquisition.

Radhakrishnan and Augustine (1996) have tried to list the potential target companies in India on the basis of parameters such as promoters' stake, holding pattern and market capitalization, and revealed that: C*ompanies in which promoters have less than 50% stake are vulnerable for takeover. Many Indian companies fall under this category. In fact, promoters have a majority stake in only 140 of the top 500 companies in India.*

In case the holding pattern is considered as a criterion for identifying the takeover targets, then most of the Indian companies come under this category. Because threat of takeover is higher when the group companies have less than 20% stake in their companies and of the balance (public holding, constitutes 35%, about 305) is held by financial institutions and the rest by foreign institutional investors and mutual funds.

In terms of market capitalization, nearly 425 companies of the top 500 companies have less than Rs.500 crore while several have less than Rs.100 crore.

Some have argued that mergers increase value and efficiency and move resources to their highest and best uses, thereby increasing shareholder value. Others argue that companies acquired are already efficient and that their performance after merger is not improved . A few argue that the gains to shareholders merely represent redistribution away from labour and other stakeholders (Shleifer and Summers, 1988). Another view is that the M&A activity is said to increase debt unduly and to erode equity, resulting in an economy highly vulnerable to economic instability (Buffet, 1981; Rohatyn 1986).

Mergers and Acquisitions (M&As) are very important market entry as well as growth strategy. It may be used to acquire new technology. M&As would have the effect of eliminating/ reducing competition. One great advantage of M&As in some cases is that it provides instant access to markets and distribution network. As one of the most difficult areas in international marketing is the distribution, this is sometimes the most important objective of M&As.

3.22.2 Joint Ventures

Indian companies are now expected to provide sustained growth in the face of global competition and rapid technological changes. This pressure has fermented a search for creative ways to improve our adaptability in managing business firms and joint ventures. The term joint venture means the creation of a new organizational entity by two or more partner organizations.

A large number of studies on this subject seem to reflect the growing importance of cooperative investment and joint venture strategy. In several cases joint ventures, as in the case of foreign subsidiaries, help Indian firms to stabilize and consolidate their domestic business, besides the expansion of the foreign business.

3.22.3 Strategic Alliance

Strategic alliance may be defined as two or more independent firms involving shared control and continuing contributions by all partners for mutual benefit (Yoshino and Rangan, 1995).

Strategic alliance provides enormous scope for the Indian business to enter/expand the international business. This is particularly important for technology acquisition and overseas marketing. Alliance is indeed an important international marketing strategy employed by several Indian firms.

Fortune (August 23, 1993) reports that global alliances are becoming an indispensable business tool for companies seeking to develop new products and services, technologies, and markets for the international market place. In fact, unlike in the past, the recent trend of collaborations in industrialized countries

consists of alliances varying from licensing deals, research consortia, and technological exchanges to marketing alliances (Shivaramu, 1997). Present-day alliances range from collaborative advertising, to internal spin-offs and cross-licensing through R&D partnership, cross-manufacturing, and resource venturing etc.

In India, one notices that Indian companies have started forming strategic alliances from the early 1990s. Strategic alliances in India include alliances between Arvind Mills Limited and Alamic Fabrics, Doordarshan and CNN, Videocon and Sansui, etc. This move reflects the adaptability of Indian companies in the current dynamic situation, observes Shivaramu (1997). Collaborative efforts are increasingly becoming a major feature in various sectors as telecommunications, power, petroleum, chemicals, metallurgical industries, electrical equipment, transportation, food processing, hotel and tourism, and textiles.

3.22.4 Demerger

Demerger involves spinning of a business/division in a diversified company into a stand alone new company along with free distribution of its shares to the existing shareholders of the original company (Venkiteswaran, 1997). Usually resorted to for addressing the problems of conglomerate discount, for permitting direct portfolio decision by investors, and for facilitating sharp and uncluttered managerial focus.

3.22.5 Diversification

There have been a few cases of demergers in India in the recent past. Examples include demerger of Hoechst Schering Agrevo Ltd. from Hoechst India Ltd., demerger of Ciba Specialities from Hindustan Ciba-Geigy Ltd., demerger of Sandoz India Ltd. from the old Sandoz, and demerger of Aptech from Apple Industries Ltd.

Major environmental factors which caused firms to diversify into new areas were globalisation of markets and deregulation, technological innovation, argue Kumar

et al. (1982). In short, diversification is the process whereby a corporation moves into additional businesses.

Examples of diversified firms in India include Reliance Industries (Petrochemicals, Textiles, Power, Advertising), BPL (Whitegoods, Power), Nagarjuna Group (Power, Fertilisers, Finance), Tata (Paper, Tea, Automobiles, Steel, Telecommunications, Software, Consultancy), Aditya Birla Group (Cement, Textiles, Rayon, Palm Oil), etc.

3.22.6 Share Buyback

The Indian Companies Act, 1956 does not permit a company to buy back its own shares. However, the 1997 budget presented on 28th February 1997 has proposed to permit buy back of shares. Some of the features of the buy back scheme will enable companies to buy back their shares in order to reduce their outstanding share capital and improve their earnings per share. According to Brokaw and Plohn Jr. (1990), corporations repurchase their own shares, the prime reasons being to:

a. Invest excess cash at a higher rate of return on equity,
b. Change the capital structure,
c. Increase earnings per share,
d. Increase the book value per share of the remaining shares,
e. Use as an acquisition currency,
f. Offset dilution of issuer plans, such as stock purchase, stock option, dividend reinvestment or similar plans for employees or security holders of the issuer, and
g. Eliminate smaller shareholdings and thus reduce servicing costs.

Many Indian companies such as TELCO, TISCO and Reliance Industries have had substantial cash flows and could therefore undertake buy back of shares.

3.22.7 Divestiture

Deregulation has provided momentum for highly publicized divestitures (Clark, 1990). Divestiture represents the sale of a segment of a company to a third party. Assets, product lines, subsidiaries, or divisions are sold for cash or securities or some combination thereof (Robson, 1983; Weston, et al., 1990). Why would a Chief Executive Officer divest a key division, subsidiary or joint venture interest? Most outside observers will jump to the conclusion that the business is a loser or that current management cannot turnaround the subsidiary or division. However, new circumstances have complicated the reasons for divestiture. The divestiture decisions can be made for several reasons, including stream-lining the corporation, eliminating a losing or low return business, lack of business, or the avoidance of exposure of assets to political risk.

Divestitures are highly prevalent among all 'restructurings' that have taken place since the beginning of 1980s (Johnson et al., 1993). As much as 40 per cent of the restructurings during the 1980s involved divestitures (Weston et al., 1990).

3.22.8 Quality Strategies

Over the last few years, markets and customers in India have also become highly quality conscious. In a number of markets, particularly industrial markets, quality has become an important institutional norm (Nilakant and Ramnarayan, 1998). The case of Crompton Greaves illustrates the evolution of quality efforts in Indian organizations (Varier, 1995). L&T is one of the companies that has undertaken a major programme of TQM and trained 20,000 employees in TQM principles and tools. Every single employee, from the ordinary worker to the Director, was covered. Another company, which has followed a comprehensive and integrated approach to improving quality, is the Kirloskar Electric Co. Ltd. Again, the case of Ranbaxy highlights how quality efforts can be part of an integrated change programme (Sheth, 1995). Sundaram Clayton won the

prestigious Deming Prize for its quality efforts (Business Today, November 1998).

3.22.9 International Quality Certification Programmes

In order to develop a more reliable and durable production and distribution system, many nations and their industries have joined in to bring an international series of quality standards, popularly known as ISO-9000. International organization for Standardisation's ISO-9000 series of quality standards were developed by ISO Technical Committee in 1987. Many nations approved them instantly and they became the standards for the world market place (Bandopadhyay, 1996). Instead of inspecting individual products to determine whether they meet required specifications under ISO-9000, the emphasis is on inspecting the production or service system to make sure that it is sound and is capable of producing products/services of desired quality according to customer requirements.

Since introduction, the ISO-9000 standards have been adopted as a national standard by nearly every industrial country in the world. Indian companies have not lagged behind in their efforts to get ISO accreditation, as illustrated in Table 3.2 below:

Table 3.2:- ISO – 9000 Status of Indian Companies

Awarded ISO 9000	Manu-facturing	Services	Marketing	Total
Yes	65	21	35	41
No	18	73	51	46
Planning to obtain	17	06	14	13
Total	100	100	100	100

(Figures in percentage)

Source: All India Management Association (1998). Business Trades in India 1997- 2000. New Delhi: Excel Books.

3.22.10 Vision and Mission

As part of the ISO 9000 certifications Companies evolved their vision and the written mission statements were made based on the vision of the Company. The sector-wise statistics of Indian companies having written mission statements is given in Table 3.3 below:

Table 3.3:- Written mission statement in Indian industry

(N = 160) (Figures, %)

Written Mission Statement	Manufacturing	Services	Marketing	Infrastructure	Total
Yes	80	69	70	50	72
No	17	19	19	33	18
In preparation	3	12	13	17	10
Total	100	100	100	100	100

Source: AIMA (1998). Business Trends in India – 1997 – 2000. New Delhi: Excel Books.

3.22.11 Benchmarking

Benchmarking has been described as one of the major management revolutions of the 1990s.

Spendolini (1992), after surveying 49 benchmarking companies, has defined benchmarking as “a continuous (1), systematic (2), process (3), for evaluating (4), the products (5), services (6), and work processes of organisations (7) that are recognized (8) as representing best practices (9) for the purpose of organizational improvement (10). Juran (1994) defines benchmarking as “a point of reference from which measurements and comparisons of any sort may be made”.

In a survey conducted by Business Today in 1999, 70% of the Indian companies admitted to using benchmarking as a diagnostic tool. For example, NIIT benchmarks its non-performance costs against those of an automobile and a tool manufacturing company. TELCO turns to the global automobile majors to set the bar for its debt profile and interest costs. Madura Coats benchmarks its process and manufacturing costs against those of the plants of its parent, Coats Viyella, in 80 countries. Shriram Pistons & Rings benchmarks its equipment maintenance process against those of TISCO, MICO and ITC Hotels (Jayakar and Chandrasekhar, 1999).

3.22.12 Cost Strategies

In a survey carried out by Business Today in 1999, to explore the cost management practices employed by Corporate India, 72% of the respondents reported that reducing costs is the topmost priority. The concern for costs was felt in equal measure across small (69%), medium (73%), and large (73%) businesses. Even when the timeframe is three years, cost reduction continues to be one of the major organizational concerns as 37% of the companies were sure that cost issues would last that long.

3.23 Indigenisation

Many organizations resorted to indigenization to reduce costs and to ensure control over supplies. Indigenization provides an opportunity to substitute and replace foreign technologies, thereby leading to significant cost savings.

3.24 Information Technology

In India, Technology Policy Statement (TPS) was formulated in 1983 with the basic objective of developing indigenous technology. It is aimed at attaining technical competence and self-reliance, reducing vulnerability, particularly in critical areas and making maximum use of indigenous resources. Technology Information Forecasting and Assessment Council (TIFAC), an autonomous body under Ministry of Science and Technology, Government of India, generated a long-term technology forecast report covering sixteen areas, viz. Agro Food

processing, Civil Aviation, Electronic Power, Waterways, Road Transportation, Food and Agriculture, Health Care, Life Sciences and Biotechnology, Advanced Sensors, Engineering Industry, Materials and Processing, Services, Strategic Industries and Telecommunication.

Indian industry has begun to employ Information Technology in a strategic manner to achieve business objectives. The availability of large skilled manpower and availability of technology at affordable prices facilitated this. A survey conducted by All India Management Association reveals that 55% of the Indian companies have a stated IT strategy while 17% are in the process of preparing the same. Detailed findings of the survey are presented in Table 3.4.

Table-3.4 - Presence of IT strategy in Indian companies

Stated IT strategy	Manufacturing	Services	Marketing	Total
Yes	52	57	51	55
No	37	26	22	28
In preparation	11	17	27	17
Total	100	100	100	100

Source: All India Management Association (1998)

Business trends in India 1997 -2000.New Delhi: Excel Books

From marketing to manufacturing to accounting, the dynamics of commerce have been dramatically altered by the computers, leading to heavy investments in IT. Over Rs.130 crore was spent on software in 1997, by 150 Indian companies including Reliance Industries, TELCO, HLL, UTI, L&T and Blue Star, reports Business World (August 21, 1998).

3.25 Research and Development

Research and Development process in companies are becoming increasingly focused to stay ahead of competition (Endres, 1997). Leaders of business organizations recognize the critical importance of R&D to their success, and for guiding their firms to becoming and remaining world class competitors. The firms that succeed in global competition will be those that employ technology to maintain an edge in product quality and innovation and have an advantage in production and marketing.

The R&D imperative for industry has never been more compelling. A sense of lost opportunity is driving companies to seek ways to make R&D management more purposeful (Steele, 1989). Virtually all industries feel the impact of both increased competition and the accelerated pace of technological change and challenge. Today companies are looking to technology and to their R&D organizations to help renew growth and profitability. They feel a need for more creativity, more effectiveness and more efficiency in R&D. In India, this is reflected in the number of R&D centres that have been set up and an increase in the R&D expenditure. The national expenditure on R&D has increased by almost ten times in a period of 15 years. Jauch and Gluek (1988) stated that Research and Development can be a competitive advantage, primarily for two reasons. (i) It can lead to new or improved products for marketing and (ii) it can lead to development of improved manufacturing or material processes to gain cost advantage through efficiency.

3.26 Marketing

Rapid changes in markets and intense global competition demand a market driven business strategy. In view of the fierce competition in the market place, companies have started developing marketing strategies, even resorting to restructuring their marketing departments to implement the strategies, and reach to the target markets. A survey conducted by the All India Management Association (1998) in over 160 companies found that 89% of the companies

have a clearly defined marketing strategy. Another survey conducted in 1995 by the said agency reveals that about 30% of the companies surveyed had clear cut marketing strategies.

3.27 India's Foreign Trade

Trade Policy reforms over the past one and a half decade have provided an export friendly environment with simplified procedures conducive to enhancing export performance.

The focus of these reforms have been on liberalisation, openness, transparency and globalisation with basic thrust on outward orientation focusing on export promotion activity moving away from quantitative restrictions and improving competitiveness of Indian Industry to meet global market requirements. Significant changes in the EXIM Policy have helped to strengthen the export production base, remove procedural irritants, facilitate input availability, besides focusing on quality and technological up gradation and improving competitiveness. The New EXIM (Export Import) Policy framed for the period 2002-07 seeks to usher in an environment free of restrictions and controls. Synergy between these policies/strategies is expected to realize India's strong export potential and enhance the overall competitiveness of its exports.[21]

3.27.1 Exports

Since June 1991, India has undertaken major initiatives in trade policy liberalisation focusing on liberalisation openness, transparency and globalisation. The basic thrust of the reform package has been on outward orientation with focus on export promotion activity, moving away from quantitative restrictions and improving competitiveness of the Indian industry to meet global market requirements. Since then, trade policy reforms have

[21] Neela Tripati(2005), Foreign Trade and Investment in India PP-5

provided an export-friendly environment with simplified procedures conducive to accelerated export performance.

Announcements in the successive EXIM Policy have helped strengthen the country's export production base, removed procedural irritants, and facilitated input availability besides focusing on quality and technological up gradation. After a setback during 1991-92 when exports declined by 1.5 per cent in dollar terms, revival of exports started during 1992-93. Indian exports registered an average growth of 20 per cent in dollar terms from 1993-94 to 1995-96. However, this growth could not be sustained and export growth rate declined to 5.3 per cent in 1996-97 and to 4.6 per cent during 1997-98. The year 1998-99 witnessed a negative growth in exports.

However, exports turned around during the year 1999-2000 registering a growth of 11.6 per cent in dollar terms, exceeding the target of 11.3% set for the year. India's exports during April-October 2000-2001 are valued at US $ 25013.99 million, which is 20.51 % higher than the level of US $ 20757.15 million during April-October 1999-2000. In rupee terms, the exports were Rs 112646.15 crore, which is 25.59 %c higher than the value of exports during April- October 1999-2000. This is the highest export growth rate recorded in over a decade. This is also much higher than the export target of 18% growth set for the year 2000-2001. The high-level of performance is being sustained through continuous promotional measures, sector-specific policies and various other measures such as cutting down of transaction costs.

India's imports during April-October 2000-2001 are valued at US $ 30270.27 million representing a growth of 14% over the level of imports valued at US $ 26552.71 million in April-October 1999-2000. The details of exports/imports of the country in the last decade are given in table 3.6.

While analyzing the trends in India's foreign trade, it is observed that the US remains the country's largest trading partner accounting for over 20 per cent of India's exports and around 9 per cent of India's total imports. The European

Union (EU), however, is the largest trading block accounting for more than 25 per cent of the country's global trade. As regards imports, nearly a fifth of the country's imports are from the EU which is followed by imports from the US, Switzerland, Korea, Singapore and China.

Table 3.5:- Exports and Imports

Year	Exports		Imports	
	US $ million	% growth	US $ million	% growth
1991-92	17865	-1.5	19411	-19.4
1992-93	18537	3.8	21882	12.7
1993-94	22237	20.0	23306	6.5
1994-95	26330	18.4	28654	22.9
1995-96	31797	20.8	36678	28.0
1996-97	33470	5.3	39132	6.7
1997-98	35006	4.6	41484	6.0
1998-99	33219	-5.1	42389	2.2
1999-2000	36822	10.8	49671	17.2
2000-2001	44560	21	50536	1.7
2001-2002	43827	-1.6	51413	1.7
2002-2003	52719	20.3	61412	19.4
2003-2004	63843	21.1	78149	27.3

Source:- Records of Indian Institute of Foreign Trade, New Delhi

Among the major commodities being exported from the country, textiles tops the list followed by gems & jewellery, chemicals & related products, engineering goods, agriculture products, leather goods and marine products. As regards commodities being imported from the country crude petroleum & products tops

the list followed by pearls, precious & semi-precious stones, gold & silver, machinery, electronic goods and organic & inorganic chemicals.

3.27.2 Licensing and Franchising

Licensing and franchising, which involve minimal commitment of resource and effort on the part of the international marketer, are easy ways of entering the international market.

Many Indian firms can use licensing or franchising for the overseas market, particularly the developing countries. For example, Ranbaxy has licensing arrangement in countries like Indonesia and Jordan.

3.27.3 Foreign Investment

Foreign Investment by Indian companies has so far been very limited. The attractiveness of the domestic market, lack of global orientation, government regulations, etc. have been responsible for this.

With the economic liberalisation and growing global orientation, many Indian companies are setting up manufacturing/ assembling/ trading bases abroad, either wholly or in partnership with foreign firms. These would help these companies to increase their international business. Indian companies have also been making investments abroad on acquisitions.

3.28 Foreign Direct Investment (FDI)

Foreign direct investment (FDI) directly impacts on output growth in India by augmenting the available investible capital. However, a far more important impact of FDI is through externalities leading to higher efficiency and productivity. FDI typically serves to increase competition in markets, bring new technology into India, and foster skill acquisition amongst domestic labour. FDI by international corporations is also central to the process of India being utilized as a platform for global production chains, which would pave the way for strong exports growth.

3.28.1 Major Initiatives to Attract FDI

FDI up to 100 percent permitted under the automatic route in the advertising sector. FDI under the automatic route up to 100 percent is available for film sector and will not be subject to conditions about debt equity ratio, minimum level of equity investment etc.

FDI up to 100 percent allowed in tea sector, including tea plantations, permitted subject to compulsory disinvestment of 26 percent equity in favor of Indian partner within a period of five years and prior approval of the state government in case of any future land use change. Re-issuance of ADR/GDR permitted to the extent of ADRs/GDRs which have been redeemed into underlying shares and sold in the domestic market.

FDI up to 100 percent permitted with prior approval of the government for development of integrated township, including housing, commercial premises, hotels, resorts and regional level urban infrastructure facilities such as roads and bridges and mass rapid transit system, subject to the guidelines issued vide press note No. 3 (2002 Series) dated January 4, 2002.

Automatic route of FDI up to 100 percent allowed in all manufacturing activities in Special Economic Zones, except some of the activities such as arms and ammunitions, explosives and allied items of defense equipment, defence aircrafts and warships, automatic substances, narcotics, distillation and brewing of alcoholic drinks and cigarettes and cigars.

FDI in print media sector was allowed up to 26 percent of paid-up equity capital of Indian entities publishing periodicals and newspapers dealing with news and current affairs.

3.29 Competition Policy

In recent decades, the focus of industrial policy has increasingly emphasized the importance of competition as a tool for disciplining firms, and fostering efficiency. However, in many industries, there are innate problems with obtaining conditions of competition with free entry. In order to improve competition, and

thus contain the distortions caused by monopoly power, the Competition Act, 2002 has been enacted in December, 2002. It is a landmark legislation that aims at promoting competition through prohibition of anti-competitive practices, abuse of dominance and through regulation of companies beyond a particular size. This Act will replace the MRTP Act.

3.30 Employment

Employment, especially in the organized sector has witnessed some positive trends. If some rigidities were further reduced, further acceleration would be possible.

The Industrial Disputes Act, 1947, Contract Labour Act, 1970 and Payment of Wages Act, 1936 are some of the legislative acts that the government has r amended. Under the Minimum Wages Act, in January 2002, wages were raised for workers of mining and construction sectors in respect of scheduled employment in the central sphere.

Companies in the private sector have however continued to adopt the Voluntary Retirement Scheme (VRS) to reduce the number of workmen and labour wages. In a study of the labour wages vs turnover it was found that the wages as a pc of cost of production dropped from 11pc in 91-92 to 5.6pc in 2000 – 2001.

In another parallel study of the 100 most profitable companies it was observed that while their turnover multiplied six times the wage level went up only 3 times between 1988-89 and 2000-01. In the public sector SAIL is understood to have shed 6000 of its 2L employees.

3.31 Legal Systems

To integrate with the world and benefit from large inflow of investments it is necessary to have efficient and quick functioning legal systems. It is, therefore, necessary to scrap outdated laws, draft laws in clear and unambiguous language, speed up the entire legal process to ensure effective and quick resolution of cases..

A fair amount of changes have come about in the legal systems of which the following call for mention:

a. Bouncing of cheques - Procedures and punishments tightened.
b. Passing of the Act on Securitisation and Reconstruction of financial assets and enforcement of Security Interest.
c. Competition Bill 2001 approved by Lok Sabha.
d. Revised norms on Corporate Governance.
e. Powers of SEBI strengthened.
f. Freedom of Information bill approved.
g. Passing of Electricity Bill.

3.32 Policies for Efficiency and Productivity

There has been a major change in the nature of industrial policy in the light of economic reforms. The essence of the reform process, has been the quest for efficiency, or the establishment of a framework of incentives whereby the highest possible value added is obtained using a given stock of labour and capital. This is expected to lead to rapid economic growth, through improvements in productivity of the old stock of labour and capital, and the best possible utilization of the incremental labour and capital which come on stream each year. A wide variety of policy initiatives are the main underway, which span across many different government agencies, which foster efficiency and productivity. These areas have now become focus of industrial policy.

3.33 Conclusion

Globalisation is the great economic event of this era. The phenomenon of globalisation has captured world attention in various ways. Over the last two decades foreign trade and the cross border movement of technology, labour and capital have been massive. The integration of world economies had put pressure on nations for adapting liberalized economic policies favouring deregulation and liberalisation. Globalisation has also increased the pressure of competition between economies. The new competitive environment has

awakened the employers on the need to be competitive, effective and innovative producers of goods and services.

Although India was not strictly a closed economy even before the launch of the reform process, Indian industry was generally protected from external competition through a variety of import restrictions and high import duty extending up to 300 % in some cases. Because of the highly protected domestic market and the practical absence of external competition, Indian industry was never under pressure to cut cost, improve quality or to expand to global markets. As a result of the new economic environment, customers and consumers who where hitherto accepting inefficiency and the cost of inefficiency started demanding quality products and services at cheaper rates.