



GOVERNMENT POLICIES FOR BUSINESS GROWTH

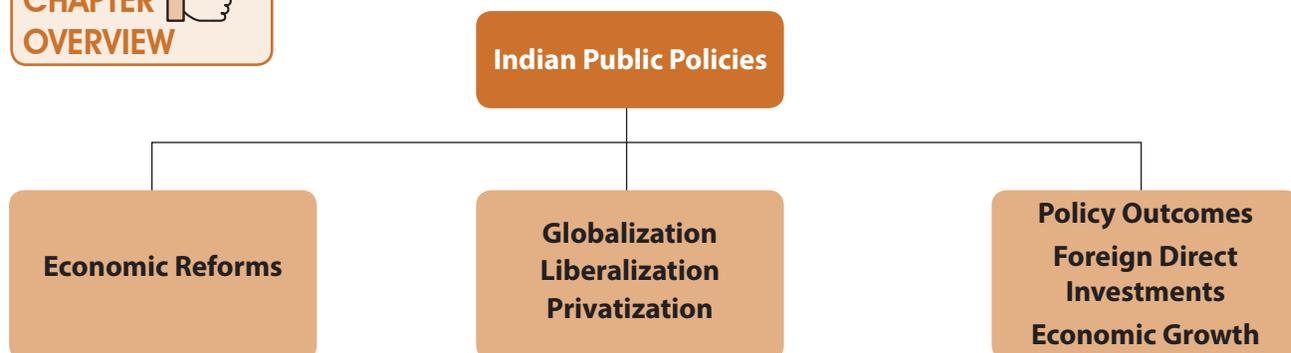


LEARNING OUTCOMES

After studying this unit, you will be able to:

- ◆ Highlight the pervasiveness of the influence of government policies on business.
- ◆ Explain restricting, regulating and facilitating government policies.
- ◆ Describe the major shifts in government policies on business since independence.
- ◆ Explain the concept and importance of liberalization.
- ◆ Explain the concept and measures of globalization policy.
- ◆ Describe privatization as a source of new opportunities of business growth.

CHAPTER OVERVIEW





4.1 INTRODUCTION

Raman was a computer science graduate and he developed an app based solution for blind students. Ali, his friend was a CA Rank holder. Ali had 3 offers from two big audit firms and from a consulting company. Raman understands technology. But he does not know finance, law and government policies. On the other hand, Ali has no exposure to technology but he understands Patent Law, IPR (Intellectual Property Law), GST formalities, Financial Reporting and Corporate Governance issues. Ali understands the commercial possibilities of Raman's innovation. They form a team to pitch for arranging funds from venture capitalists.

Legal processes, tax policies, business restrictions, financial reporting of any nation follows from government policies. Naturally Government Policies are *sine qua non* for all spheres of the economy. Not only the start ups developed by young entrepreneurs like Raman and Ali, the big companies also face a number of policy issues followed by a state.

In Bangladesh as a state policy, import of second hand foreign cars is allowed. Toyota steers this policy to their favour. Second hand Toyota cars are sold in numbers through Toyota approved dealers in Dhaka. Refurbished cars collected from buy back scheme are sold in Dhaka market. Toyota manages several service stations in Dhaka, Chittagong and Rajsahi to provide after sales service.

On the contrary, in India, as a government policy, no foreign car manufacturers are allowed to sell imported cars. They need to form an wholly owned Indian subsidiary or to be a part of a joint venture. Toyota manufactures cars in India as a joint venture with Kirlosker Motors.

Every nation defines its mode of governance through a number of policies. These policies are described as public policies. In the national and international parlance, public policies are as old as governments. In the Post-Second World War period, a number of transnational companies evolved which started to work in different parts of the world. They align their operations according to the public policies of those nations where from they operate.

If we go through the Human Resource (HR) challenges of the heavy vehicle manufacturer Volvo, we see that they have approximately 95,000 employees all over the world. The company promise to treat everyone with respect. They want to foster an inclusive culture where everyone can contribute to their full potential and be accepted for who they are, regardless of gender, gender identity, nationality, ethnic origin, religion, age, sexual orientation, any disabilities, etc.

Here lies the challenge of the company. The gender equality policies are not similar in all countries. So, varied are the policies towards ethnic origin cases, religious issues, etc. That is why they make Herculean efforts every day to promote an inclusive workplace for increasing diversity. They framed the "Volvo Way" and the Volvo Group Code of Conduct which outlines the minimum expectation for all employees.

In fact, all large corporate houses align their corporate policies according to the set government policies of the host nations.

4.1.1 Policy Framework in India – A Historical Sketch

In India, a lot of discourses, researches and experiments on public policies used to take place in the age-old universities of Takshashila, Vaishali and Nalanda. During the time of Emperor Chandragupta Maurya, the great intellectual guru of the emperor, Chanayaka outlined the public policy of the state. He authored the book "Arthashastra", a conceptual framework of state craft and public policy. In Greek city states and Roman empire, public policy was centre of attraction. Philosophers like Plato and Aristotle had a number of discourses on public policy. During the time when Ashoka the Great ruled Magadh, he introduced the policy of peace and harmony. On the other hand, Guptas defined various policies on taxes, trade and warfare. In

Delhi Sultanate Alauddin Khilji introduced a stringent tax reform, whereas during the time of Akbar the Great, land reforms were introduced under the leadership of Todarmal. In all the forms of governance, be it oligarchic, monarchy, aristocracy, tyranny or democracy, public policies were formulated and implemented.

India attained freedom in 1947, with a partition of the nation. Riots and famines broke out in different parts of the nation. The new government of India faced a mammoth developmental challenge. Strong policy making was required as the nation had a diversity of languages, cultures, inequalities. The existence of a multiplicity of princely states, lack of industries, lack of enough food-grains to feed the huge population of the country, a fragile banking system remained the other problems. Thus, India was looking for strong policy decisions.

4.1.2 Policy in the Contemporary Global Economies

In the contemporary world, the strong economies like US, European nations like Germany, France, Switzerland, Denmark, Sweden and Japan from Asia have clear cut policies on governance, economy, market, taxes and duties and military spending. The emerging economies like Brazil, Russia, India, China and South Africa (Commonly known as BRICS Nations) have distinct policies on governance. The Socialist and Communist states like China, North Korea, the erstwhile Soviet Union used to set highly controlled public policies. To cope with the varied economic problems and demands of the people, every single government has to outline these policies. This chapter endeavours to explain the meaning and types of policy. It will also highlight the different components of a policy. It will specially focus on India's economic reforms in the year 1992 and the major changes in policies since then. This chapter especially concentrates on the monumental efforts in changing the post-independence policies. These efforts are commonly referred to as Liberalization, Privatization and Globalization (LPG).

- **Liberalization** of economic policy refers to the gradual decrease in government command and control over the economic policies. Simplification of tax structure, removing quotas, bars and economic restrictions are some examples of liberalization.
- **Privatization**, in its purest form means transfer of government ownership to private hands. In real life, it is done in different forms. In some cases, ownership of all shares is transferred from government to a single highest bidder (VSNL was taken by Tata Telecom. In some cases, a large chunk of shares is sold to public, but majority shares are in the hands of the government (ONGC, SAIL, State Bank of India etc.).
- **Globalization** refers to taking off restrictions in export and import of goods and services. It also covers the measures of lifting the trade barriers.



4.2 MEANING OF POLICIES

Renu visits National Library and frequently orders a plate of vegetarian thali at ₹ 30 a plate. The similar thali in the nearby railway canteen is available at ₹ 45. She gets the similar food at ₹ 210 a the big restaurant at the city centre. India follows a mixed economy and that is why state provides subsidy on food in libraries, instructs railway canteen operator to charge a "reasonable" price fixed by the government. However, the restaurant at city centre may charge good amount of margin.

In England, you do not have to pay a single penny to enter the British Museum and National Art Gallery. Though UK follows capitalistic economy, it has several socialistic principles ingrained in its state policy.

In any nation, policy making process is related to political actions. Long back, Gabriel Almond outlined political system as a set of interactions having structures, each of which performs its functions in order to keep it like an on going concern, it is a set of processes that routinely converts inputs into outputs. These outputs are the public policies. An autocratic ruler looks for policies which dominate over public freedom.

When India was a British colony, public freedom was conspicuous by its absence. Tax rules were stringent on Indian traders, whereas a democracy frames liberal policies.

In the Indian democracy, we have several political parties. Leaders are free to argue in the parliament. State and the centre have many shared responsibilities. People's grievances are heard. There are several legal systems to take care of disputes.

Almond classified these inputs of political system into generic functional categories like political socialisation and recruitment, interest aggregation, interest articulation and political communication. Output activities are those which are carried on by a political system in response to demands or stresses placed upon the system in the form of inputs. Outputs generally take the form of governmental policies, programs, decisions etc.

David Easton propounded another model on politics-policy relationship which is known as Feedback or the 'Black Box Model'. This model identifies that there are many societal demands which are not included in the decisions and policies designed by the state. In course of time the governments try to look for some avenues to look for a feedback process towards public policy. These processes are known as Policy Reforms.

We frequently observe such black box models in India. Government makes several experiments in tax, human resource policies and changes them on public demand. The Indirect tax regime has been changed with the introduction of GST with effect from 1st July 2017. Earlier, age old the Companies Act, 1956 was replaced by a new act in the year 2013.



4.3 PUBLIC POLICY

- Rohit sells fire crackers in Delhi. He was fined by local police for selling fire crackers with an expired trade licence.
- Sukhbir employed 34 full time workers in his garage. He was advised by his Chartered Accountant to pay provident fund contribution for all of them.
- Ranga was not allowed to enter Kuwait by the immigration officer as he had several visa stamping in Tel Aviv Airport in Israel.
- Bharat was imprisoned for three days in Singapore as he violated traffic rules.
- Coke was driven out of India in 1977 as the then ruling Party was a strong believer of Swadeshi.

From these examples, we understand that, Public policy is guided by social, cultural religious and political factors. In the 1990s Coke came back to India. In India, a small fine is there for traffic rules violations, but in Singapore, traffic rule violation is taken as a major offence. Due to political difference with Israel, immigration officers in many Arab nations decline entry of foreign visitors having multiple visa stampings on their passports. Licences and PF issues are taken seriously in India.

These policy issues are not only diverse instances. FDI Policy of the Indian Government derives its origin from the country's economic standpoint, whereas respect for all religion is more of a cultural fabric designed by the Indian constitution. The policy of keeping special compartments for ladies in trains emanates from socio-cultural perspective.

Thomas R. Dye says that "*public policy is whatever government chooses to do or not to do*" Richard Rose says that "*public policy is not a decision, it is a course or pattern of activity*". Public Policy, according to them is a summation of decisions followed by many. India is a pluralistic society therefore, there are many opinions. We have a complex legal system. Whereas in Dubai, laws are stringent but very simple.

In Carl J. Friedrich's opinion public policy is a proposed course of action of a person, group or government within a given environment providing opportunities and obstacles which the policy was proposed to utilise and overcome in an effort to reach a goal to realise an objective or purpose. In USA, Martin Luther King fought for the rights of black people. In India, Swami Vivekananda had an inclusive approach towards the downtrodden socially outcast people. Indian policies are directed for the upliftment of socially deprived classes.

From the aforementioned discussion, it is clear that public policies are well thought of governmental decisions, and these are the resultants of various social and economic activities which the government undertakes in pursuance of clearly defined goals and objectives. The nature of public policies has the following characteristics:

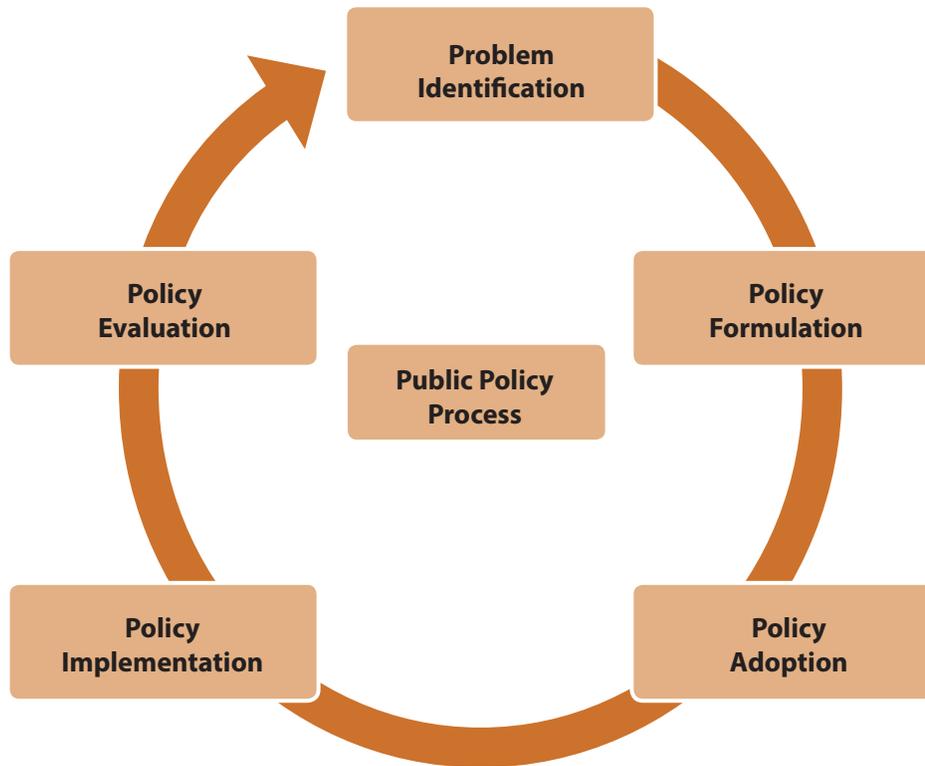
1. Public Policies are always **goal oriented**. These are formulated and implemented in order to attain certain objectives which the government has in view for the ultimate benefit of the masses in a welfare state. These policies clearly spell out the programmes of government.

For example, the banks are instructed by government to initiate financial inclusion plan and they are bound to open branches in villages. Opening of low frill accounts under *Jan Dhan Yojna* had been made mandatory. This policy of financial inclusion is a goal oriented policy.

2. Public policy represents the **outcome of the government's collective actions**. It means that it is a pattern or course of activity or the governmental officials and actors in a collective sense than being as their discrete and segregated decisions.

The whole legal system of India stands on collective actions. The courts of law starting from a Magistrate Court to Supreme Court, the duties and codes of conduct of the judges, the involvement of lawyers and public prosecutors, the role of police and forensic experts, the appointment of juries are the examples of collective actions.

3. Public policy is what the government actually decides or chooses to do. It is the relationship of the government units to the specific field of political environment in a given administrative system. It can take a variety of forms **like law, ordinances, court decisions, executive orders, decisions**, etc. In India most of these public policies are written statements and these are decided by government and other regulatory bodies.
4. Public policy is **positive in the sense that it depicts the concern of the government** and involves its action to a particular problem on which the policy is made. It has the sanction of law and authority behind it. Negatively, it involves decisions by the governmental officials regarding not taking any action on a particular issue. In nations run by autocratic military dictators and dictatorial minority, we see exceptions and their public policy turns often negative. For entrepreneurs and business house, it is very important to know the major fundamental policies followed by a government before entering a new country.



Components of Public Policy Process

Public Policy Process is continuous in nature. It involves certain distinct components as shown in the above figure. These components are interconnected by various types of communication and a multiplicity of feedback loops.

In India, the law making has a distinct process. The Indian Parliament at the central level and Legislative Assemblies and Councils (wherever applicable) at the state level are the law making bodies. Indian Parliament consists of two Houses: the Lok Sabha, or “House of the People,” and the Rajya Sabha, or “Council of States.” The process of law making, in relation to Parliament, may be defined as the process by which a legislative proposal brought before it, and then is translated into the law of the land. It depends on the society to decide which issues should be enacted. Law is the effective part of a governmental policy. In many parts of India, water is considered free. But in real life, government spends huge amount of money to clean water to make it fit for drinking. The government may institutionalize a new policy to stop wastage of drinking water. Rain water harvesting has become integral part of building in many cities.

The process of law making in India may be broadly divided into three stages / phases – Pre-legislative phase, Legislative phase and Post-legislative phase. Pre-legislative phase comprises identification of need for a new law or an amendment to an existing legislation, drafting of the proposed law, seeking inputs / comments from different ministries and public, revision of the draft bill to incorporate such inputs, and getting the same vetted by the Law Ministry. It is then presented to the Cabinet for approval.

The proposed legislation is brought to the Parliament and is referred to the Standing Committee. After the Cabinet approves the Bill, it is introduced in the Parliament. On introduction of the Bill, the Minister of the concerned Department may send notice demonstrating the intention that the Bill may be moved, considered and passed; be referred to the Select Committee of the House/ Joint Committee of both Houses or for eliciting public opinion.

The House votes on the Bill with amendments, if any. If the Bill is passed in one House, it is then sent to the other House. Once the Bill is passed by both the Houses, a copy of the Bill is sent to Legislative Department of Ministry of Law and Justice for scrutiny. Post scrutiny by the Ministry of Law and Justice, it is presented to the President for assent. The President has the right to seek information and clarification about the Bill, and may also return it to the Parliament for reconsideration. After the President gives assent, the Bill is notified as an Act.

These communication and feedbacks interact in a number of ways. Policy making is a dynamic process. Public policy, in almost all cases, lays down general - directives, rather than detailed instructions, on the main lines of action to be followed. After main lines of action are decided upon, detailed sub-policies that translate the general theory into more concrete terms are usually needed to execute it.

A policy decision-making can result in a social action. The policies of most socially significant decision-making, such as most public policy making are intended to result in action. Also, policies directed at the policy making apparatus itself such as efficiency drives in government are action oriented.

4.4 THE NATURE OF PUBLIC POLICY

Public policies are of three types:

- Restrictive
 - Regulatory
 - Facilitating
- **Restrictive policies** curtail all benefits in some particular issue. *For example*, custom duties may be imposed to protect Indian products.
 - **Regulatory practices** regulate the activities of a particular sector of economy. The regulator checks deviations in set practices and policies. Reserve Bank of India is a major regulator for banks. RBI also regulates the Money Market and Forex Market operations. Securities and Exchange Board of India (SEBI) was formed to regulate the equity, bond and derivative markets (including mutual funds). Insurance Regulatory Development Authority (IRDA) is the regulator of the insurance industry.
 - **Facilitating policies** are the ones which facilitates an activity. The conducive policies towards the development of MSMEs (Micro- Small-Medium Enterprises) are an example of facilitating policy. The formation of National Skills Development Corporation (NSDC) is another facilitating policy of government of India. We will learn more about these regulatory bodies in the next chapter.

4.5 POST-INDEPENDENCE PUBLIC POLICY

If we look at the Indian economy at the time of independence, it showed all signs of stagnation. About 47% of the population was below the poverty line in 1951. At that point of time, 72% of the workforce was employed in agriculture. Agriculture contributed to nearly 50% of the national income. Industrialization was at a very low level with only 2% of the work force employed in industries. In addition to this, there was hardly any investment in industries. The industries which were predominant were cotton textile and jute industries. They also suffered a major setback, as at the time of partition major jute producing areas went to East Pakistan (today's Bangladesh) and as a result there was a shortage of raw material. Indian economy was suffering with low agriculture output, little industrialization, low figure of national income, high poverty and unemployment, slow economic progress soon after independence. The government was looking for guiding policies to make India economically viable.

Public policy formulation and implementation involves a well planned pattern or course of activity. The new Government of India identified a thoroughly close knit relation and interaction between the important governmental agencies viz., the political executive, legislature, bureaucracy and judiciary. Naturally, the Constitution of India was framed and accepted in 1950. The constitution of the nation outlines the nature of policies to be taken for the growth and development of the nation.

During the time of independence of India, two major political thoughts were reigning the world. The United State of America followed a strong **Capitalist model** of Government with a strong private sector with individual ownership. Freedom of choice was the buzz word. Government's role was to provide a smooth business and work environment. On the other hand, Soviet Union followed a **Communitistic model**, where the state owned everything. All sorts of production were in the hands of government with a strong public distribution system of food and other needs. Many of the Eastern European nations signed the Warsaw Pact and followed the communitistic pattern of economy. The Western European nations like Great Britain, France, Spain, Portugal, Germany followed a Capitalistic model with the presence of several socialistic drives like public transport, healthcare system.

The Government of India followed a mixed economic path – a mix of policies borrowed from both capitalistic and communist economic policies. The first major goal of Indian public policies in the post-independence India was in the area of socio-economic development. Wide ranging policies were formulated in the area of industrial and agricultural development. Many policies were included into Statutes like Industries (Development and Regulation) Act, 1951. Others were kept as directives in the various plan documents. Indian government had a strong dictum against imports. It was done in order to develop the nation's own industries.

After Independence, Planning Commission was established to make economic plans for a period of five years. For all policy directions, the Five Year Plans became the major source. These policies were of two types, ones of regulation and the others of promotion. It may be noted that NITI Aayog has now replaced the Planning Commission.

Laws laid down what could be done or not done by the entrepreneurs. This could be in the larger area like what goods can be produced by the public or whether certain goods can be produced only by government agencies. Laws also specified how State agencies themselves were to provide goods and services like electricity, transport, etc.

The Government of India undertook similar responsibility in the social sphere. But socio-economic transformation was not the only problem when India became independent. There were also problems of national integrity, the external environment was a source of threat and the country had to develop suitable policies to defend itself. Apart from this, there have been internal challenges. Regionalism has given rise to separatist tendencies that have to be countered in a long-term perspective

These would include not only defence policies but also similar efforts at decentralisation that create greater national cohesiveness. Thus, since independence, public policies in India have been formulated with a view to achieving socio-economic development and maintain national integrity. These goals have been complex demanding coherent policies.

This has been a difficult task because goals have had to be divided into sectors and sub-sectors. Many a time, the policies have been contradictory. What may be rational for economic development; may not be so for national integration. Thus, the need of a strong centre to cope with external threats, etc. is important but it may go against the principle of decentralisation which provides for greater national cohesion of a heterogeneous society. This is the reason why ascertaining of the actual impact of public policy becomes a necessity.

4.6 THE ECONOMIC CHANGE PROCESS

Mixed economic policies provided a lot of social protection to people, but industrial development was low. The fall of the Warsaw Pact nations including Soviet Union, birth of small states around Russia, formation of European Union and the pressure of heavy developmental loans from agencies like IMF, World Bank and ADB remained the major reasons behind India's journey towards liberalization.

The effort of globalization coupled with liberalization remained a major shift in policy. India decided to embark upon a faster course of economic journey through multiple reforms program in 1991. The economy was aiming to raise its growth potential. Globalization as a policy helped India in integrating the country's economy with the world economy.

Industrial policy was reformed first through the New Industrial Policy, 1991. It opened up the foreign capital inflow. The removal of restrictions on investment in projects helped many business sectors to expand. This change in policy also allowed increased access to foreign technology and funding on the other.

Infusion of foreign funds in strong currencies helps a nation to build a strong foreign exchange reserve to buy foreign technology. Foreign funds come in different ways. Foreign Institutional Investors (FIIs) are big fund houses which invest in stock market and also engage in speculation actively. FIIs bring huge investments there is also risk that leave a nation after off-loading their portfolios.

NRIs (Non-Resident Indians) and OCIs (Overseas Citizens of India) invest the foreign currency in India to get better returns. They also enjoy the residential status. But the government actually looks for Foreign Direct Investment (FDI). FDI is meant for setting up of industries. FDI not only brings forex investment, it also enhances employment opportunities.

A series of measures which were taken towards liberalizing foreign investment included:

- 1) There is dual route of approval of FDI. The Reserve Bank of India articulated the areas of automatic route and the union government outlined the process of approval through government route.
- 2) Automatic permission was granted for technology agreements in high priority industries and the process of removal of restrictions on FDI in low technology areas as well as liberalisation of technology imports.
- 3) Permission was granted to Non-Resident Indians (NRIs) and Overseas Corporate Bodies (OCBs) to invest up to 100 per cent capital in high priorities sectors.
- 4) Hike in the foreign equity participation limits to 51 per cent for existing companies and liberalisation of the use of foreign "brands name".
- 5) Signing the Convention of Multilateral Investment Guarantee Agency (MIGA) for protection of Foreign Investments. These efforts were boosted by the enactment of Foreign Exchange Management Act (FEMA), 1999 [that replaced the Foreign Exchange Regulation Act (FERA), 1973] which was less stringent. In 1997, Indian Government allowed 100% FDI in cash and carry wholesale and FDI in single brand retailing was allowed 51% in June, 2006. After a long debate, further amendment was made in December, 2012 which led FDI to 100% in single brand retailing and 51% in multiple brand retailing.

The presence of Samsung, Sony, Coke, PepsiCo, HP, Microsoft, General Motors, Hyundai, Honda, Toyota, Volkswagen, Volvo are some examples of FDI presence in India during the post liberalization days.

4.7 NEED FOR REFORMS

During the planned regime, with high rate of taxation, dysfunctions were visible in different areas of the economy. Most of the public sector undertakings were running under losses. Their efficiency remained poor, and per employee production was low. Strong trade-unionism crippled the growth of the private sector. Restrictions in trade stunted the quality of Indian products.

The Government of India took huge loans from various sources, like World Bank, Asian Development Banks, IMF, etc. The loan repayment schedule was like the noose around the neck. Inflation was high and the reserve of foreign currency was at low ebb. India's spending on defence was increasing and there had been huge demand for infrastructural developments.

India was always helped by the Soviet Union. The freedom movement in Soviet Union loomed large. In the mid-1980s, The Soviet Union got broken and 15 independent states were formed. Russia also opened up its economy. Capitalism got a new breeding ground in Russia and other erstwhile Warsaw pact nations like, Poland, Albania, Czechoslovakia, Hungary, and Bulgaria.

Questions were raised on India's mixed economic system. Government of India started various experiments on its way to economic freedom. Gold was mortgaged at Bank of England and Foreign Currency loan was arranged for meeting the Foreign Currency Reserve.

In 1992, finally, The Government of India took revolutionary steps to open up the economy. A massive change in economic policy was laid down. Private Sector was given a priority. Many of the loss making Public Sector Enterprises (PSEs) were decided to be closed or divested. Some of the PSEs were first corporatized and the capital was valued and it was decided that a large chunk of shares would be sold to public. *The process was known as disinvestment.* Further, a number of private sector banks were given licences to run banking operations.

4.8 POLICY, DECISION AND GOAL

A policy emanates from decision and decision is taken in line with goal. Many a time the terms like political goal, decision and policy are used interchangeably. But they do not mean the same. In real life Individuals, organisations and governments are constantly taking decisions. But all the decisions that are taken cannot be categorized as the matters of policy. The essence of decision-making lies in the fact that one has to make a choice from multiple alternatives available to him. In order to take a decision, there must be more than one course of action. Thus, a decision is the act of making a choice. The entire act of decision-making has been developed on the conditions that can improve this activity of finding multiple choices.

In India, the policies are concerned with the general welfare and development of the society, as the nation is a welfare state. The government's efforts like creation of education and employment opportunities, national defence, economic progress and stabilisation, law and order issues, creation of new states, anti-pollution legislation etc. are the result of substantive policy formulation. These policies have vast areas of operation affecting the general welfare and development of the society as a whole. They have been formulated keeping in view the prime character of the Indian Constitution, socio-economic problems and the level of moral values of the society.

Regulatory policies are concerned with regulation of national and foreign trade, business, safety measures, public utilities, etc. This type of regulatory policies is laid down by independent organisations that work on behalf of the government. In regulatory activities, these policies are made by the government, pertaining to those services.

Some policies are called **distributive policies**, which are meant for specific segments of society. It can be in the area of public distribution to people below poverty line (BPL), public welfare, justice for women, health services, etc. These mainly include all public assistance and welfare programmes. Some more examples of distributive policies are adult education programme, food relief, social insurance, immunization camps etc.

India is the largest democracy and the Union Government decides the National goals to be followed. All the state governments have their own legislative assemblies and they outline their goals in tune with the national goals. In the national parliament, the issues of development, defence, trade and commerce are discussed and debated. The national goals are translated into decisions. These decisions are put into actions by designing legislations in the form of Acts. The Union Government through different ministries (for example, Ministry of Commerce, Ministry of Finance) and various regulatory institutions (like RBI, SEBI, IRDA) may issue codes, guidelines and statutes. These mandatory and recommendatory documents become the Public Policy Statements of the nation.

The process of liberalization was a major policy shift in India's economic journey. Liberalization made the rules of foreign trade simpler. Foreign exchange related rules were simplified. It became easier for Indian corporate houses to do business abroad. The competition rules, the IT Act, The Intellectual Property Act codified the act of globalization. Foreign funds started to flow in the form of FDI (Foreign Direct Investment). The FII (Foreign Institutional Investors) were permitted to invest in the equity shares quoted in the Indian stocks. The privatization drive helped the government to generate a pool of resources and the stock markets witnessed a number of PSU companies getting listed.

4.9 PRIVATIZATION

India initiated its mammoth privatization program in 1991 as a part of its policy stance to usher in macroeconomic stabilization and structural reform effort to cope with stagnation, slow growth in an extremely difficult economic condition.

At that time, the rate of inflation was very high and foreign exchange reserves declined to a dangerously low level. There was a growing domestic consensus that state-owned enterprises (PSUs) were not generating adequate returns and were suffering from low efficiency, and the government expected that privatization of these enterprises would lead to better outcomes. In this context, the two main objectives of privatization in India were:

- to raise revenues to ease the fiscal crunch and;
- to improve the profitability and efficiency of the divested enterprises.

In the 1990's, the Government of India's national budget had huge fiscal deficits, and negative balance of payments in trade. This boosted the government's desire and necessity to extract and release the massive investments made in the state owned enterprises and this led to privatization in India. This major thrust on privatization paved way for Foreign Direct Investments (FDI) and rapid liberalization of business regulations, fiscal policies, industrial practices and protocols as well.

Privatization as a strategy had been experimented in the western world a decade earlier than that experimented in India. During the Prime Ministership of Mrs. Margaret Thatcher, British Coal Mines were privatized; many of the components of National Healthcare Services and School Education Services were privatized. Privatization refers to a managerial approach of changing the ownership structure of one or more government owned institutions. Privatization can be advantageous in terms of the higher flexibility and scope of innovation it offers along with cost savings, many a times. However, it has an adverse impact on the employee morale and generates fear of dislocation or termination. It looks for accountability

and quality in production and service system. Privatization can be successful, if diligent scrutiny by the decision makers is attached to the policy concerned.

In the Indian context, privatization effort was not easy. There were hardly any takers for loss making public sector industries. On the other hand, there had been many takers for surplus making industries like Oil drilling and Refinery companies, or the ones in mineral extracting sectors like Steel Authority of India Limited, National Mineral Development Corporations etc. Government decided to privatize the loss making companies fully and the profit making ones and banks partially. The effort of privatization was accepted by the society with a lot of resistance during the inception of economic liberalization in the nation.

Privatization helps in a big way to enhance market potencies by enhancing efficiency, quality and competitiveness. Privatization is an essentially effective tool for rapid restructuring and reforming the public sector enterprises. In India (also witnessed in other nations) public sector entities remained inefficient as far as profitability and quality is concerned. They were running without a significant aim and mission. The private sector, on the other hand is perceived to be more self-motivated, prolific and reliable for superior quality of products and services. Though there are exceptions.

Privatization may be of conceptualized in following prominent types:

- **Delegation:** Government keeps hold of responsibility and private enterprise handles fully or partly the delivery of product and services. There is active involvement by government. Delegation may happen through contract, franchise, grant, etc.
- **Divestment:** Government surrenders partial ownership and responsibility and sells the majority stake to one or more private entities in course of time.
- **Displacement:** The private enterprise expands and gradually displaces the government entity. Deregulation facilitates privatisation if it enables private sector to challenge a government monopoly. The government monopoly through BSNL and MTNL has been displaced by the private sector.
- **Disinvestment:** Selling a portion of ownership (stake) in a public enterprise to private parties.

4.10 FOREIGN DIRECT INVESTMENT IN INDIA (FDI)

Foreign Direct Investment (FDI) plays a very important role in the process of development of a nation. In most of the cases, capital sourced for domestic sources remain inadequate for the purpose of overall development of the nation. Foreign capital is seen as an harbinger of growth. In a sense, it is like filling in the gaps between domestic savings and investment. In the post liberalization and privatization period, India was considered a lucrative place of FDI inflow because of its huge domestic market.

For a closed economy, any national program of privatization for its success needs a successful move towards globalization. Globalization creates a wide market of goods and services. At the same time, foreign funds flow in an economy to be invested in various industries. Foreign funding in good sense creates employment as well as demand. For a steady flow in foreign funds, liberalization of economy is required. Liberalization is always paired with regulations.

Foreign Direct Investment (FDI) may be described as a flow of capital investment to an enterprise in a nation by another enterprise located in a different nation by capturing a majority stake in ownership in a company in the target country or by expanding operations of an existing business in that country.

Permission for Foreign Direct Investment (FDI) is not uniform for all sectors. Some sectors are opened up for 100% and in some sectors, it is allowed only upto 26%, 49% or 51%.

Foreign Direct Investment (FDI) has always remained a bone of contention and FDI in multi-brand retail, defense etc., are classic examples. It's often felt that areas like Media and Defense could compromise on

India's security interest and hence no FDI should be permitted. In certain areas, the FDI limit has been capped, like the Insurance Business. Where there is no approval through Automatic Route, the company concerned has to seek permission from Foreign Investment Promotion Board.

Here are a few sectors where FDI is prohibited under both the Government Route as well as the Automatic Route:

- 1) Atomic Energy
- 2) Lottery Business
- 3) Gambling and Betting
- 4) Business of Chit Fund
- 5) Nidhi Company
- 6) Agricultural (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisciculture and cultivation of vegetables, mushrooms, etc. under controlled conditions and services related to agro and allied sectors) and Plantations activities (other than Tea Plantations)
- 7) Housing and Real Estate business (except development of townships, construction of residential/commercial premises, roads or bridges to the extent specified)
- 8) Trading in Transferable Development Rights (TDRs)
- 9) Manufacture of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes.

Recently, there has been a tremendous increase in FDI inflow in India. India generally receives FDI from US, Britain, Singapore, Japan and the USA.

4.11 FOREIGN INSTITUTIONAL INVESTORS (FIIs)

We often come across the term FIIs which represent the Foreign Institutional Investors. FIIs are large foreign groups with substantial investible funds. FIIs are registered abroad with a view to investing in other nations to invest in equity market, hedge funds, pension funds and mutual funds. FIIs have strong research team which speculate to invest in a country with a possibility of strong return in equity market. These funds park their funds to fuel a bullish market. Naturally for small period the nation experience inflow of strong foreign currency in its financial system.

Whenever the market reaches a peak and starts declining thereafter, these funds move to another nation. So, the euphoria is short lived. No wonder, national governments look for sustainable FDI investment over FII investment.

SUMMARY

This chapter elaborates the importance of government policies on business. The government policies in some cases help in facilitating business, whereas in many other cases they are restrictive, controlling and regulating in nature. After Independence, India followed a mixed economic policy. A large number of Government companies (popularly called Public Sector Undertakings or PSUs) existed beside the private sector companies. After sticking to this controlled economic model for a long period of time, Government of India ushered in an era of policy shift during 1991. This policy change was popularly referred to as LPG (Liberalization, Privatization and Globalization). With this policy shift, the equity market strengthened. A lot of Foreign Direct Investments (FDI) flown in different sectors of the Indian economy. These policy changes resulted in the metamorphosis of the Indian economy.

**TEST YOUR KNOWLEDGE****Multiple Choice Questions:**

1. Identify the one which may be considered as a public policy:
 - a. A decision by a central government to purchase a fleet of cars
 - b. An old building to be demolished by a municipal corporation
 - c. All citizens are to be provided with biometric aadhar card
 - d. Government passes a special resolution to change the name of a park
2. Public Policies are always _____. Fill in the gap by taking the appropriate expression from the following:
 - a. Goal oriented
 - b. Minutely defined
 - c. Pro-rich
 - d. For the poor
3. OCBs mean:
 - a. Overseas Corporate Bodies
 - b. Ordnance Commission Bilateral secretariat
 - c. Oversees Civic Boards
 - d. Oversees Commercial Bilateral Treaties
4. FEMA replaced FERA as legislation in:
 - a. 1991
 - b. 1992
 - c. 1999
 - d. 2006
5. Reforms in Dowry Act and Divorce Act are the examples of:
 - a. Economic Reforms
 - b. Cultural Reforms
 - c. Commercial Reforms
 - d. Socio-cultural Reforms
6. Decisions on annual financial spending, Taxes and Duties and Military spending are considered in:
 - a. Policies
 - b. Budget
 - c. Goal Setting
 - d. Long term planning process
7. Which of the following institutions has been scrapped recently?
 - a. Minerals and Metals Regulatory Commission
 - b. Coal India Limited
 - c. Planning Commission
 - d. FIPB

8. The form of privatization, where government keeps hold of responsibility and private enterprise handles the management of it fully or partly is known as:
- Disinvestment
 - Deregulation
 - Delegation
 - Decentralization
9. SEBI, RBI and IRDA are:
- Regulatory Institutions
 - Policy institutions
 - Satellite Institutions
 - Goal setting bodies
10. A _____ emanates from decision and decision is taken in line with _____. Identify the right expression to fill in the blanks:
- Policy ; Goal
 - Budget; Plan
 - Plan; Budget
 - Goal; Plan
11. In case of Maruti–Suzuki, the Union Government surrendered partial ownership and sold the majority stake to Suzuki of Japan in course of time. This is a case of:
- Partial Disinvestment
 - Displacement
 - Delegation
 - Divestment
12. In case of NOCIL (National Organic Chemicals Industries Limited), the Reliance Industries Limited as a private enterprise expanded and gradually displaced the government entity. It was a case of:
- Partial Disinvestment
 - Complete Privatization
 - Delegation
 - Displacement
13. Blackrock invested 30 million USDs as a portfolio investor in Indian stock market. This may be a case of:
- FDI
 - FII investment
 - Indirect investment
 - NRI investment
14. In order to take a decision, there must be _____ course of action. Fill in the blank space with appropriate expression.
- One
 - Specific
 - Financial
 - More than one

15. FDI in sectors /activities which do not require any prior approval either of the Government or the Reserve Bank of India is identified as:
- Green Channel
 - Priority route
 - Non-Commercial Route
 - Automatic Route
16. The method of FDI other than Automatic route is called :
- NRI Route
 - Government Route
 - Institutional Route
 - Priority Route
17. FIPB stands for:
- Foreign Institutional Promotion Board
 - Foreign Institutional Preparatory Board
 - Foreign Investment Priority Board
 - Foreign Investment Promotion Board
18. Identify the sector where, FDI is not permitted:
- Automobile
 - Infrastructure
 - Textile
 - Animal Husbandry
19. Simplification of trade restrictions related to import is an example of:
- Globalization
 - Privatization
 - Disinvestment
 - Aggregation
20. Sale of 50% stake in a PSU to a single private sector company is an example of:
- Displacement of stake
 - Decentralization of Authority
 - Delegation of stake
 - Disinvestment to form a Joint Venture
21. FDI is allowed in:
- Tea Plantation
 - Coconut Plantation
 - Sugarcane Plantation
 - None of the above

22. After independence, India followed a:
- Socialistic Path of Development
 - Commonwealth Model of Growth
 - Mixed Economic Path
 - Capitalistic Model of Development
23. Hyundai India Limited came to India through the FDI route. It followed the path of:
- Divestment in Public Sector Unit
 - Joint Venture
 - By creating a 100% Indian subsidiary
 - Replacement of a government sector business.

Answer Keys

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
c	a	a	c	d	b	c	c	a	a	d	d	b	d	d
16	17	18	19	20	21	22	23							
b	d	d	a	d	a	c	c							