Unit – III
Lesson 7
NATURE OF ECONOMIC ENVIRONMENT

Economic environment refers to all those economic factors which have a bearing on the functioning of a business unit. Business depends on the economic environment for all the needed inputs. It also depends on the economic environment to sell the finished goods. Naturally, the dependence of business on the economic environment is total and it is not surprising, as it is rightly said, ‘business is one unit of the total economy.’

ECONOMIC FACTORS

The major macro-economic factors which have considerable influence on business are:

- Growth strategy,
- Economic systems,
- Economic planning,
- Industry,
- Agriculture,
- Infrastructure,
- Financial and fiscal sectors,
- Removal of regional imbalances,
- Price and distribution controls,
- Economic reforms,
- Human resources, and
- Per capita and national income.

Basic Economic System

There are two political philosophies, viz., democracy and totalitarianism; there are three distinct economic philosophies, viz., capitalism, socialism and communism. The system of **capitalism** stresses the philosophy of individualism believing in private ownership of all agents of production, in private sharing of distribution processes that determine the functional rewards of each participant, and in the individual expression of consumer choice through a free market place. In its political manifestation, capitalism may fall in a range between extreme individualism and no government.

Under socialism, the tools of production are to be organized, managed and owned by the government, with the benefits accruing to the public. A strong public sector, agrarian reforms, controls over private wealth and investment and national self-reliance are the other planks of socialism.

Socialism does not involve an equal division of existing wealth among the people but advocates the egalitarian principle. It believes in providing employment to all and emphasizes suitable rewards to the efforts put in by every worker. Also called Fabian socialism; this philosophy is followed in our country and other social democratic countries in the world.

Communism goes further to abolish all private property and property rights to income. The State would own and direct all instruments of production. Sharing in the distributive process would have no relationship to private property since this right would not exist. Alternatively called Marxism, communism was followed in Russia, China and East European countries.

Economic philosophy has its own strengths and weaknesses. **Capitalism**, for example, encourages individual initiative, allows the market forces to have free play, promotes a competitive spirit and directs the scarce resources to most profitable uses. The weakness of capitalism stems from the fact that it results in gross inequities of income, recurrence of trade cycles because of the free play of market forces, exploitation of the poor by the rich and the corrupt influence of vested interests over the State. Capitalism results in the wastage of resources. It has a devastating effect on the Environment. Finally, people in capitalist societies earn more and consequently `indulge in excessive and wasteful expenditure on consumer durables and luxuries.

Comparison between Three Economic Systems

Characteristics (1)	Capitalism (2)	Socialism (3)	Communism (4)
Economic Markets	Freedom to compete with the right to invest	Limited competition with State-owned industries.	Absence of competition with State owned markets and industries.
Individual Incentives	Profits and wages in relation to one's ability and willingness to work.	Profits recognized. Wages fairly in relation to efforts	Profits not allowed. Workers urge to work for the glory of the State.
Capital Sources	Capital invested by owners who may also borrow on credit. Capital may be reinvested from profits. Depreciation is legal.	Obtained from owners and from State-issued bonds for State-owned industries. Depreciation permitted	State provides all resources to start business owned by the State. No depreciation
Labour	Workers are Free to select an employer and an occupation	Workers allowed to select occupation State planning encourages employment.	The State determines one's employer and employment.
Management	Managers are selected on the basis of ability. Managers have freedom to make decisions.	Managers in State owned industries are answerable to the State. Non-monetary rewards emphasized.	Key managers must be party members. Absence of freedom to make decisions.
Business Ownership	Individuals have the right to own a business and to contract with others	State owns the basic industries. Other businesses may exist	State owns all productive capacity including communes.
Risk Assumption	Losses assumed by owners. May transfer business risks to other businesses through insurance	People assume risks of State-owned industries. Losses taken from taxes	Economic production owned by the State. Risks assumed by the State. Losses reduce standard of living.

The terms socialism and communism are used interchangeably The East European countries are often called socialist countries though they follow Marxist ideologies.

The major weakness of Marxism is the denial of individual freedom. One of` the essential requirements of human organism is freedom - to work, to earn, to express, to choose and to indulge in the expenditure of one`s choice. This Freedom is denied to people. The followers of Marxism believed that the ideology would guarantee individual freedom.

Secondly, communism assumes total commitment of people to work and to contribute to the country's welfare.

Thirdly, the communist economies failed to achieve significant economic growth. Rate of growth of these economies has been markedly lower than that of the economies relying on market forces.

Fourthly, equality which was the main plank of Marxists did not succeed in the communist countries. The basic principle that every organized society is subject to stratification very much applied to communist societies also.

Fifthly, the rules themselves did not set fine examples for the followers to emulate.

Sixthly, communism has been obsessed with the rights of workers. This obsession has lead to the tendency to strike work, often on unjustifiable grounds.

Seventhly, the followers of communism seem to have several contradictions. One such contradiction which is too conspicuous is the attitude towards religion.

Finally, Communism collapsed because of its inherent weakness – tack of flexibility and the absence of resilience. Capitalism survives because of its flexibility; it abandons the market where the survival of people is at stake.

Socialism seems to fall between capitalism and communism, par taking the strong points of both the philosophies and avoiding their weaknesses at the same time. Reason that several developing countries of Asia, Latin America and Africa have adopted socialistic philosophy.

Industrial Policy

The concept of Industrial policy is comprehensive and covers principle, policies, rules and regulations purpose to, control industrial undertaking of a country and shape the pattern of industrialization. Industrial policy incorporates fiscal and monetary policies, tariff policy, labour policy and the government's attitude not only to give external assistance but also provide assistance to the public and private sectors.

Industrial Policy Resolution, 1948

Government recognized the need for mixed economy and reserved national monopolies only for Atomic energy, rail and road industries .The government had exclusive right to initiate projects in six industries – coal, iron and steel, aircraft manufacturing, ship building, telephone and telegraph and minerals.

The main trust of the industrial policy 1948 was to lay the foundation of mixed economy in which private and public enterprises could accelerate the process of industrial development.

Industrial policy Resolution 1956

After the adoption of resolution 1948, significant development took place in India. Economic planning proceeded on organized basis and first five year plan was completed. The Parliament also accepted the socialist pattern of the society as the basic aim of social and economic policy. These developments necessitated a fresh statement of industrial policy. As a result, second industrial policy resolution was adopted in April 1956.

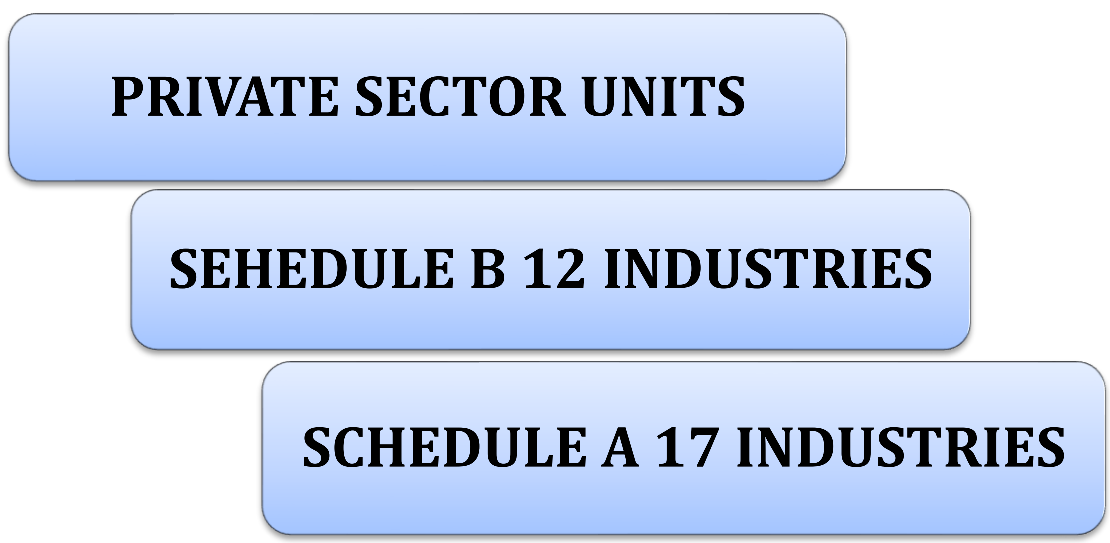
Objectives of 1956 Policy

- To accelerate the rate of` economic growth and to speed up industrialization.
- To expand the public sector, develop heavy and machine making industry
- To increase employment opportunities and improvement of living standards and working conditions of people.
- To prevent creation of monopolies and concentration of economic power
- To reduce existing disparities of income and wealth.
- To build up a large and growing private sector.
- To expand the cottage, village and small-scale industries.

- To achieve balanced industrial development and other socio-economic objectives.

In the 1956 Policy, the industries were classified into three categories the first category included industries, the future development of which the exclusive responsibility of the State. The second category consists of industries which progressively state-owned and in which the State generally take the initiative in establishing new undertakings, but in which private enterprise was also expected to supplement the effort of the State. The third category includes all the remaining industries, and their future development left to the initiative and enterprise of the private sector.

Categorization of Industries- 1956 Policy



Industries in the first category were listed in Schedule A of the 1956 Resolution and included arms and ammunition and allied items of defense equipments, atomic energy, iron and steel, heavy castings and forging of iron and steel, heavy plant and machinery, heavy electrical plant, including large hydraulic and steam turbines, coal and lignite, mineral oils, mining of iron ore, manganese, chrome ore, gypsum, sulphur, gold and diamond, mining and procuring of copper, lead and zinc, aircraft, air transport, railway transport, shipbuilding, telephones and telephone cables and the generation and distribution of electricity

Thus, the first category included 17 industries. The expansion of exclusive monopolies was understandable in as much as the State's resources improved, and it was also realized that the government should play progressively a greater role in the industrial development of the country

The second category industries were listed in Schedule B and included all other minerals except those defined in Section 3 of the Minerals Concession Rules, 1949; aluminum and other non-ferrous metals not included in Schedule A; machine tools, Ferro-alloys and tools, drugs, fertilizers, synthetic rubber, carbonization of coal., chemical pulp, road transport, and sea transport. With a view to accelerating their development, the State will increasingly establish new undertakings in these industries. At the same time, private enterprise will also have the opportunity to develop in this field either on its own or with State participation. Schedule B contains 12 industries.

The rest of the industries were thrown open to the private sector but this did not prevent the State from starting any new undertaking. State will facilitate and encourage the development of these industries in the private sector by providing infrastructural facilities.

In spite of grouping of industries other features were:

(1) fair and non discriminatory treatment for private sector
(2) Encouragement to village and small scale enterprises
(3) Removing regional disparities

For the first time the Industrial Policy of 1956 emphasized on the role of small scale industries in the development of the national economy and pointed out for providing employment in Small Scale Industries (SSI) sector. The policy also emphasized on the equitable distribution of national income.

Industrial Policy Statement 1977:

Central government announced a new industrial policy in December, 1977. The industrial policy despite some desirable elements resulted in distortions like – increased unemployment, rural – urban disparities and real investment stagnated. On an average the growth of industrial sector was not more than 3 – 4 percent per annum. The industrial sickness also became widespread.

The industrial policy statement of December, 1977 was on effective promotion of cottage and small industries in rural areas and small towns. It emphasized that whatever can be proposed by small and cottage industries must only be so produced.

The development of small scale industries was taken from cities to districts. For the first time the concept of district industry centers were introduced, where each district centre extends all the support and services required by small entrepreneurs. There included economic investigation of the districts, supply of machinery and equipment, raw material, arrangement for credit facilities and quality control.

Within SSI Sector, new concept of tiny sector was introduced as industrial unit where investment in machinery and equipment does not exceed Rs. 1 lac and situated in a town with a population up to 50,000 (or less than 50,000) as per 1971 census.

Tiny sector was given special attention and helped through the provisions for margin money assistance.

Industrial Policy of 1980:

This policy was focused on the requirement for promoting competition in the domestic market, technological up gradation and modernization.

This policy aids the foundation for increasingly competitive export and encouraged foreign investment in high tech area. This policy suggested:

1. Effective operational management of the public sector.
2. Integrating industrial development in private sector.
3. Regularization of unauthorized excess capacity installed in private sector.
4. Encouragement of merger of sick unit.

Industrial policy 1980 liberalized licensing for large and big businesses but stated distraction between small scale and large scale industries.

Industrial Policy 1991:

The Central Government (led by Mr. Narasimha Rao) announced the new policy in July 1991 as a result of previous and unstable politics. Reforms announced in 1991 were not completely contradictory to the general trend in the policy. But concern about lack of competitiveness of Indian Industry and consequent poor export performance had led to liberalization of both the licensing and trade policies in the late 70's and 80's.

However reforms in 1991 did make significant changes in industrial trade and public sector policies.

Significant changes in industrial policy announced in July 1991 are –

1. Abolished licensing for all projects except 18 industries.
2. MRTP Act amended to eliminate prior approval to large companies for capacity expansion.
3. Small scale enterprises were allowed offering up to 24% of shareholding of large enterprises.
4. Limit on foreign equity holdings raised from 40% to 51% in a wide range of industries.
5. Foreign equity proposals need not be supported by foreign technology transfer agreement.
6. Technology imports liberalized by increasing royalty limit.

Removal of MRTP restrictions:

Some provisions of the MRTP act were removed subject to pertaining to concentration of economic power (i.e. those requiring prior permission for establishment of new undertaking substantial expansion, manufacture of new items and mergers and acquisitions) were scrapped.

Liberalization of foreign Investment policy towards foreign capital and technology has been modified very significantly and progressively. Foreign Direct Investment (FDI) is allowed in all industries except industries falling in a small negative list in varying levels ranging from 26% to 100% of the total equity.

Since 1992-1993 the Indian stock market is open for investment by foreign Institutional Investors (FIIs) and Indian companies satisfying certain conditions may access foreign capital market by Euro issues.

RELATED MEASURES

- Progressive integration of the Indian economy with the global economy has been acknowledged through EXIM policy. The import policy more liberal by drastically reducing the tariff levels and quantitative restrictions and by procedural reforms.

- Another important change is the reform of the foreign exchange rate policy. The rupee was made partially convertible on current and later it was made fully convertible. Measures have been initiated to move towards capital account convertibility.
- The Capital Issues Control Act and the office of the controllers of capital issues were scrapped and introduced free pricing of capital issues
- Price controls have been gradually eased out.
- Restrictions imposed in respect of foreign investment like phased manufacturing programme, foreign exchange balancing have been by and large removed.

Self Check Questions

Long Answer type Questions:

1. What is economic environment of business? Discuss the macro economic factors which generally influence on business.
2. Differentiate between capitalism, socialism and communism as the economic systems of India.

Short Answer type Questions:

1. Discuss the industrial policy 1956.
2. Discuss the prominent features of industrial policy resolution 1948.

Objective type Questions:

1. The birth of Multinational Corporation took place in the _________________
   (a) Later 1806 (b) Early 1806 (c) Later 1860 (d) Early 1860 (e) None of these

2. Who said that "The rich must act as the trustee of the poor for their wealth and that all must have bread before some have cake"___________________________
   (a) Swami Vivekanand (b) Mahatma Gandhi
   (c) Subhash Chand Bose (d) Lala Lajpat Rai (e) None of these

3. Globalization of the economy always pinpointed ______________________
   (a) Investigation of economy with the rest of the world
   (b) Investigation of the economy with the rest of the world
   (c) Investment of the economy with the rest of the world ' c
   (d) Investigation of the economy with the rest of the world

4. Decisions of multinational organizations are generally relates to________________
   (a) centralized decision (b) Decentralized decision
   (c) centralized & decentralized decision (d) None of these

Lesson 8
Evaluation of Industrial Policy

The economic reforms ushered since 1991 are revolutionary indeed in comparison with the policy and procedural reforms attempted in India. It is a bold step in the direction of freeing the Indian industry from the shackles of abortive and crippling controls.
A strong mandate and political bold administrative measures are necessary for implementing different proposals.

Now in India the policy environment is more conducive for both domestic and foreign investments than in the past. Even then non host countries are trying to woo foreign investment with more conducive economic environment than in India.

The economic policy liberalization of 1991 came in for scathing criticism by the opposition parties their anti-liberalization stand was conspicuous.

Industrial Policy

Economic environment is mainly influenced by the industrial production where its related aspects are useful like:

- Industrial policy
- Industrial licensing
- Regulation of trade practices harmful to public interest
- Regulation of foreign exchange
- Regulation of companies
- Industrial labour
- Public sector enterprises
- SSI sector
- Industrial sickness
- Privatization

Industrial policy refers to the government policy towards industries:

- ➢ Their establishment
- ➢ Functioning
- ➢ Growth and management

The policy indicates the respective areas of the large medium and small scale sectors.
It also spells out government’s policy towards –

- ➢ Foreign capital
- ➢ Labour
- ➢ Tariff

IMPORTANCE OF INDUSTRIAL POLICY

Industrial policy is an important document which indicates the relationship between government and business. The document is helpful to planners and administrators in government. It gives clear guidelines for promoting and regulating industries. It is equally helpful to industrialists and others for deciding areas and priorities of their investments.

Industrial policy has no legal sanction its violation cannot be challenged in a court as it is possible in case of fundamental rights guaranteed by the constitution.

Rationale:

Industrial policy has strong ratification for its existence, it can:

1. Correct the imbalances in the development of industries and help about desirable balance and diversification in them.
2. Direct the flow of scarce resources in the most desirable areas of investment in accordance with national priorities.
3. Prevent the wasteful use of scarce resources and ensure their conservation and judicious utilization.
4. Empower the government to regulate the establishment and expansion of private industry in accordance with the objectives.
5. Demarcate areas among the public, private and joint sectors of the economy as well as large, medium and small scale industries.
6. Provide guidelines for importing foreign capital and the conditions on which the capital should be permitted to operate.

Industrial policy 1956:

The setting was favorable for industrial policy 1956. The country gave itself a constitution which sets out certain directive principles

Parliament accepted the socialist pattern of society on the objective of social and economic policy. The country's resources also increased and the government drove in expanding the public sector as a means for rapid economic development to countervail economic concentration and removal of regional economic disparities grived momentum.

These changes and developments were necessary, for which a policy was announced on 30th April, 1956.

Objectives of 1956 policy:

1. To accelerate the rate of economic growth and to speed up industrialization.
2. To expand the public sector, develop heavy and machine making industry.
3. To increase employment opportunities and improvement of living standards and working conditions of the people.

4. To prevent creation of monopolies and concentration of economic power.
5. To reduce existing disparities of income and wealth
6. To build up a large and growing private sector
7. To expand the cottage, village and small scale industries
8. To achieve balanced industrial development

In 1956 policy the industries were classified into three categories:

1. First category included industries, the future development of which will be the exclusive responsibility of the state
2. Second category consisted of industries which were progressively state owned and in which the state generally will take the initiative in establishing new undertakings but in which private enterprise will also be expected to supplement the effort of the state.
3. Third category included all the remaining industries and their future development was left to the initiative and enterprise of the private sector.

In the first category the industries which were covered in schedule A of 1956 resolution:

- Arms and ammunition and allied items of defense equipments
- Atomic energy
- Iron and steel
- Heavy casting and forging of iron and steel
- Heavy plant and machinery
- Heavy electrical plant
- Coal and lignite
- Mineral oil
- Mining of iron ore chrome ore sculpture gold and diamond mining and procuring of copper lead and zinc
- Aircraft air transport
- Railway transport
- Ship building
- Telephone and telephone cables and generation
- Distribution of electricity

Second Category was in schedule B which included minerals except to industries of the minerals concession rules 1949:

- Aluminum and other non ferrous metals (not related to schedule)
- Machine Tools
- Drugs
- Fertilizers
- Synthetic rubber
- Carbonization of coal
- Chemical pulp
- Road transport

- Sea transport

At the same time private enterprise also have the opportunity to develop in this field either on its own or with the state participation.

Rests of the industries were open to the private sector but this did not prevent the state from starting any new undertaking. State was responsible to facilitate and encourage the development of these industries in private sector by providing infrastructural facilities.

Privately owner units were permitted to produce an item falling in schedule A for meeting their own requirements or as by- products.

1956 policy reiterated government determination to provide all sorts of assistance for the rapid development of small and cottage industries in respect of generation of employment opportunities, wider dispersal of industries and equitable distribution and income and wealth.

The 1956 policy came in for appreciation and criticism. The emphasis was laid on socio-economic objective. The policy stressed the need for balanced regional development of the country, prevention of concentration of economic power, building up of a strong co-operative sector and expansion of opportunities for gainful employment and improvement of living standard and working conditions of people.

1956 policy has been hailed as the economic constitution of India.

1980 policy statement – the industrial policy announcement of 1956 reflects the value system of our country and has shown conclusively the merit of constrictive flexibility.

1956 policy set out some principles of Nehru's philosophy but retained sufficient ambivalence to placate the uncommitted elements.

Industrial policy 1991- Mr. P.V. Narasimha Rao announced a new industrial policy on 24^{th} July 1991 which altered the industrial scenarios in over country.

The important initiatives are:

- Virtual scraping of industrial licensing and registration policies
- End to the monopoly law and welcoming approach to foreign investment
- Redefining the role of the public sector

Objectives of Policy:

1. Self reliance to build on the many sided gains already made.
2. Encouragement to Indian entrepreneurship, promotion of productivity and employment generation.
3. Development of indigenous technology through greater investment in R&D and bringing in new technologies to help Indian manufacturing units attain world standards
4. Removing regulatory system and other weaknesses
5. Increasing the competitiveness of industries for the benefit of the common man
6. Incentive for industrialization of backward areas

7. Support to small scale sector
8. Ensure running of public sector undertakings on business lines and their losses
9. Protect the interests of workers
10. Abolish the monopoly of any sector in any field of manufacture except on strategic or security grounds.
11. To link Indian economy to the global market

Government initiatives in respect of policies in the areas like:

1. Industrial licensing
2. Foreign investment
3. Foreign Technology Agreements
4. Public sector Policy
5. MRTP Act.

Package for small and tiny sector of industry was announced separately.

Industrial licensing

Industrial licensing is governed by the industries (development and regulation) Act 1951. Industrial licensing policy and procedures have been liberalized from time to time.

The industrial licensing system has been gradually moving away from the concept of capacity licensing.

System of reservation for public sector undertakings has been evolving to ethos of greater flexibility and private sector enterprises have been gradually allowed to enter into many of these areas.

In the context industrial licensing were abolished for all industries except 13 specified industries, irrespective of levels of investment. These specified industries were required compulsory licensing to continue.

Reason on – security and strategic concerns

- Social reasons
- Problem related to safety and overriding environmental issues
- Manufactures of products of dangerous nature
- Articles of elitist consumption

Exemption from licensing is helpful to dynamic small and medium entrepreneurs who have been unnecessarily hampered by the licensing system.

Foreign Investment:

Significant development of Indian industrial economy is continued from last 40 years. The general resilience size and level of sophistication achieve, the important changes have also taken place in the world industrial economy. The relationship between domestic and foreign industry need to be more dynamic than it has been in the past in terms of both technology and investment. Foreign investment advantages of technology transfer, marketing, expertise, introduction of modern managerial techniques and new possibilities for promotion of exports.

This is particularly necessary in the changing global scenario of industrial and economic co-operation marked by mobility of capital.

Industries require large investments and advanced technology to invite foreign investment. For this direct foreign investment up to 51% of foreign equity is required in the industries.

Promotion of exports of Indian products calls for a systematic exploration of world markets which is possible only through intensive and highly professional marketing activities.

Government encourages foreign trading companies to assist Indian activities.

Foreign Technology Agreements

In the fast changing world of technology, the relationship between the suppliers and users where technology is continuously required, this type of relationship becomes difficult to achieve when the approval process includes unnecessary governmental interference on case to case basis involving endemic delays and fostering uncertainty.

For desired level of technological dynamics in Indian industry government provided automatic approvals for technology agreement related to high priority industries within specified parameters. Similar facilities committed are available for other industries as well as foreign technology agreements do not require the expenditure of free foreign exchange.

Indian companies are free to negotiate the terms to technology transfer with their foreign counterparts according to their own commercial judgment.

Public sector policy

The industrial policy resolution of 1956 gave a strategic role in the economy to public sector. Today key sectors of the economy are dominated by mature public enterprises that have successfully expanded production, opened up new areas of technology and built up a reserve of technical competence in different areas.

The priority areas for growth of public enterprises in the future-

- Essential infrastructure goods and services
- Exploration and exploitation of oil and mineral resources
- Technology development and building of manufacturing capabilities in areas which are crucial in the long term development of the economy and where private sector investment is inadequate.
- Manufacture of products where strategic considerations predominate as defence equipment

In view of these considerations government reviewed the existing portfolio of public investments with greater realism based on low technology, small scale and non strategic areas, inefficient and unproductive areas, with low or nil social considerations or public purpose and areas where the private sector has developed sufficient expertise and resources.

Government strengthens those public enterprises which fall in the reserved areas of operation or are in high priority areas or are generating good or reasonable profits.

MRTP Act

With the growing complexity of industrial structure and the need for achieving economies of scale for ensuring high productivity and competitive advantages, international market the interference of the government through the MRTP Act in investment decisions of large companies has became deleterious in its effect on India's industrial growth.

The pre-entry scrutiny of investment decisions by MRTP companies is no longer required. Instead emphasis is gives on controlling and regulating monopoly houses to obtain prior approval of central government for expansion, establishment of new undertakings, merger, and amalgamation and take over and appointment of certain directors.

Comments in favour of 1991 policy

1. The 1991 policy statement is historic that the time has come to open up the economy of the country.
2. The changes as a bold initiative purposely making Indian Industry more competitive internally as well as internationally
3. Delicensing of a host of industries and the abolition of all registration schemes will free Indian entrepreneurs
4. Scrapping of any market share prescription for MRTP Company and a dominant undertaking allows companies to ahead with investment programmes without delay.
5. Liberalization of the rules relating to direct foreign investment, permitting 51% equity in a wide range of industries the easier facilitation of foreign technology agreements and other related measures
6. Reforms relating to public sector like privatization and transferring sick units to BIFR will help to improve the performance of the government undertakings.

Comments against of 1991 policy

1. Virtual scrapping of licensing means absence of a mechanism to determine priorities and to develop backward areas.
2. Policy is silent about tackling the growing industrial sickness. Government has not announced a clear exit policy for sick units. Government seems to have the pressures of trade union lobby.
3. Off leading of 20% equity in profit making public sector units to mutual funds is a revenue raising exercise than genuine attempt at privatization.
4. The expected foreign investment may not come through. Infrastructural deficiencies will deter foreign investment.

Foreign Trade

Foreign trade is called international trade. A trade among countries is normal and desirable. This exists because of the fact that natural resources of the are not evenly distributed.

One country may possess product X in surplus and lacks in respect of product Y. In mother country the reverse may be true.

It is mutually advantageous for both the countries to exchange their surplus stocks; it is the advantage of comparative cost also. One country produces a particular commodity at less cost than another country does. Prevalence of technological gaps also makes foreign trade relevant and desirable.

Imports are vital as many industrial projects in developing economies are held up because of lack of maintenance, for a developing economy ,developmental and maintenance of imports set limits to the extent of industrialization which can be carried out in a specified given period. Beside these imports, developing economy is also required to import consumer goods which are in supply at home during the period of industrialization. These imports are anti-inflationary because they reduce the scarcity of consumer goods.

Imports of food grains in India in the post- independence period helped to control the rise of prices at home. Influx of foreign goods into the country and flow of technology, skills, speed and feed of production, tastes and experiences have considerable influence on domestic production, marketing, life style and levels of living of people.

In order to pay for imports and to serve earlier borrowings, developing countries have to export their goods and services.

This is a challenging task: challenge in terms of upgrading technology increasing productivity, reducing cost and improving quality of goods and services to meet international challenges. Thus international trade sets in a chain of events which helps to transform less developed economies into developed one.

The Foreign Trade (Development and Regulation) Act 1992

This act was passed to provide for the development and regulations of foreign trade by facilitating imports and augmenting exports from India and for matters connected therewith. This act replaced the Imports and Exports (Control) Act 1947.

The Imports and Exports (Control) Act 1947 was made in different circumstances and it was amended time to time and again it did not provide an adequate legal framework for the development and promotion of India's foreign trade. In the mid 1991 some changes were done in trade policy to increase productivity and competitiveness and to achieve the strong export performance.

EXIM POLICY

export import policy is a vital part of trade policy where the government realized that the basic framing and governing of law related to foreign trade will serve as an instrument to encourage exports, facilitate imports and render export activity more profitable. So the new act 1992 has provided the development and regulation of foreign trade, especially facilitating imports into an augmenting export from India.

Provision for Export and Import Policy:

1. By notification in official gazette the central government may authorize to prepare different provisions for the development and regulation of foreign trade to provide facility in import activities and to increase exports.
2. Central government is also authorized to make provisions for prohibiting, restricting or regulating the import or export of goods related to all cases or in specified classes of cases subject to exceptions, if any.
3. Under the Imports and Exports (control) Act 1947 which enforced immediately before the commencement of the foreign trade (Development and Regulation) Act 1992 is not inconsistent with the provisions of the act 1992 and will continue to be in force and will deemed to have been made under this act.
4. Central Government may formulate and announce the export and import policy by notification in official gazette.
5. Central Government may appoint any person as Director General of Foreign Trade.
6. Director General is responsible to advise Central Government in formulation of the export and import policy and carrying out that policy.

Import Export Code Number and License

1. Any person is not authorized to make any import and export except under the importer exporter code number granted by the Director General or the officer authorized by the Director General.
2. If any person has contravened any law relating to the central excise or customer or foreign exchange specified by the central government by notification in official gazette.
3. If any importer exporter code number granted to a person has been suspended or cancelled to the director general with the reasons that person will not be entitled to import or export any goods except under special license by Director General to that person.
4. On application and inquiry, the Director General or any officer authorized by him may grant or renew, or refuse to grant or renew license to import or export a class or classes of goods after recording in writing his reason of refusal.

Suspension or cancellation of license cannot be made easily unless the license holder is informed well in time.

Search, Seizure, Penalty and Confiscation

1. Central Government may authorize any person to enter those premises and search, inspect and seize the goods, documents, things and conveyances if required.
2. Export or import cannot be made by any person if it is not accordance with the provisions of the act.
3. Any person who attempts to make any export or import in contravention of any provision of the act or orders made there under or the export and import policy, will be punishable and fined not exceeding 1,000/- or five times the value of goods in respect of which any contravention is made, or attempted to made whichever is more.
4. Authority may determine the amount to be paid by the person who admits any contravention on a notice to him by the settlement authority by way of settlement for class or classes of cases.
5. If a penalty is imposed under the act and is not paid should be recovered as an arrear of land revenue and the importer – exporter code number of the person concerned may be suspended by authorities till the penalty is paid on failure.

6. Under the act, any penalty may be imposed by the Director General or by any other officer authorized by central government by notification in official gazette.
7. Penalty cannot be imposed or adjudication of confiscation cannot be made unless a notice has been given in writing to the owner of the goods or conveyance.

Appeal and Revision:

- Any person aggrieved by any decision or order made by adjudicating authority under this act may prefer an appeal.
- Where the decision or order has been made by the Director General, then to the Central Government
- Where the decision or order has been made by an officer subordinate then to the Director General or to any officer superior to the adjudicating authorities authorized by the Director General to hear the appeal.
- The appeal may be made within 45 days from the date on which the decision or order is served on the person.
- But an appeal cannot be entertained against a decision or order imposing a penalty or redemption charges, if the amount of penalty or reduction charges has not been deposited by the appellant.
- Where the appellate authority is of the opinion that the deposit to be made will cause undue hardship to the appellant, it may be at its discretion to deposit either unconditionally or subject to conditions.
  1. After making further inquiry the appellate authority may make orders as it thinks fit whether by confirming, modifying or reversing the decisions or orders appealed against or may send back the case with the directions as after taking additional evidence if necessary.
     Imposing penalty or redemption charges or confiscating goods of a greater value cannot be made unless the appellant has been given an opportunity of making a representation being heard in his defense.
  2. Appeal order made by the appellate authority is presumed as final.
     In case of any decision or order made by the Director general or order made by any officer subordinate to him the Central Government may on its own motion, call for and examine the records of any preceding, in which a decision or an order imposing a penalty or redemption charges or adjudication confiscation has been made and against which an appeal has not been preferred for satisfying itself.
  - Authority making any adjudication or exercising any power under the act will presume all the powers of a civil court under code of civil procedure 1908 in respect of:
    (i) Enforcing the attendance of witnesses
    (ii) Requiring discovery and production of any document

(iii) Issuing commission for the examinations of witnesses or documents.

- Every authority is deemed to be a civil court for the purpose concerned with making any adjudication or hearing any appeal or exercise.
- Every authority has the power to make orders of an interim nature connected with making any adjudication or hearing any appeal or exercising any power.

EXIM POLICY 1992- 97

New export import policy was announced by the government as part of ongoing economic liberalization which came into force from 1st April 1992 for a period of 5 years (i.e. up to 31st march 1997)

Policy Objectives:

1. To establish framework for globalization of India's foreign trade.
2. To promote the productivity, modernization and competitiveness of Indian industry
3. To encourage the attainment of high and internationally accepted standards of quality and enhance the image of India's products abroad
4. To augment India's exports by facilitating access to raw materials, intermediaries, components, consumable and capital goods from the international market
5. To promote efficient and internationally competitive import and self reliance under a deregulated framework for foreign trade.
6. To eliminate quantitative, licensing and other discretionary controls in the frame work of India's foreign trade.
7. To promote the country's Research and development and technological capabilities.
8. To simplify and streamline the procedures governing exports and imports.

Important points related to policy

1. Units undertaking to export their entire production of goods may be set up under Export Oriented Unit (EOU) scheme or Export Processing Zone(EPZ)
2. Permit EOU/EPZ units freely import capital goods, raw materials and allied inputs and materials, handling equipment if these are not listed in negative list of imports
3. Permit EOU/EPZ units exports goods through export House/Trading house/Star trading house

4. EOU/EPZ units are entitled to -
   (i) Concessional rent
   (ii) Concessional plot
   (iii) Tax holidays
   (iv) International price reimbursement for supply of iron and steel and 100% foreign equity
5. All goods to be exported without any restriction except those in the negative list of exports
6. Export contracts to be denominated in freely convertible currency
7. Value of goods exceeding Rs. 3000 not to be exported as a gift
8. Merchant and manufacturer exporters and trading companies, export oriented units and units located in Export Processing Zones (EPZs) are recognized export houses or star trading houses.
9. The period of export houses/trading Houses/star trading houses is valid for 3 years
10. Export house/Trading House/Star trading house are entitled to special import licenses for import of items included in negative list of imports.
11. Encourage manufacturers and exporters to attain internationally accepted standards of quality for their products.
12. Assist in the modernization and up gradation of test houses and laboratories in order to bring them on par with international standards

EXIM Policy 1997- 2002

Objectives:

1. To accelerate the country's transition to a globally oriented economy to derive maximum benefits from expanding global market opportunities
2. To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods required for augmenting production.

3. To enhance the technological strength and efficiency of Indian agriculture, industry and services thereby improving their competitiveness while generating new employment opportunities and encourage the attainment of internationally accepted standards of quality.
4. To provide good quality products to consumers at reasonable prices

Positive Features

EXIM Policy 1997 – 2002 plus side:

1. 542 items or 18% of total items of restrictive list is taken away from the restrictive list, over 2/3 of these are consumer goods. This is important step towards globalization and improves efficiency in the consumer goods industry.
2. Exporters need not required to contact Director General of foreign trade for every little thing
3. The exporter could give more time to export or import automatically without coming to DGFT for extension
4. Positive step in the area of clearance of export and import consignments.
5. Under license scheme the extension of the period of export is possible from 12 to 18 months.
6. Special incentives for agro software and jewelry exports
7. Economic reforms are given a greater thrust towards exports.

Negative Aspects

EXIM Policy 1997 – 2002 (Minus Side):

1. Removal of a large number of items may result in flood of the domestic market by importers
2. The policy does not guide any streamlining the multiplicity of export promotion consists.
3. Policy fails to eliminate the persisting qualitative restrictions on a wide range of imports.
4. The policy does not provide a 5 year perspective. It provide for phased cuts and dismantling of non tariff barriers.

5. Special incentives for agro exports are unlikely to be of much help as there are many manmade hurdles.

Self Check Questions

Long Answer type Questions:

1. Discuss briefly the background of Industrial Policies from 1948- 1997.
2. Discuss the foreign trade policies adopted by government from time to time.

Short Answer type Questions:

1. Discuss comments on for and against of industrial policy 1991.
2. Discuss the foreign technology agreement in India.

Objective type Questions:

1. Multinational corporation was become popular during ________________________
   (a) 1920-1925 (b) 1925-1930 (c) 1920-1930 (d) 1930-1940 (e) none of these

2. Managerial headquarter of multinational corporation generally located in_______________
   (a) Host country (b) Home country (c) Home & Host country (d) none of these

3. A business is not deemed as multinational enterprise which participate in international business by exporting or by licensing technology as___________________________
   (a) Company business (b) partnership business (c) solely business (d) none of these

4. World economy which is based on the development of international trade, foreign direct investment and migration has existed since________________
   (a) The 16th century (b) the 17th century (c) the 18th century (d) the 19th century

Lesson 9

INTRODUCTION OF MULTINATIONAL CORPORATION

Business environment is promoted by the drastic political changes in the erstwhile communist and socialist countries. The economic liberalization across the world has expanded the opportunities for the multinational corporations known as International Corporation / transnational corporation /global corporation or firm company or enterprise etc.

The work of Multinational Corporation took place in the early 1860s and has grown rapidly after the Second World War. In the early days the United State was the home of most of the MNCS.

Now Japanese and European multinationals are in large numbers. MNCs have been emerging from the developing countries too.

Meaning of MNCs:

The managerial headquarters multinational enterprises are located in one country (home country) while the enterprise carries out operation in different other countries (host countries).

Corporation controls production facilities in more than one country acquired through the process of foreign direct investment.

A firm is not a multinational enterprise if it participates in international business solely by exporting or by licensing technology.

Transnational corporations are incorporated or unincorporated enterprises compressing parent enterprise and their foreign affiliates. Parent enterprise is deemed as an enterprise which controls assets of other entities in countries other than its home country usually by owning a certain equity capital stake. Equity capital stake of 10% or more of the ordinary shares or voting power for an incorporated enterprise, or its equivalent for an unincorporated enterprise, normally considered as threshold for the control of assets(in countries like Germany and United Kingdom, threshold is a stake of 20% or more).

A foreign affiliate is an incorporated or unincorporated enterprise in which an investor who is a resident of another economy owns a stake that permits a lasting interest in the management of that enterprise (an equity stakes of 10 % for an incorporated enterprise.) or its equivalent for an unincorporated enterprise.

World investment report: A subsidiary enterprise associate enterprise and branches are referred to as foreign affiliates.

MEANING OF SUBSIDIARY – subsidiary is an incorporated enterprise in the host country in which another entity directly owns more than a half of the shareholders' voting power and has the right to appoint or remove a majority of the members of the administrative/ management or supervisory body.

ASSOCIATE- An associate is an incorporated enterprise in the host country in which an investor owns a total of at least 10% but not more than a half of the shareholders' voting power.

BRANCH -A branch is a wholly or jointly owned unincorporated in the host country, which is either a (i) a permanent establishment or office of the foreign investor or, (ii) an unincorporated partnership or a joint venture between the foreign direct investor and one or more third parties or (iii) land structure (except structures owned by government entities) and or immovable equipment and objects directly owned by a foreign resident or (iv) mobile equipment as ships, aircraft, gas or oil drilling rigs operating within a country other than foreign investor for at least one year.

Multinational Corporation:

This type of corporation was popular when many European companies internationalized during 1920-1930, when the trade barriers were very high. The multinational organization is a decentralized federation of assets and responsibilities, which make the management process simple, financial control systems are over laid on informal personal coordination and a dominant strategic mentality that views the company's worldwide operations as a port folio of national business.

INTERNATIONAL ORGANIZATION MODEL

In the international organization the structural configuration outlines are decentralized as coordinated federation, assets, resources, responsibilities and decisions but control is through the headquarters.

In this model the headquarter transfers knowledge and expertise to overseas environments which are less advanced in technology or market development. While local subsidiaries are often free to adapt to the new products or strategies. Their dependence on the parent company for new products, processes or ideas deal more coordination and control by the headquarters than in classical multinational organization.

Global Organization Model

The global organization's outline is based on centralization of assets, resources and responsibilities. Overseas operations are to reach foreign markets in order to build global scale. The role of local subsidiaries is to assemble and sell products and to implement plans and policies developed at headquarters.

Transnational organizational model: the transnational organization model seeks to eliminate some of the drawbacks of the other models. It tempts to achieve global competitiveness through inter alia multinational flexibility and worldwide learning.

In a transnational, the specialized resources and capabilities are dispersed among the different operating units globally. These units are interdependent and integrated and have large flow of components, products, resources, people and information among them. So the important feature of the transnational is the complex process of coordination and cooperation in an environment of decision making.

Comments in Favor of MNCs

Multinational Corporations help the host countries in different ways like:

1. MNCs help in increasing the investment level and income and employment in host country
2. Transnational corporations become vehicles for the transfer technology especially to the developing countries
3. MNCs normally kindle on a managerial revolution in the host country through professional management and employment of highly sophisticated management techniques.
4. MNCs enable the host countries to increase their exports and decrease their import requirement
5. They work to equalize the cost of factors of production around the world
6. MNCs provide an efficient means of integrating national economies

7. MNCs stimulate domestic enterprise to support their own operations; the MNCs may encourage and assist domestic suppliers.
8. MNCs help increase competition and break domestic monopolies.

Demerits of MNCs

1. MNCs technology is designed for worldwide profit maximization but not the development needs of poor countries are. The imported technologies are not adapted to:
   (i) The consumption needs
   (ii) The size of domestic market
   (iii) resource availabilities and
   (iv) stage of development of many of least developing countries(LDCs)
2. Through their power and flexibility MNCs can determine national economic autonomy and control and their activities may be inimical to the national interest of particular countries
3. MNCs may destroy competition and acquire monopoly power
4. Global Corporations pose risk that they may threaten the supreme power of the nations in which they do business.
5. MNCs retard the growth of employment in the house country.
6. Transfer pricing enables MNCs to avoid taxes by manipulating prices on intra company transaction.
7. MNCs are criticized for their business strategies and practices in the host countries.

Multinationals in India

Comparatively very little foreign investment has taken place in India, because dominant role assigned to the public sector in the industrial policy and the restrictive policy of the government towards foreign investment. Multinationals like Coca Cola and IBM even left India in the late 1970 as the government conditions were unacceptable to them,

The MNCS tend to invest in the low priority and high profit sectors in the developing countries, ignoring the national priority. However, in India, the government policy is confined to the foreign investment to the priority areas like high technology and heavy investment sectors of national importance and export sectors. Firms which had been established in non priority areas prior to the implementation of the policy have however been allowed to continue in those sectors.

The foreign Exchange Regulation Act (FERA) 1973 required the foreign companies in India to dilute the foreign equity holding to 40 %.(exceptions were allowed in the areas of technology and export oriented sectors)

CRITICISM

1. Multinationals divert the foreign exchange resources of the developing countries, where foreign companies are less of drain on foreign exchange reserves than India. The public sector has a higher propensity to use foreign exchange on a net basis than multinationals

   The foreign exchange outgo of the public sector alone is greater than the enter trade deficit of the country.
2. No right approach is there to estimate the net impact of multinational on the foreign exchange reserves by taking the net foreign exchange outflow or inflow.

   In different developing countries multinationals make substantial contribution to export earnings. In case of India the performance has been very dismal attributed mostly to the government policy.

Five year planning

1. In India the first five year plan (1951-52 to 1955-56) was formulated against the backdrop of the Second World War (1939 to 1945) and partition of the country. Planning accorded high priority to agriculture irrigation and power project to reduce the country's dependence on food grain imports solve the food crises and raw material problem particularly in jute and cotton.
2. Second five year plan (1956-57 – 1960-61) was formulated for economic stability where agriculture was complementary role and emphasis was given on industrial sector, especially to heavy goods industry. Agricultural programmes were aimed to meet the raw material requirement of industry. Besides meeting the food needs of increasing population, industrial sector was perceived as the leading sector to grow at a rapid pace.

3. Third five year plan (1961-62 to 1965-66) was formulated to give top priority to agriculture because limited factor in economic growth was growth in agricultural production. The government was forced to declare plan holidays for 3 years.
4. Fourth five year Plan (1969-1973-74) was formulated to realized that GDP growth and high rate of capital accumulation alone may not help in improving the standard of living. The result attention was diverted towards providing necessary benefits to the less privileged and weaker sections of the society through employment and education. The plan was also aimed for the economic development and improving stability of food grain production.
5. Fifth five year plan (1974-75 to 1978-79) concentrated on reigning inflation and achieving stability in the economic situation. It also aimed at improving the quality life of the down trodden section of the economy. During this plan period different new economic and non-economic variables were incorporated as nutritional requirements health and family planning.
6. Sixth five year plan (1980-81 to 1984-85) was formulated by Janata Government to achieve higher production target with concomitant increase in employment opportunities for the poorest section of the society. Emphasis was given on irrigation and power.
7. Seventh five year Plan (1985-86 to 1989-90) formulated to aim at rapid growth in food grain production, higher employment level and different special programmes like Jawahar Rozgar yojana were introduced.
8. Eight five year plan (1992-93 to 1996-97) was introduced to put the country on a higher growth path and remedy the precarious balance of payments situation. These include dismantling of licensing requirement, reducing the trade barrier reforms in the financial sector and tax system.
9. Ninth Plan (1997-98 to 2001-2002) was formulated to improve the living conditions of the poor and provide them adequate employment opportunities. Efforts to raise the level of agricultural and rural income and target programme at small marginal farmers and land less labourers. There was also an aim to check the growth rate of populations.

10. Tenth five year plan (2002-03 to 2006-07) was formulated keeping in line with prime minister's vision of doubling per capita income in country and create 100 million employment opportunities in the next ten years.

Price and Distribution Control

In planned developing countries the control over price and distribution is regarded as an important means of achieving socio-Economic goals. Control of prices and distribution of essential commodities is a component of economic environment. Even market economies have price and distribution control.

In India the price and distribution controls factors are usually based on

1. Short supply of goods and services
2. Unreasonable level of price in the free market and the law levels of income of a large number of people.

Objectives of Price and Distribution Control (P&DC)

1. Distributive Justice
2. Maintain quality of goods and services
3. Prevention of monopolistic, restrictive and unfair trade practices
4. Enlargement of the supply system
5. Supply of inputs to priorities sectors
6. Resource allocation
7. Prevention of hoarding and black marketing
8. Control of inflation and deflation

1. Distributive Justice

It implies that the fruits of development should be distributed equitably. The inflation growth distorts income distribution against poor. Many times scarcity of wage goods which are the essential consumer items leads to black marketing, resulting in the life of the poor more miserable. So the ultimate object of price and distribution controls is to protect the sensitive sectors against inflation and shortages, and ensure a reasonable level of consumption for them.

2. Maintain quality of goods and services:

Its aim is to maintain quality of goods and services. For instance, Industries (development and regulation) Act 1951 the essential commodities act 1955 empower the government of India to control the quality of different goods and services.

3. Prevention of Monopolistic, restricted and unfair trade practices:

Prevention of different trade practices that are detrimental to the common interest is important. In India MRTP Act 1969 prevents the monopolistic, restrictive and unfair trade practices that are prejudicial to the public interest.

4. Enlargement of the supply system

This removes the imperfections in the supply system in order to ensure the availability of essential goods at reasonable prices in all areas and strengthen the distribution channels to cover all the areas. The aim is to provide the benefits of its services to the remote areas.

5. Supply of inputs to priority sector:

Supply of inputs to priority sector is an important objective of price and distribution control, for instance, in India where some important industries are accorded priority in the allocation of certain raw materials and intermediate goods which are in short supply. Small scale industries, export industries, agriculture and other sectors are provided credit at concessional conditions.

6. Resource Allocation:

Control over prices and distribution enables the planning authorities to achieve the desired pattern of resource allocation. Apart from distributing the productive resources the price and distribution controls can achieve the objective of resource allocation.

7. Prevention of Hoarding and Black marketing:

Black marketing occurs because of shortage of certain products in the economy. Prevention of the creation of artificial scarcity by the unscrupulous businessmen for profiteering is done.

8. Control of Inflation and Deflation:

Control of inflation is a principal objective of price and distribution controls. Prevention of fall in the prices is also the task of these controls.

Relationship between supply and prices is a close matter. Price and distribution should mutually support each other to achieve the desired objective.

Price Control

The price policy was not important point till 1961 because of the gradual rise in the prices but it resulted in no agitation to public against rise in prices. Since then the inflationary pressure came in India, as a result inflationary measures were given by the government to ensure stable conditions as well as to prevent speculators from taking under advantage of the scarcity conditions.

Price situation was an outcome of

1. Shortages in basic supplies
2. A rapid growth in money supply and
3. Bank credits.

From 1973-74 the price policy relies on fiscal and monetary measures to check the demand of the general public for goods and services.

Fiscal Measures:

Government of India promulgated three ordinances in July 1974 to limit the disposable money incomes (a) in the hands of consumers through freezing wages and salaries and on the other side (b) dividend incomes.

The government of India announced a package of programmers in January 1984 to curtail public expenditures,(c) to postpone trash recruitment to government jobs etc. to reduce government expenditure.

Monetary Measures:

The RBI monetary policy consists of extensive use of general and selective credit control measures.

The main thrust is to restrict bank credit against inflation, sensitive goods and to influence the cost and availability of commercial bank credit.

RBI relies on selective credit controls on inflation sensitive commodities (as food grains cotton, oil and oil seeds, sugar and textile) to discourage speculative activities. Since July 1974 the RBI has frequently used the bank rate as an anti-inflationary weapon.

Important aspects of the policy:

(A) Fixation of maximum prices

State government efforts to fix the wholesale and retail prices of food grains for eliminating the incentive for speculative activities.

(B) The System of Dual Prices

Government has adopted dual price system for the goods like sugar, cement, paper etc. Under this system the weaker sections of the community are supplied with these goods through fair price shops at controlled prices and the rest are allowed to purchase at higher prices from open market.

Price control:

There are two types of price controls -

A. Indirect controls
B. Direct control

Indirect controls are mainly exercised through monetary policy, fiscal policy and commercial (Foreign Trade) policy.

Monetary policy relates to the policy of the central bank of the country in respect of the cost and availability of credit. In monetary policy the control of prices show very strong direct relationship between money supply and prices. Increase in money supply results in increase in prices and vice versa.

Fiscal policy relates to the policy of the government in respect of public revenue and public expenditure. Fiscal policy can influence the price level by increasing or reducing the purchasing power of the public. It also affects prices by imposing or removing or varying taxes on commodities or services and by subsidies–

TAXES- Excise duties, sales tax, custom duty generally impact on the prices of commodities.

Commercial policy is also used to a certain extent to stabilize the domestic economy. Price can be controlled by increasing the supply by importing goods.

DIRECT CONTROLS

In India central and state government have different act to exercise direct control over the functioning of the economy like –

The Industries (Development and Regulation) Act, The Essential Commodities Act, The MRTP Act, The Foreign Trade Development and Regulation Act (earlier the Imports and Exports (control) act) empower the central government to control production, supply, distribution and price in different cases.

Administered Price:

Administered price relates to the price which is consciously set by a single decision making body like monopoly firm, a cartel or a government agency rather than determined by the free play or market forces.

Administered price often relates to the government determined price. The market forces of supply and demand are free to interact, the price of product rises when the supply falls short of the demand and declines when the supply exceeds demand. But under the administered price system, the price is fixed at a particular level. Fluctuations in demand and supply do not cause any price fluctuations in demand and supply does not cause any price fluctuation.

Administered price is not an equilibrium price not only that the administered price may not reflect the demand and supply conditions. Sometimes it may not even absorb the full cost of production.

In India the administered prices were generally fixed on the recommendations of expert body like - Bureau of Industrial Cost and Price (BICP) and in case of certain public enterprises it was especially constituted by inter- ministerial committee or groups. Later BICP was replaced by tariff commission.

The Principal aim of the administered price system is the protection of the interest of producers and consumers. In India the price control retarded the growth of the concerned industries and increased market imperfections, resulting in persistent commodity shortages and uncontrolled black markets.

Approach to economic reforms a phase out of the administered prices.

Dual Pricing:

Dual pricing system has been adopted in our country to allow the weaker sections of the people or the privileged buyers like government to get the commodity at a lower price.

Under dual pricing, a part of the output of an industry may be acquired by the government at a price fixed by it, which is usually lower than the market price and the remaining part of the output may be sold by the industry at the market price.

Subsidization:

The prices of certain commodities are directly affected under subsidization. The prices of important commodities are kept low by the government like food grains, fertilizers and cloth.

The principal objective of subsidies is the protection of weaker sections and priority sectors.

Two principal arguments for the reduction of subsidies are 1. Subsidies today cannot be justified for development.

2. Subsidies today cannot be justified on ground of economic equity and social Justice.

Essential Commodities Act

The main purpose of the essential commodities act 1955 is to provide the control of the production, supply and distribution and trade and commerce in certain commodities in the interest of the general public.

This act empowers the central government to regulate the production supply and distribution and trade and commerce in any essential commodity for securing:

1. Maintenance or increase in their supplies at fair prices of the commodities concerned.
2. Equitable distribution and availability at fair prices of commodities concerned
3. Securing any essential commodity for the defense of India or the efficient conduct of military operations.

The Public Distribution System

Continuous increase in money supply and population and the slow growth in output generally create an imbalance between the demand and the supply of essential consumer items.

When the purchasing power of a vast segment of the population is very low even in a slight increase in the price of wage, the consumption power of the sensitive sections serious erode.

So to control the situation in India, important device is used as public distribution system (PDS) under which government makes available essential mass consumption goods at reasonable prices, especially to the poor.

Evolution of Public Distribution System (PDS) in India

PDS existed in India before independence. During the pre- independence era the PDS was used as a short term strategy to meet the war time needs. At that time it assumed importance as instrument for achieving the objectives of planning.

In the initial stages PDS has been pressed into off and on operations depending upon plentiful and depleted stocks of food grains in the country.

Food Grains Enquiry Committee

The food grains enquiry committee was set up in 1957 under the chairmanship of Mr. Ashok Mehta who recommended the setting up of an organization for the stabilization of the prices of food grains to counteract the fluctuations in their prices by buffer stock operations.

A strong demand for an effective civil supplies arrangement was made in early 1970's. The department of civil supplies was set up in April 1974, and in October 1974 this department was converted in to the department of civil supplies and co-operation.

Self check Questions

Long Answer Questions:

1. Discuss the role of Multinational Corporations in Indian Economy.
2. What do you mean by Price and Distribution Controls? Discuss the objectives and utility of Price and Distribution Controls.

Short Answer Questions:

1. Differentiate between discriminating pricing and administered pricing.
2. Discuss the concept of subsidization and bureau of industrial cost and price (BICP).

Objective type Questions:

1. Enterprise which control assets of other entities in countries other than its home country is deemed as ________________________

   (a) Unincorporated enterprise (b) incorporated enterprise
   (c) Small enterprise (d) parent enterprise

2. In multinational business, the subsidiary enterprise, associate enterprise and branches generally relates to_______________________________
   (a) As domestic affiliates (b) As institutional affiliates
   (c) As foreign affiliates (d) As government affiliates

3. Multinational organization generally represents ____________________
   (a) Decentralize federation of assets and responsibility
   (b) Decentralize federation of objective
   (c) Centralize federation of assets and responsibility
   (d) Centralize federation of objective

4. In the multinational organization the structural outlines are_______________
   (a) Centralized (b) Decentralized
   (c) Centralized and Decentralized (d) None of these

5. If any entity directly owns more than a half of the shareholders voting power of any incorporated enterprise in the host country, than under controlling situation, it is called as
   (a) An associate (b) A branch (c) A subsidiary (d) A foreign affiliate