Maa Omwati Degree College

Hassanpur

Exam Notes

Subject - India Business Environment

Class - B.B.A. 5th sem.

Session - 2020-21

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Unit - I

Business Environment

Business environment refers to those aspects of the surroundings of business enterprise which have influence on the functioning of business. An organisation can servive and grow only when it continuousaly and quickly adapts to changing environment.

Nature of Business

Following points highlight the nature of business.

1. Exchange of Goods and services

Business is an economic activity which is concerned with exchanging goods and services

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to satisfy human wants.

2. Profit Motive

The prime consideration in any business is to earn profit which represents a fair return on capital employed and reasonable reward for risk taken.

3. Continuity in Dealings

One single transaction does not constitute business. The term business refers to a series of dealings in regular sequence.

4. Human Activity

Business is an human activity because human resource alone is able to utilise available physical resource of a business.

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5. Business is a Social Activity

Business can not be run without society. It gets raw materials, capital and other resources from society.

6. Wide Scope

The scope of business is very large. It includes not only production but also distribution, transportation, banking, insurance, packaging and development etc.

7. Innovation and Research

Businessman have to encourage innovation and research in their respective fields of activities.

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Components of Business Environment

- Internal Evi.
  - a) Financial Resources
  - b) Physical Resources
  - c) Objectives of Business
  - d) Managerial Policies
  - e) Morale of HR
  - f) Work Evi.
  - g) Brand Image
  - h) Labour Management relationship
  - i) Technological and R&D capabilities
  - j) Promoters Vision
- External Evi.
  - Micro Evi
    - a) Suppliers
    - b) Customers
    - c) Market
    - d) Competitors
    - e) Public
  - Macro Evi.
    - a) Economic
    - b) Political
    - c) Socio-cultural
    - d) Technological
    - e) Natural
    - f) Demographic
    - g) International

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1. Internal Environment

Internal environment includes 5 MS i.e., man, materials, money, machinery, management available with business. The components of internal environment are usually within the control of business. Quality of human resources, a component of internal environment is largely responsible for success or failure of a business unit. If employees of an organisation are skillful towards the organisation, than it can take the business big hight.

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2. External Environment

"The environment of business consists of all those external things to which it is exposed and by which it may be influenced directly or indirectly."

— Reimche and Schoell

External environment refers to external aspects of the surroundings of business enterprise which have influence on the functioning of business. The external aspects of the surrounding are by and large, beyond the control of business.

Basic Nature of Indian Economy

The term Indian economy is the outcome of two words, Indian plus economy. "Indian" refers to those concerning India. "Economy" refers to all those activities and arrangements which the citizens of a country, either individually or collectively, undertaken to satisfy their wants of food, clothing, shelter, etc. Indian economy is not just a study of facts and figures relating to economic life of indian rather it undertakes to analysis the causes and effects of the problems pertaining to economic life. Nature of Indian economy becomes clear from the following characteristics :

1) Indian Economy is an Underdeveloped Economy.
2) Indian Economy is a mixed Economy.
3) Indian Economy is a planned Developing Economy.

A comprehensive study of above three characteristics of Indian economy will be beneficial for us.

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Indian Economy is a Mixed Economy

According to Lord Keynes mixed economy is one that has the merits of both capitalism and socialism. In this kind of economy, both public and private sectors take active part in the economic development of the country. Indian economy is a mixed economy. The main aim of industrial Policy 1948, 1956, 1977, 1980, and 1991 is to achieve the economic development of the country on the basic of mixed economy.

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Public Enterprise

According to A.H. Hanson, "Public enterprise means state ownership and operation of industrial, financial and commercial undertakings."

Objectives of Public Sector

1) To increase Capital Formation.

2) To set up Heavy Industry.

3) To Set up Defence Industries.

4) To Promote Economic Equality.

5) To check Evils of Monopoly.

6) To Perform Welfare Activities.

7) To Promote Self-Reliance.

Development of Public Sector

Public enterprises were first developed according to the format of Industrial Policy of 1948. Industrial Policies of 1956, 1977 and 1980 further enhanced the functional limits of Public enterprise in the economy. In the new industrial Policy 1991, ares of Pubic enterprises has been reduced. Share of Public enterprises in total Production of the economy was 22 Per cent in the year 2007 – 08, there were. In tenth plan the shares of public enterprises in capital formation was 24 per cent. In eleventh plan the projected shares of public enterprises in total capital formation is 21.9 per cent. In 2007-08, there were 214 working public enterprises in the country involving capital investment of nearly Rs 7,63,815 Crore. Public sector enterprises are also expected to generate employment opportunities in the economy. In these enterprises, job security is more, so people prefer employement in public enterprises.

Progress of Public Enterprises

Plan	No. of Working Public Enterprises of Central Government	Total Investment (Rs Crore)
First Plan (1951–56)	5	29
Second Plan (1956–61)	18	121
Third Plan (1961–66)	48	953
Fourth Plan (1969–74)	85	3,902
Fifth Plan (1974–78)	132	6,237
Sixth Plan (1980–85)	207	36,380
Seventh Plan (1985–90)	233	84,869
Eighth Plan (1992–97)	236	2,02,020
Ninth Plan (1997–2002)	232	3,03,400
Tenth Plan (2002–07)	217	6,65,124
Eleventh Plan (2007–08)	214	7,63,815
Twelth Plan (2012–2017)		

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Meaning of Private Sector

Private sector has played a significant role in the process of industrialisation in india. It refers to all those individual units or corporations engaged in production which are owned by ~~(public)~~ Private individuals and managed by them for profit motive. After Independence, India adopted the system of mixed economy. It was in accordance with this system that the Industrial Policy Resolutions of the government, divided the economy into private and Public Sector.

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Growth of Private Sector in India

Following parameters indicate the growth of private sector in India :

1. Increase in the Number of Private Sector Companies

Private sector in India is generally identified with joint stock companies with private management and ownership. Growth of joint stock Companies, therefore, serves as a measure for the growth of private sector as a whole.

2. Increase in Employment in the Private Organised Sector

Consistent rise in employment also points to the growth

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of private capitalism in India. Number of persons employed in private organised sector has increased manifold.

3. Increase in Employment (Factor) in the Private Organised Sector

Factor income in the form of rent, interest, profit and wages generated in the private sector has been consistently rising.

4. Growth of Small-Scale Industries

Growth of small-scale units is an important indicator of the private sector. In 1986-87, there were around 15 lakh

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small scale units in the country. In 2007-08, this increased to 133.67 lakh.

5. Growth of Big Business Houses

Big Business houses have made a substantial progress in India after independence. Various large industries houses have emerged in India, e.g., - Tata, Birla, Reliance, Modi, Bajaj etc.

Causes of Growth of Private Sector

1) Political Security and Stability.
2) United Market.
3) Development of Capitalist Agriculture.
4) Protection against Foreign Competition.

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Social Responsibility

According to H.R Bowen,
" Social responsibility is to pursue those policies and decisions or to follow those lines of actions which are desirable in terms of its objectives and values of our society."

As per declaration in International Seminar on Social Responsibility at New Delhi (1965),
" Social responsibility of business means responsibilities of business towards customers, workers, shareholders and the community."

Social responsibility of business implies achieving business objectives.

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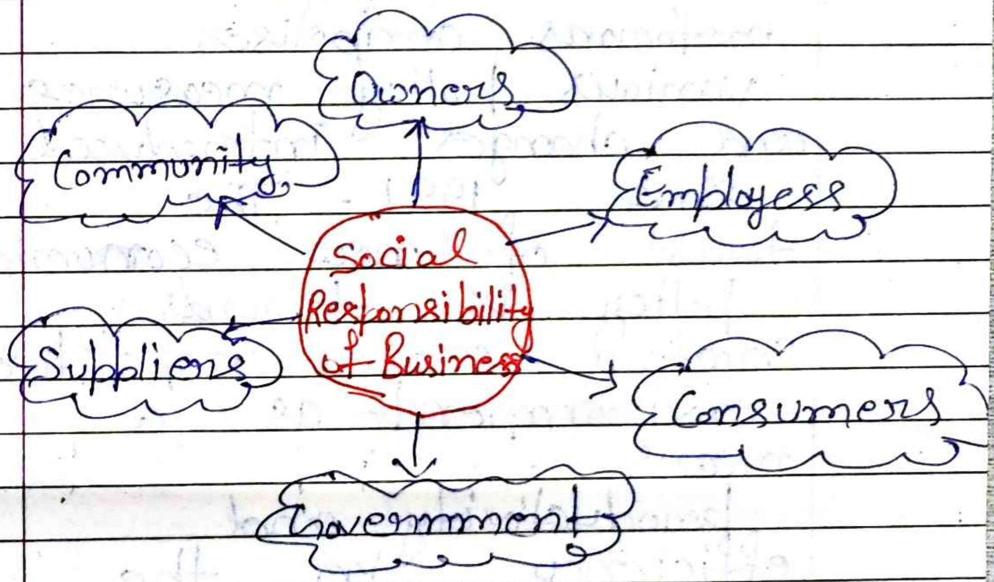
Social Responsibility of Business Towards Different Interested Groups



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Meaning of Economic Reforms

According to C. Rangarajan, Governor, Reserve Bank of India, "The new economic policy economic reforms comprises various policy measures and changes introduced since 1991. The trust of new economic policy is towards creating more competitive environment as a means to improve the productivity and efficiency in the economic policy is towards creating more competitive environment as a means to improve the productivity and efficiency in the economy."

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Economic Reforms

Sience 1991, following economic reforms concerning liberalisation, privatisation and globalisation have also been undertaken:

1. Fiscal Reforms

Fiscal reforms means increasing the revenue receipts and reducing the public expenditure of the government in a manner that production and economic welfare are not adversely affected.

2. Finance Reforms

There refers to reforms in country's monetary's and banking policies.

Unit - 2

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Industorial Policy

Industorial policy means those principles and activities which are pursued and performed to help industorialise a country.

Industorial Policy in Free India

Need for a new, well-planned and clear industorial policy was felt in independent India. To meet this need, five industorial policies at different times intervals have to far been formulated in India, i.e. Industorial Policy, 1948, 1956, 1977, 1980 and 1991 respectively.

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1. Industorial Policy of 1948

Late Shyama Prasad Mukherjee, the then industorial Minister announced first Industorial Policy on 6th April 1948. In this Policy the system of Mixed Economy was started. Under this system Government was supposed to take keen and active interest in the progress of the country.

2. Industorial Policy of 1956

The main objective of this new industorial policy were acceleration of the rate of industorial and economic development, development of basic industories, machines-building industories etc.

3. Industorial Policy of 1977

On 23 December, 1977, Janata Party Government announced a new industrial policy. The same was replaced on 23 July, 1980 by another Policy by Congress Government.

4. Industorial Policy of 1980

Congress government announced on 23 July, 1980, a new Industorial Policy. This policy is mainly based on Industorial Policy of 1956. Main drawback of the Industorial Policy 1977 of Janata government was that it had laid undue emphasis on small and cottage industories. It ignores large scale and public sector industories. As, a result the possibility of fall in the growth rate of the industories and their unblanced development increased.

New Industorial Policy of 1991

On July 24, 1991, Government of India announced its new Industorial Policy. The main objective of this policy is to the liberalise the Indian Industorial economy from administrative and legal controls. Its main aim is to raise industorial efficiency to the international level.

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Meaning of Industorial Policy

Industorial policy means these principles and activities which are pursued and performed to help industrialise a country. Industorial policy includes rules, regulations, principles to regulate the industorial undertakings of a country in a desired direction so as to achieve broader objectives like industorial development, economic development, balanced regional development, increase in employement etc. Industorial policy includes policy regarding labour and capital, cottage and small industories.

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Industorial Licensing Policy

The Indian Government resorted to the licensing system in order to maintain control over industories according to the Industories Development and Regulation Act, 1951. A licence is a written permission granted to an enterprise by the government according to which the product mentioned therein can be manufactured by the enterprise. The license also included many other particulars such as:

i) The place where the factory to be established.

ii) The limit of the production capability.

iii) The name of the product to be produced.

iv) Expansion of the enterprise etc.

Objectives of licensing

The main aim of the licensing policy in India to regulate the industrial policy sector in the desired direction and to properly implement the industrial policy, especially the policy relating to the private sector. The main aims of the licensing system are :

1) Development and control of industrial investment and production as per objectives of plans.

ii) Checking the concentration of economic power.

iii) Encouraging small-scale industry.

iv) Regulating location of industrial units and ensuring balanced regional development.

v) Promoting technological advancements in industries.

vi) Encouraging new enterpreneurs for setting industries.

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Privatisation

In the context of economic reforms, privatisation means allowing the private sector to set up more of such industries as were previously reserved for public sector. Under it, existing enterprises of the public sector are either wholly or partially sold to private sector.

In the words of Barbara Lee and John Nellis," Privatisation is a general process of involving the private sector in the ownership or operation of a state owned enterprises.

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Measures Adopted for Privatisation

1. Contraction of Public Sector

Number of the industries reserved for the public sector has been reduced from 17 to 03 only. These three industries are — atomic energy, atomic minerals and railways.

2. Sale of Shares of Public Sector to the Private Sector

Upto 74 per cent of shares of public sector have been sold to foreign investors, institutional sector, mutual funds, public and workers. Now shares of PSU's are sold through Bidding process.

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3. Sick Public Sector Industries

Public sector industries will be treated in the same way as sick industries of private sector. Sick industrial Companies Act 1985 has been amended in December 1991.

4. Memorandum of Understanding

With a view to improve the working of private sector enterprises, a system of MoU has been introduced.

5. National Renewal Fund

This fund was established for protecting the interest of employees on account of privatisation.

Trends of Privatisation in India

In India, after independence, our government had given much emphasis to public sector units. Hence 17 key industries were reserved for public sector in industrial policy 1956. After 1991, our government realised that PSUs are not operating efficiently. So government privatised some PSUs and at present, number of industries reserved for PSUs is reduced from 17 to 3. Various loss making PSUs have been sold to private sector. Even in case of profit making enterprises.

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Liberalisation

Liberalisation means to reduce unnecessary restrictions and controls on business units imposed by government. It means procedural simplification, relaxing trade and industry from unnecess-cary bureaucratic hurdles. Prior to 1991, government had imposed severls types of controls on Indian economy, e.g., industrial licensing system, price control or financial control on goods, import licence, foreign control exchange, restrictions on investment by big business houses.

Benefits of Liberalisation

1) Increase in Foreign Investment.
2) Increase in Foreign Exchange Reserves.
3) Increase in Industorial Production.
4) Increase in Competition.
5) Control over price.
6) Control on corruption.
7) Reduction in Dependence on External Commercial Borrowings.

Disadvantages

1) Increase in Unemployment.
2) Loss to Domestic Units.
3) Increased Dependence on Foreign Nations.
4) Unbalanced Development.
5) Increase in Regional Imbalances

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Small and Medium Enterprises

Small and medium enterprises occupy an important place in Indian economy. These industories have a special place in the sphere of employement and economic development. For the last many years these industories has been producing a wide range of commodities from ordinary consumer goods to sophisticated goods have based on the most modern techonology, like electronic goods, television sets etc. Objectives of all plans has been to develop small and cottage industories in the countory.

Problems of Cottage, Small and Medium Enterprises

Cottage and small-scale industories are in a very backward state in India. These are facing many probles enumerated below :-

1. Problem of Raw Material

These industories do not get raw materials in adequate quantity. Whatever raw materials they get is poor in quality and high in price.

2. Lack of Power

These industries do not get raw material in adequate quantity. There are frequent power-cuts.

3. Problems of Finance

These industries do not get adequate loan facilities, as they can not offer goods quality or security because of poverty.

4. Old Methods of Production

These industries makes use of old methods of production mostly. Old tools and equipments, like oil expellers are still in use.

5. Sick Units

In India, about 1,14,132 small scale units were sick in the year 2007. The sick units are running under loss.

Suggestions for improvement of SME's

Following suggestions are offered to solve the problems of small and medium industries :—

1) Industrial Cooperative Societies.
2) Supply of Raw Materials.
3) Marketing facilities.
4) Credit Facilities.
5) Improvement in the Method of Production.
6) Training.
7) Protection.
8) Government help.
9) Quality Control.
10) Publicity and Exhibitions.
11) Government Emporiums.
12) Research.
13) Management Consultancy.
14) Modernisation.

Industrial Sickness

Industrial sickness is a universal phenomenon. It is a major problem of industries in all countries of the world, may be developed or developing countries. Industrial sickness is a matter of serious concern because besides affecting the owners, employees, creditors and suppliers, it cause of wastage of national resources and social unrest. Growing incidence of sickness has been one of the major problem faced by the industrial sectors of the country.

Causes of Born Sickness

1) Wrong Location.
2) Inexperienced Promoters.
3) Technological factors.
4) Investment in Unproductive Capital Assets.
5) Long Geastation Period.
6) False Rosy Picture Presented by Consultancy firms.
7) Faulty Demand Forecasting.

Suggestions to Prevent Industrial Sickness

1) Proper Project Planning.
2) Proper Market Analysis.
3) Balanced Marketing Mix.
4) Research and Development
5) Diversification.
6) Soft Loans for Sick Units.

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Unit - 3

Meaning of Development Banks

Development bank is a term leading financial institution. It is concerned with providing medium and long term finance to business units. It also provides other types of financial services etc. They are underwriting, guarantee of loans, identification of investment projects, evaluation of project reports, provision of technical advice, market information and management services etc. It provides financial assistance not only to private sector but also to public sector, units. Development banks do not accept deposits from the public.

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Objectives of Development Banking

1) To serve as an agent of development in various sectors, industry, agriculture.
2) To accelerate the growth of economy.
3) To develop enterpreneurial skills.
4) To take up rural development.
5) To finance projects which are of great importance to the economy.
6) To finance small scale industries.
7) To finance exports.
8) To provide technical assistance.

Date

Main Development Financial Institutions and Banks in India

Followings are the main financial institutions which provide industrial finance :

i) Industrial Finance Corporation of India — (IFCI) - 1 July 1948 → New Delhi (HQ)

ii) Industrial Credit and Investment Corporation of India — (ICICI) → June 1994, Vadodara Mumbai (HQ)

iii) Industrial Development Bank of India — (IDBI) 1 July 1964 → MUMBAI (HQ)

iv) Small Industrial Development Bank of India — (SIDBI) 2nd April 1990 → LUCKNOW (HQ)

v) Industrial Investment Bank of India — (IIBI) Inception → 1971, closed → 2012, HQ → LONDON, UK

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vi) State Finance Corporation — (SFCs) SFC Act 1951

vii) State Industrial Development Corporations — (SIDCs)

viii) India Infrastructure Finance Company Limited (IIFCL) 5 Jan. 2006

ix) Export import Bank of India (EXIM Bank) 1 Jan. 1982 EXIM BANK OF INDIA ACT 1981, HQ — Mumbai

x) National Bank for Agriculture are Rural Development (NABARD) - 12 July 1982 (Mumbai → HQ)

xi) Commercial Banks.

Meaning of Stock Exchange

Stock exchange is an organised market place where shares/ debentures / bonds are purchased and sold. Stock exchange serves as barometer, not only of state of health of an individual company but also of nation's economy as a whole. Stock exchange serves as a link between issuers and investors.

Definition

According to Pyle, " Stock exchanges are market places where securities that have been listed thereon, may be bought and sold for either investment.

Regulation of Stock Exchange

In India, for regulating the working of stock exchanges and for orderly development of securities market, following steps have been taken:

1) Enacting – The Securities Contracts (Regulation) Act, 1956'.

2) Establishing – 'Securities Exchange Board of India' – SEBI.

1. The securities Contracts (Regulations) Act, 1956

This Act empowers the government for regulating transactions in securities market and for regulating Stock exchanges.

Objectives of The Act

Following points highlight the objectives of The Securities Contracts (Regulation) Act, 1956 —

1) To regulate stock exchanges.

2) To prevent undesirable contracts and options in securities.

3) To ensure orderly development of stock markets.

4) To make rules regarding listing of securities.

5) To ensure proper management of stock exchanges.

2. Securities Exchange Board of India (SEBI)

The saving of public need to be protected from various kinds of malpractices, frauds, defaults, etc. It was obligatory on the part of governing system to establish regulatory bodies. UK and USA had created separate boards for regulation of stock exchange long back. UK had created securities and Investment Board (SIB) USA has created Securities and exchange Commission (SEC). The SEBI was established in 1992 by passing Securities Exchange Board of India Act.

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Management of SEBI

SEBI consists of followings:

i) Chairman – appointed by Central Government

ii) Two Members from official of Ministry of Finance.

iii) One member from officials of Reserve Bank of India.

iv) Five other members out of which atleast three will be whole time members.

The chairman and members will be persons of ability standing, intergarity.

Objectives of SEBI

The objectives of establishing SEBI are as follow:

i) To protect the interest of investors.

ii) To promote the orderly development of securities market and to regulate the securities market.

iii) To ensure fair practices by the companies issuing shares, debentures, etc,

iv) To promote the efficiency in services of capital market intermediaries like brokers, underwriters registrars etc.

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Role of SEBI.

The role of SEBI is discussed below :

1. Investor Protection

Earlier companies were not disclosing all relevant materials information and risk factors influencing the decisions of investors. Through financial window - dressing, the companies used to present rosy pictures.

2. Strengthening Primary Market

It is the market through which companies raise funds from public by issuing shares, debentures.

3. Strengthening Secondary Market

It is the market through which investors can purchase or sell shares of existing companies. It refers to stock exchanges. For improving the functioning of secondary markets, SEBI has issued guidelines.

4. Modernisation of Trading System

SEBI has contributed to modernisation of trading system by introducing computerized internet tranding. It has initial electronic trading system in all the stock exchanges of the country.

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Indian Banking System

Bank is a institution that accepts deposits from the public, mobilise their saving and keeps the same under its custody.
In term of Indian Banking Companies Act, " Banking company is one which transacts the business of banking which means the acceptance for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise and withdrawable by cheque, draft – order or otherwise".

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Banking Sector Reforms

Following recommendations of Narasimham Committee have been implemented by government of India :

1. Deregulation of Entry of Private Sector Banks

In 1992 – 93 the entry of private sector banks both domestic and foreign has been regulated.
At present there are 26 domestic and 32 foreign private sector banks.

2. Liberalised Branch Expansions

The branch licensing policy has been liberalised. The banks are allowed more (penetration) freedom to plan branch expansion.

3. Deregulation of Interest Rates

The branch licensing policy has been liberalised. After the reforms, interest rates have been deregularised. Prior to 1992, interest rates were compeletly administered by the R.B.I.

4. Introduction of Capital Adequacy Norms

Narasimham Committee recommended the introduction of prudential norms, to meet international standards.

5. Introduction of Internationally Accepted Norms of Income Recognition

Alongwith the introduction of capital adequacy norms, New norms has been interdouced.

Challenges Facing Public Sector Banks

After nationalisation of 14 banks in 1969 and 6 banks in 1980, public sector Banks gained importance in Indian financial system. Number of branches of PSBs were 68,267 as on 30th June 2008. A present public sector banks, private sector banks and foreign banks are the main organs. These organs are as follows:

1. Public Sector Banks

These banks are owned, controlled and managed by the government. In 1969 and 1980, total 20 banks were nationalised.

2. Private Sector Banks

These banks are owned, controlled and managed by the private sector. There are 26 banks in private sector e.g. HDFC bank, ICICI bank, IDBI Bank, Axis Bank etc.

3. Foreign Banks

upto June 2009, 32 foreign banks have started their branches in India, e.g. - citibank, Standard chartered Bank, ABN - Amro Bank etc.

The increased cometition has also increased the expectations of customers from banks.

Non-Banking Financial Institutions

Non-Banking financial institutions are heterogeneous group of financial institutions, other then commerical and cooperative banks. These institution are an intergral part of the Indian financial Institutions. A wide variety of financial institutions are included in it. NBFs include development banks, provident banks, mutual funds, non-banking financial companies etc. All institution other than commercial and cooperative banks engaged in the transferring of funds from savers to investors are known as NBFs.

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Factors Contributing to the Growth of NBFIs

According to A. C. Shah Committee, a number of factors have contributed to the growth of NBFI s. Strict regulation of the banking system and relatively lower degree of regulations over NBFI s has been one of the main reasons for their growth. But during recent years, regulations over their activities has been strengthened. The merit of non-banking finance companies lies in the higher level of their customer - orientation.

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Main NBFI s Operating in India

Main NBFI s operating in India are as under:

i) Industrial Finance Corporation of India — (IFCI)

ii) Industrial Credit and investment Corporative of India — (ICICI)

iii) Industrial Development Bank of India — (IDBI)

iv) Mutual Funds.

v) Pension Funds.

vi) Unit Trust of India (UTI)

vii) Export - Import Banks.

Unit - 4

Meaning of Foreign Trade

International Trade / Foreign Trade is the trade between residents of India and residents of other countries of the world.

Foreig Trade of India

Study of Foreign trade of India can be divided into two parts:

1) Foreign Trade of India before Independence.

2) Foreign Trade of India after Independence.

1. Before Independence

Study of India's foreign trade before independence can be devided into the following parts:

1) Volume of Trade
2) Composition of Foreign Trade.
3) Direction of Trade.
4) Balance of Trade.
5) Composition of Foreign Trade.

2. After Independence

In the post independence period, especially after 1951, when india launched its First Five Year Plan its foreign trade underwent a good deal of transformation. This change will be studied in four parts:

i) Volume of Foreign Trade
ii) Composition of Foreign Trade
iii) Direction of Foreign Trade.
iv) Balance of Trade.

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India's Balance of Payment

Unfavourable balance of payment is a serious problem of India. Balance of payments refers to the recording of all economic transactions of a given country with the rest of the world. This includes all types of goods exported and imported. Ordinary, a country has to deal with other countries in respect of three items, namely (i) Visible Items: These includes all types of physical goods exported and imported. (ii) Invisible Items: these includes all types of export and imported of services; (iii) Capital Transfers: These are concerned

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with capital receipts and capital payments like investments by foreigners in India. When the difference in the value of imported and export of only physical goods is taken into account, it is called Balance of Trade. When the difference in the value of imported and exports of all the three items, i.e., visible, invisible and capital transfers, is taken into accounts, it is called Balance of Payments. Balance of payments is thus an overall record of all economic transactions of a country, in a given period of time, with rest of the world.

New Foreign Trade Policy (New EXIM Policy 2009-2014)

The new Foreign Trade Policy 2009-20014 was announced on 27th August 2009. Its duration is from 27th August, 2009 to 31st March 20014. This policy was announced at a challenging time when entire world was facing severe global recession. Nations across the world have been badly affected in term of all major economic indicators like industrial production, Foreign Trade, Foregin Capital Flow, unemployement, etc. India too, is badly affected in terms of exports.

Objectives of New Foreign Trade Policy

1) To arrest and reverse the declining trend of exports.
2) To provide additional support to sectors which have been badly hit by global recession.
3) To double our exports of goods and services by 31st march, 2014.
4) To use foreign trade as a instrument of economic growth.
5) To simplify the procedures forms and documents of foreign trade.
6) To set up towns of export excellence in the country.

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Overseas Investment Policy of India

Indian overseas investment policy has been progressively liberalised and simplified to meet the changing needs of growing economy and to make indian corporate sector globally competitive. Various phases of India's overseas investment policy are discussed below:

1) The first policy in the form of guidelines governing overseas direct investment was issued in 1969 by the government of India. They permitted minority participation by an Indian party with no cash remittances. wherever necessary was also favoured for promoting such investments.

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2) The Government modified these guidelines by issuing a set of more comprehensive measures in 1978. These measures included provision for the approval, monitoring and evalution of investment proposals by the Ministry of Commerce.

3) The policy of Indian overseas investment was first liberalised in 1992. Under it, an Automatic Route for overseas investments was introduced and cash remittances were allowed for the first time with restrictions on the total value.

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Foreign Capital / Investment

Foreign capital refers to the investment of capital by a foreign government, institution, private individual, international organisation in a country. Foreign capital includes foreign aid, commercial borrowings and foreign investment.

Classification of Foreign Capital

Foreign capital is classified as under:

1) Foreign Aid.
2) Commercial Borrowings.
3) Foreign Investment – Participation in Equity Capital.

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Policy Regarding Foreign Investment

Prior to independence, British Government in India had no definite policy regarding foreign capital. Capital invested by the Britishers was given preference over the capital invested by other countries. Foreign capital made a significant contribution to the development of railways, electricity, jute industry, tea and coffee plantation, and coal and other mines in India. India's foreign capital policy is as follows:

1) Foreign Capital Policy 1949.
2) Foreign Capital Policy 1991.

Role of MNCs in India

1. Availability of capital

Multinational corporations help to solve the problem of capital faced by underdeveloped countries.

2. Availability of Modern Techniques

MNCs provide modern technology services to enterprises established by them. As a result the productivity of those enterprises increases.

3. Availability of Marketing Services

Multinational corporations make availability marketing services especially related to export marketing, advertising, market research, storage facilities etc.

4. Increase in Export

The multinational corporations utilise cheap domestic labour and their huge capital resources to convert raw materials into finished goods.

5. Increase In Knowledge

MNC's impart training in local employees in respect of modern management, marketing, finance, export etc.

6. Increase in Industrialisation

Multinational corporation make important (corporation) contribution in industrilisation of developing countries.