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

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

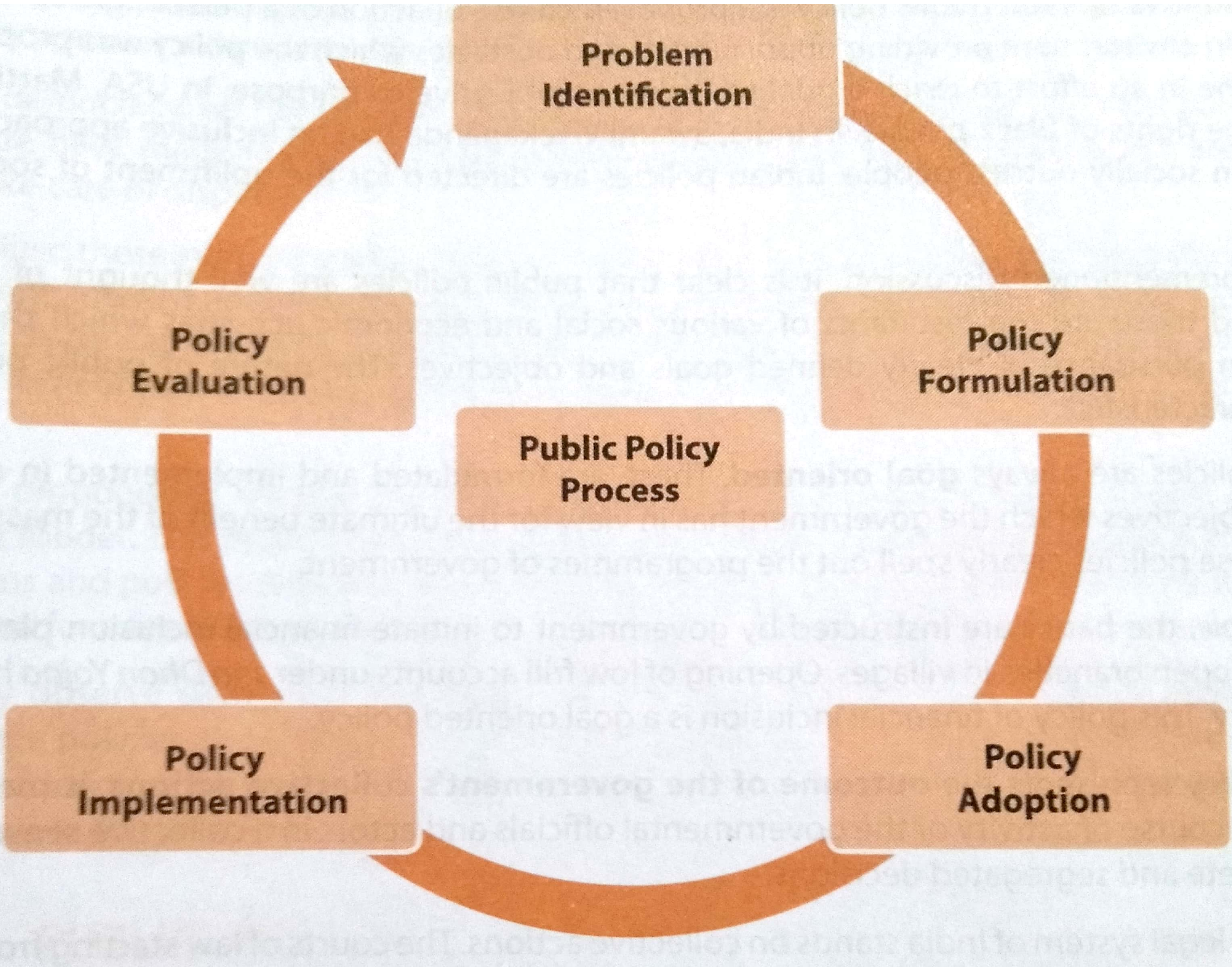
   For example, the banks are instructed by government to initiate financial inclusion plan and they are bound to open branches in villages. Opening of low frill accounts under *Jan Dhan Yojna* had been made mandatory. This policy of financial inclusion is a goal oriented policy.

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

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

3. Public policy is what the government actually decides or chooses to do. It is the relationship of the government units to the specific field of political environment in a given administrative system. It can take a variety of forms **like law, ordinances, court decisions, executive orders, decisions**, etc. In India most of these public policies are written statements and these are decided by government and other regulatory bodies.

4. Public policy is **positive in the sense that it depicts the concern of the government** and involves its action to a particular problem on which the policy is made. It has the sanction of law and authority behind it. Negatively, it involves decisions by the governmental officials regarding not taking any action on a particular issue. In nations run by autocratic military dictators and dictatorial minority, we see exceptions and their public policy turns often negative. For entrepreneurs and business house, it is very important to know the major fundamental policies followed by a government before entering a new country.



Components of Public Policy Process

Public policies are of three types:

- Restrictive
- Regulatory
- Facilitating

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

the growth and development of the nation.

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

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

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

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

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

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

Privatization may be of conceptualized in following prominent types:

Govt. delegates some authorities to private sector & is responsible for it

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

4.10 FOREIGN DIRECT INVESTMENT IN INDIA (FDI)

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

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

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

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

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

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

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

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

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

4.11 FOREIGN INSTITUTIONAL INVESTORS (FIIs)

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

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

SUMMARY

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

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

8. The form of privatization, where government keeps hold of responsibility and private enterprise handles the management of it fully or partly is known as:
   a. Disinvestment
   b. Deregulation
   c. Delegation
   d. Decentralization

9. SEBI, RBI and IRDA are:
   a. Regulatory Institutions
   b. Policy institutions
   c. Satellite Institutions
   d. Goal setting bodies

10. A ________ emanates from decision and decision is taken in line with ________. Identify the right expression to fill in the blanks:
   a. Policy ; Goal
   b. Budget; Plan
   c. Plan; Budget
   d. Goal; Plan

11. In case of Maruti–Suzuki, the Union Government surrendered partial ownership and sold the majority stake to Suzuki of Japan in course of time. This is a case of:
   a. Partial Disinvestment
   b. Displacement
   c. Delegation
   d. Divestment

12. In case of NOCIL (National Organic Chemicals Industries Limited), the Reliance Industries Limited as a private enterprise expanded and gradually displaced the government entity. It was a case of:
   a. Partial Disinvestment
   b. Complete Privatization
   c. Delegation
   d. Displacement

13. Blackrock invested 30 million USDs as a portfolio investor in Indian stock market. This may be a case of:
   a. FDI
   b. FII investment
   c. Indirect investment
   d. NRI investment

14. In order to take a decision, there must be ________ course of action. Fill in the blank space with appropriate expression.
   a. One
   b. Specific
   c. Financial
   d. More than one

15. FDI in sectors /activities which do not require any prior approval either of the Government or the Reserve Bank of India is identified as:

a. Green Channel

b. Priority route

c. Non-Commercial Route

d. Automatic Route

16. The method of FDI other than Automatic route is called :

a. NRI Route

b. Government Route

c. Institutional Route

d. Priority Route

17. FIPB stands for:

a. Foreign Institutional Promotion Board

b. Foreign Institutional Preparatory Board

c. Foreign Investment Priority Board

d. Foreign Investment Promotion Board

18. Identify the sector where, FDI is not permitted:

a. Automobile

b. Infrastructure

c. Textile

d. Atomic energy

19. Simplification of trade restrictions related to import is an example of:

a. Globalization

b. Privatization

c. Disinvestment

d. Aggregation

20. Sale of 50% stake in a PSU to a single private sector company is an example of:

a. Displacement of stake

b. Decentralization of Authority

c. Delegation of stake

d. Disinvestment to form a Joint Venture

21. FDI is allowed in:

a. Tea Plantation

b. Coconut Plantation

c. Sugarcane Plantation

d. None of the above

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

Answer Keys

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