1.1 INTRODUCTION

Global economy is at crossroads. There is no single or simple answer to current economic problems. Transparency in the conduct of monetary and fiscal policies is needed to provide an anchor for expectations. Developments that seem unusual, even unbalanced, need to necessarily be judged unsustainable. For example, the potential gains offered by new technology, particularly in the production of goods and financial services, may provide a sound rationale for a number of trends that currently seem hard to explain. Yet, a starting point characterized by significant macroeconomic imbalances and major financial restructuring does not present a comforting environment for policymakers; given very low interest rates and virtual price stability in many countries, the scope for lowering real policy rates is now limited. This chapter implies a continuing need to focus on measures to strengthen the global financial system which looks to be the most vulnerable part of market-based economies.

1.2 WHAT IS A BUSINESS?

A business is an economic activity. It refers to buying and selling of goods. Today’s business carries a complex area of commerce and industries which includes the activities of both production and distribution. To the enterprises business is related with the decision. What to produce? When to produce? Whom to produce? Where to produce? How much to produce? In simplest word we can say that the modern time’s business is very much complex. As the environment is dynamic and changes frequently so the above questions always make the business enterprises to rethink about their business strategies.

1.3 INTERNATIONAL BUSINESS

International business means the buying and selling of the goods and services across the border. These business activities may be of government or private
enterprises. Here the national border are crossed by the enterprises to expand their business activities like manufacturing, mining, construction, agriculture, banking, insurance, health, education, transportation, communication and so on.

A business enterprise who goes for international business has to take a very wide and long view before making any decision, it has to refer to social, political, historical, cultural, geographical, physical, ecological and economic aspects of the another country where it had to business.

India has managed an average economic growth rate of 6% since the 1990s. In the period 2000-2003, it averaged 5.8%. In the 1990s, the major contributors to Indian GDP have been traditional farming, modern agriculture, handicrafts, a wide range of modern industries and support services. India has a history of high inflation rates. However, in recent years it has been well under control. The RBI has been promoting liquidity in the economy since 1996. It took measures such as reducing the CRR, cutting short-term lending rates, and allowing banks to lend loans in foreign currency. The growing fiscal deficit is a macroeconomic problem the Indian economy faces. India’s trade has been booming in recent years with increasing IT exports.

Brazil is the largest and the most populous country in South America. It is the 10th largest economy in the world. Brazil’s economy is expected to recover in 2004 after going through a bad phase in 2003. Brazil experienced high inflation in 2002 and 2003. According to the central bank of Brazil, the fiscal deficit of the regional governments and state owned enterprises grew by 1.1% of GDP during 2003. The currency of Brazil, the real has been stable in the second half of 2003. The government does not want the currency’s value to appreciate in the future as it fears that this might hurt its exports.

Economic growth in China in 2004 is expected to be around 7.7%. Despite the high level of money circulating in the economy, the People’s Bank of China (PBOC), the Chinese central bank, does not favor an increase in interest rates. Government spending has been quite high in years 2002 and 2003. The current account surplus of China decreased from 2.9% of GDP in 2002 to 1.8% in the first half of 2003.

The US economy is the largest and most developed economy in the world. The economy grew at 3.3% in the second quarter of 2003. The economy posted strong growth of 8.2% in the third quarter. The inflation rate is expected to fall in 2004 due to lower food and energy prices. It is expected that the US Federal Bank will continue its low interest rate policy at least until the middle of 2004.

The US fiscal deficit is mounting. The deficit as on March 2004 was US $ 129 billion. The dollar has lost its value by as much as 21% since early 2002 period. US exports are picking up. But trade is not a significant contributor to growth in the US economy at present. Germany is the largest economy and the most populous country in Europe. The GDP of Germany grew by 0.4% in the first quarter of 2003. It fell by 0.7% in the second quarter. Inflation has been low in recent years.

It was 2.0% in 2001, 1.4% in 2002 and 0.7% in May 2003. Germany had an unemployment rate of 10.7% in April 2003. This is a marginal increase over
the last two years (10.1% in 2002 and 9.6% in 2001). Fiscal policy was restrictive in 2003. It aimed at reducing the budget deficit. This policy is expected to continue in the next few years as well. Germany had a trade surplus of 119.2 billion Euro in 2003 compared to 124.4 billion in 2002.

To function effectively and efficiently, companies operating internationally must understand the social environment of the host countries they are operating in. Today there are thousands of MNCs which operate in many parts of the globe. Such companies should familiarize themselves with the languages, cultures and the business environments of the countries in which they are operating.

The global business environment can be defined as the environment in different sovereign countries, with factors exogenous to the home environment of the organization, influencing decision making on resource use and capabilities. This includes the social, political, economic, regulatory, tax, cultural, legal, and technological environments.

The political environment in a country influences the legislations and government rules and regulations under which a foreign firm operates. The economic environment relates to all the factors that contribute to a country’s attractiveness for foreign businesses.

Every country in the world follows its own system of law. A foreign company operating in that particular country has to abide with its system of law as long as it is operating in that country. The technological environment comprises factors related to the materials and machines used in manufacturing goods and services. Receptivity of organizations to new technology and adoption of new technology by consumers influence decisions made in an organization.

As firms have no control over the external environment, their success depends upon how well they adapt to the external environment. A firm’s ability to design and adjust its internal variables to take advantage of opportunities offered by the external environment and its ability to control threats posed by the same environment, determine its success.

Companies operating in international markets function in a highly competitive environment and require strategies that differentiate their products and enhance their perceived value, while reducing production costs. Traditionally, many such companies have confined much of their value adding activities to their home countries.

Alternatively, they may duplicate some value chain activities such as production and sales and service in individual countries. Companies operating internationally face conflicting pressures. They need to offer their product at competitive prices, and at the same time, tailor it to suit local needs. To bring down prices, they may be forced to standardize the product and operate from a single location.

Customization of products to suit local preferences does not allow for standardization or location of the manufacturing unit in just one region. Customization raises a firm’s operating costs. To cater to specific and special
needs of local customers, the firm may have to set up similar facilities in several countries and modify their product features.

Pressures from local competition for customization and price competition from international competitors with low-cost production bases pose a challenge to international companies. These companies have to choose between standardizing products, manufacturing at a low-cost location and passing the cost advantage to customers, and setting up plants in different countries for customizing products, regardless of the high costs that may be involved.

Such companies have to frame a strategy that strikes a balance between these conflicting demands. For example, when choosing a location, they have to consider various aspects like labour costs, tax rates, infrastructure, distribution systems, patent laws, suppliers and government support. They should also identify the extent to which customers are willing to pay for customization.

1.4 BUSINESS DEFINITION FOR INTERNATIONAL MANAGEMENT

- The maintenance and development of an organization’s production or market interests across national borders with either local or expatriate staff.
- The process of running a multinational business made up of formerly independent organizations.
- The body of skills, knowledge and understanding required to manage cross-cultural operations.

1.5 INTERNATIONAL BUSINESS

International business is a term used to collectively describe topics relating to the operations of firms with interests in multiple countries. Such firms are sometimes called multinational corporations (MNCs). Well known MNCs include fast food companies McDonald’s and Yum Brands, vehicle manufacturers such as General Motors and Toyota, consumer electronics companies like Samsung, LG and Sony, and energy companies such as Exxon Mobil and BP. Most of the largest corporations operate in multiple national markets.

Areas of study within this topic include differences in legal systems, political systems, economic policy, language, accounting standards, labor standards, living standards, environmental standards, local culture, corporate culture, foreign exchange, tariffs, import and export regulations, trade agreements, climate, education and many more topics. Each of these factors requires significant changes in how individual business units operate from one country to the next.

MNCs typically have subsidiaries or joint-ventures in each national market. How these companies are organized? How they operate?, and their lines of business are heavily influenced by socio-cultural, political, global, economic
and legal environments of each country a firm does business in. The management of the parent company typically must incorporate all the legal restrictions of the home company into the management of companies based in very different legal and cultural frameworks. International treaties, such as the Basel Accords, the World Trade Organization, and the Kyoto Protocol often seek to provide a uniform framework for how business should be influenced between signatory states.

International business by its nature is a primary determinant of international trade, one of the results on the increasing success of international business ventures is globalization. Trade helps to prevent conflict. International business essentially is about trade, and when people trade they are in contact with one another. As a result, there is less isolation that countries can do. When countries begin to interact through trade, they are less likely to fight. This is also linked to the theory that democratic states are less likely to go to war with one another because they are interconnected and dependent on each others success.

1.6 DISTINGUISH BETWEEN DOMESTIC AND INTERNATIONAL BUSINESS

Trade means exchange of goods and services for the satisfaction of human wants. The process of exchange includes purchase of goods and services and their sale. The trade may take place within geographical boundaries of a countries or may be extended to across the border. When trade is confined to the geographical limits of a country, it is a domestic or national trade. In national trade both the buyer and the seller are of the same countries and they enter into trade-agreements subject to the national laws, practices and customs of trade. But International or foreign trade refers to the trade between two countries. Purchaser and seller are citizens of two different countries and are subject to International or bilateral laws of trade and tariffs.

Technically, domestic trade and International trade are more or less identical and are based on the same basic principles of trades. But practically, there are certain differences between internal and International Trade. It was on the basis of these differences that the old classical economists propounded a separate theory for international trade. The main points of difference are as follows:

1. Difference in Currencies: There is only one currency acceptable all over the country and therefore there is no difficulties in making payments in Internal trade. But, each country has its own monetary system which differ from others. Exchange rates between the two currencies are fixed by the monetary authorities under the rules framed by the International Monetary Fund. All payments for imports are to be made in the exporting country’s currency which is not freely available in importers country. The scarcity of foreign currency may sometimes limit the size of imports from other countries.
2. **Difference in Natural and Geographical Conditions:** Natural resources like availability of raw materials, composition of soil, fertility of soil, rainfall, temperature etc. differ widely from country to country. On the basis of this speciality, countries specialise themselves in the production of certain selected commodities and therefore they produce better quality of goods at lower rates and sell them in the International market. It causes difference in domestic trade and foreign trade.

3. **Mobility of Factors of Production:** Mobility of different factors of production is less as between nations than in the country itself. However, with the advent of air transport, the mobility of labour has increased manifold. Similarly mobility of capital has increased with the development of international banking. Inspite of these developments, mobility of labour and capital is not as much as it is found with the country itself.

4. **Sovereign Political Entities:** Each country is an independent sovereign political entity. Different countries impose different types of restrictions on imports and exports in the national interest. The importers and exporters shall have to observe such restrictions while entering into agreement. These restrictions may be:
   
   (i) Imposition of tariffs and customs duties on imports and exports;
   
   (ii) Quantitative restrictions like quota etc.
   
   (iii) Exchange control;
   
   (iv) Imposition of more local taxes etc.

   No such restrictions are imposed on domestic trade or restrictions imposed on internal trade are quite different.

5. **Different Legal Systems:** Different legal systems are operated by different countries and they all widely differ from each other. The existence of different legal systems makes the task of businessmen more difficult as they have to follow legal provisions of the two countries as regards the particular trade.

### 1.7 WHY DO COUNTRIES ENTER INTO INTERNATIONAL TRADE?

Today hardly is there any country which is not engaged in International Trade. The economies of certain small countries are dependent mainly on International Trade. Here a genuine question arises as to why two countries enter into International Trade. There are a number of factors which contribute to the development of foreign trade. Most important among them are:

1. **Natural Resources and Geographical Factors:** Each country differs in natural resources and geographical distribution of various factors of production. Diversities in natural and geographical distribution of various factors of production. Diversities in natural and geographical conditions make a country more efficient in the production of one commodity and another country in some other commodity. These
countries specialise themselves in the production of such commodities and supply them to other countries in exchange for the commodities which they do not produce but other countries have specialisation in their production. For example, because of favourable natural conditions, India and Sri Lanka taken together produce 87% of the world total production of tea. Mica in India, manganese in Russia and oil in Arab countries are a few examples of this kind of specialisation.

2. **Occupation Distribution:** The population and its occupational distribution also differ from country to country. Occupational structure of its population decides the field of specialisation. For example, a large part of India’s population is engaged in agriculture, hence it has specialised in the production of food grains and other agricultural products. England, on the other hand, has specialised itself in the production of Industrial goods as it has abundance of capital and scarcity of land and a large part of its population is engaged in Industries. Thus, countries specialise themselves on the basis of their occupations. Specialisation gives birth to international trade.

3. **Means of Transport:** Means and costs of transportation also contribute to the International trade. Industries using weight losing raw materials one generally localised at places near to the raw materials because the transport costs is the deciding factor. The countries where such raw materials are found in abundance, get specialised in their end-product. For example, India is a large producer of sugarcane and therefore, sugar industry is located mainly in India. At International level, the factors of production are not freely movable, because they involve high cost of transportation. Other countries, therefore cannot set up sugar industries and shall make imports of sugar from India and other sugar producing countries.

4. **Large-scale Production:** Large scale production of a commodity gives many advantages of scale. The industry of such a commodity can produce it at a lower cost because of scale economics and specialisation. After meeting the demand for the commodity in the national market, the surplus can easily be exported at a price fetching and handsome profits to the industry. For example, an industrial unit producing locomotive engines for the Indian Railways, can specialise itself in the production of locomotives. Large scale production of locomotives may enable the unit to export them to neighbouring countries.

5. **Differences in Costs:** Production costs of a commodity differ from country to country due to a number of factors:
   (i) Availability of natural resources and geographical conditions.
   (ii) Occupational structure.
   (iii) Large-scale production.
   (iv) Development in the field of science and technology etc.
Countries having favourable conditions can produce the commodities at a lower costs and other countries at higher costs. Higher domestic
costs of production shall encourage the imports of that commodity into the country and lower costs items may be exported.

6. **Degree of Self-sufficiency:** No country of the world is self-sufficient. The degree of self-sufficiency, however differs from country to country. For example the Russia imports 2% to 3% of its requirements and the USA only 4% to 5% of its total consumption. The degree of self-sufficiency is 40% to 50% in underdeveloped countries. Therefore, the countries which cannot produce at all or can produce only at a very high cost, arrange the supply of such goods through imports from other countries.
2.1 INTRODUCTION

The trade barriers are falling very much in international business which can be considered as the legal barriers and international interruption in international business.

The number of countries has more than tripled in the past 50 years. Businesses find themselves dealing with more individual countries, each with their own commercial laws and legal systems.

During the last 15 years, world exports for goods have grown on average 6% a year. Twenty years ago, people often associated business law with a particular nation. Today, they cannot afford to a variety of international trade rules and practices. The legal systems have not evolved; investors operate in a climate of uncertainty. In the last decade, many developing countries have become WTO members; yet few have ratified more than 30% of the world’s 200 most important trade treaties.

All the international business enterprises know the changing environment of the legal formalities which is tough and tightly negotiated. In today’s scenarios more deals means more cases are finding their way to the courts. Countries that have not invested in alternatives to court trials are seeing backlogs of cases, with associated high costs and lost business opportunities.

With different business and legal cultures and practices across the world, small firms need help to export in terms they and their foreign business partners understand. Most cannot afford lawyers. Nor can they afford to isolate themselves from international trade.

2.2 PRESENT SCENARIO IN INTERNATIONAL ECONOMIC SYSTEM

The free market economic system, as currently practiced, has been shown to promote more economic growth and prosperity than any other economic system. The international economic system has four main economic systems, two,
traditional and market, are not currently practiced. A form of traditional economy may be practiced by remote tribes in New Guinea or the Amazon but of course this takes place within the sovereign territory of a recognized nation state. Pure market economies don’t exist and are unlikely to as long as governments exist and special interest groups have their ear. The two systems most familiar to us from the 20th Century are planned and mixed economies. Since the collapse of the Soviet system, planned economies are not as prevalent as they once were but still exist in states like North Korea, Iran and Cuba. While the current phase of globalization has been spurred by that collapse, the negative effects of economic liberalism, particularly in emerging and less developed nations, could give rise to another era of centrally planned economies. Popular discontent with economic upheavals has been exploited recently by autocrats like Venezuela’s Hugo Chavez to return his country’s economic system back a more familiar command system.

2.3 GLOBALIZATION AND INTERNATIONAL BUSINESS

Perceptions about globalization and its effects vary, and have gone through a definite cycle in the past ten years or so. The upswing of the cycle occurred in the first half of the 1990s, a period characterized by a highly optimistic mood in industrialized countries. Politically, the collapse of Communism in Eastern Europe at the end of the 1980s and of the Soviet Union in 1991, and the enthusiastic adoption of democratic systems and market oriented policies by these countries, contributed to an air of triumphalism in the West. The change was viewed as epoch making, heralding what Francis Fukuyama had called the “end of history”. These events coincided with the start of a prolonged boom in the U.S., which was fed by extraordinary productivity gains from new technology especially the application of IT. The benefits of globalization were expected to flow to developing countries also through access to export markets in industrialized countries and integration into global supply chains, while also promising a limitless supply of capital to all “well managed” economies.

This mood of triumphantist optimism did not last very long. The East Asian crisis towards the end of 1997 provided a rude shock and this was followed in quick succession by the currency collapse in Russia in 1998, Brazil in 1999 and Turkey and Argentina subsequently. These crises, and the severe economic downturns they caused, focused attention on the vulnerability of emerging market economies, and the risks posed by globalization, especially in the financial markets. The failure of the international financial institutions to warn about these vulnerabilities, and their subsequent failure to restore stability quickly, eroded confidence in the quality of institutional support underpinning economic integration.

The economic mood in the industrialized world also changed contributing to an evaporation of the earlier optimism. The prolonged boom in the U.S. economy ended in 2001 with the collapse of technology stocks and the downturn in economic activity. As unemployment began to increase in the industrialized world, there was a backlash against globalization in the industrialized
countries and slogans of “fair trade” became common currency. The political mood also changed as the triumphalism associated with the “end of history” gave way, by the end of the 1990s, to worries about terrorism as a new and shadowy threat to democratic and open societies everywhere. These concerns were greatly magnified by the terrorist attacks of September 2001 in the United States.

Given this extreme swing in perception in the world at large, it is not surprising to the average man or woman in India is plagued by doubts about the nature of globalization, what impact it will have on ordinary people and what it implies for our policies. Before turning to these issues, we would like to emphasise that the issue is not whether one is “for” or “against” globalization. Globalization is not a specific policy, or even a defined set of policies, that one can be for or against. Rather, it is a process taking place in the world around us, driven by international developments which are largely outside our control.

Globalization has undoubtedly created a totally different external environment, and we must try to choose policies which enable us to derive the maximum benefits from it, it does not mean that dealing with the global environment must be the only, or even the central, focus of development policy. It will be better able to cope with globalization if the country have a strong economy. That is why the National Common Minimum Programme has outlined a broad objective of achieving 7-8% growth per annum. It will be our endeavor, in the Planning Commission to speak out the implications of achieving the goal.

2.4 CHANGING BUSINESS SCENARIO IN INDIA

To achieve the objective of high growth and a strong economy it is the need to focus on many areas in the domestic policy agenda which are not primarily aimed at deriving benefits from the external environment and also to devise policies to deal specifically with the external environment.

Three areas at present that are critical for the domestic agenda independent of what can be do externally are the provision of essential social services (i.e., primary education and health) the need to restore dynamism to agriculture and the need to strengthen infrastructure. All three are essential whatever approach adopt towards the globalization. The third–strengthening infrastructure – is particularly critical derive the full benefit from globalization.

Another important, and largely domestic area which demands priority attention is agriculture. The Tenth Plan GDP growth target of 8% per annum was based on the assumption that could achieve agricultural growth of around 4%. This was a reasonable target and has been achieved in many other fast growing countries in East Asia. However, a review of recent experience suggests that our country is far from achieving this target. In fact, agricultural growth, which was around 3.4% per year from 1980 upto the mid 1990s, has decelerated subsequently to around 2.0%. This deceleration is undoubtedly at the root of
much of the reported dissatisfaction with the pace of progress in rural areas, and the many instances of acute distress in some areas.

Measures to restore dynamism to Indian agriculture will receive high priority in the Mid Term Appraisal. The agenda for corrective action in this area is complex. There is general agreement that it will be necessary to reverse the steady decline that has been witnessed over several years in public investment in basic rural infrastructure relevant for agriculture. It is very important to invest more in irrigation, rural roads and schemes for watershed management. It is also important to improve credit delivery in rural areas, strengthen extension services which have deteriorated almost everywhere and revitalize agricultural research.

It is also needful to evolve an agricultural strategy that would help agriculture to diversify away from an excessive reliance on food grains and towards higher value added horticultural crops. This is necessary even from a domestic perspective but it is also relevant from globalization since India could potentially become an exporter of certain fruits and vegetables. Diversification of agriculture poses its own problems some of which would be of special. Marketing of perishable horticultural produce requires very different marketing arrangements from cereals. It is needful to build a value chain from the farm to either on agro-processing industry or directly to the retail consumer and this chain must take account of the need for post harvest technology, cold chains, refrigerated transport, grading and modern marketing. This is clearly an area where there is scope for a much closer involvement of the corporate sector to provide value enhancement for the farmer through contract farming arrangements. This calls for changes in many areas including the current laws relating to the marketing of agriculture produce. It may require new form of co-operation between the corporate sector which provides the seed and technology and the extension services. A few pilot projects have shown good results, but these experiments need to be generalized and scaled up.

A third critical area constraining our growth is the quality of infrastructure. Infrastructure development is obviously important for growth in general, and it is especially important if we want to achieve competitiveness in world markets since this requires infrastructure of comparable quality. India has done much less than should have in this area, and corrective steps are urgently needed.

2.5 COMPARATIVE ANALYSIS OF INDIAN BUSINESS WITH OTHER COUNTRIES

China’s outstanding success in establishing itself as a reliable producer of manufactured consumer goods for mass markets in the industrialized countries. In 1990, India’s total exports were $18.5 billion and China’s total exports were $62 billion or a little over three times India’s at present. India’s exports are about $60 billion; whereas China’s exports are $438 billion, or seven times as large as India’s.
Keeping the total exports of India and China at $500 billion, if the two countries had retained the same relative shares as they had in 1990, India’s exports would have been $120 billion and China’s $380 billion. The extra $60 billion in exports for India translates into extra employment of about 5 to 6 million persons, which is more than 20 per cent of the total employment in the formal sector.

Export competitiveness also requires continued progress in restructuring trade policies away from the earlier approach followed in India and in other countries, which protected domestic producers behind tariff walls. While this helps the individual producer being protected, it has the inevitable result of raising the domestic cost structure of the economy making exports uncompetitive.

Trade liberalization is a process that has been underway in almost all developing countries. However, its pace has been much slower in India. Quantitative restrictions on imports were removed in stages beginning in 1992 and finally abolished only in 2001. Tariff levels for industrial goods have been reduced from an import weighted average of 80% in 1992 to around 20% in 2004-05, but these tariff levels are still among the highest in the world.

Policies towards foreign direct investment are extremely important in gaining competitiveness in a globalised world. China’s example of the impact of foreign direct investment is relevant in this context since almost 50% of Chinese exports are associated with FDI. In our own case, the role of FDI in modernizing a sector can be seen from the experience of the automotive sector. It was the entry of Maruti Suzuki which initiated the modernization of the sector twenty five years ago. Subsequently foreign investment brought in other contemporary motor vehicles and the resulting upgradation of the auto components sector has generated strong export capability in this area. Most recently, the competitive environment has seen the entry of a purely Indian designed vehicle which is even being exported.

Once again, China’s example indicates that we have not exploited the scope for FDI inflow fully. China attracts around $60 billion of FDI whereas FDI in India, on a comparable basis, is about $ 5 billion. The Chinese economy is three times the size of the Indian economy, which suggests that India should be able to absorb $20 billion. The Common Minimum Programme states that “India needs and has the ability to absorb two to three times the level of FDI than at present.” This translates to a target of $15 billion per year, which is a very reasonable target given what China has achieved.

China and South East Asia know that India suffers from an enormous infrastructure deficit. It has already mentioned the need for massive investments in rural infrastructure, mainly irrigation, rural roads and watershed development. An effective effort is required to upgrade our industrial and urban infrastructure.

Urban infrastructure is another dimension of infrastructure development which is grossly neglected. Success in achieving our growth target of 7–8% growth per year will inevitably put a strain on our major cities, especially those located in areas most likely to lead the economic expansion. None of these cities is institutionally and organizationally equipped to cope with the
demands that will be put on urban infrastructure including especially road transport, traffic management, urban water supply and sewage disposal. Part of the problem is that the management of our cities is not based on adequate empowerment of the cities and financial capacity based on a combination of property taxation and user charges.

Bangalore exemplifies the challenge posed by urban infrastructure. The city has benefited enormously from the software boom and has demonstrated the tremendous benefits that can be realized from globalization given an educated labour force an acceptable telecommunications infrastructure, and a base of technically competent private entrepreneurs. It has the promise of retaining its leadership role and emerging as one of Asia’s premier cities. But it has yet to demonstrate that it can stay ahead of the curve in providing the infrastructure support needed to sustain its boom town image. Bangalore has the enormous advantage of being an early winner, but in this highly competitive world it is necessary to work hard to stay ahead.

2.6 COMMON PROBLEM OF INDIA IN ACHIEVING COMPETITIVE ADVANTAGES

The State government is aware of the problem and is taking steps to ensure that Bangalore retains its position as a beacon for private investment both domestic and foreign. This is not simply a matter of making investments in one or other facility to deal with bottlenecks as they arise. It is necessary to restructure the system of urban governance and empower cities to look after themselves.

Recognizing the importance of infrastructure in India’s development, the Prime Minister has established a Cabinet Committee on Infrastructure under his Chairmanship to give high level attention to infrastructure related issues. The government hopes to use this forum to expedite decision making in this critical area.

The resources required to close India’s infrastructure deficit are enormous. An estimate made some years ago was that it needs to invest approximately $150 billion over a ten year period. Updated to today prices the amount would be closer to $200 billion. Resources on this scale cannot be provided by the public sector alone and it is the need to encourage private public partnership to bring in private resources into infrastructure development to the maximum extent possible. However, one must be realistic about the scope for attracting private investment. It is relatively easy in telecoms, airports and ports. It will be possible in power, once the reforms of the State Electricity Boards are underway but meanwhile a large part of the services would have to come from the public sector. It is also possible in roads where traffic density is high enough but there may be need for some public sector support through viability gap funding. There are other types of infrastructure such as rural roads, irrigation, watershed development etc. where private investment is unlikely to come forth.
All this means that a very large part of infrastructure investment will have to come from the Public sector either in the form of direct public investment in areas where the private sector is unlikely to venture, or the public contribution to public private partnership. We are trying to ascertain how we can mobilize the resources needed to meet these needs. One possibility, is to find ways of increasing the fiscal deficit beyond the levels permissible under the FRBM Act, for the specific purpose of providing funds for critical infrastructure development projects, but linked to a process whereby the additional deficit would be neutralized by effective use of foreign exchange reserves.

2.7 MEASURES TO ACHIEVE THE COMPETITIVE ADVANTAGES BY INDIA

The policy responses specifically needed for exploiting the potential benefits of globalization. The most important advantage which globalization offers today lies in the opportunity for expanding exports of goods and services. India had done well in the area of information technology related services, as the prosperity of Bangalore testifies, but had not shown comparable dynamism in exporting manufactured products. And yet, growth of labour intensive manufactured exports provides an opportunity for expanding productive employment which is a critical objective at present.

What does it take to become a successful exporter and thereby benefit from globalization? In addition to providing quality infrastructure, we must ensure that our domestic production structures are adequate to ensure global competitiveness. Developments in retail markets abroad have created mass consumer markets where most simple consumer goods are sold through large departmental stores and discount chains. These retailers source consumer goods from all over the world, but they typically demand supplies in large quantities and conforming to strict quality specifications. Some of our policies, such as the reservation of certain areas for the small scale sector, have prevented us from exploiting world markets. These policies were expected to promote employment in the small scale sector, but over a longer period they have prevented us from penetrating export markets which could have generated a much larger volume of productive employment. Successive governments have, over the years, removed items with export potential from the reserved list. This process needs to continue and hopefully, this will help in future.

India tries to make the tariff levels down to East Asian levels. To do this, India would need to bring the average tariff level down to one third of the present level. It is appropriate to mention that in one area where the country has performed exceptionally well is in the software and IT sectors, where tariffs on inputs and capital goods were kept at low levels.

The Cabinet cleared the proposal to establish an Investment Commission in the Finance Ministry. The Commission has a broad mandate to explore the scope for encouraging private investment both domestic and foreign. One of its tasks will be to make recommendations which could lead to the realization of the foreign direct investment potential of the country.