

The prevailing political environment in india economics essay



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India is a democratic nation wherein the government plays an active role in business affairs. Political changes exercise a significant influence on business. For example, coca-cola and IBM were forced to leave India due to very strict policy of the government during 1977-1980.

Bangalore and Hyderabad have become the most popular locations for information technology firms due to supportive political climate. Changes in the political scenario led to the entry of coca-cola, Pepsi-cola, IBM and other multinational corporations in India.

Business has to function within the framework of laws and regulations of the country. Legal environment exercises a significant influence on business activities. The main components of the legal and regulatory environment are as follows:

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Rights and duties of citizens as specified in the constitution

Laws concerning promotion, operation and expansion of business

Flexibility and adaptability of laws

Judicial system of the country

In recent years substantial modifications have taken place in various laws and regulations governing business in India. Removal of controls over foreign exchange and liberalization of foreign direct investment have led to the entry of several multinational corporations in the country.

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THE FORM OF GOVERNMENT

Government is one of humanity's oldest and most important institutions.

Since the early times, some kind of government has been an important source in the society. Every society needs some people to make and enforce decisions upon the society and the government refers to the process of exercising power in a group. Government generally means the public government as of a nation, state, province, country, city or village.

Government affects the activity of every human in important ways. Form of government refers to the set of political institutions by which a government of a state or a country is organized.

Each successive government is composed of a body of individuals who control and exercises control over political decision-making. Their function is to make and enforce laws and arbitrate conflicts. In some countries and states this group is often of hereditary class and in some of democracy, where political roles remain but there is frequent turnover of the people actually filling the positions. In parliamentary system, government is used to refer as the executive branch and governing party in presidential system.

The government is composed of the prime minister and cabinet and in other

cases as executive, legislative, judicial, bureaucratic and sometimes devolved powers.

The government plays an important role in almost every country's economy. According to the World Bank, " a substantial share of the nation's product goes to satisfy public wants, a substantial part of the private income originates in the public budget, and public tax and transfer payments significantly influence the state of private income distribution. Moreover, the budget policy affects the level of employment and prices in the private sector." In socialist economies government interference is greater. Hence, state control of economy is found in every country of the world. However, the nature and extent of control differ widely from one country to another depending upon political philosophy, social attitudes, and stage of economic development and behavior of the private sector.

Government roles can be classified into four categories:

Regulatory role: the government prescribes rules and regulations concerned with the entry into business, conduct of the enterprise, disposal of surplus and relationships. Like the grant of license, restriction on the location of the industry, regulations on the working conditions of the factory, ceilings on the managerial remuneration, prohibition of certain activities, ceilings on dividends, tax on income of business enterprises, limiting the tariffs of the electric supply undertakings, regulating inter-company investments, provisions for settlement of labor management disputes and so on. In order to regulate the economy government applies both administrative and fiscal

incentives and disincentives. Industrial policy is an important instrument for regulating the entry and location of private enterprise.

Promotional role: in a developing country like India, infrastructure for industrial development is inadequate. Therefore, the government has to assume direct responsibility to build-up and strengthen infrastructural facilities like power, transportation, communication, finance, training, research and so on. The promotional role of government consists of assistance by way of subsidies, allocation of scarce resources, providing land at concessional price, concessional rates for power and water supply and facility of concessional rate of interest for the development of backward regions. Fiscal, monetary and other incentives, insurance of business risks for the development of priority sectors and activities.

Entrepreneurship role: consists of government's participation in business through public ownership and management of industrial and commercial undertakings. This role of government has given rise to a strong public sector in developing countries like India. Even in developed countries which are committed to the philosophy of free private enterprise; defence production, public utilities, multi-purpose river valley projects, railways, airlines and strategic industries are often owned and controlled by the government. Objectives like balanced regional development of the country, promotion of capital intensive industries with long gestation periods to check private monopolies and exploitation of consumers, dearth of private entrepreneurship and lack of competition in certain industries have promoted the government to become an entrepreneur.

Planning role: government has the responsibility of fulfilling the aspirations of public. Scarcity of economic resources is the main problem in achieving the socio-economic objectives of growth and social justice. Therefore, the government lays down national priorities for optimum allocation of scarce resources through planning. The government of India had set up planning commission in 1950 and the basic goal of five year planning have been balanced regional development, rapid industrialization, employment generation and development of agriculture and small scale industries.

Government business relationship in India

Government and business are the two most powerful institutions in society. The two together determine the public policy both domestic and foreign. In a situation of political stability business flourishes and businessmen venture to take greater risks. Changes in the nature and extent of government intervention in business matters lead to changes in the pattern of industrial growth. When public sector was in a dominant position and industrial licensing was widely applicable, scale of operations and the location of projects were decided by the government.

Between 1945 and 1979 the government increasingly interfered in the economy by creating state run industries which took the form of public companies. From 1979 onwards industries were sold off to private shareholders to create a competitive business environment. In 1991, government control of business declined under the policy of liberalization, privatization and globalization. Further, a rise in corporate tax resulted in passing over some of this tax to consumers which raised the prices of the commodities. Other taxes like the landfill tax and value added tax. A rise in <https://assignbuster.com/the-prevailing-political-environment-in-india-economics-essay/>

interest rates, as interest rate is determined by the government, raised the cost to business of borrowing money and consumers to reduce expenditure which resulted in fall of business sales. Government spending policy also affects the business, for instance, if the government spends more on schools, this will result an increase in income of businesses that supply school with books, infrastructure and equipments. Government also provides subsidy for some business activities like not-for-profit organization. Government has introduced foreign direct investments in order to get huge investments in infrastructure, aviation, insurance technology and pharmacy from foreign companies and multinationals. Government has played a vital role in development of tourism. The current plan focuses on marketing, promotion, investment and infrastructure for expansion and promotion of tourism sector. Government has also played a vital role in the development of e-commerce.

The government exercises its authority in India in several ways:

The industries act which seeks to regulate industrial pattern and prices

The essential commodities act which empowers the government to declare any commodity as essential in the public interest and exercise control over it.

The companies act which regulates the promotion and management of the corporate sector in India

Pollution control laws which seek to protect the environment against air, water and noise pollution and to preserve the ecological balance

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Laws which specify standards for the product and packaging and even prohibit the marketing of certain products.

Controls on advertising of alcoholic products and tobacco products

The consumer protection act which seeks to protect the rights of consumers

Laws regulating monopolistic, unfair trade and resistive trade practices

The competition act which seeks to regulate competition in the public interest

Labor laws designed to protect and promote the interests of the working class.

As corruption runs deep within the government and there is a stark diversity of politics, still the government of India is generally stable. The economic boom is raising the standard of living and regional stability. Although, government of India is faring well at the moment but due to the numerous political divisions in the government, a country with a wide diversity and hostile neighbors might eventually bring down the economy of India.

Evidences state that over two-thirds of the eastern India's population is ruled by hostile communist regimes who have threatened in the past to secede from the union, the struggle over the state of Jammu and Kashmir between India, Pakistan and China; many people in south resent and fear the Federal government which is dominated by north Indians who are ethnically and culturally diverse from them. The unity of India is under questions.

Corruption, war and racialism can be a major case in the collapse of Indian government.

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IDEOLOGY OF THE RULING PARTY

Ideology of the ruling party refers to the political thinking of the party which is currently holding office and influences ownership, management, structure and size of the business. For example, the ideology of the government in power exercises very significant impact on tax laws, distribution mechanism, existence and development of big companies and so on. The ideology of the ruling parties decides the type of business activity a country should have; the areas to be opened for private sectors like the privatization of electricity and introduction of metro in India and now mono rails; areas reserved for public sectors like the steel authority, railways; the areas in which foreign companies or their investments are allowed like the introduction of Foreign Direct Investment in insurance, aviation and now in multi-brand retail; the areas reserved for small scale industries like the jute, handicrafts, pottery and so on.

Laws and regulations covering all aspects of business are enacted by the government. The government sets the rules of the game, ensuring the business to run smoothly and maintain competition, even if monopoly develops to regulate them by government intervention. A political system which is stable, honest, efficient, and dynamic and ensures security to the citizens is the key factor to economic development of the country. The developed countries owe their success to their rich political system which they enjoyed.

In case of lack of political stability, long term plans cannot be formulated resulting in frequent changes in economic policies and the ruling party.

Relations of the government with other countries also affect the business.
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Cordial relations with other nations play a favorable impact on the foreign trade and cordial relations with the neighboring countries helps to reduce the defence budget. Hence, more funds can be allocated for infrastructure which will indeed help the business.

If the ruling party believes in socialism, government control and ownership of business will grow. For example, public sector dominated development strategy in India until 1990 because the Congress Party which has ruled the country for a long period adopted socialist pattern of society as its socio-economic philosophy. Changes in the political systems have led to major economic changes in the USSR and several East European countries. Major economic policies of a nation such as industrial policy, fiscal policy, monetary policy and foreign trade policy are often based on political considerations. Several political decisions have strategic implications for business and industry. For example, the political philosophy of Janta Party Government forced coca-cola and IBM to leave India in 1977. Since then the clock has turned a full circle. Now multinationals are welcome in almost all types of industries in India. Even China is wooing foreign investment and technology. The coalition government of the NDA could not speed up disinvestment of public sector undertakings due to strong opposition from its coalition partners. Even in the case of the Congress led UPA Government reforms in labour laws are stalled due to resistance from the left parties.

STRENGTH OF THE OPPOSITION

In a democracy, an effective opposition is as much important as a dedicated government to protect, promote and regulate business in the best interest of society. If the opposition is fair, it can make constructive criticism of existing

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government policies affecting business. For instance, Bhartiya Janta party took out demonstrations and activities like Bharat band for opposing rising prices for middle income people and opposing the introduction of Foreign Direct Investment in multi-brand retail for the sake of small retailers. As a result the ruling party cannot afford to act irresponsibly with regard to the business sector in the economy.

The opposition's main role is to question the government and hold them accountable to the public. They have to ensure that the government does not take such steps which may have negative implication on the public of the country. The opposition party should act firmly on behalf of the masses and fight for their common interest and grievances. They should immediately protest against a bill before it is passed which is against the interest of a common man. They should always bear in mind that they are representatives of every common man who is fighting for justified demands and defeat all unlawful and unfair practice.

In India, now day's coalition governments of different political parties are becoming common. Sometimes parties with join hands of other political parties for coalition have different ideologies. It makes the political environment of a nation more complex for business firms. For example, one party may be in favor of globalization and liberalization while the other may be opposing them.

The Tata Nano Singur controversy is one such example, in which the farmers of West Bengal were forced by the government to evacuate their land in return of some compensation and housing land which were inadequate, for

the production of Nano car. This led to the protest of farmers backed by the opposition party, as the land which was given for the production of Tata Nano was a very fertile land and fertile land cannot be given to enterprises. As a result, the plant had to be shut and Tata Motors had to shift their unit to some other land.

ROLE and RESPONSIBILITY OF BUREAUCRACY

A bureaucracy is a group of non-elected officials of a government or organization that implements the rules, laws, ideas and functions of their institution. They take over the rule of the legislature, or a democratically-elected representative of a nation. After the bill is signed by the president to make it law, it must be implemented by the bureaucracy in the executive branch. Bureaucrats develop procedures and rules for implementing policy goals and they manage the routines of government, such as delivering mail and collecting taxes. Bureaucracy is given the responsibility to translate general guidelines into specific directives.

A bureaucratic practice of hair splitting or foot dragging, blamed by its practitioners on the system that forces them to follow prescribed procedures to the letter is known as red tape which is an excessive regulation to the formal rules that are considered redundant in decision making. It is usually applied to governments, corporations and other large organizations. Red tape generally includes filling out paperwork, obtaining licenses. Having multiple people or committees approve a decision and various low-level rules that make conducting one's affairs slower, more difficult or both.

Indian business of all sizes fears that the countries excessive bureaucracy, inflation and political instability is damaging its growth prospects. In a survey conducted for Regus, the global workspace provider estimates that almost half i. e. 47% of India's business decision-makers think that red tape is a serious threat to growth. However, the discontent over red-tapism is slightly less prevalent among larger companies, as grater resources are available with them to deal with paper work and regulation. The BJP members stated in the Rajya Sabha that the construction of residential apartments in Noida extension has not been resolved due to red tapism which is prevailing in the Central Government, preventing it to come out with a solution has rendered lakhs of workers jobless and dreams and hard earned money of lakhs of people.

POLITICO-LEGAL INSTITUTIONS

In a democratic country like India, the political environment includes the following three political institutions:

LEGISLATURE: it refers to the elected representatives. It comprises of parliament at the centre and state legislature at the state level. It frames policies, enacts laws, frame budgets and so on. Business firms are supposed to follow these rules, policies and guidelines.

EXECUTIVE: the executive is a smaller group of people which is responsible for implementing laws and running the government. It executes the rules and regulations framed by legislature. It is responsible for implementing the laws. It comprises of the ministers and the government officials. In the parliamentary system, some members of executives are members of the

legislature too. Executives ensure that the general public is following the rules and regulations framed by the legislature.

JUDICIARY: refers to the system of courts in the nation. It consists of the courts like the Supreme Court, high court and district courts. It also includes the government officials having judiciary powers. It settles the legal disputes and interprets the provision of law. It ensures that legislature is making laws within the framework of the constitution. It also ensures that the executive is implementing the rules laid down by the legislature, in true spirits. If judiciary finds the rule framed by legislature as arbitrary or unconstitutional, it can challenge such rule.

CONCLUSION

Political environment includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business. The significance of political conditions in business success lies in the predictability of business activities under stable political conditions. On the other hand, there may be uncertainty of business activities due to political unrest and threats to law and order. Political stability, thus builds up confidence among business people to invest in the long term projects for the growth of the economy. Political instability can shake that confidence. Similarly, the attitudes of government officials towards business may have either positive or negative impact upon business. For instance, even after opening up of the Indian economy in 1991, foreign companies found it extremely difficult to cut through the bureaucratic red tape to get permits for doing business in India.

Sometimes, it took months to process their application. As a result, these <https://assignbuster.com/the-prevailing-political-environment-in-india-economics-essay/>

companies were discouraged from investing in India. The situation has improved over time but not to a great extent. Still India is ranked 132nd in the world in ease of doing business.

Legal environment includes various legislations passed by the government administrative orders issued by the government authorities, court judgments as well as the decisions rendered by various commissions and agencies at every level of the government- centre, state or local. It is imperative for the management of every enterprise to obey the law of the land. Therefore, an adequate knowledge of rules and regulations framed by the government is a pre-requisite for better business performance. Non-compliance of laws can land the business enterprise into legal problems. In India, a working knowledge of Companies Act, Industries Act, Foreign Exchange Management Act and The Imports and Exports Act, Factories Act, Trade Union Act, Workmen's Compensation Act, Industrial Disputes Act, Consumer Protection Act, Competition Act and host of such other legal enactments as amended from time to time by the parliament, is important for doing business.