International Business
Prof. J. K. Nayak
Department of Management Studies
Indian Institute of Technology, Roorkee

Lecture - 06
New Economic Policy, LPG Framework

Welcome again friends to the course of International Business. So, in the last lecture we talked about the EPRG framework and the stages of internationalization. So, we said what is the EPRG basically it starts from ethnocentric; that means home country, where the major focus is on the domestic country or home and then polycentric, where you move towards outside with having the same product and marketing strategy one tries to move across to other countries.

Then the third is regiocentric, which is where the company tries to focus on similar locations or places which is or regions which have a similar culture and economic status and all. And finally with the particular product, obviously with different kind of product and finally polycentric where they tried to reach different ((you know)) places all the different, the whole globe, becomes one right! as good as that.

So, it is a extension from the home to the whole world right!. Then we talked about the different stages of internationalization, in which again we said there are 5 stages right!. So, these 5 stages in which one of them was the domestic, then the MNC, the transnational, (you know) the global, the international.

So, the point is what is we said is a MNC is somebody works from a home country, but then wherever they operate in each place they worked with a identity. That means, the company tries to locate itself and become act like a localized company, they behave like a localized company. But they are basically (you know) an MNC right!.

So, multinational so every country wherever they work, they try to adjust it is themselves to the local market. Transnational's generally do not (you know) are not available they are in the true sense, but still we can say some of the companies like Hindustan Unilever Colgate are truly are transnational's.

But as such getting a very true definition of meaning (you know) somebody in today's days it is talking somebody truly transnational and somebody today purely domestic is very difficult to find, both are extremes which are very difficult to find. Today we will look into one model given by Bartlett and Sumatra Ghoshal a very known Indian economist.

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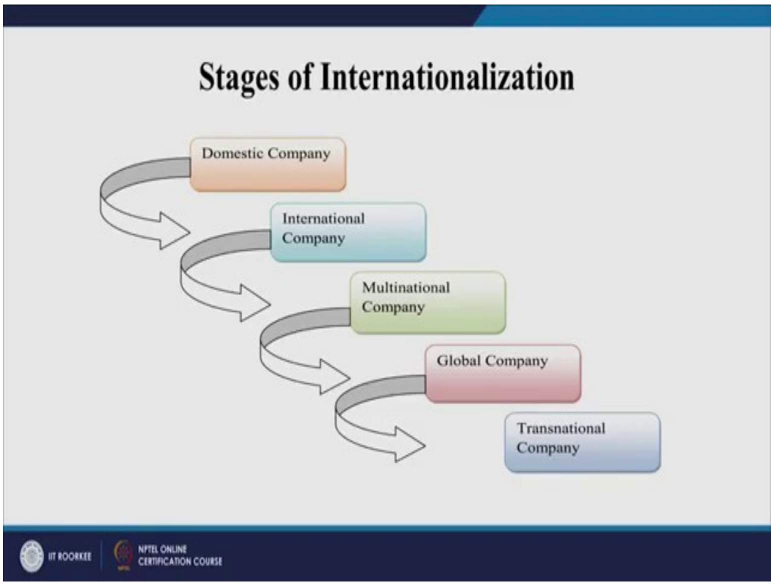

So, this is what we are talking about the domestic's, international, multinational, global and transnational company right!.

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Barriers to internationalisation

Rank	Classification of barrier	Description of barrier
1	Capabilities	Inadequate quantity of and/or untrained personnel for internationalisation
2	Finance	Shortage of working capital to finance exports
3	Access	Limited information to locate/analyse markets
4	Access	Identifying foreign business opportunities
5	Capabilities	Lack of managerial time to deal with internationalisation
6	Capabilities	Inability to contact potential overseas customers
7	Capabilities	Developing new products for foreign markets
8	Business environment	Unfamiliar foreign business practices
9	Capabilities	Meeting export product quality/standards/specification
10	Access	Unfamiliar exporting procedures/paperwork

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So let us before that let us talk about what are the Barriers to internationalization right!. So, in terms of the ranking it has a ranking was done of after doing some survey and as per this survey the first comes under the heading of capabilities. So, what is that? Now inadequate quantity of untrained personnel you do not have good human resource right! adequate people.

So, that was the first problem to become international to go international, finance was considered to be the second which has shortage of working capital to finance exports is a problem. Access accessibility access limited information to locate or analyze the markets is third problem, fourth problem again is connected with access where to say is identifying the foreign business opportunities is a barrier is a problem right! challenge.

Then capabilities again comes which is says lack of managerial time, the first one was untrained personnel right!. Now it is saying managerial time to deal with the internationalization right!. Then again it says inability to contact potential overseas customers, developing new products for foreign markets.

Now business environment was another point which says unfamiliar foreign business practices, you do not know the practices in that host country and that might be a problem. Again under heading capabilities it is meeting export product quality or standards or specification right!. And finally another is under access which says unfamiliar exporting or procedures or paperwork.

So, these are just few of the (you know) this is not all may be, but then these are few important points. So, this description of the barriers are if you understand them it tells what problems will somebody face some firm face, when they are trying to go global or they are trying to internationalize themselves ok.

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So, this Bartlett and Ghoshal method indicates that strategic options for businesses wanting to manage their international operations are based on two pressures, one local responsiveness and global integration. So the two pressure or forces on firms wanting to compete in international markets which determine the four grids in the box below basically are let us say.

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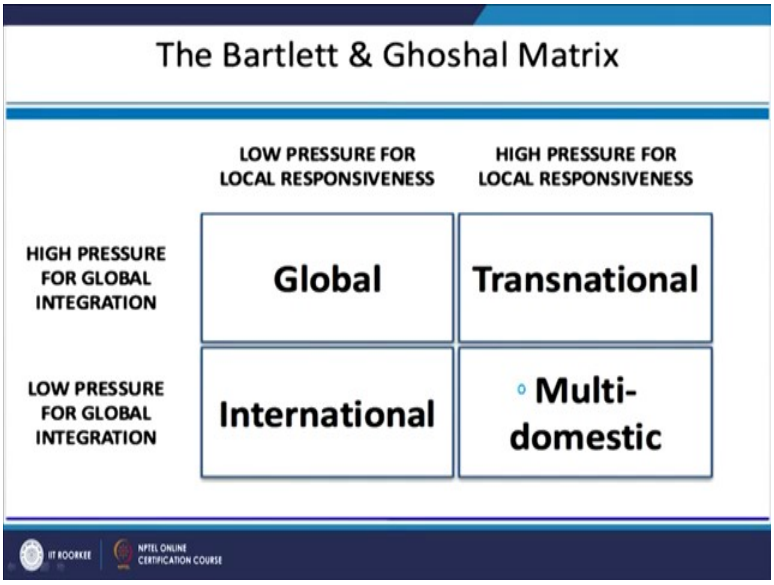

So what these 4 grids the first look at this side. So, what it is saying high pressure for global integration low pressure for global integrations. So, the global integration pressure right!. Now pressure for local responsiveness low pressure and high pressure for local, so a company there are 4 grids now. So, when there is a high pressure for global integration, but there is a now pressure for local responsiveness.

Then this comes under global companies category. When there is a high pressure for global integration and high pressure for local responsiveness, it is a transnational company right!.

When there is a low pressure for global integration and low pressure for local responsiveness it is more of a international structure right!. As Sumatra Ghoshal has and Bartlett have said and when there is a low pressure for global integration and high pressure for responsiveness it is called a multi domestic or MNC basically it for the that comes under the MNC category.

So, these are the four different kinds of breakups which have been given in their model by Bartlett and Ghoshal, explaining taking this forces of high pressure of global integration or pressure of global integration and pressure of local responsiveness right!. So, they gave this model.

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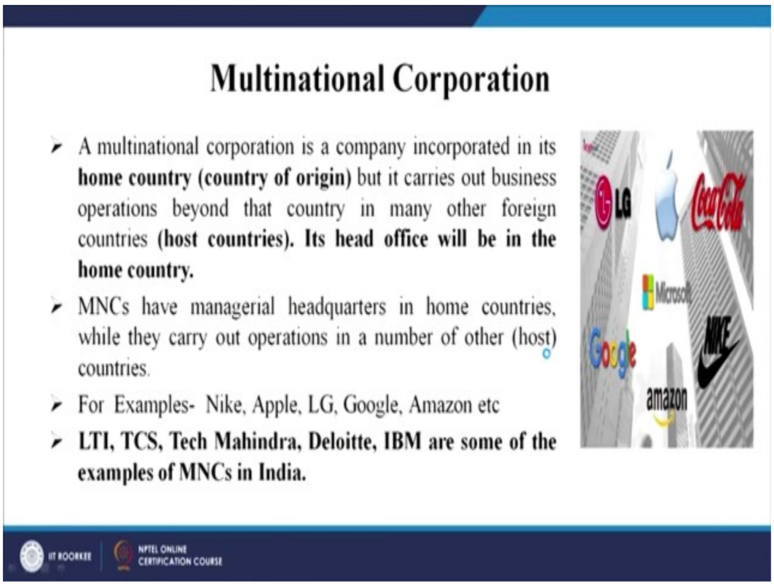

Now look at this MNC, for example let us go visit back to the revisit the multinational corporation. What it is saying? It is a company in corporate in it is home country, but it carries out business operations beyond that country in many other countries host countries.

But it is head office will be in the home country and they behave try to localize themselves. So, (you know) what Sumatra Ghoshal had and Bartlett had said is basically that companies need to act local right! be global, but act local.

So, they were basically focusing on be global act local. So, you need to have your tentacles (you know) your operations spread up everywhere. But then you need to keep in mind that if you need to be successful if you want to be successful you have to be understand the local taste and preferences and the local needs of the people, the consumers local consumers needs of the host country right!.

Otherwise no company can ever be successful, if they try to (you know) push their product or their products and services entirely in the same way to a new host country that might be very dangerous. So, MNCs have managerial headquarters in many countries and but they while they carry out operations in the number of other host countries.

Examples have been given right! some of the best examples of MNC TCS Tech Mahindra right! and IBM Deloitte are some of the examples of MNC in India right!.

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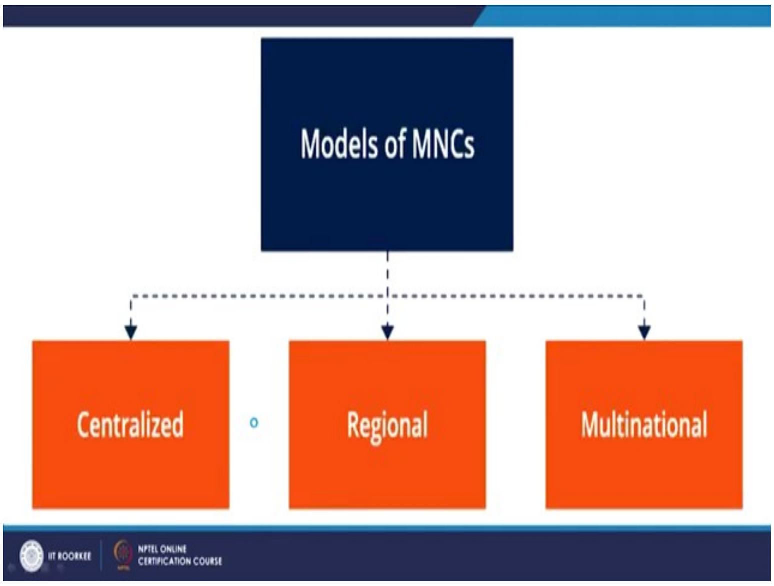

Now, what are these models of MNCs Centralized Regional Multinational right!.

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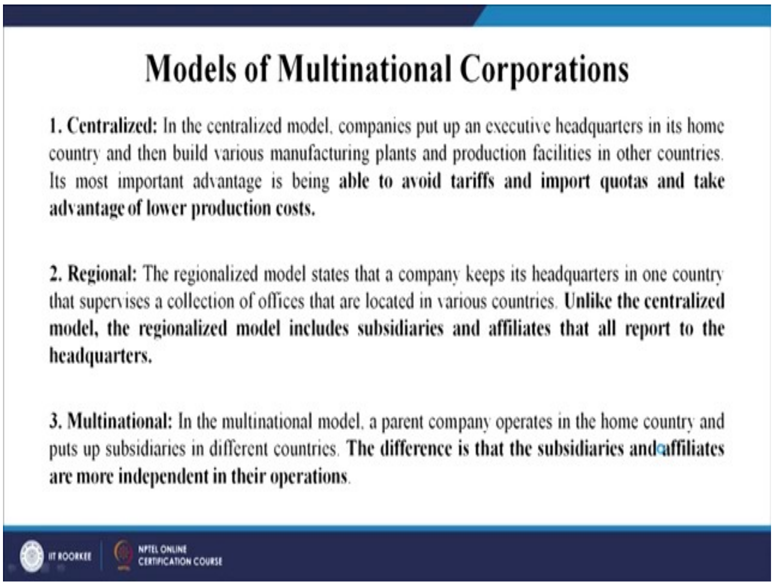

So, what is saying in the centralized? In the centralized model the companies put up an executive headquarter in it is home country and then build various manufacturing plants and facilities in the other countries right!.

So, it is most important advantage is being able to avoid tariffs and import quotas and take advantage of lower production costs. So, you put up a plant or operation in the home country and take advantage of this production cost.

In the regional what is happening, the model states that the company keeps it is headquarter in one country that supervises a collection of offices that are located in various other countries. Unlike the centralized model the regionalized model includes subsidiaries and affiliates that all report to the headquarter right!.

So, there is a headquarter and there are regional affiliates subsidiaries they would report to the headquarter. In the multinational model a parent company operates in the home country and puts up subsidiaries in different countries, the difference is that the subsidiaries and affiliates are more independent that is the only difference. This subsidiaries and affiliates are more independent in comparison to the regional counter parts right!. So, this is the only difference between them.

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Now, after understanding the different kinds of the stages of the companies and accordingly breaking up into different kinds of companies, let us talk about economic policy of India. India's economic policy greatly changed in the year1991 and we saw a transformation in the Indian economy entirely right! to a very very large extent right!.

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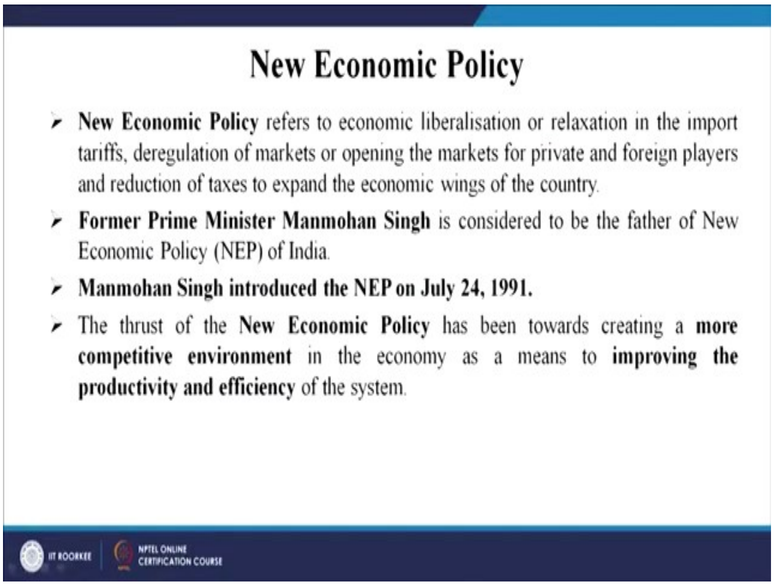

So, what is this new economic policy that happened, it refers to the economic liberalization. We were a more of a closed market before 1991 we were of a closed market and we had several issues. For example, before that we had the license raj permit, you need a licenses for everything which was controlled by some Babu's or the bureaucrats. So, this used to be serious factor which used to hinder the growth of business in India and it was specially a very difficult for even the foreign firms.

So, what it says is basically it refers to the liberalization or relaxation in the import tariffs, deregulation of the markets or opening up the markets for private and foreign players and reduction of taxes to expand the economics wings of the country.

So, the whole idea of the new economic policy that happened in 1991 when India was really in a very difficult condition at that time and we were wondering what would happen to India. When this LPG framework came up the liberalization privatization globalization policy that was started by Dr. Manmohan Singh former Prime Minister is considered with the father of New Economic Policy of India.

So, July 24 1991 he gave this (you know) New Economic Policy to India and that was the point where India's growth trajectory was really it grew at a was very high right!. The thrust of the economic policy new economic policy has been towards creating a more competitive environment.

So, as I said it was a closed economy we were not allowing the foreign firms to come freely. So, this all resulted in poor business interests from the foreign firms right! and as a result the economy was not growing fast. Why fast even it was in a very bad state. So, in the economy as a means to improving the productivity and efficiency of the system, so this new economic policy came.

What are the objective that the new economic policy came? So, at that time I remember Narsimha Rao was the prime minister and Manmohan Singh was finance minister.

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The main objective was to plunge Indian economy into the arena of globalization and to give it a new thrust on market orientation. So, first of all what happened was we wanted to say that India is now open. So, we welcome the other countries and firms from other countries to come to India, that was the first point we state there.

The intention was to bring down the rate of inflation right!, because inflation was becoming very high and we needed to curve it. What is inflation I hope you understand when the price of the basic commodities rises, so we say the inflation has grown right!. It intended to move towards higher economic growth rate and to build a sufficient foreign exchange, India was suffering from a serious foreign exchange crisis right! at that time.

So, in 1991 we had a serious foreign exchange crisis and the whole objective was to have a economic growth. So, we wanted the economy to run faster and to build sufficient foreign exchange reserves, otherwise if there would be no foreign exchange reserves our imports would be at stake we cannot buy anything we cannot (you know) get anything from outside it would be very difficult.

It wanted to achieve economic stabilization and to convert the economy into a market economy, market driven economy by removing all kind of unnecessary restrictions. We had number of unnecessary restrictions, we were (you know) I said as a closed economy. So, we had lot of restrictions you need a permit you needed (you know) permission from something this permission that permission so that was all much unnecessary permissions were required.

So, you I remember there was something called a Note 7, where (you know) the foreign company had to had a joint venture with an Indian firm to even make it presence felt in India. So these are some of the problems, it wanted to permit the international flow of goods, services, capital, human resource and technology without many restrictions.

So, India started welcoming the foreign players and because this foreign players had a better technology with them, they had large amount of capital and reserve. So, this was good for India because, the Indian market did not have this (you know) benefits. So, at least sudden somebody came it was good for the Indian economy, because people got employment and they would get employment and the reserves would increase right!.

So, that was a best possible solution at that point of time, there can be debates on what could have been done better. But at that point of time today we can see as that was that being one of the best policies that was done. It wanted to increase the participation of private players in all the sectors of the economy. So private players were encouraged to participate which was less, because of this bureaucratic issues right!.

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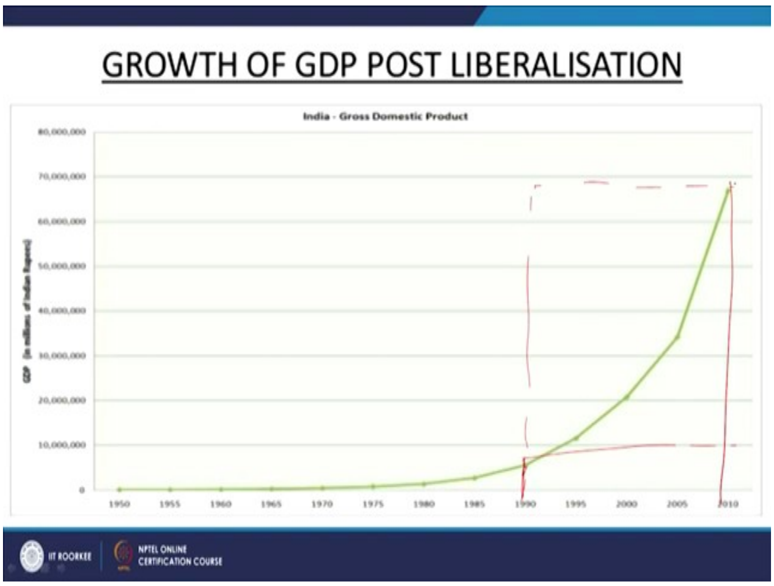

Now, you see this diagram will tell you how we although it is a up to 2010, but then still we 1950 onwards you see there is hardly any movement 1990 this is the point where we were right!. And how the trajectory has taken up, how the movement has gone up you see it is serious growth right! it is positively very high growth that has taken up. So, from 1990 to 2010 this 20 years India saw a tremendous a tremendous growth right!. If you make it a graph you can check the kind of growth we generated in this 20 years.

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What are the major highlights of these economic reform was during in this 1991reform, first was the de-reservation of industries of the public sector right!. Second was liberalization a abolition of industrial licensing system. Third privatisation of the public sector enterprise, we started thinking how to go the make some of the public sector units also privatize them right!. The government thought that it is none of our business to be to do business right!. Fourth we welcomed globalization ok.

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So, this in totally (you know) this LPG framework liberalization privatization increase privatization and go global. So, this was the model which India accepted at that point of time.

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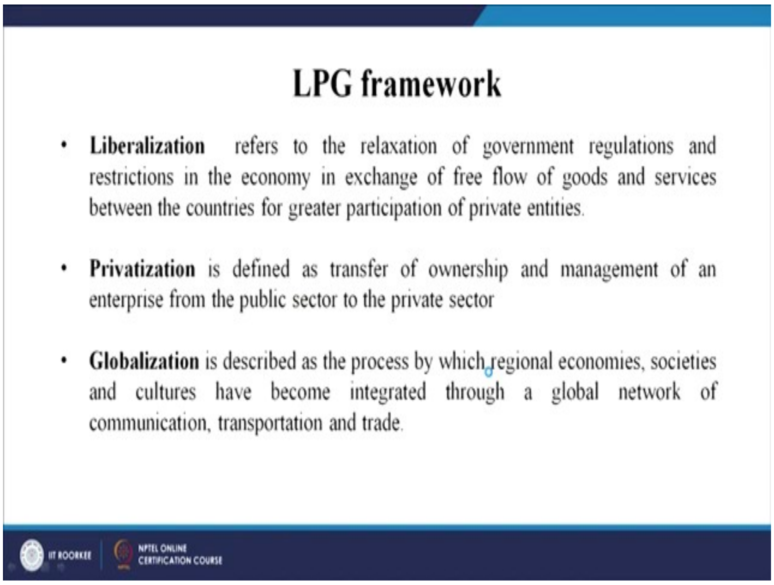

So, LPG this liberalization refers to the relaxation of the government regulations and restrictions in the economy, in exchange of free flow of goods and services between the countries right!, for greater participation of private entities. Privatization is defined a transfer of ownership and management of an enterprise from the public sector to the private sector.

So, most of the ill public sectors are unhealthy public sectors, where they thought the government thought we should sell it off and try to until there were in some sensitive sectors like defense and all. We should try to privatize give it some private hands and let them do it efficiently this helped saving the governments capital also and the government did not have to intervene to much in between and that saved precious time of the government.

Globalization is described as the process by which regional economies societies and cultures have become integrated through a global network of communication transportation and mode and trade. So now when globalization was encouraged when we liberalized and we (you know) went global.

So, we also went global and we invited countries (you know) outside companies to come to India, this really helped wonders for India. So, many products were there been in which India had a strong hold and those products where easily exported today then at that time.

And in many many areas India was quite weak and we needed a hand holding and support at that time. So, that helped because the foreign companies found that India is a domestic as a market is huge. So, if they come to India they would find a good presence here and they would find a good market. So, this helped them also.

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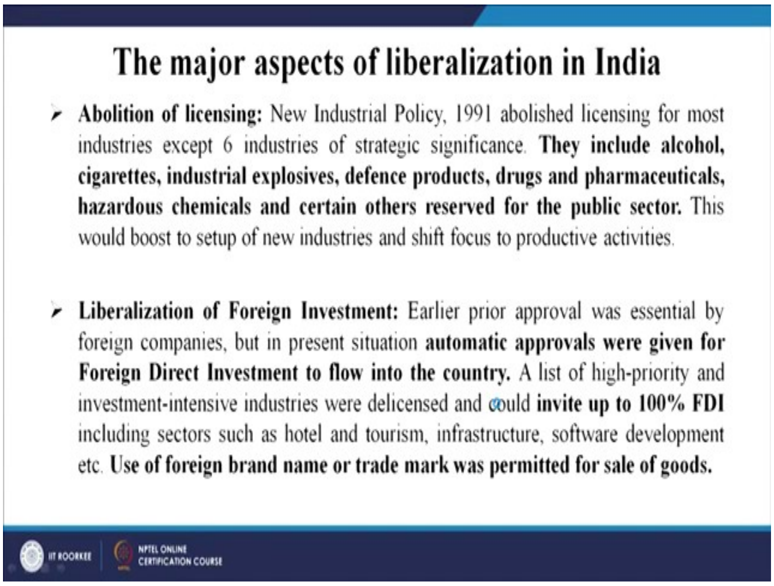

Some of the major aspects of liberalization that happened in that time was, first we start with the Abolition of the licensing. So, the license raj and you needed a permit. So, what it says in the year 1991 the abolishing licensing for most industries except 6 right! industries of strategic significance.

They include alcohol, cigarettes, industrial explosives, defense products, drug and pharmaceuticals and hazardous chemicals and certain others reserved for the public sector. So, this would boost to set up of new industries and shift focus to the productive activities.

So, the government thought if we abolish the licensing which is a unnecessarily a hindrance and a problem for the private players to come into the business, they thought you should (you know) completely remove it right!. Liberalization of Foreign Investment, earlier prior approval was essential by foreign companies but as I said, but in present situation automatic approvals were given for FDI to flow into the country.

So, there was to we have already studied the government route and the automatic route for FDI inflows. A list of high priority and investment intensive industries were delicensed and could invite up to 100 percent. In the last class I had given you a task also if you remember, where I asked to find out the different investment (you know) FDI investments in the various sectors.

So, in some sectors it is almost it is 100 percent and in some others it is like 49 percent, so some where it is 20 percent so that is range varies ok. FDI including sectors such as hotel and tourism, infrastructure, software development etcetera. Use of foreign brand name or trademark was permitted for sale of the goods. So, that also have boosting the economy.

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The third point was Relaxation of the Locational Restrictions, there was no restrict requirements to get approval from the Central Government for setting up industries anywhere in the country, except those specified under compulsory licensing or in cities within population exceeding 1 million.

So the some like for example, the polluting industries were required to be located 25 kilometers away from the city peripheries, if the city population was greater than 1 million or the 10 lakhs. So, these kind of relaxation were also given to the industries to set up their facilities.

The last fourth point was Liberalization of the Foreign Technology imports, for business projects in which imported capital goods were required. The (you know) there is imported technology imported raw materials were required, automatic license would be given for foreign technology imports up to 2 million US dollars right!. No permission would be required for hiring foreign technicians and foreign testing of indigenously developed technologies.

So, you do not require any permission to hire foreign technicians and testing our own products own products developed in our own country. So, these are some of the important aspects.

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Another important aspect was the Phased manufacturing programmes, under phased manufacturing programme any enterprise had to progressively substitute imported inputs right!. So, inputs which you imported have to be substituted right! with the local made ones right!. Components with domestically produced inputs under local content policy, so that was the policy was how much of import you can make and how much you what are the limit right!. The new industrial policy abolished this PMP right!.

So, this phased manufacturing programme they abolished this point of how much you can import right! for all industrial enterprises. Foreign Investment Promotion Board FIPB was setup to speed an approval for foreign investment proposals. So now companies the Indian companies could import and the foreign companies could easily setup their plants in India.

The reforms in the public sector was also a very key factor that happened in during this time. There was more autonomy to the PSUs through the memorandum of understanding MOUs restricting interference of the government officials. The government officials would not interfere much in the PSUs because it was felt that this government officials were actually creating trouble in the smooth running of this PSUs and allowing their management's greater freedom in the decision making.

The next point is the MRTP act, MRTP is Monopolies Restrictive Trade Practises Act. So, what it say the industrial policy of 91 modernized the MRTP act right!. Regulations relating to concentration of economic power, pre entry restrictions for setup new enterprises, expansion of existing businesses, merges and acquisitions have been abolished.

So, the monopolies and restrictive trade practises act which was modernized right! which helped in paving way and encouraging the investments to grow larger and the investors to feel more safer right!.

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How the impact? What was the Impact of the Liberalization in the Indian Economy? So, it these are some of the impacts you can see some simple ones let us take. So, implement was generated right!, new technology emerged came to the market, infrastructure expansion happened, we were known as a open market in the world level. So, countries which were not aware they started looking at India as a opportunity our value currency also was more aligned with the world currency the dollar and the euro right!.

That there was a growth in GDP, the increased consumption and new life styles the there was change in the Indian market and the consumption adoption adaptation of new lifestyle happened. Competition grew in fact competition grew healthy competition grew and increment in the foreign investors.

So, more foreign investors started putting in their money into Indian market. So, what are the objective now? What was the objective of privatization. So, first to was to improve the financial situation of the government. So, the by privatizing the capital was saved of the government and they could use it for better purposes for social development and social causes.

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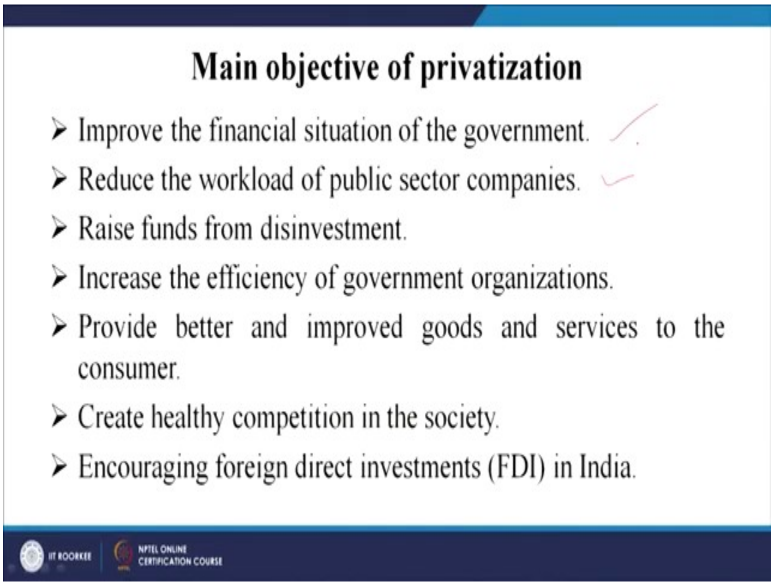

Reduce the workload of PSUs right!, raise funds from disinvestment. So, you disinvestment means you divest some of the stocks in the foreign company and the in the PSUs and raise this money and use it for social causes again. Increase the efficiency of the government organizations, provide better and improved goods and services. So, the market demand was growing, the market expected better products and services. If the domestic players would not do that the private firms the international firms they had stepped in.

So, thier market demand started growing immensely and people also because of this globalization concept people India was India had started doing well in the IT sector and all slowly. So, there was flow of revenue into India good flow of revenue and there was a healthy market.

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So, all these things helped these were the main objectives of privatization. Some of the examples I have brought you can see, so like for example these were some examples of privatization the VSNL, the popular ones let me take BALCO Bharat Aluminium Company Limited right!, Indian Tourism Development Corporation ITDC right!, Hotel Corporation of India Limited, Paradeep Phosphates.

So, all these are the good examples of privatization, where the government started gave up the stake and (you know) they asked the foreign the private players to step in and own the company right!. So, there are 3 major types of (you know) privatization. Now what are they? So, let us talk about them.

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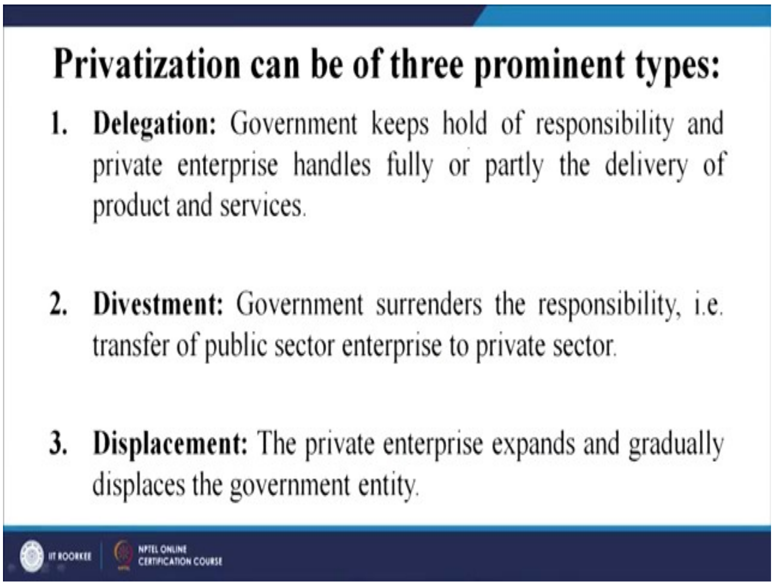

Delegation government keeps hold of the responsibility and private enterprises handles fully or partly the delivery of product and services. So, what is the relationship what is happening, the government Delegates that means the it holds the responsibility, but it allows the private enterprises to deliver the product so make and deliver the product and services. Second is the Disinvestment method the government surrenders the responsibility completely gives up the to the private sector.

Displacement, the private enterprise expands and gradually displaces the government entity. So, the it the government allows it for to do that, the private enterprises expand and finally, they completely displaces the government entity.

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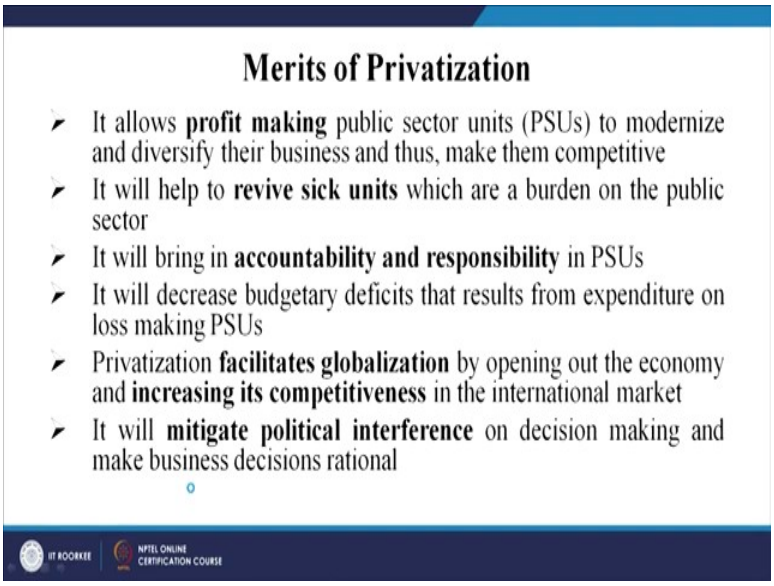

So, these are the 3 types of the prominent types in which privatization happens. What are the merits profit making increases right! in the PSUs and it helps to diversify their business and make them more healthy and competitive.

Sick units which was a major problem in India, there were lots and lots of sick units. So, to how to revive this sick units was also an important point. How to create accountability and responsibility in the PSUs, because if there was a lot of burecracy and involvement of the political (you know) people and all. So, to find out to hold somebody accountable and responsible was becoming very difficult.

So, the government right!ly thought they should (you know) come out of it slowly and that helped PSUs event. And some of the PSUs for example, today IOC ONGC you can these companies are doing extremely good right!, BHEL it will decrease budgetary deficits that results from expenditure on loss making PSUs.

Privatization facilitates globalization by opening out the economy and increasing it is competitiveness in the international market. So, as we became more and more healthy more and more competitive a products became better a services become better, so we were we start we got slowly we started getting recognition in the international markets and political interference started going down right!.

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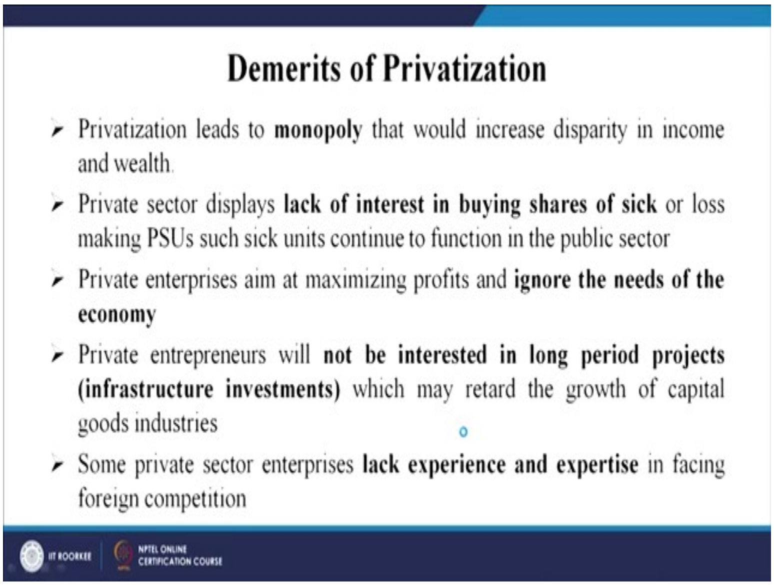

But there ware some demerits of the privatization also what was it? Sometimes it could lead to monopoly that would increase disparity in the income and wealth. So, this is a criticism against privatization, private sectors display lack of interest in buying shares of sick or loss making PSUs they only want to be in their when the PSUs are already doing good right! or there were not sick the assets were quite in a healthy shape.

Private enterprises aims at maximizing profits and ignoring the needs of the economy, so this was a fear. Finally, private enterprises will not be interested in long period projects. So, they wanted only short time short period project not long period projects like for example (you know) for infrastructural development of the country right!.

So, they were not interested which may retire the growth of capital goods industries. So, if the private entrepreneurs will not get involved in these kind of long projects, the government will have to again step in, so that would again become a difficult thing. Some private sectors lacked experience and expertise in facing foreign competition. So, they have to be again trained, but that is not a big (you know) the market was such at that point of time right!.

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And the last point is the Globalization, concept of globalization as explained by the IMF is the growing economic interdependence of countries world wide through increasing volume and variety of cross border transactions in goods and services of international capital flow and also through the more rapid and wide spread diffusion of technology. So, what it is saying globalization is helping the countries to join hand and increase the volume and variety of cross border transaction basically.

So, but the fear at that time or any time is always whether the markets are ready, whether the country is ready for it. But then to much of thinking also may not work because if the whole everybody is doing it in India would have lacked behind, may be India could not have taken the advantage. What it did at that time and today India's economy is in a much much better shape right!.

India signed many agreements with a WTO the World Trade Organization, affirming it is commitment to liberalize trades such as TRIPs Trade Related Intellectual Property right! s. So, this is these are the problems if you do not treat it properly foreign investors would be scared, TRIMs trade related investment measures and agreement on agriculture. What steps was taken for globalization?

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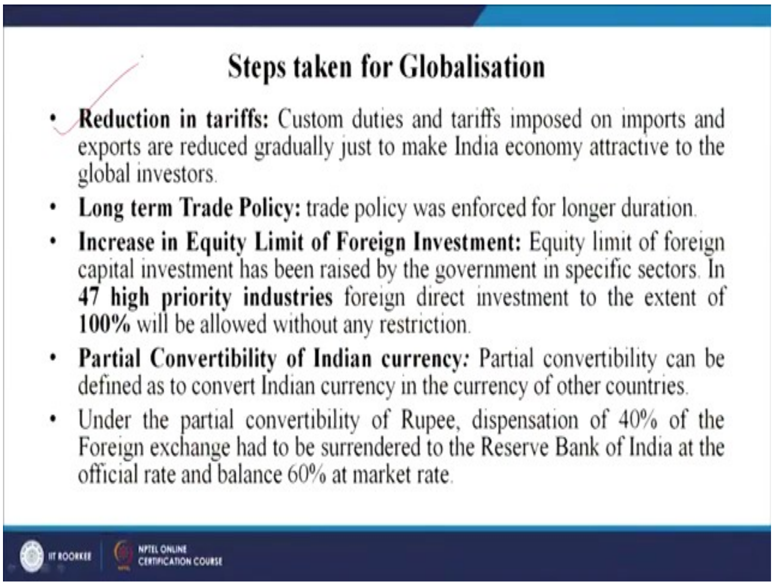

First Reduction in tariffs, the customs duty and tariffs imposed on the imports and exports where reduced gradually to make the Indian economy attractive to the global investors. This was the first thing that the government did. Long term trade policy as we said you need to private players have to come into that long term trade (you know) projects long term projects.

Trade policy was enforced for longer duration ok, because short term trade policies are not going to benefit much. Increase in equity limit of foreign investment, equity limit of foreign investment has been raised by the governments specific sectors in 47 percent in high priority industries FDI to the extent of 100 percent has been allowed without any restriction many areas today.

Partial convertibility of the Indian currency, partial convertibility can be explained as (you know) to convert Indian currency in the currency of other countries. So now till date India has not achieved full convertibility and there is a debate also should they go for a full convertibility or not.

Convertibility of rupee means how much of the money can you convert it into the other others currency right! in dollars or any other currency. So, what it is saying is under the partial convertibility of rupee a dispensation of 40 percent of the foreign exchange had to be surrendered to the RBI at the official rate and balance 60 percent at the market rate.

So, this partial convertibility which was earlier was very very less. In fact, this moved up to 60 percent at a market rate. So, this helped even the (you know) the businessmen and the industrialists to do business more freely and the more it grows it is wise is better for business it is understood, but there are limitations and there are adverse effects also.

So, the country is slowly taking a very cautious path very slowly they are moving towards it right!. Finally, what are the Pros and Cons of globalization the positive effects and the negative effects.

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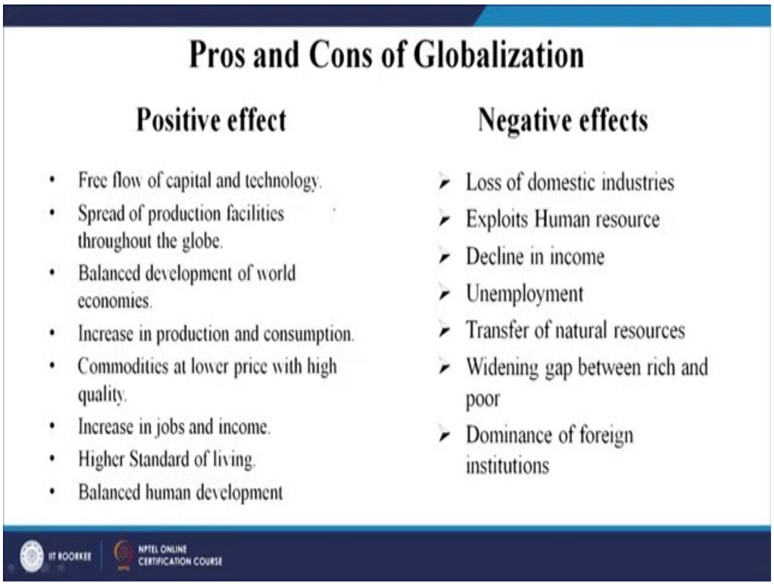

So, some of the positive effects are free flow of capital, spread of production facilities, balanced development of the world economy. So, there is a balanced development right!. But that is this one is a very criticized point because, some people feel because of globalization there has been more of imbalance rather the balance.

Increase in production and consumption, commodities at lower price with high quality because of the healthy competition that evolved in the market, the (you know) there was pressure to generate better quality products and that to at a cheaper price. Increase in job and income higher standard of living and human development were some of the positive effects.

What are the negative effects? Loss of domestic industries, so many domestic industries who could not sustain the pressure they died. But that is true also to some extent because it is like the Darwin's law of natural selection. If you cannot survive if you cannot do well you will die you will perish, exploitation of human resources happened this is a negative effect, decline in income in some regions. For example, where there were no industries or something, so there was a there was hardly any growth.

These areas there was unemployment also, transfer of natural resources is a criticism against globalization. So, this is similar to the time when the colonies were made and the companies came and (you know) they settled here countries came and settled in one country and extracted the natural resources and took into their home country.

So, this is a negative or a negative criticism for (you know) globalization. So and widening gap between rich and the poor and dominance of foreign institutions. So, these are some of the pros and cons of globalization. If you understand, but nothing can be taken (you know) in totality. So, everything will have it is own merits and demerits.

So, if privatization liberalization globalization has some demerits it has a large number of merits also and the point at which India was standing during 1991 during when Narasimha Rao was the Prime Minister and our Former Prime Minister Manmohan Singh was the (you know) finance minister. Had India not gone into this economic new economic policy India would have had a really tough time.

It would be I mean very difficult for our business to survive and our economy could have there was a fear of collapsing. But all this thanks to Dr. Manmohan Singh and the wise men of India at that time, who the economists who thought like this and they opened up the market and the result today is that India is one of the is I think the in the recent (you know) as far the recent data India is 7 th in terms of the economy in the world right!.

So, it is a huge market and it has grown up economically very strongly and the potential that it holds is inviting the other foreign players to come to India. So, international business has really grown up in terms of India and the Indians doing outside.

So, as a result this subject again I would say has got a lot of relevance and importance, when it comes to (you know) to a country and the timing that we are born in and we are living today. So, there is no doubt that this is a very important subject and everybody needs to understand and study it at quiet deeply right!. So, this is all I have for today. So, we will discuss in the next class with the we will start with a new fresh topic and.

Thank you very much.