MANAGEMENT PROGRAMME

Term-End Examination
December, 2012

MS-3 : ECONOMIC AND SOCIAL ENVIRONMENT

Time : *3 hours*

Maximum Marks : 100
(Weightage 70%)

Note : There are two sections A *and B. Attempt any three questions from section* A, *which carry* 20 *marks each. Section B is compulsory and carries 40 marks.*

SECTION - A

1. Discuss the impact of various social movements on business enterprises and what has been the role of Government because of these movements.

2. Discuss the role of public sector and analyse its working and performance in the recent years.

3. Briefly analyse the trends and strategies adopted in various plans to achieve the long - term goals of planning.

4. Critically examine the recommendations of the Tax Reforms Committee.

5.   Write short notes on *any four* of the following :

   (a)   Role of Government

   (b)   Problems and Prospects of Small Scale
         Industry

   (c)   Elements of Economic Environment

   (d)   Merits of Foreign Capital

   (e)   Development Banks

Read the following case carefully and answer the questions given at the end.

Global Expansion Strategies of NIIT and Wipro based on the New Economic Regime in China

In the past few years, Indian IT service majors have announced aggressive expansion plans in China.

By expanding their presence in China, Indian IT service companies will be able to develop China as a hub, to cater to the needs of clients in Japan, Hong Kong and Korea, while the Indian base would cater to US and European markets. Over a period of time, China will also form a part of the global delivery capabilities of these companies. Thus, the expansion into China can be viewed as a part of the strategy to expand the revenue base for Indian companies.

The domestic market in China is rather large and is growing at a rapid pace. This provides a great opportunity for Indian companies, as the domestic companies in China are largely fragmented and small. Hence, with the scales that the Indian companies have to offer, they can capture larger shares of these markets.

Economic Outlook of China

The information technology (IT) industry is one of the most lucrative ones in the global economy,

with a contribution of nearly a trillion dollars every year, and garners almost $ 700 billion in taxes. Since this industry is not hampered by geography or availability of natural resources, even developing countries, such as India, can challenge the supremacy of developed countries, such as the United States or Europe. The rapid growth of the Asian and East European markets is expected to further fuel growth of the global IT industry. China is an industry leader in the Asian markets. The Chinese IT industry is driven by a thriving economy and favourable national policies, and is a prime contributor to the economy. The largest IT market in Asia after Japan, China is ranked 51 in the network readiness index of the World Economic Forum.

China's accession to the World Trade Organization (WTO) is expected to give the IT industry, especially the software markets, a further boost. Some of the reforms implemented by the Chinese Government as part of the WTO agreement, include signing of the Information Technology Agreement (ITA), allowing import and distribution of most products into all regions of China, as well as removing quotas, technology transfer and export performance requirements. China has made rapid progress in all spheres for the past 20 years, to become one of the global economic powerhouses. Stable political conditions,

a large Chinese market, low interest rates, cheap labour and stable exchange rates have aided this fast growth, making it one of the most attractive destinations for foreign investment. In 2004, China's gross domestic product (GDP) touched 9.5 percent, with a substantial rise in fixed investment levels. Even as inflationary pressures affect the economy, the People's Bank of China is actively responding by adjusting interest rates.

Information Technology Industry

China's spectacular economic success has prompted speculation that the country's software outsourcing industry could soon compete with India's. The number of engineering graduates and software applications professionals has grown considerably in recent years.

Without adequate scale, Chinese players are unlikely to attract top international clients. Fragmentation exacerbates Chinese industry's other problems, including weak process controls and product management. Only 6 of China's 30 largest software companies are certified at levels five or four of the Capability Maturity Model (CMM); by contrast, all of the top 30 Indian software companies have achieved these rankings. Scale would help - larger companies tend to attract more interesting projects, provide better training opportunities and offer more generous incentives. All these make it easier to attract and retain

workers with valuable technical and linguistic skills.

With greater size and an improved talent base, Chinese software services companies will be in a better position to address other issues, such as building credible brands in International markets and developing knowledge of specific industries, including finance and pharmaceuticals. Organizational and operational changes are also needed to protect the intellectual property of clients. Last, most companies will have to abandon their project based mentality and adopt a new focus to give clients long term value. The Chinese ICT industry has been growing at a rate of 20 per cent per annum, higher than the growth rate of the country's gross domestic product (GDP). China has one of the lowest computer production costs worldwide.

Government Policy

The Chinese Government has implemented several policies with an aim to make the country, the world's largest producer of ICT products and services. Tax concessions and permission to foreign participation in research and development (R&D) activities, have attracted substantial foreign direct investment (FDI) in Chinese ICT industry. The 10th five-year plan (2001-2005) emphasised R&D and new product development in the IT industry, with a focus on development of e-commerce solutions and security software

packages, based on LINUX. The 11th five - year plan focuses on developing basic software, integrated systems, large key applied software, building next generation internet projects, as well as making technological breakthroughs in areas such as advanced computing, which consists of computer systems, grid-based computing platforms and commercially producing teraflop computers. The Chinese IT industry is already liberalized to a great extent, and has become competitive after the country's accession to the WTO in 2001. China has also opened up the telecommunications industry to foreign investment. Telecommnication regulations aim to standardise the telecommunications market to ensure the security of telecommunication users. The government permits foreign companies to enter into joint ventures with Chinese telecommunications companies, with upto 49 per cent stake in mobile and fixed line services ; in value - added mobile services, these companies can hold a 50 percent stake. De-regularization is expected to increase competition, as foreign participants would find it easier to enter the market.

To promote ICT trade, the Chinese Government exempts the industry from all trade tariffs, and has established more than 50 high-technology free trade zones. The ASEAN - China

Free Trade Area (AMA) is expected to become operational by the year 2010 and is likely to facilitate free flow of information and technology among the member countries, due to the e-ASEAN agreement.

NIIT'S Global Expansion

NIIT, an Indian company, launched its first centre in Shanghai, in cooperation with Pudong Continuing Education Centre (PCEC), education arm of Municipal Government of Shanghai. Taking its initiative forward, NIIT, in 2001, was given permission by Chinese Government to set up a Wholly Owned Foreign Entity (WOFE), thereby enabling NIIT to become the first Indian company to set up professional education centres anywhere in China. After achieving the 100 education centre mark in China in March 2003 quarter, NIIT geared up to further strengthen its presence by evaluating a number of initiatives in China's IT training space, where it works in partnership with local companies, leading universities and Software Technology parks. NIIT is committed to building a large IT manpower pool in China by enhancing the knowledge assets of individuals and organisations. The company would be expanding its reach in China to offer its complete range of IT Training offerings for different segments, using different modes of training.

NIIT has tied up with over 10 leading universities of China for setting up centres within the University campuses. Three of the leading Software Parks have also become NIIT partners, and they are setting up NIIT centres in their parks. NIIT has established its credibility by acquiring prestigious placements for its students in organisations like Fujitsu, IBM, Shanghai Stock Exchange, Chian Mobile, Bank of Shanghai and Pudong Software Park. It's benchmarked global quality IT education has touched thousands of students in the 25 Chinese provinces. Owing to its long standing presence in China, coupled with over two decades of experience in developing world class IT education curricula, NIIT has fine-tuned its education offerings for the Chinese market, and customised its education offerings to target all segments of IT training in China. Reinforcing its efforts of new curriculum development, as well as usage of new technology for improving course delivery, NIIT has launched the 'e-Tian Tong' curriculum in Mandarin. The unique 'e-Tian Tong' (a Chinese expression which loosely translated means 'the key that opens all learning in the latest technologies') curriculum has evoked considerable interest for high-end, high - quality training in China. NIIT's industry relevant GNIIT and Career Edge education programs have also helped students across the globe, build careers in the IT and non-IT worlds.

NIIT's move into China, that started in 1998, has been followed by successful forays into other Asia-Pacific markets such as Hong Kong, Thailand, Malaysia, Indonesia and the Philippines. The company's vast experience in the IT segment is reflected in its experience in training over 2 million people in 31 countries, backed by its ability to provide solutions in the local language. NIIT's IT education solutions are available in Mandarin, Spanish, French, Arabic, Thai and Japanese. From a company which was focused on the Indian market, to one that it entirely global in its outlook-NIIT's metamorphosis has been complete. Over the years, NIIT has built up a significant global presence through a network of offices in the key markets it addresses. NIIT's professional moorings have led it into a corporate culture that is focused on quality. Quality, in fact, is the mantra that has enabled NIIT to find favor with demanding global customers.

Wipro in China

Wipro Technologies Incorporated, a subsidiary in China, set up a 50-seat development centre in Shanghai in August 2004, to strengthen its position in the Asia-Pacific region, Wipro Shanghai Ltd, the Chinese subsidiary of India's third largest software exporter, was meant to

serve as a regional hub for the company's global operations. By opening a subsidiary in China, Wipro joins the league of other software exporters like Tata Consultancy Services and Infosys Technologies, who have a presence in China.

Wipro got a license to do business in China in April, 2004. With an investment of $200,000 in its China operations, Wipro planned to expand its development centre in Shanghai, and open new centres at other locations, as its client base in China grew. Initially, the focus of Wipro's Chinese subsidiary was the company's global customers. It set up a subsidiary and development centre in Shanghai, as many of its global customers wanted to work with it in China as well and assigned management responsibilities to its Japan head. The second phase was the setting up of an offshore development centre. Wipro initially deployed 35 to 40 Chinese-speaking workers from Yokohama, Japan and later on hired Chinese workers for their software centre. This approach is different from what software service rivals, **Tata Consultancy Services and Infosys** Technologies did, who planned to set up software centres with Chinese workers right from the start.

Wipro hoped that its China operations would also help it in focusing on the huge domestic market and address the needs of its Japanese customers, who have made substantial

investments in China. Since most of its basic research and development work is done in India, the China development centre of Wipro was to work on the localisation of software, and provide implementation and support services. While functioning in China, Wipro has faced the problem of Intellectual Property Rights. IPR laws in China are not very strict, and anything that can be copied, is copied. Hence, a workaround has been achieved, and the company passes on only what is absolutely needed, and what is required for local implementation. The whole application is never developed at one place and may even be developed at remote locations.

Another unique issue for Wipro was the cost factor in China; contrary to popular notion working in China was not that cheap. By its own reckoning, China is about 10% to 15% less expensive in terms of programmer cost, but 25% more expensive when it comes to supervisory staff, project lead and project managers, as compared to India. Hence, it was reckoned that the net cost between projects with a 10-person or 20-person team, would be the same.

Questions :

1. Discuss the business environment in the Information Technology Industry in China.

2. Why did Indian companies NIIT and Wipro expand globally to China ?

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