Unit – I

Theoretical Framework of Business Environment: Concept, significance and nature of business environment. Elements of environment- Internal and External; Changing dimensions of business environment, Techniques of environmental scanning and monitoring.

Unit – II

Planning in India: Emergence of Planning, NITI Ayog, National Development Council. Economic Environment of Business: Significance and elements of economic environment, Economic Trends: Savings and Investment, Industry, Growth of Infrastructure Balance of Payment. Incentives for Make in India, PLI Scheme, Ease of doing business.

Unit – III

Problems of Growth: Unemployment, Inflation, Regional imbalances and Social Injustice. Government Policies- Industrial policy, Fiscal and Monetary policies, EXIM policy; SEZ policy, LPG 1991, Direct and Indirect Taxes with special reference to GST and VAT.

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Political and Legal Environment of Business: Changing dimensions of legal environment in India, Brief introduction to Competition Act, 2005, FEMA, Corporate Governance and Social Responsibility of Business

Unit – V

Foreign Investment: FDI, FII, Determinants of Foreign Investment, Multinational Corporations: Favourable and Harmful effect of the operations of MNCs on Indian economy, Liberalization and MNC's.International Business Environment: World bank, IMF, General agreement on Tariff and trade. : the WTO agreement, TRIPS, TRIMS, Non-tariff barriers and Dispute settlement mechanism, Kyoto Protocol, FTAs

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UNIT-I

THEORITITCAL FRAME WORK OF BUSINESS ENVIRONMENT

Concept, Significance and Nature of Business Environment:

Concept:

Business organization has to interact and transact with its environment. Hence, both the business and environment are totally interrelated and mutually interdependent. Business environment refers to those aspects of the surroundings business enterprise, which affect or influence its operations and determine its effectiveness.

According to Keith Davis, "Business environment is the aggregate of all conditions, events and influence that surrounds and affect it".

According to Andrews, "The environment of a company as the pattern of all external influences that affect its life and development"

The business environment is always changing and is uncertain. It is because of dynamism of environment. As it is already said that the business environment is the sum of all the factors outside the control of management of a company, the factor, which are constantly changing, and they carry with them both opportunities and risks or uncertainties which can, make or mark the future of business.

Nature of Business Environment: **The nature of business environment is as follows:**

1. Complex: Business environment is compound in nature. Environment consists of a number of factors, events, conditions and influences arising from different sources which impact business thus making the business complex.

2. Interdependence: The environment of the business is made of social, economic, legal, cultural, technological, and political factors. These factors of the environment are interdependable. The economic status of a country affects the development of technology.

3. Dynamic: Business environment is constantly changing process. Business environment is dynamic as it keeps on changing in terms of technological improvement, shifts in consumer preferences or entry of new competition in the market. The various forces in the environment keep on changing from time to time thus making business dynamic and not static.

4. Inter-relatedness: The different factors of business environment are co-related. For example, let us suppose that there is a change in the import-export policy with the coming of a new government. In this case, the coming of new government to power and change in the import-export policy are political and economic changes respectively. Thus, a change in one factor affects the other factor.

5. Impact: Business environment has both long term and short term impact. Environment therefore has different effects on different firms in the same industry, for example, drugs.

6. Uncertainty: Business environment is largely uncertain as it is very difficult to predict future happenings, especially when environment changes are taking place too frequently as in the case of information technology or fashion industries.

7. Relativity: It is a relative concept since it differs from country to country and region to region. Political conditions in the USA, for example differ from those in China or Pakistan. Similarly, demand for series may be fairly high in India whereas it may be almost non-existent in France.

Significance of Business Environment: **some of the direct benefits of understanding the business environment are given below:**

1. Customer Focus: Environmental understanding makes the management sensitive to the changing needs and expectations of consumers. For example: Hindustan Lever and several other FMCG companies launched small sachets of shampoo and other products realising the wishes of customers. This move helped the firms to increase sales.

2. Strategy Formulation: Environmental monitoring provides relevant information about the business environment. Such information serves as the basis for strategy making. For example: ITC realised that there is a vast scope for growth in the travel and tourism industry in India and the government is keen to promote this industry because of its employment potential. With the help of this knowledge ITC planned new hotels both in India and abroad.
3. Public Image: A business firm can improve its image by showing that it is sensitive to its environment and responsive to the aspirations of public. Leading firms like Reliance Industries, ICICI Bank and others have others have built good image by being sensitive and responsive to environmental forces. Environmental understanding enables business to be responsive to their environment.
4. Continuous learning: Environmental analysis serves as broad based and ongoing education for business executives. It keeps them in touch with the changing scenario so that they are never are caught unaware. With the help of environmental learning managers can react in an appropriate manner and thereby increase the success of their organizations.
5. Giving Direction for Growth: The interaction with the environment leads opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities
6. Change Agent: Business leaders act as agents of change. They create a drive for change at the grass root level. In order to decide the direction and nature of change, the leaders needs to understand the aspirations of people and other environmental forces through environmental scanning. For example: contemporary environment requires prompt decision-making and power to people. Therefore, business leaders are increasingly delegating authority to empower their staff and to eliminate procedural delays.

Theoretical Framework for Business Environment :

Introduction

The environment is always changing, and this is just as true for the business environment as it is for the physical world around us. Managers try to avoid being "taken by surprise" by unexpected events that would impact their organizations through an ongoing process called environmental scanning. Environmental scanning is a high-level, broad-based process of gathering, analyzing, and dispensing information for the purpose of developing strategies or tactics. The process entails getting both factual data and qualitative opinions. Organizations also scan when they are considering whether to enter a particular industry.

PESTEL

You may wonder just how you go about analyzing the total external environment that would affect your company. A commonly used management tool is called PESTEL.

PESTEL is an organizing framework that allows decision makers to understand and make connections with a mass of information. You may sometimes see the name of this tool written as PESTLE or even just PEST in older sources. A PESTEL analysis examines six key macro-environmental factors in order to understand their interactions with the organization.

Besides alerting top management to potential threats in the environment, a PESTEL analysis is a part of the external strategic analysis when conducting research into new markets. It gives an overview of the different macro-environmental factors that the company has to take into consideration. Descriptions of the six key PESTEL factors follow.

Political

Political issues are a function of how much the government intrudes or is involved in an organization's operations. In particular, it looks at taxation and tariffs, regulations, political stability, and elections. For example, Google and other Internet providers have financial, legal, and ethical issues relating to operating in countries like China or Iran, where repressive governments want to control the flow of information. In another example, Google was fined $2.7 billion by the European Union for antitrust abuses. Google can appeal this decision with the European Court of Justice. Finally, the CEO of Apple is awaiting changes in the tax law before bringing almost $250 billion in foreign reserves back to the United States. Often, decision makers for these organizations must choose between making money or suppressing information critical of the repressive regimes.

Economic

Economic factors start with indicators for the U.S. economy as a whole. These are growth, employment, inflation, and interest rates. Companies with foreign operations will worry about exchange rates. These factors are important in long-range forecasts for revenue and expenses. Businesses in the financial industry may pull back from aggressive strategies in times of rising interest rates.

Social

Society and culture have great impacts on the business environment. These factors include demographics like population growth, age distribution, and attitudes toward safety and health consciousness. For example, rising rates of obesity have forced management to look closely at marketing campaigns in giant food corporations such as Nestle and Kraft Foods.

Technological

Technology facts include research and development (R&D), automation and robotics, and technology incentives. The rate of technological change in the business environment is staggering. A term often paired with technology is *disruption*, a description for innovations that completely change the cast of leading competitors in an industry. Many organizations not only scan the technological environment but also monitor closely for new and disruptive processes.

Environmental

Weather, climate change, air quality, and natural disasters are all environmental factors. Some industries are especially at risk from changes in the natural environment, including manufacturing, agriculture, tourism and travel, and sports and entertainment. Many pollution regulations limiting water and air pollution have been passed that affect the operation of businesses.

Legal

Legal factors include discrimination laws, consumer protection laws, and employment, health, and safety policies. Antitrust, piracy and copyright laws, as well as immigration issues are also of growing importance in the business environment. All of these factors affect how organizations operate, their costs, and the demand for products.

Elements of Business Environment:

Business Environment – Definition, Components, & Features

Several internal and external factors directly or indirectly influence business operations. While some of these are within the business's control, most of these are not; and the business has to adapt itself to avoid being affected by changes in such factors. Both of them combined forms the business environment.

Today's fast-paced business world witnesses a trend of a rather dynamic business environment – that is, it's never stable. Hence, keeping track of these changing trends, demands, strategies, and policies is crucial in the business world.

What Is Business Environment?

A business environment is a combination of internal and external factors and forces that significantly influence the operations of a business.

The business environment comprises an internal and external environment that directly or indirectly affects business operations.

- **Internal Environment:** It includes all the factors that are well within the control of a company. These factors are relatively predictable and can be worked on by the company to eliminate forces that negatively impact its operations.

- **External Environment:** It includes factors that exist outside the company's control. They tend to be unpredictable as a company cannot possibly control or predict a change in them. Their unpredictable nature has the potential to abruptly hinder or even boost a company's functioning.

Components of Business Environment

The business environment can be categorized into two types based on the factors within the control or outside the control of a business.

Internal Environment

The internal business environment constitutes several internal forces or elements within the control of a business that influences its operations. These include:

- **Value System:** It is the ethical belief that guides the business towards achieving its mission and objective. The value system includes all components that form a business's regulatory framework – organizational culture, climate, work processes, management practices and organizational norms.
- **Vision, Mission, and Objectives:** The vision, mission, and objective of a business relate to what it wants to achieve or accomplish in future. It is the reason why the business exists.
- **Organizational Structure:** It outlines how the activities are directed within the organization to achieve its goals. It includes the rules, roles, and responsibilities, along with how tasks are delegated and how the information flows among the organization's levels.
- **Corporate Culture:** It is a powerful system of shared norms and attitudes that works as a homogenizing factor for an organization's employees and gets appropriated by them.
- **Human Resources:** Human resources form all the employees and other personnel associated with the business. It forms the most valuable asset of the organisation as success or failure depends on it.
- **Physical Resources and Technological Capabilities:** It includes tangible assets and the technical know-how that play an essential role in ascertaining the business's competitive capability and future growth prospects.

External Environment

External components are those factors that a business cannot control. These exist beyond a business' jurisdiction and supervision limit. External components influencing a business environment are further classified into two categories:

- Micro Environment
- Macro Environment

Micro Environment

Micro environment is the business's immediate external environment that influences its performance as it has a direct bearing on the firm's regular business operations.

It includes factors outside of the business's control but can be analysed and worked upon by managing the business to prevent any business losses.

Micro factors include:

- **Customers** comprise the target group of the business.
- **Competitors** are other market players who target a similar target group and provide similar offerings.
- **Media** is the channel the business use to market its offering to the customer.
- **Suppliers** include all the parties that provide the business with the resources it needs to perform its operations.
- **Intermediaries** comprise the parties involved in delivering the offering to the final customers.

- **Partners** are all external entities like advertising agencies, market research organisations, consultants, etc., who conduct business with the organisation and satisfy customer needs.
- **Public** includes any group with actual or potential interest in the business's operations or a group that affects its ability to serve its customers.

Macro Environment: PESTLE

The macro environment includes remote environmental factors that influence an organisation. The extent of influence a macro element can have on a business is significant as they usually affect the industry as a whole.

These factors are classified under PESTLE: P – Political, E – Environmental, S – Social, T – Technological, L – Legal, E – Economical.

- **Political Factors** comprise government policies, political stability, corruption in the system, tax policies, labour laws, and trade restrictions that affect the business or the industry.
- **Economical Factors** relate to the economy of the country. They include economic growth, exchange rate, interest and inflation rates, etc.
- **Social Factors** comprise the demographics of the country. They include population growth rate, age distribution, career attitudes, health consciousness, etc.
- **Technological Factors** pertain to innovation in technology that affects the operations of the business. This refers to automation, research and development activities, technological awareness, etc.
- **Legal Factors** are laws that affect business operations. They include business-specific, industry-specific, and even state-specific laws.
- **Environmental Factors** comprise of all those that influence or are determined by the environment a business operates in. It includes the weather, climate, environmental policies, and even pressure from NGOs to care for the environment.

Techniques of Environmental Scanning and Monitoring:

Meaning:

Organizations are predominantly impacted by legal, social, economical, global, and technological variables. The environmental examination or scanning is an investigation of these different impacting factors. Environmental checking or scanning is concerned with gathering and using the data or information about noticeable trending patterns, examples, events, and connections that can unfavourably affect the business to decide future dangers, threats, or opportunities.

Factors of Environmental Scanning:

Internal factors of environmental scanning:

The parts that exist inside the association are internal factors, and any changes in these influence the overall performance and operating activities of the association. Human Resources, capital assets, and technological assets are a part of the internal environmental factors that affect environmental scanning.

External factors of environmental scanning:

The parts that fall outside the business association are called external factors. Albeit these factors lie outside the association, they actually influence the management's activities. The external factors can be partitioned into macro-environmental factors and micro-environmental factors.

Macro-environmental factors include legal, political, social, cultural, demographics, and technological. Micro-environmental factors incorporate suppliers, organisations, consumers, markets, and competitors.

Environmental Scanning and Its Characteristics:

Dynamic Process:

Environmental checking isn't static. It is a unique interaction and relies upon evolving circumstances.

Ceaseless Process:

The investigation of the environmental scanning is a constant interaction rather than being inconsistent. The quickly interchanging environment must be caught ceaselessly to be on target.

Comprehensive View:

Environmental Scanning centers around the total perspective on the environment, rather than reviewing it to some extent.

Exploratory Process:

Environmental scanning is an exploratory interaction that continues observing the environment to draw out the conceivable outcomes and obscure components of things to come. It focuses on the way that what could occur and not what will occur.

Procedure for Environmental Scanning:

Examining:

The most common way of breaking down the environment is to recognise the variables that might affect the business is known as environmental scanning. It makes the organisations aware of taking appropriate key decisions before it arrives at a critical circumstance.

Observing:

The information assembled from different sources is used to screen and discover the patterns and trends in the environment. The fundamental sources of gathering information are spying, conversing with clients, providers, sellers and workers.

Predicting:

The most common way of assessing future occasions dependent on recently broken down information is known as environmental predicting, forecasting and determining.

Evaluation:

The stage in which the environmental elements are surveyed to recognize whether they give a chance to the business or represent a danger.

Significance of Environmental Scanning:

Achieving goals and objectives:

The targets of an association can't be satisfied except if it adjusts to the changes in the environment. One needs to change the methodologies to fit in the changing requests of the environment.

Identification of weaknesses and threats:

For an association to develop, it should limit its weaknesses, threats and distinguish its shortcomings. This can be made conceivable with the assistance of filtering the environment with better techniques, strategies that can be created.

Forecasting the future:

Environmental changes are regularly capricious. An association can't expect every one of things to come in the future; however, in light of the examination, it can settle on better essential choices later on. Consequently, environmental investigation assists with determining the possibilities of the business.

Knowledge of the market:

Every association should know about the continuous changes prevailing in the market. Assuming it neglects to join vital changes because of evolving requests or demands, it can not accomplish its targets.

Zero in on the Customer:

Environmental examination and scanning make an association subtle to the changing requirements and assumptions for the client.

Identification of opportunities:

With the examination of the current situations in the environment, an association will actually want to recognize the potential chances and make vital strides.

Strategies of Environmental Scanning:

QUEST Analysis:

QUEST analysis represents the Quick Environmental Scanning strategy. This method is intended to examine the environment rapidly and economically so that organisations can zero in on basic issues that must be tended to in a limited capacity to focus.

SWOT Analysis:

SWOT analysis is an abbreviation for Strengths, Weaknesses, Opportunities and Threats examination of the business environment. Weaknesses and Strengths are considered as interior elements though Threats and Opportunities are outer variables. These variables decide the game-plan to guarantee the development of the business.

ETOP Analysis:

ETOP analysis represents the Environmental Threat Opportunity Profile. It assists an association with investigating the effect of the environment, dependent on opportunities and dangers.

PEST Analysis:

PEST analysis represents Political, Economic, Social, and Technological examination of the environment. It manages the macro-environment.

Impediments of Environmental Scanning:

- Over-burdening of data may bring about uncertainty here and there. Henceforth it isn't totally solid.
- It doesn't predict the future or take out vulnerabilities. Associations might confront unforeseen events. Anyway, natural checking should target limiting such dangers to the business.
- It frequently makes an association mindful and, in this manner, defers decision making process. It is smarter to have an essential way to deal with examining the environment and make choices or take actions right on schedule.
- At the point when the associations depend totally on the broken-down data without information confirmation and exactness, it might prompt deviation in the ideal results.

UNIT-II

PLANNING IN INDIA:

Emergence of Planning:

Introduction

- As a developing country, India must improve employment and incomes, revive investments and growth, untangle the financial sector, manage muddled international trade, and address the recurrent issues of inadequate education and health, as well as the mounting issues of pollution and water shortages.
- When there are few resources and a large amount of welfare to be provided, the function of planning becomes essential. The Planning Commission was in charge of planning efforts in India until 2014 when it was replaced by **NITI Aayog,** a policy think tank with the goal of making planning more inclusive and bottom-up.
- NITI Aayog's charter defines it as a body tasked with acting as a catalyst for change in India's federal and complex socio-economic structure.
- Experts, on the other hand, have expressed worries about NITI Aayog's independence in guiding the government and becoming a spokesperson for the administration as well as a project implementer.

Planning in India – Objectives

The original goals of economic planning in India were as follows:

- **Economic Development:** Economic development is the primary goal of Indian planning. Increases in India's Gross Domestic Product (GDP) and Per Capita Income are used to measure the country's economic development.
- **Increased Employment:** An essential goal of Indian economic planning is to better utilize the country's abundant people resources by raising employment levels.
- **Self-sufficiency:** India aspires to be self-sufficient in major commodities while simultaneously increasing exports. During the third five-year plan, from 1961 to 1966, the Indian economy had reached a critical stage of development.
- **Economic Stability:** In addition to India's economic growth, India's economic planning aims for stable market conditions. This entails maintaining a modest rate of inflation but simultaneously avoiding price deflation. The creation of structural faults in the economy occurs when the wholesale price index rises very high or very low, and economic planning seeks to avoid this.
- **Social Welfare and Efficient Social Service Provision:** All five-year plans, as well as plans proposed by the NITI Aayog, aim to improve labor welfare and social welfare for all sections of society. India has planned for the development of social services such as education, healthcare, and emergency services.
- **Regional Development:** India's economic strategy tries to decrease regional development discrepancies. Some states, such as Punjab, Haryana, Gujarat, Maharashtra, and Tamil Nadu, are economically developed, whereas others, such as Uttar Pradesh, Bihar, Orissa, Assam, and Nagaland, are not. Others, such as Karnataka and Andhra Pradesh, have had unequal development, with world-class economic hubs in cities and a less developed countryside. In India, planning aims to investigate these inequities and propose methods to address them.
- **Comprehensive and sustainable development:** One of the key goals of economic planning is to develop all economic sectors, such as agriculture, industry, and services.
- **Economic Inequality Reduction:** Since independence, reducing inequality through progressive taxation, job creation, and job reservation has been a fundamental goal of Indian economic planning.

- **Social Justice:** This planning goal is linked with all the other objectives, and it has long been a focal point of planning in India. Its goal is to lower the number of individuals living in poverty by providing them with employment and social services.
- **Increased Standard of Life:** One of the key goals of India's economic planning is to raise the standard of living by raising per capita income and ensuring equal distribution of income.

Types of Planning

The majority of economies in today's world are mixed economies. There are different types of planning that are discussed below:

Indicative planning

- It proposes/indicates a set of broad principles and recommendations for achieving a set of objectives. Indicative planning is unique to France's mixed economy. However, this is not the same as the planning that exists in other mixed economies.
- The term "**mixed economy**" refers to the simultaneous operation of the public and private sectors. The state exercised control over the private sector in a variety of ways, including quotas, prices, licenses, and so on.
- However, under **suggestive planning**, the private sector is not strictly supervised in order to meet the plan's aims and priorities. The government provides full support to the private sector but does not have control over it. Rather, it directs the private sector to implement the plan in particular areas.

Comprehensive / Imperative Planning:

- This refers to **centralized planning and implementation**, as well as resource allocation. It is utilized by socialist countries, where the state has complete control over all aspects of planning.
- The state makes the best use of its resources in order to meet the plan's objectives. Under this type of planning, consumer sovereignty is surrendered. Consumers receive fixed volumes at fixed costs. The government's policies are rigid and difficult to change. Any change might have a negative impact on the economy.

NITI Aayog:

- The **National Institution for Transforming India (NITI Aayog)** was founded by a **Union Cabinet decision on January 1, 2015,** as the Union Government's top policy think tank. It's a non-statutory, extra-constitutional advisory council.
- The National Institution for Transforming India (NITI Aayog) does not have the authority to impose policies. The government aims to act as an "enabler" by establishing NITI Aayog and giving it the responsibility of providing a forum for cooperative federalism.

  Aims and Objectives of NITI Aayog

  - Working as an advisory body, providing directional and strategic suggestions to the Union government and, on request, state governments.
  - To use a bottom-up development approach instead of a top-down development approach. It would devise processes for developing credible plans at the village level, which would then be aggregated at higher levels of government.
  - To promote cooperative federalism by forming a shared vision of national development priorities based on the premise of "strong states, strong nations."
  - Encourage inter-ministry, inter-state, and center-state coordination to put an end to the policy's slow and tardy implementation.
- The **Prime Minister of India** serves as the **Chairperson** of the **NITI Aayog**.
- The **Governing Council** is made up of the **Chief Ministers of all the states** as well as the **Lieutenant Governors of the Union Territories.**

- **Regional Councils** will be established to address specific concerns and situations that affect many states or regions. These will be formed for a set amount of time. They will be called by the Prime Minister and will include the region's Chief Ministers and Lieutenant Governors of Union Territories. The Chairperson of the NITI Aayog or his nominee will preside over these meetings.

Economic Environment of Business:

Meaning:

The term economic environment refers to all the external economic factors that influence buying habits of consumers and businesses and therefore affect the performance of a company. These factors are often beyond a company's control, and may be either large-scale (macro) or small-scale (micro).

Definition

The economic environment relates to all the economic determinants that influence commercial and consumer compliance. The term economic environment indicates all the external economic circumstances that affect the purchasing practices of customers and markets. Hence, it influences the production of the business.

As a component of economic reformations, the government of India declared a new industrial system in July 1991. The extensive characteristics of this system were as follows:

- The government decreased the number of enterprises below mandatory licensing to six.
- Many of the businesses held for the public sector under the initial policy were justified. The purpose of the public sector was defined only to four industries of vital importance.
- Disinvestment was conducted in case of many public sector industrial companies.
- The policies towards foreign funds were expanded. The percentage of foreign equity partnerships was extended. In many ventures, 100 percent of foreign direct investment (FDI) was allowed.
- The automatic approval was now given for technology transactions with foreign firms.
- Foreign investment promotion board (FIPB) was established to support and channelize the foreign financing in India.

Liberalization

The economic reforms that were presented were directed at liberalizing the Indian business and trade from all the redundant restrictions and limitations. They indicated the end of the license-permit-quota raj. The liberalization of the Indian business has taken place with respect to the following:

- By eliminating the licensing terms in most of the industries, excluding a shortlist
- By providing freedom in determining the range of marketing activities, i.e., no constraints on the development or consolidation of business pursuits
- By dismissing the restraints on the transportation of commodities and services
- By providing freedom in deciding the cost prices of commodities and services

Privatization

The new set of economic changes intended at proffering a prominent position to the private sector in the nation-building rule and a diminished role to the public sector. This was a withdrawal of the growth policy attempted so far by the Indian directors. To accomplish this, the administration redefined the role of the public sector in the new industrial policy of 1991, approved the policy of proposed disinvestments of the public sector, and determined the loss-making and weak industries to the Board of Industrial and Financial Reconstruction (BIFR).

Globalisation
Globalization implies the combination of different economies of the world heading towards the development of a united (closely-knitted) global marketplace. Till 1991, the government of India had followed a course of stringently controlling imports in terms of price and quantity. These laws were with respect to the following:

- Licensing of imports
- Tariff limitations
- Quantitative constraints

The new economic reforms directed at business liberalization were focused towards import liberalization, export improvement through rationalization of the tax structure, and changes with respect to the foreign exchange so that the nation does not remain separate from the rest of the world.
Significance and elements of business environment
Meaning: Business environment is the total or aggregate of all the internal and external factors that influence the business. These can include employees, suppliers, customers, government etc. All the internal and external forces directly or indirectly affect the way a business functions.
Business Environment Definition
The term "Business environment" is the sum of all conditions, events, and influences that surround and affect business activities and growth.
Components of Business Environment
Internal - It combines the factors that exist within the company. These are –

- Human resources
- Value system
- Vision and mission
- Labour union
- Corporate culture

External - An external Environment includes those outside factors that exercise an influence on a business's operations. It is further classified into two segments.

- **Macro** - Socio-cultural, political, legal, and global factors fall into this category.
- **Micro** - This environment has a direct and immediate impact on a business. It consists of customers, investors, suppliers, etc.

Features of Business Environment

- The business environment is the sum of all external factors that affect its growth.
- The business environment includes both general and specific forces. Specific forces include investors, customers, competitors, and suppliers. These factors affect individual enterprises directly and immediately in their day-to-day working. General forces include social, political, legal, and technological conditions. The general forces affect the business environment individually.
- The business environment is dynamic.
- The business environment is highly uncertain.
- The business environment is a relative concept as it differs from country to country and even region to region.

Dimensions of Business Environment
The dimension of the business environment refers to the sum of all factors, enterprises, and forces that constitute direct or indirect influence over business activities. Such five key elements are listed below.

1. **Social Environment**

It implies the tradition, culture, customs, and values of a society in which the business exists.

- **Tradition:** In India, festivals like Diwali, Christmas, and Holi provide a financial opportunity for several market segments like sweet manufacturers, gifting products suppliers, etc.
- **Value:** A company that follows long-held values like social justice, freedom, equal opportunities, gender equality, etc. excels in that given society.
- **Recurrent Trends:** It refers to development or general changes in a society like consumption habits, fitness awareness, literacy rate, etc. which influence a business. For example, the demand for organic vegetables and gluten-free food is increasing; therefore, companies that manufacture food items keep this in mind to attract more crowds.

2. Legal Environment

It includes the laws, rules, regulations, and acts passed by the government. A company has to operate by abiding by the rules and regulations of laws like the Consumer Protection Act 1986, Companies Act 1956, etc. A proper understanding of these laws assists in the smooth operations of a company.

Example: A cigarette-selling company compulsorily has to put the slogan “smoking is injurious to health” on every packaging.

3. Economic Environment

It involves market conditions, consumer needs, interest rate, inflation rate, economic policies, etc.

- **Interest Rate -** For example, interest rates of fixed-income instruments prevalent in an economic environment impact the interest rate it will offer on its debentures.
- **Inflation Rate -** A rise in the inflation rate leads to a price hike; hence, it limits businesses.
- **Customer’s Income -** If the income of customers increases, the demand for goods and services will rise too.
- **Economic Policies -** Policies like corporate tax rate, export duty, and import duty influence a business.

4. Political Environment

It consists of forces like the government's attitudes towards businesses, ease-of-doing-business policies, the stability of the governing body, and peace within the country. All of these factors are extremely crucial for a company to sustain itself. If the central and local government sanctions, policies, or acts are in favour of businesses, the nation's overall economy strengthens due to increasing employment, productivity, and import and export of various products.

Technological Environment

It comprises the knowledge of the latest technological advancements and scientific innovations to improve the quality and relevance of goods and services.

A company that regularly keeps track of these news can mould its business strategies accordingly.

Economic Trends:

Saving and Investment Pattern in India

Domestic savings mainly fund domestic investment in India. Foreign capital inflows account for less than 1% of GDP (. India was a primary beneficiary of foreign aid, but the total amount of aid was not yet necessary compared to the size of the economy.

Reflecting the Indian government's hesitation in inviting foreign investment uncritically and the highly restricted capital accounting system, foreign direct investment and other forms of private capital, portfolio investment and banking flows, The role was even less important.
The relationship between savings and investment has not changed significantly since the reform in 1991. The temporary pattern of domestic investment rates effectively reflected the savings rate during the period. The relative share of the public and private sectors in the GDP mix changed significantly from the early 1950s to the early 1980s.

Public investment

Which increased from about 30% to 50%, accounted for most of the total increase in investment? However, the rise in investment rates since the mid-1980s may be primarily due to increased private investment. Private investment since the 1990s has been a primarily private investment.
Corporate investment accounted for more than 45% of total private investment in the 1990s. In terms of GDP, private sector investment increased by 4.3% in the late 1980s. Up to 7.1 per cent in the mid-1990s. (On the other hand, domestic investment fell from 9.3% of GDP to 8.5%.) Investors recognize that the cost of capital will fall due to import liberalization.
On September 15, 2018, the Reserve Bank of India (RBI) published its latest annual statistical publication, The Handbook of Statistics on the Indian Economy-2018. Through this publication, the bank offers time-series data storage on various economic and financial indicators of the Indian economy.

You can find a lot of valuable data related to:

- Macroeconomic indicators
- Money and banks
- Financial markets
- Finance
- Trade and balance of payments

Socio-economic indicators, etc. Based on this statistic, we will compare and publish some critical/interesting points and trends related to personal finance (since 2014). For example, household savings habits, total investment in bank deposits, etc., Investing in stocks and investment trusts, information on total bank loans, stock market performance, inflation data,

NRI deposits and more.

Before talking about statistics, let's look at family savings, monetary wealth, and real estate. Household savings correspond to the total income saved by the household over some time. Savings and investments in banks, stock exchanges, postal systems, company deposits, etc., are considered financial assets / financial savings. Investing in real estate, gold, silver, etc., is a physical savings/asset. Indian Household Savings, Investment and Responsibility Patterns 2018

Financial and Physical Assets:

What are our preferred assets

From 1990 to 2000, Indian households preferred to invest in financial assets rather than tangible assets.

- from 2000 to 2007, more savings were spent on physical assets. Interestingly, investment in financial assets increased in 2007/08. This indicates that retailers / small investors entered the stock market when they received the highest ratings. The market finally collapsed in 2008.
- From 2008 to 2015, we prioritized physical savings over economic savings.
- Total financial savings in 2014-15, 2015-16 and 2016-17 were Rs 12.572 billion, Rs 1.5207 billion and Rs 14.48 billion. Based on 2017-18 data, approximately Rs. 18.8 billion was invested in financial assets.

● Physical asset savings in 2013-14, 2014-15 and 2015-16 were Rs 14,164, Rs 15,000 and Rs 12,700, respectively. Data for 2016-'17 was around Rs. 13.9 billion was invested in physical assets.

● Earlier data in recent years clearly show that physical asset savings have recovered slightly and financial asset savings have increased significantly (2017 and 2018).

Based on the above data, we can see that from 2017 to 2018, bank deposit savings fell sharply, and equity investment increased significantly. We can also conclude that pension funds and reserve funds are in constant influx.

Financial Responsibility of Indian Households (2018):

● From 2017 to 2018, approximately Rs 6,739 million was received as loans from banks and financial institutions. This figure was around Rs 3,700 in the 2016-17 fiscal year. Therefore, the financial burden on Indian households has almost doubled.

Bank Time Deposit Data-The following idea of the total amount of unpaid amounts saved by bank time deposits and deposit holdings (as of March 2018).

● Bank loans in 2015-16, 2016-17 and 2017-18 were 2,747 million, 2.509 and 4.3 trillion, respectively. A one- to two-year forward deposit was most preferred, followed by a five-year term deposit (which could be a tax-saving FD).

FD / RD / Avoid long-term investments in conventional life insurance

NRI deposit:

● 2015-16 data: Total due NRI deposits totaled Rs 8.419 trillion, of which NU, FCNR and NGO deposits were approximately Rs. 4.74 trillion, Rs 3.5 trillion and Rs 672 billion, respectively. (NGO-Non-resident (external) Rupee account, FCNR-Foreign currency denominated non-resident and NGO-Non-resident regular Rupee account)

● 2016-17 figures: Total unpaid NRI deposits totaled Rs 7,757 million, of which NRE, FCNR and NGO deposits were approximately Rs 5,395 million, Rs 1,361 million and Rs 820 billion, respectively.

● 2017-18 figures: total unpaid NRI deposits totaled Rs 8,207 billion, of which NRE, FCNR and NGO deposits were approximately Rs 5,856 billion, Rs 1.432 trillion and Rs 918 billion, respectively. .. (Bank deposit interest rate patterns (2012-2018))

You may find that interest rates on deposits and loans are declining from 2014-15 to 2017-18. In the current fiscal year 2018-19, we see an increase in the deposit rate and MCLR (loans).

Post Office Small Savings Plan (SSS) Deposit

● In 2017, Indian households' time deposits and time deposit savings also increased slightly.

● Since 2011-15, investment in other typical schemes such as NSCs, KVP certificates, and credit schemes has declined.

Senior Savings or Monthly Income Scheme (MIS); However, this trend reversed between 2015 and 2017. (Read: "Latest Interest Rates on Post Office Small Savings Plans 2017-2018")

● Debt fund long-term savings are steadily increasing.

Import of gold and silver

● The Fiscal Year 2014-'15 imported Rs 2.106 billion and $ 276 billion of gold and silver, and Fiscal Year 2015-'16 imported Rs 207.4 billion and Rs 244 billion, to approximately Rs 1.843 trillion. Rs 123 billion was introduced in the 2016-'17 fiscal year.

● The 2017-18 figures were that 2.1 billion gold and 207 billion silver were imported. Therefore, there was a reversal in the trend of gold and silver imports in India last year.

● The average annual price of gold (10 grams) in 2016-17 was 29,655 rupees, and that of silver (1 kg) was 42,748 rupees.

● In 2017-8, the average annual price of gold (10 grams) was 29,300 rupees, and silver (1 kg) was 39,072 rupees. (Investment Trust Scheme: Assets Under Management Until 2018)

Between 2017-18, the AUM of Indian investment trusts increased by 22

Industry, Growth of Infrastructure Balance of Payment

PLI Scheme:

Introduction to Production Linked Incentive Scheme (PLI)
Understanding Production Linked Incentive Scheme (PLI)
Highlights of Production Linked Incentive Scheme (PLI)

Introduction to Production Linked Incentive Scheme (PLI)

PLI Scheme, as the Production Linked Incentive Scheme is commonly abbreviated as, is an initiative started by the Government of India to not only encourage foreign companies to find workforce in the country and thereby generate employment, but also encourage domestic and local production to create micro jobs.

Understanding Production Linked Incentive Scheme (PLI)

Like the name means, PLI scheme is an initiative that provides incentives to domestic industries to boost local production. When that happens, specifically tailored products emerge that satisfy a selected niche of target audience. Domestic businesses also help in cutting down import bills. As per the PLI scheme, the government encouraged domestic companies and establishments to set up or expand on manufacturing units to increase production, to which the government provides incentives on incremental sales. According to the PLI scheme update in November 2020, the scheme aimed to include ten more labour intensive sectors of production—examples include food processing, textiles etc

Highlights of Production Linked Incentive Scheme (PLI)

- The PLI scheme can also bring back old designs and product customs that can contribute heavily to the diversity, while also empowering forgotten artistry buried due to colonialism.
- The framework of the PLI scheme is to reward increased production.
- Due to the niche and specificity of PLI linked sectors, that mostly involve careful and attentive focus on man force and creating, PLI can enhance building systems to adjust to climate change and even essentially reverse it in the many years to come.

Related Terms

Financial System

A financial system is a collection of institutions which allow the exchange of funds, such as banks, insurance companies, and stock exchanges.

Economically Weaker Section,EWS

The economically weaker section (EWS) is the section of the society in India that belongs to the un-reserved category and has an annual family income of less than 8 lakh rupees.

The full form of BPL is Below Poverty Line.

Gross National Product,GNP Gross National Product or GNP is defined as the value of all the final goods and services produced by the national of the country in a specific time period.

Beyond a reasonable doubt is a substantive standard of proof which is required to justify a criminal conviction in most adversarial justice systems.

The labour force participation rate is the portion of the working population in the 16-64 years' age group in the economy currently in employment or seeking employment.

Recent Terms

Elasticity of Demand

When it comes to goods and services and demand of consumers for them, it is pretty obvious that the demand of goods is affected by its price.

Ease of Doing Business:

Meaning

RANKINGS. The Ease of Doing Business (EoDB) index is a ranking system established by the World Bank Group. In the EODB index, 'higher rankings' (a lower numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights.

RANKINGS

The Ease of Doing Business (EoDB) index is a ranking system established by the World Bank Group. In the EODB index, 'higher rankings' (a lower numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights. The research1 presents data for 190 economies and aggregates information from 10 areas of business regulation:

1. Starting a Business of all
2. Dealing with Construction Permits
3. Getting Electricity
4. Registering Property
5. Getting Credit
6. Protecting Minority Investors
7. Paying Taxes
8. Trading across Borders
9. Enforcing Contracts
10. Resolving Insolvency

Rankings and weights on each of the mentioned parameters are used to develop an overall EoDB ranking. A high EoDB ranking means the regulatory environment is more conducive for starting and operating businesses.

INDIA – EASE OF DOING BUSINESS RANKING

Among the chosen 190 countries2, India ranked 63rd in Doing Business 2020: World Bank Report. In 2014, the Government of India launched an ambitious program of regulatory reforms aimed at making it easier to do business in India. The program represents a great deal of effort to create a more business-friendly environment.

India has emerged as one of the most attractive destinations not only for investments but also for doing business. India jumps 79 positions from 142nd (2014) to 63rd (2019) in 'World Bank's Ease of Doing Business Ranking 2020'.

Positive changes have led to this impressive improvement in India's ranking in the EoDB index. India's major achievement is summarized here:

Construction Permits: India's ranking on this parameter has improved from 184 in 2014 to 27 in 2019.4 This improvement has been mainly on the account of a decreasing the number of procedures and time taken for obtaining construction permits in India.

Getting Electricity: India's ranking on this parameter has improved from 137 in 2014 to 22 in 2019. It takes just 53 days and 4 procedures for a business to get an electricity connection in India

Apart from these significant improvements, among the 190 economies, India ranks 13th in Protecting Minority Investors and 25th in Getting Credit.

Central Government Initiatives Actions Completed

STARTING A BUSINESS

1. Permanent Account Number (PAN), Tax Deduction & Collection Account Number (TAN), Director Identification Number (DIN) has now been merged into a single form (SPICe) for company incorporation.

2. Five-page form and other attachments for reserving the name of the Company with the Ministry of Corporate Affairs has been simplified into a simple web service with only three fields to be filled.
3. Registration under Employee State Insurance Corporation (ESIC) and Employee Provident Fund Organization (EPFO) are available at Shram Suvidha portal as a common online service with no physical touch point.
4. No requirement of inspection for before registration under Shops & Establishment Act in Mumbai and Delhi.
5. Companies Act was amended to eliminate the requirement of a common company seal.

DEALING WITH CONSTRUCTION PERMITS

1. Municipal Corporations of Delhi, as well as Municipal Corporation of Greater Mumbai, have introduced fast track approval system for issuing building permits with features such as Common Application Form (CAF), provision of using digital signature and online scrutiny of building plans.
2. Delhi has uniform building by-laws which allow for risk-based classification regimes for different building types. It has a provision of deemed approval of sanctioning building plans within 30 days.
3. For construction permits, the time reduced from 128.5 to 99 days in Mumbai and from 157.5 to 91 days in Delhi between Doing Business 2018 and 2019 reports.
4. Total number of procedures reduced to 20 in Mumbai and 16 in Delhi.
5. Cost of obtaining construction permits reduced from 23.2% to 5.4% of the economy's per capita income.

TRADING ACROSS BORDERS

1. The Central Board of Excise and Customs (CBEC) has implemented 'Indian Customs Single Window Project' to facilitate trade. Importers and exporters can electronically lodge their Customs clearance documents at a single point.
2. The number of mandatory documents required for customs purposes, for both import and export of goods, has been reduced to three.
3. e-Sanchit, an online application system, allows traders to file all documents electronically.16
4. The electronic self-sealing of the container at the factory has reduced time and cost for exporting firms.
5. A computerized risk management system has brought transparency and reduced frequency of custom inspections significantly.
6. Central Board of Indirect Taxes and Customs has provided a facility for Advance Bill of Entry (Advance Import Declaration).

ENFORCING CONTRACTS

1. The Commercial Courts and Appellate Division of High Courts have been established in Mumbai and Delhi.
2. National Judicial Data Grid (NJDG), provides case data including case registration, cause list, case status and orders/ judgments of courts district-wise across the country. NJDG is open for public since 2015.
3. New cases in district courts are assigned to Judges randomly through an automated system in Delhi and Mumbai.
4. e-filing of cases has been introduced in district courts of Delhi and Mumbai.21 5. A case management tool has been developed with functionality of sending a notification to lawyers, viewing court orders/ judgments, tracking the status of cases, to semi-automatically generate court orders etc.

GETTING CREDIT

1. Central Registry of Securitization Asset Reconstruction and Security Interest (CERSAI) is a geographically unified electronic registry that provides for registration by asset type. Since 2017, CERSAI also provides search through debtor's name.

2. Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) (Central Registry) Rules, 2011 was amended to include additional types of charges, including a security interest in - immovable property by the mortgage, hypothecation of plant and machinery, stocks, debt including book debt or receivables, intangible assets, patent, copyright, trademark, under-construction building.
3. The definition of property, which now includes immovable as well as intangible, allows CERSAI to register these additional charges.

GETTING ELECTRICITY

1. Electricity connection is provided within 7 days if no Right of Way (RoW) is required and within 15 days where RoW is required.
2. Service line cum Development charges is now capped at US$ 357.6 in Delhi.
3. The number of documents required for getting electricity connection has been reduced to two and no physical documents are accepted.
4. Total number of procedures reduced to 3 in Delhi and 4 in Mumbai.

REGISTERING PROPERTY

1. All sub-registrar offices have been digitized and its records have been integrated with the Land Records Department, in both Delhi and Mumbai.
2. In Mumbai, all property tax records have been digitized. Property is mutated automatically after registration.30 The digitization of property records ensures transparency and allows citizens to ascertain the history of transactions in digital mode.
3. Online service for charges search at Registrar of Companies reduces the time taken for this procedure significantly.
4. Statistics regarding the number of land disputes at Revenue Courts are available online in both Delhi and Mumbai.

RESOLVING INSOLVENCY

1. The Insolvency and Bankruptcy Code of 2016 has introduced new dimensions in resolving insolvency in India. It is India's first comprehensive legislation on corporate insolvency.
2. Under Fast-track Corporate Insolvency Resolution Process (CIRP) for mid-sized companies, the process for insolvency shall be completed within 90 days with a maximum grace period of another 45 days.

PAYING TAXES

1. Reduction of corporate tax from 30% to 25% for mid-sized companies.
2. Domestic companies can opt for concessional tax regime @ 22% (effective tax rate: 25.17% inclusive of surcharge and cess). Such a company cannot claim any income tax incentive or exemption. Such companies are not liable to pay the Minimum Alternate Tax (MAT).
3. The tax rate for new domestic manufacturing companies is now 15% (17.01% inclusive of surcharge and cess). Companies that have been incorporated on or after 1st October 2019, making fresh investment manufacturing and commencing production on or before 31 March 2023, may opt for such concessional tax regime. Such companies cannot avail of any other income tax exemption/ incentive under the Income-tax Act.
4. A company that does not opt for the above concessional tax regime and avails any tax exemption/ incentive, shall continue to pay tax at pre-amended rates. However, the option of availing of the lower tax regime of 22% can be opted for after the expiry of tax the holiday/ exemption period. Once the same has opted for it cannot be subsequently withdrawn by the taxpayer. MAT rate for companies availing exemptions/ incentives reduced from 18.5% to 15%.
5. Robust IT infrastructure of online return filing for Indian taxpayers.
6. The Goods and Service Tax came into effect from 01 July 2017. It subsumes eight taxes at the Central and nine taxes at the State level.

7. The Employee State Insurance Corporation (ESIC) has developed a fully online module for electronic return filing with online payment. This has substantially reduced the time to prepare and file returns.
8. With the introduction of the e-verification system, there remains no physical touch point for document submission to income tax authorities.

MEASURES UNDERWAY

1. Paying Taxes: GST implementation.
2. Resolving Insolvency: Increased usage of Fast-track Corporate Insolvency Resolution Process (CIRP) as more insolvent companies opt for reorganization plans instead of liquidation.
3. Enforcing Contracts: The faster resolution of commercial disputes through dedicated commercial courts.40 Registering Property: Digitization of land records and maps will bring transparency on encumbrances and ease the process of registering property.

STATE REFORMS

1. DPIIT has launched the latest Business Reform Action Plan for the year 2020 (BRAP 2019-20). It consists of 301 reform points across 15 areas. The highlights of State Reforms Action Plan 2020 are

• 'Investment enablers' - To incorporate reforms related to 'Access to information and transparency', 'Online Single Window System And more.

• Single Window system- To enable the single window system including online submission of application, payment of application fee and many more

• Sectoral reforms pertaining to sectors like Tourism, Telecom, Hospitality, Trade License, Healthcare, Legal Metrology, Cinema Halls and Movie shooting.

• Public procurement has been introduced first time by Industries department in this year's Action Plan.

• Reforms related to 'elimination of the requirements of renewals of certificates/ approvals/ licenses' and 'implementation of computerized central random inspection system'.

2. For BRAP 2018-19, DPIIT has proposed to undertake a 100% feedback based assessment. The reform areas included.42

- Access to Information and Transparency Enabler
- Single window system
- Land administration and Transfer of Land and Property
- Land availability and allotment
- Environment Registration Enablers
- Construction Permit Enablers
- Labour Regulation-Enablers
- Obtaining Utility Permits
- Paying Taxes
- Inspection Enablers
- Contract Enforcement
- Sector Specific: Healthcare and Miscellaneous

4. BRAP 2017-18 was updated to 372 action points. It included new sectors such as Healthcare and Hospitality, Central Inspection system, Trade License, Registration under Legal Metrology, and Registration of Partnership Firms & Societies. Assessment for BRAP 2017-18 included feedback score which was sought on 78 reform points from actual users.

4. In 2016, DPIIT released a 340-point BRAP. It included recommendations on 58 regulatory processes and policies spread across ten reform areas spanning the lifecycle of a typical business.

5. Department for Promotion of Industry and Internal Trade (DPIIT) launched Business Reforms Action Plan (BRAP) and its assessment report in September 2015, capturing the findings of reforms implemented by States/Union Territories.

UNIT-III

PROBLEMS OF GROWTH:

Unemployment and inflation:

Inflation is the term used to describe the drop of a currency's purchasing power over time. As such, one unit of currency buys less than it did before inflationary pressures hit the economy. Unemployment is the situation that economists refer to when the number of jobless people who are willing to work exceeds the supply of jobs in the workforce. So what's the relationship between these two economic metrics?

Inflation and unemployment have traditionally had an inverse relationship. When one rises, the other drops and vice versa. Governments typically rely on monetary and fiscal policies in order to keep the economy from overstimulation or from slowing it down too much.

- Monetary policy is enacted when a central bank wants to promote growth by controlling the money supply. More money is injected into the economy by lowering interest rates and printing more currency to spur growth. Rates increase when central banks want to slow down growth.
- Fiscal policy refers to a country's tax and spending policies. Economic growth is encouraged when governments loosen their fiscal policy. They slow down growth when they tighten the reins.

So let's put this all into perspective. Policies that are effective at boosting economic output and bringing down unemployment tend to exacerbate inflation, while policies that rein in inflation frequently constrain the economy and worsen unemployment.

KEY TAKEAWAYS

- Economic theory suggests that the rate of inflation rises as unemployment rates fall.
- This has been formalized according to what is known as the Phillips Curve.
- According to the Phillips Curve, lower unemployment means people spend more, leading to more pressure on prices.
- The relationship has broken down over time, which is especially obvious during the period of stagflation in the 1970s when both inflation and unemployment rose.
- The positive correlation between inflation and unemployment may be economically beneficial as long as both levels are low, which was the case in the 1990s.

The Relationship between Inflation and Unemployment

Inflation and unemployment have historically maintained an inverse relationship, as represented by the Phillips curve. Low levels of unemployment typically corresponded with higher inflation, while high unemployment corresponded with lower inflation and even deflation.

From a logical standpoint, this relationship makes sense. When unemployment is low, the demand for workers exceeds the number available. Put simply, there are more jobs available than people waiting for work. When unemployment rises, on the other hand, the availability of individuals looking for work far exceeds demand. That's because not many employers are hiring even if more people want to get to work.

The Phillips Curve

The Phillips Curve was developed by A. W. Phillips. This economic concept suggests that inflation and unemployment are inversely related. As such, it states that inflation is ushered into the economy by growth and expansion. According to Phillips' theory, this cuts the unemployment rate since expansion leads to job growth.

This theory worked, to some degree. At least until things got out of control in the 1970s. This period was characterized by high levels of inflation and unemployment, thus disproving the historically contrasting relationship that these two economic metrics had.

Stagflation

The most famous period during which inflation and unemployment were positively correlated in the U.S. was the 1970s. Termed stagflation, the combination of high inflation, high unemployment, and sluggish economic growth that plagued this decade came about for several reasons. President Richard Nixon removed the U.S. dollar from the gold standard, after which its value was left to float rather than be tied to a commodity. The move left it vulnerable to market whims.1

Nixon implemented wage and price controls, which mandated the prices businesses could charge customers.1 Even though production costs increased under a shrinking dollar, businesses could not raise prices to bring revenues in line with costs. Instead, they were forced to cut costs by slashing payrolls to remain profitable. The value of the dollar shrank while jobs were being lost, resulting in a positive correlation between inflation and unemployment.

Recent Trends

The positive correlation between inflation and unemployment can also be a good thing, provided both levels are low. The late 1990s featured a combination of unemployment below 5% and inflation below 2.5%. An economic bubble in the tech industry was largely responsible for the low unemployment rate, while cheap gas amid tepid global demand helped keep inflation low. And there were other factors at play that contributed to this relationship during this time, including:

- An increasing number of baby boomers leaving the workforce that wasn't being replaced
- A cap on prices by U.S. producers in the wake of increasing global competition
- An increase in the adoption of technology, which led to higher productivity

The tech bubble burst in 2000, resulting in an unemployment spike. At the same time, consumers say a rise in gas prices, too. From 2000 to 2020, the relationship between inflation and unemployment once again followed the Phillips curve, but to a much lesser degree.

Regional imbalances and social injustice:

1. Introduction to Regional Imbalances in India*:*

Regional Imbalances implies that there is difference in 'economic development' of different regions. In India 'region' means a state or district or union territory. Regional imbalances may be inter-state or intrastate. Economic development of an economy like India is possible only when there is balanced economic development of all regions in the country i.e. of 28 states and 7 union territories. Balanced economic development of different regions does not mean that rate of development of regions should be uniform. It implies that difference in the economic development of different regions should be minimized.

Regional imbalances may be:

(i) Natural Regional Imbalances:

These are the imbalances in inter regional or intra-regional development due to unequal distribution of natural resources by the nature. Each region is different from the other region in respect of natural resources, water capacity, transport etc.

(ii) Man Made Regional Imbalances:

There may be some regions where more efforts have been made for development by giving preference for investment and other development efforts like – subsidies, grants etc.

2. Indicators of Regional Imbalance:

There are a number of factors which have to be studied and understood in detail to understand the pattern of regional development of the Indian economy.

In a country like India socio-economic indicators are very prominent to reflect the regional imbalances.

1. Per Capita Income:

The table clearly indicates that Goa is the state with highest per capita income amongst these states. Haryana stands second in number with Rs. 78,781. Punjab, Haryana, Maharashtra, Gujarat and Tamil Nadu have more than average per capita income of India. Bihar has the lowest per capita income. States of the southern region of India, Tamil Nadu, Andhra Pradesh, Kerala etc. seem to be better developed, than most of the states of northern India. The present trend of growing income disparity among various states of India has been continuing in recent years.

2. Population:

State wise analysis of population reveals that maximum population of India is concentrated in four states i.e. Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh (BIMARU). The major task of Population Commission is to bring about a decline in birth rate in BIMARU states which are the main contributors to population growth in the country. To step up its efforts, the outlay for the Department of Family Welfare has been increased from Rs. 6,500 crores in the Eighth Plan to Rs. 15,120 crores in the Ninth Plan.

Bihar, U.P., Orissa and M.P are four states which have the highest percentage of population below poverty line. Punjab is a state maintaining the status of lowest percentage of population living below poverty line because of a strong production base and distribution of income in Punjab.

3. Agricultural Production and Agricultural Productivity:

While discussing the share of agricultural production of different states we concentrate on production of food-grains as it forms the major proportion of agricultural production in India. Share of food-grain production has been highest in case of Uttar Pradesh. Next stands Punjab although it is seventh in India with regard to area.

Agricultural productivity is calculated per hectare of yield of different crops. Punjab, Uttar Pradesh and Haryana have maximum productivity in rice and wheat. One of the main items of daily consumption in food is rice in Kerala, but it's per hectare productivity is low. Punjab and Haryana have maximum productivity of wheat. Southern states i.e. Tamil Nadu, Andhra Pradesh and Karnataka have shown maximum productivity of sugarcane while Rajasthan has shown the minimum productivity.

4. Net Domestic Product:

It is quite evident from the above table that Maharashtra's contribution to National income of India is the maximum. Bihar is a state which contributes the minimum.

5. Development of Factories and Employment:

Although Industrial development in India has been at a fair rate but distribution of industries to different states is quite uneven. 15 percent of total factories in India are located alone in Maharashtra. Also the credit goes to four states i.e. Maharashtra, Gujarat, Tamil Nadu and Andhra Pradesh only for having more than 50 per cent contribution in respect of factories, industrial production, employment generated by factories and investment in India. Bihar being rich in mineral wealth and Punjab being an agricultural state their share in respect of number of factories, output, generated employment and investment has been very low. It has been observed that states maintaining higher degree of industrialization are maintaining higher proportion of industrial workers to total population.

6. Infrastructure Disparities:

Development of infrastructure is the backbone of economic and social development of any economy.

Sh. Montek S. Ahluwalia, "Good infrastructure not only increases the productivity of existing sources going into production and therefore helps growth, it also helps to attract more investment which can be expected to increase growth further."

Causes of Regional Imbalances or Disparities in India:

1. Historical Factors:

Regional imbalances in India started from its British regime. British industrialists mostly preferred to concentrate their activities in two states like West Bengal and Maharashtra and more particularly to three cities like Calcutta, Bombay and Madras and neglecting the rest of the country to remain backward. The uneven pattern of investment had resulted in uneven growth of some areas keeping other areas neglected.

2. Geographical Factors:

Geographical factors play an important role in the developmental activities of a developing economy. Adverse climate and floods are also responsible factors for poor rate of economic development of different regions of the country which is shown by low productivity and lack of industrialization. Natural factors resulted in uneven growth of different regions of India.

3. Locational Advantage:

Due to some locational advantages, some regions are getting special favour in respect of site selections of various developmental projects. Regional imbalances arise due to such locational advantages accrue to some regions and the locational disadvantages to some other regions.

4. Inadequacy of Economic Overheads:

Economic overheads like transport and communication facilities, power, technology and insurance etc. are considered very important for the development of a particular region. Due to adequacy of such economic overheads, some regions are getting a special favour in respect of settlement of some developmental projects whereas due to inadequacy of such economic overheads some regions of the country i.e. North-Eastern region, Himachal Pradesh, Bihar etc. remained much backward.

5. Failure of Planning Mechanism:

Although balanced growth has been accepted as one of the major objectives of economic planning in India, since, it did not make much headway in achieving this object. In fact planning enlarged the disparity among states. In respect of allocating plan outlay developed states get much favour than less developed states. Due to such divergent trend, imbalance between the different states in India has been continuously widening, inspite of framing achievement of regional balance as one of the important objective of economic planning in the country.

4. Measures Taken by Indian Government to Control Regional Imbalances:

It is clear that regional imbalances are threatening the development of a country. Therefore it becomes the need of the hour to control it. In India regional disparities are persisting even in recent years since the very beginning inspite of repeated attempts made from different corners to contain it.

In order to tackle the problem of regional imbalances and backwardness the Planning Commission in India has been adopting a three-fold strategy in the following manner:

(i) While transferring resources from the centre to the states, backwardness of the region has been given due recognition and weightage.

(ii) For the development of backward areas, special area development programmes are being formulated.

(iii) Necessary measures have been taken for promoting private investment in those backward regions of the country.

1. Resource Transfer and Backwardness:

While making necessary awards; the Finance Commission in India has been giving due weightage to backwardness of a state as an important criteria for resource transfer from the center to the states. The following table shows the share of backward states and special category states in plan outlay and central assistance.

The table clearly shows that since the 1st plan the Government is continuously giving assistance to these states. Again there are some peculiar difficulties to solve the problem of regional imbalance and backwardness/through resource transfers from centre to states. Again resources so transferred are not always utilised for the development of backward areas of such backward states.

Rather there is a growing tendency to "divert" funds intended for backward and difficult areas to more forward areas and easier programmes. Again the problem of backward areas in non-backward states remained more or less unattended.

2. Special Area Development Programme:

In order to develop hilly areas, tribal areas, drought-prone areas specific plan schemes have been designed with full central assistance. The Tribal Sub-plans are implemented through 194 Integrated Tribal Development Projects (ITDP) and 250 modified Area Development (MADP).

In this manner, different special schemes for particular target groups located in the backward areas are being included for block level planning for attaining integrated rural development and considerable employment opportunities. All these programmes, IRDP (Integrated Rural Development Programme) Drought Prone Area Programme (ODAP), Crash Scheme for Rural Employment (CSRE) etc. have been formulated.

3. Incentives for Promoting Investment in Backward Regions:

In order to fight the problem of industrial backwardness of some backward regions and also to promote private investment in backward regions, various fiscal and other incentives have been provided by the centre, states and other financial institutions under public sector.

5. Weaknesses of Regional Planning in India:

It is being pointed out that inspite of adopting a long standing approach to remove regional imbalances in the country; the regional planning in India could not meet the desired rate of success due to its following weaknesses:

(a) Refusal of richer states to transfer some of their surplus resources to the poorer states.

(b) Lack of self-reliance on the part of poorer states and thereby too much dependence on the transfer of resources from richer states.

(c) Area development programmes for the backward areas are lacking an integrated approach.

(d) Failure of large central projects located in the backward areas to improve their economies.

(e) Non-approaching attitude of the entrepreneurs to seek concessional finance from the public sector financial institutions.

(f) Too much concentration of Central Government investment subsidy meant for specific backward areas into a few areas of some districts and too much of such investment subsidy on capital related investments leading to creation of lesser employment opportunities.

(g) Lack of infrastructural facilities like power transport communication etc. and lack of adequate fiscal and monetary incentives from state Government have led to no development of ancillary industries, secondary and territory industries is and around those major central industrial undertakings.

Considering the above weaknesses of the regional planning strategy in India, the problem of regional imbalances has to be considered not only in financial terms but also in physical terms. In order to develop these backward regions, the central assistance should be directly linked with specific programmes. Development potentials of the backward areas should be clearly identified and proper steps should be taken to develop such potentialities in order to remove such relative backwardness of those areas.

Government Policies:

Fiscal policies and monetary policies

Fiscal Policy vs. Monetary Policy: Pros and Cons

When it comes to influencing macroeconomic outcomes, governments have typically relied on one of two primary courses of action: monetary policy or fiscal policy.

Monetary policy involves the management of the money supply and interest rates by central banks. To stimulate a faltering economy, the central bank will cut interest rates, making it less expensive to borrow while increasing the money supply. If the economy is growing too rapidly, the central bank can implement a tight monetary policy by raising interest rates and removing money from circulation.

Fiscal policy, on the other hand, determines the way in which the central government earns money through taxation and how it spends money. To stimulate the economy, a government will cut tax rates while increasing its own spending; while to cool down an overheating economy, it will raise taxes and cut back on spending.

There is much debate as to whether monetary policy or fiscal policy is the better economic tool, and each policy has pros and cons to consider.

KEY TAKEAWAYS

- Central banks use monetary policy tools to keep economic growth in check and stimulate economies out of periods of recession.
- While central banks can be effective, there could be negative long-term consequences that stem from short-term fixes enacted in the present.
- Fiscal policy refers to the tools used by governments to change levels of taxation and spending to influence the economy.
- Fiscal policy can be swayed by politics and placating voters, which can lead to poor decisions that are not informed by data or economic theory.
- If monetary policy is not coordinated with a fiscal policy enacted by governments, it can undermine efforts as well.

An Overview of Monetary Policy

Monetary policy refers to the actions taken by a country's central bank to achieve its macroeconomic policy objectives. Some central banks are tasked with targeting a particular level of inflation. In the United States, the Federal Reserve Bank (the Fed) has been established with a mandate to achieve maximum employment and price stability.

This is sometimes referred to as the Fed's "dual mandate." Most countries separate the monetary authority from any outside political influence that could undermine its mandate or cloud its objectivity. As a result, many central banks, including the Federal Reserve, are operated as independent agencies.1 2 3

When a country's economy is growing at such a fast pace that inflation increases to worrisome levels, the central bank will enact restrictive monetary policy to tighten the money supply, effectively reducing the amount of money in circulation and lowering the rate at which new money enters the system. Raising the prevailing risk-free interest rate will make money more expensive and increase borrowing costs, reducing the demand for cash and loans.

Monetary Policy Pros and Cons

- **Interest Rate Targeting Controls Inflation**

A small amount of inflation is healthy for a growing economy as it encourages investment in the future and allows workers to expect higher wages. Inflation occurs when the general price levels of all goods and services in an economy increase. By raising the target interest rate, investment becomes more expensive and works to slow economic growth a bit.

- **Can Be Implemented Fairly Easily**

Central banks can act quickly to use monetary policy tools. Often, just signaling their intentions to the market can yield results.

- **Central Banks Are Independent and Politically Neutral**

Even if monetary policy action is unpopular, it can be undertaken before or during elections without the fear of political repercussions.

- **Weakening the Currency Can Boost Exports**

Increasing the money supply or lowering interest rates tends to devalue the local currency. A weaker currency on world markets can serve to boost exports as these products are effectively less expensive for foreigners to purchase. The opposite effect would happen for companies that are mainly importers, hurting their bottom line.

- **Effects Have a Time Lag**

Even if implemented quickly, the macro effects of monetary policy generally occur after some time has passed. The effects on an economy may take months or even years to materialize. Some economists believe money is "merely a veil," and while serving to stimulate an economy in the short-run, it has no long-term effects except for raising the general level of prices without boosting real economic output.

- **Technical Limitations**

Interest rates can only be lowered nominally to 0%, which limits the bank's use of this policy tool when interest rates are already low. Keeping rates very low for prolonged periods of time can lead to a liquidity trap. This tends to make monetary policy tools more effective during economic expansions than recessions. Some European central banks have recently experimented with a negative interest rate policy (NIRP), but the results won't be known for some time to come.

- **Monetary Tools Are General and Affect an Entire Country**

Monetary policy tools such as interest rate levels have an economy-wide impact and do not account for the fact some areas in the country might not need the stimulus, while states with high unemployment might need the stimulus more. It is also general in the sense that monetary tools can't be directed to solve a specific problem or boost a specific industry or region.

- **The Risk of Hyperinflation**

When interest rates are set too low, over-borrowing at artificially cheap rates can occur. This can then cause a speculative bubble, whereby prices increase too quickly and to absurdly high levels. Adding more money to the economy can also run the risk of causing out-of-control inflation due to the premise of supply and demand: if more money is available in circulation, the value of each unit of money will decrease given an unchanged level of demand, making things priced in that money nominally more expensive.

EXIM Policy:

Introduction

Export Import Policy or better known as Exim Policy is a set of guidelines and instructions related to the import and export of goods. The Government of India notifies the Exim Policy for a period of five years (1997 2002) under Section 5 of the Foreign Trade (Development and Regulation Act), 1992. The current policy covers the period 2002 2007. The Export Import Policy is updated every year on the 31st of March and the modifications, improvements and new schemes becames effective from 1st April of every year. All types of changes or modifications related to the Exim Policy is normally announced by the Union Minister of Commerce and Industry who coordinates with the Ministry of Finance, the Directorate General of Foreign Trade and its network of regional offices.

1. Service Exports

Duty free import facility for service sector having a minimum foreign exchange earning of Rs. 10 lakhs. The duty free entitlement shall be 10% of the average foreign exchange earned in the preceding three licensing years.

However, for hotels the same shall be 5 % of the average foreign exchange earned in the preceding three licensing years. Imports of agriculture and dairy products shall not be allowed for imports against the entitlement. The entitlement and the goods imported against such entitlement shall be non transferable.

2. Status Holders

Duty free import entitlement for status holder having incremental growth of more than 25% in FOB value of exports (in free foreign exchange). This facility shall however be available to status holder having a minimum export turnover of Rs. 25 crore (in free foreign exchange).
Annual Advance Licence facility for status holder to be introduced to enable them to plan for their imports of raw material and component on an annual basis and take advantage of bulk purchase.
Status holder in STPI shall be permitted free movement of professional equipments like laptop/computer.

3. Hardware/Software

To give a boost to electronic hardware industry, supplies of all 217 ITA1 items from EHTP units to Domestic Tariff Area (DTA) shall qualify for fulfillment of export obligation.
To promote growth of exports in embedded software, hardware shall be admissible for duty free import for testing and development purpose. Hardware up to a value of US$ 10,000 shall be allowed to be disposed off subject to STPI certification.
100% depreciation to be available over a period of 3 years to computer and computer peripherals for units in EOU/EHTP/STP/SEZ.

4. Gem & Jewellery Sector

Diamonds & Jewellery Dollar Account for exporters dealing in purchase /sale of diamonds and diamond studded jewellery .
Nominated agencies to accept payment in dollar for cost of import of precious metals from EEFC account of exporter.
Gem & Jewellery units in SEZ and EOUs can receive precious metal Gold/silver/platinum prior to export or post export equivalent to value of jewellery exported. This means that they can bring export proceeds in kind against the present provision of bringing in cash only.

5. Removal of Quantitative Restrictions

Import of 69 items covering animals products, vegetables and spice antibiotics and films removed from restricted list
Export of 5 items namely paddy except basmati, cotton linters, rare, earth, silk, cocoons, and family planning device except condoms, removed from restricted list.

6. EOU Scheme

Provision b, c, i, j, k and l of SEZ (Special Economic Zone) scheme, as mentioned above, apply to Export Oriented Units (EOUs) also. Besides these, the other important provisions are:
EOUs are now required to be only net positive foreign exchange earner and there will now be no export performance requirement.
Period of Utilization raw materials prescribed for EOUs increased from 1 year to 3 years.
Gems and jewellery EOUs are now being permitted sub contracting in DTA.
Gems and jewellery EOUs will now be entitled to advance domestic sales.

7. DEPB Scheme

Facility for pro visional Duty Entitlement Pass Book(DEPB) rates introduced to encourage diversification and promote export of new products.
DEPB rates rationalize in line with general reduction in Customs duty.

8. DFRC Scheme

Duty Free Replenishment Certificate (DFRC) scheme extended to deemed export to provide a boost to domestic manufacturer.
Value addition under DFRC scheme reduced from 33% to 25%.

9. Miscellaneous

Actual user condition for import of second hand capital goods up to 10 years old dispensed with.

Reduction in penal interest rate from 24% to 15% for all old cases of default under Exim policy

Restriction on export of warranty spares removed.

IEC holder to furnish online return of importers/exporters made on yearly basis.

Export of free of cost goods for export promotion @ 2% of average annual exports in preceding three years subject to ceiling of Rs. 5 lakhs permitted.

SEZ Policy:

Government of India announced the Special Economic Zones (SEZs) Policy in April 2000 with a view to create world-class infrastructure and ease out multiplicity of controls and clearances and provide stable fiscal policy regime to attract larger foreign investments in India.

Subsequently, in order to instill confidence in investors and signal the Government's commitment to a stable SEZ policy regime and thereby generating greater economic activity and employment through the establishment of new SEZs, a comprehensive legislation i.e., the Special Economic Zones Act, 2005, was passed by Parliament in May, 2005 and received Presidential assent on the 23rd of June, 2005. This act was followed by adoption of SEZ Rules, which came into effect on 10th February, 2006. The Act and Rules provided the basic framework of establishment and management of SEZs in India with drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments.

1. Permissible Activities in SEZ units

- SEZ Units can be set up for Manufacture of export goods, rendering Services & Trading of goods.
- Manufacture means: to make, produce, fabricate, assemble process or bring into existence by hand or by machine, a new product having a distinctive name, character or use and shall include processes such as refrigeration, cutting, polishing, blending, repair, re-making, re-engineering and includes agriculture, aquaculture, animal husbandry, floriculture, horticulture, pisciculture, poultry, sericulture, viticulture & mining.
- Services permitted in SEZ include: Trading, warehousing, research and development services, computer software services, including information enabled services such as back-office operations, call centers, content development or animation, data processing, engineering and design, graphic information system services, human resources services, insurance claim processing, legal data bases, medical transcription, payroll, remote maintenance, revenue accounting, support centers and web-site services, off-shore banking services, professional services

2. Investment Limits

No Minimum investment condition in Plant and Machinery for setting up units in SEZs.

3. Easy Foreign Direct Investment Norms

- 100% FDI through automatic approval route for setting up units in SEZ, except for arms and ammunition, explosives, atomic substances, narcotics and hazardous chemicals, distillation and brewing of alcoholic drinks and cigarettes, cigars and manufactured tobacco substitutes.
- Shifting of SEZ Unit from one SEZ to another SEZ allowed.

4. Relaxed Labour Laws

- The Unit enjoy public utility status, which protects the interests of the units preventing sudden disruption of work (flash strikes) etc. Several States are amending labor laws by providing exemptions to SEZs from contract labour, industrial disputes Act and other Acts.

5. Export Performance and NFE conditions

- There is no condition for minimum export performance. However, the units will have to achieve positive Net Foreign Exchange, which shall be calculated cumulatively for a period of 5 years from the date of commencement of production. Following supplies are considered towards achievement of Net foreign exchange earnings:
  - Direct Exports
  - Exports through Third Parties
  - Exports to Nepal & Bhutan against freely convertible currency.

Direct and Indirect Taxes with special reference to GST and VAT:

In India, whether you are earning or making a purchase of any goods or services, you as an individual or any corporate entity are obliged to pay taxes. Tax is a kind of mandatory recurring fee which is paid to the central and state government. It is also regarded as the main source of revenue for the government which helps them to build the economy of a country.

At a broad level, taxes in India are categorized into: Direct and Indirect taxes.

What is Direct Tax?

Direct Tax is a tax where the taxpayer pays directly to the authority imposing the tax. Here, the taxpayer has to bear the tax and will not be able to transfer this liability to another entity. In India, the Central Board of Direct Taxes (CBDT), is responsible for the collection and administration of direct taxes. CBDT is governed by the Department of Revenue which provides inputs to the government related to the implementation of direct taxes.

Types of Direct Taxes in India

Income Tax: The most common example of direct tax is income tax, which one pays directly to the government. Income tax is imposed on the income that is being earned in a financial year. The tax is paid on the basis of income tax slabs of the IT department.

Capital Gains Tax: If anyone is making capital gains; they are required to pay tax on those gains to the government. Capital gains may arise out of land or from investments such as equities. Based on the duration for which one held the investments, the capital gains tax is charged as long-term capital gains (LTCG) or short-term capital gains (STCG).

Securities Transaction Tax (STT): If one is involved in security trading, then they are required to pay securities transactions tax, irrespective of any gains made out of it or not.

* Evasion is quite possible.

What is Indirect Tax?

Direct taxes are levied on taxpayer's income and profits; however, indirect taxes are charged on goods and services. The taxpayers pay the indirect tax to the government via intermediary and thus they are indirectly paid to the government. The Central Board of Indirect Taxes and Customs (CBIC) is responsible for the collection and administration of indirect taxes which is governed by the Department of Revenue, just like CBDT.

Types of Indirect Taxes in India

Goods and Services Tax (GST): GST is the most common example of indirect tax, which has replaced an array of other indirect taxes in India such as value added tax, service tax, excise duty, purchase tax and more. GST is a single, unified and the most comprehensive indirect tax which is imposed on the goods and services on the basis of the tax slabs laid by the GST council of India.

Customs Duty: Customs duty is levied on you, if you purchase any goods and service from abroad. This duty has to be paid, irrespective whether the product has reached you by air, sea or land. Thus, customs duty is an indirect tax which is imposed to make sure that each and every product coming into India is taxed.

After the introduction of GST, a huge change has come in the entire tax landscape of the country. The various indirect taxes such as VAT, service tax, sales tax and others that were mandatory earlier, have now been abolished. GST truly goes by its slogan of "One Nation, One Tax, One Market".

UNIT-IV

POLITICAL AND LEGAL ENVIRONMENT OF BUSINESS:

Definition

The political-legal environment is a combination of a lot of factors such as the current political party in power, the degree of politicization of trade and industry, the efficiency of the current government, government policies, current legal framework, the public attitude towards the economy, etc.

The legal and political environment - introduction

Governments want to encourage business activity, but they also need to pass laws and put in place rules and regulations to control business activity and avoid undesirable outcomes or negative externalities. They may pass regulations concerning the employment of people, environmental impact or perhaps constraints to ensure that all advertising is legal, decent and truthful.

The legal environment therefore impacts on all business behaviour and can be split into a number of different areas:

- **Employment legislation** - rules, regulations and laws concerning the employment of people.
- **Environmental legislation** - laws, rules and regulations concerning the environmental impact that then operations of firms create.
- **Consumer law** - businesses sell to consumers and it is important that consumers have protection to ensure they are not misled or treated unfairly by firms.
- **Competition law** - competition is a healthy way to ensure that prices are kept down and that businesses innovate. Without competition firms may be in a position to exploit consumers and so governments often legislate to try to ensure competition is fair and to prevent the development of monopolies.
- **Information /reporting law** - governments often legislate to ensure that the information that firms provide is accurate and reflects the true state ('a true and fair view') of the business. These types of rules and regulations may include accounting regulations/standards to ensure firms represent their financial position accurately and ensure that firms do not keep information on consumers that they are not entitled to retain.
- **Social legislation** - here government attempts to promote the consumption of merit goods, which enhance human welfare such as education and health services, and discourages or prevents the consumption of demerit goods such as tobacco, and petrol. Demerit goods result in higher social costs.

Changing Dimensions of Legal Environment in India:

Dimensions of Business Environment

Get detailed study material on the Dimensions of Business Environment.Meta description - Notes on Dimensions of Business Environment. Understand the business environment, its important features, dimensions and other related topics in detail..

The business environment is the most critical part of any organisation that includes many internal and external entities such as suppliers, competitors, the media, the government, customers, economic conditions, investors, and so on that together make up the business environment.

Dimensions of the Business Environment

The business environment dimensions can be described as the total sum of factors, forces, and enterprise which directly or indirectly influences the business activities. Here are five major dimensions of the business environment. Let’s have a look –

Legal environment

- There are several rules, regulations, and laws passed by the government that need to be followed by the organizations.
- For the smooth functioning of your business, having a thorough understanding of the laws or rules generated is important.
- Understanding the legal business environment helps businesses not to fall into the trap.
- Several laws are a part of the legal environment; these include Consumer Protection Act 1986, Companies Act 2013, Policies related to licensing & approvals, policies regarding foreign trade, and so on.

Political environment

- There are certain actions that the government takes that might affect the routine functioning of the business.
- Business success and growth is majorly affected by the government's attitude towards the particular industry, peace in the country, and government stability.

Economic environment

- The overall economic environment includes economic policies, economic conditions, and the economic system that prevails in a country.
- The economic environment is affected by several factors, including Taxes, Inflation, Interest Rates, Unemployment rate, Value of Rupee, Stock Market Indices, Personal Disposable Income, and so on.

Social environment

- As the name suggests, the social environment includes all the social forces such as social trends, traditions, values, level of education, living standard, etc. These forces vastly affect the environment of the business.

Technological environment

- In recent years, several technological improvements have rendered new services, suggested exciting ways to produce products, and so on.

Conclusion

With this, we come to an end to our study material on Dimensions of Business Environment. The business environment is the most critical part of any organisation that includes a bunch of internal and external entities such as suppliers, competitors, the media, the government, customers, economic conditions, investors, and so on that together make up the business environment.

Brief Introduction to Competition Act , 2005:

History of the Competition Act, 2005

The Monopolies Inquiry Commission was established in April 1964 under Justice KC Das Gupta, a Supreme Court judge. The objective of the commissions was to inquire about the effect and extent of monopolistic and restrictive trade practices in important sectors of the Indian economy.

The Monopolies and Restrictive Practices Act of 1969 was enacted to limit the concentration of wealth in a few hands and limit monopolistic practices, but it was too archaic in its definitions of what is a 'monopolistic practice'. Thus, it was decided that a new law governing competition in India was required.

Keeping the above purpose in mind the Competition Act was introduced in Lok Sabha on 6 August 2001.

Definitions under the Competition Act

The following are the definitions cited under the Competition Act

1. Acquisition: Acquisition is defined as the direct or indirect agreement to acquire shares, voting rights or control of assets over any enterprise.

2. Cartel: A cartel is defined as an association of producers, sellers who limit control distribution, sale or promotions on goods through an arrangement previously made.

3. Position: A dominant position means a position of power held by an enterprise in the related market. It enables the enterprise to function freely and influence the market to its directions.
4. Predatory pricing: Predatory pricing is where the price of goods and services is reduced to well below the cost of production in order to eliminate competition.
5. Rule of reason: The interpretation of activity on the basis of business justification, market impact on competition and on the consumer.

Salient Features

The following are the features of the Competition Act:
1. Anti Agreements: Any individual or enterprises shall not deal in production supply or distribution that may cause a negative impact regarding competition in India. Any existence of such agreements is considered illegal.
2. Abuse of dominant position: In the event, an enterprise or an associated individual, it is found to indulge in practices that are unfair or discriminatory in nature shall be considered an abuse of dominant position. If a party is found to be in abuse of its position, then they will be subjected to an investigation from the concerned authorities.
3. **Combinations:** As per the act a combination is defined as terms which lead to acquisitions or mergers. But should such combinations cross the limits as put forth by the Act, then the parties involved would be under the scrutiny of the Competition Commission of India.
4. Competition Commission of India: The Competition Commission of India is an independent body with the powers to enter into contracts and should the contracts be broken they can sue the parties involved. The Commission consists of a maximum of six members who are tasked with sustaining and promoting the interests of consumers in order to foster an ideal environment for economic competition.
The other function of the Commission is to advise the Government of India regarding competition in the economy and create public awareness on the same issue.

Corporate Governance and Social Responsibility of Business:

Corporate Governance is a continuous process of applying the best management practices, ensuring the law is followed the way intended, and adhering to ethical standards by a firm for effective management, meeting stakeholder responsibilities, and complying with corporate social responsibilities.
It contains policies and rules to maintain a strong relationship between the owners of the company (shareholders), the Board of Directors, management, and various stakeholders like employees, customers, Government, suppliers, and the general public. It applies to all kinds of organizations-profit or not-for-profit.

Principles of Corporate Governance:

1. Accountability

Accountability means to be answerable and be obligated to take responsibility for one's actions. By doing so, two things can be ensured-

1. That the management is accountable to the Board of Directors.
2. That the Board of Directors is accountable to the shareholders of the company.

This principle gives confidence to shareholders in the business of the company that in case of any unfavourable situation, the persons responsible will be held in charge.

2. Fairness

Fairness gives shareholders an opportunity to voice their grievances and address any issues relating to the violation of shareholder's rights. This principle deals with the protection of shareholders' rights, treating all shareholders equally without any personal favouritism, and granting redressal for any violations of rights.

3. Transparency

Providing clear information about a company's policies and practices and the decisions that affect the rights of the shareholders represents transparency. This helps to build trust and a sense of togetherness between the top management and the stakeholders. It ensures accurate and full disclosure timely on material matters like financial condition, performance, ownership.

4. Independence

Independence means the ability to make decisions freely without being unduly influenced. Decisions should be made freely without having any personal interest in the company. It ensures the reduction in conflict of interest. Corporate governance suggests the appointment of independent directors and advisors so that decisions are taken responsibly without influence.

5. Social Responsibility

Apart from the 4 main principles, there is an additional principle of corporate governance. Company social responsibility obligates the company to be aware of social issues and take action to address them. In this way, the company creates a positive image in the industry. The first step towards Corporate Social Responsibility is to practice good Corporate Governance.

Corporate social responsibility of business

Meaning

Corporate social responsibility (CSR) refers to strategies that companies put into action as part of corporate governance that are designed to ensure the company's operations are ethical and beneficial for society

Categories of CSR

Although corporate social responsibility is a very broad concept that is understood and implemented differently by each firm, the underlying idea of CSR is to operate in an economically, socially, and environmentally sustainable manner.

Generally, corporate social responsibility initiatives are categorized as follows:

1. Environmental responsibility

Environmental responsibility initiatives aim to reduce pollution and greenhouse gas emissions and the sustainable use of natural resources.

2. Human rights responsibility

Human rights responsibility initiatives involve providing fair labor practices (e.g., equal pay for equal work) and fair trade practices, and disavowing child labor.

3. Philanthropic responsibility

Philanthropic responsibility can include things such as funding educational programs, supporting health initiatives, donating to causes, and supporting community beautification projects.

4. Economic responsibility

Economic responsibility initiatives involve improving the firm's business operation while participating in sustainable practices – for example, using a new manufacturing process to minimize wastage.

UNIT-V

FOREIGN INVESTMENT:

FDI and FII:

Foreign direct investment (FDI) is when a company takes controlling ownership in a business entity in another country. With FDI, foreign companies are directly involved with day-to-day operations in the other country. This means they aren't just bringing money with them, but also knowledge, skills and technology.

Generally, FDI takes place when an investor establishes foreign business operations or acquires foreign business assets, including establishing ownership or controlling interest in a foreign company.

Where is FDI made

Foreign Direct Investments are commonly made in open economies that have skilled workforce and growth prospect. FDIs not only bring money with them but also skills, technology and knowledge.

FDI in India

FDI is an important monetary source for India's economic development. Economic liberalization started in India in the wake of the 1991 crisis and since then, FDI has steadily increased in the country. India today is a part of top 100-club on Ease of Doing Business (EoDB) and globally ranks number 1 in the Greenfield FDI ranking.

Routes through which India gets FDI

Automatic route: The non-resident or Indian company does not require prior nod of the RBI or government of India for FDI.

Govt route: The government's approval is mandatory. The company will have to file an application through Foreign Investment Facilitation Portal, which facilitates single-window clearance. The application is then forwarded to the respective ministry, which will approve/reject the application in consultation with the Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce. DPIIT will issue the Standard Operating Procedure (SOP) for processing of applications under the existing FDI policy.

Sectors which come under the ' 100% Automatic Route' category are

Agriculture & Animal Husbandry, Air-Transport Services (non-scheduled and other services under civil aviation sector), Airports (Greenfield + Brownfield), Asset Reconstruction Companies, Auto-components, Automobiles, Biotechnology (Greenfield), Broadcast Content Services (Up-linking & down-linking of TV channels, Broadcasting Carriage Services, Capital Goods, Cash & Carry Wholesale Trading (including sourcing from MSEs), Chemicals, Coal & Lignite, Construction Development, Construction of Hospitals, Credit Information Companies, Duty Free Shops, E-commerce Activities, Electronic Systems, Food Processing, Gems & Jewellery, Healthcare, Industrial Parks, IT & BPM, Leather, Manufacturing, Mining & Exploration of metals & non-metal ores, Other Financial Services, Services under Civil Aviation Services such as Maintenance & Repair Organizations, Petroleum & Natural gas, Pharmaceuticals, Plantation sector, Ports & Shipping, Railway Infrastructure, Renewable Energy, Roads & Highways, Single Brand Retail Trading, Textiles & Garments, Thermal Power, Tourism & Hospitality and White Label ATM Operations.

Sectors which come under up to 100% Automatic Route' category are

- Infrastructure Company in the Securities Market: 49%
- Insurance: up to 49%
- Medical Devices: up to 100%
- Pension: 49%
- Petroleum Refining (By PSUs): 49%
- Power Exchanges: 49%

Government route

Sectors which come under the 'up to 100% Government Route' category are

- Banking & Public sector: 20%
- Broadcasting Content Services: 49%
- Core Investment Company: 100%
- Food Products Retail Trading: 100%
- Mining & Minerals separations of titanium bearing minerals and ores: 100%
- Multi-Brand Retail Trading: 51%
- Print Media (publications/ printing of scientific and technical magazines/ specialty journals/ periodicals and facsimile edition of foreign newspapers): 100%
- Print Media (publishing of newspaper, periodicals and Indian editions of foreign magazines dealing with news & current affairs): 26%
- Satellite (Establishment and operations): 100%

FDI prohibition

There are a few industries where FDI is strictly prohibited under any route. These industries are

- Atomic Energy Generation
- Any Gambling or Betting businesses
- Lotteries (online, private, government, etc)
- Investment in Chit Funds
- Nidhi Company
- Agricultural or Plantation Activities (although there are many exceptions like horticulture, fisheries, tea plantations, Pisciculture, animal husbandry, etc)
- Housing and Real Estate (except townships, commercial projects, etc)
- Trading in TDR's
- Cigars, Cigarettes, or any related tobacco industry

FDI inflow

During the fiscal ended March 2019, India received the highest-ever FDI inflow of $64.37 billion. The FDI inflows were $45.14 billion during 2014-15 and $55.55 billion in the following year.

Multinationals Corporations:

Favorable and Harmful Effect of the Operations of MNC's on Indian Economy:

Multinational corporations — can provide their host countries with many benefits such as employment opportunities and the latest technological innovations. At the same time, multinationals use their considerable size to select the most favorable conditions for the organization. They have the potential to drive local operators out of business because local firms, on average, do not enjoy the same economies of Companies that operate across national borders — so-called **multinational** scale**.**

Players on a Global Stage

Multinational corporations (MNC) are enterprises that have control over assets, facilities and subsidiaries overseas in addition to their headquarters in the home country. In other words, they are global players with budgets to match. Due to their size and reach, MNCs have the power to influence both the world economy and local trading conditions in each of their host nations.

Supply Chain Advantages of Multinational Corporations

The drive to ***optimize the supply chain*** means that multinationals will often partner with ***local vendors*** for raw materials, components and other supplies. These contracts are a great opportunity for local companies, which will ***help boost revenues*** and reputations, because signing a contract with a large ***MNC*** sets the local firm apart as an organization that supplies major international chains.

Beneficiary of Technology Transfer

When an MNC invests in a host country, it brings with it advanced methods of conducting business, with standards in such areas as ***lean production*** methods, safe working conditions, technology and staff training programs. Affiliating with an MNC often puts local firms in direct contact with these standards, and they can learn a lot from the so-called ***"technology transfer."***

Riding the Wave of R&D

Research and development — the act of looking for gaps in the market, uncovering new customer trends and **developing products that add something of value to consumers** — can be prohibitively expensive, and local firms may not have the resources to conduct any type of research and development. Multinational corporations have far more resources at their disposal. Many will dedicate large budgets to finding and tapping new markets that are potentially lucrative for the MNC.

More Cash in the System

Given the size of MNCs, any investment in a host country is likely to be ***significant.*** The profits generated will be subject to local taxes in most cases, which is a boon for the vaults of domestic governments. Indeed, governments typically will incentivize MNCs in the form of subsidies and tax breaks to attract investment into their countries.

For local firms, this is good news. MNCs often work with local governments to enhance trading conditions in the local area, in order to make doing business in the host country that little bit easier. So, you might see investment in roads, railways, utilities and communication infrastructure when an MNC comes to town. Investment improves the economic development of the entire area, and local firms benefit as a result.

David versus Goliath

Despite the many positives, for some local firms, the arrival of an MNC can be a death sentence. Where once they might have enjoyed a dominant position in the local market, suddenly they have to compete with a huge multinational and all that comes with it — huge cash reserves, advanced technology, economies of scale in production, desirable products, gold-standard marketing strategies and a powerful brand name. How can local firms compete?

It's not a strategy that every local firm can follow, however, and many will be forced to reevaluate and change direction**.** As the MNC pushes them hard on cost.

Losing the War on Talent

By definition, MNCs are global businesses that produce goods at the lowest possible price and then sell them at the highest possible price in foreign markets. The profits they make can be substantial, and they can afford to pay better wages and invest in a highly skilled_ workforce.

For local businesses, this can be disastrous. Either they must match the higher wage scale to retain staff in their own operations or they must watch their best and most talented people jump ship to go to the MNC.

Disproportionate Political Influence

Multinational dollars can be highly beneficial to a host country, and the promise of deep investment pockets can give the MNC disproportionate power over the host government. Local firms may benefit from relaxed trading regulations, as has been observed. At the same time, governments may be pressured into agreeing with policies that are suitable for the MNC but which may do very little to support the long-term welfare of the local business community.

Diluting Traditional Cultures

The sociologist George Ritzer coined a name for the negative impacts of multinational corporations on the local community — McDonaldization. It describes what happens when MNCs take hold and force the same characteristics of predictability, efficiency, consumer experience and standardization on the host nation.

Liberalization and MNC 'S International Business Environment

Impact of Liberalization, Privatization, and Globalization

In the early 1990s, India faced a major crisis followed by a foreign exchange deficit, resulting in its economic downfall. To overcome the crisis, the government came up with adjustments to the economy by bringing new reforms. The reforms introduced were called 'structural reforms' and launched under the **'New Economic Policy (NEP)'.**

The New Economic Policy was introduced in 1991. There are three broad concepts of New Economic Policy: Liberalisation, Privatisation, and Globalisation, or the LPG Model. The LPG Model was introduced to replace the LQP Model, i.e., Licensing, Quotas, and Permits.

Liberalisation

Liberalization of the economy is considered a key component of NEP. Before the New Economic Policy of 1991, the private sector was in control of the government. Because of this, the domestic industries were not allowed to take any decisions regarding the industry's work without the government's interference. This resulted in a fall in professionalism and inefficiency of work within the industry. With the introduction of the liberalisation policy, this sector gained the freedom of decision-making without any interference from the government.

Privatization

Privatization refers to the partial or full ownership and operation of the public sector enterprises by the private sector. It implies the withdrawal of government ownership from the public sector. It can be done in two ways:

1. Outright sale of part of the equity of Public Sector Undertakings (PSUs) to private entrepreneurs (also known as Disinvestment), or
2. Withdrawal of ownership and management of the public sector companies from the government to the private sector.

The need for privatization was felt mainly because of the poor performance of the Public Sector Undertakings, PSUs. As a result, the consumers were facing a major loss, as they did not receive quality products, and other services, such as the delivery system were also very poor. With the introduction of the privatisation policy, this factor was eliminated as

Globalization

Globalization refers to the integration of the economy of a country with the economies of other countries. The process of globalization is associated with the free flow of trade, capital across borders, increasing openness, growing economic independence, and deepening of economic integration in the world. The main aim of globalization was to integrate the Indian economy with the global economy. As a result, there will be an unrestricted flow of information, goods and services, technologies, and even people across countries, which will eventually enhance the development of the country.

Impact of LPG

Positive Impacts

- **Increase in GDP growth rate** in India. After 1991, India's GDP growth rate increased year by year, and in the year 2015-16, it was estimated to be 7.5%, whereas it was only 1.1% during the year 1990-91. Because of the privatisation, advanced foreign technology, reduction of taxes, and the abolition of industrial licensing, there was major growth in the GDP of the country.
- The rate of unemployment was high before the adaptation of the new economic policy.

But, in 1991, the **rate of employment increased** as the MNCs started investing in India, which resulted in the new job opening, and the requirement for employees was created. And due to the removal of the industrial licensing, many individuals started their businesses.

- **An increase in the country's per capita income.** Per capita income refers to the average income earned by a person in a given country. In 1991, the Per capita Income of India was 11,235, but in 2014-15 Per Capita Income reached to85, 533.
- **Increase in Foreign Direct Investment** from 408 Crores in 1991 to 106,693 Crores in 2015 after the introduction of the new economic reforms of globalisation.
- **Decrease in the Fiscal Deficit.** A fiscal deficit refers to a situation where the revenue generated is exceeded by the expenditures made by the government. The fiscal deficit of India before 1991 was 8.5% of Gross Operating Profit, but it came down to 4% of the Gross Operating Profit in 2015.

World Bank and IMF:

IMF vs. WTO vs. World Bank: An Overview

The International Monetary Fund (IMF), the World Bank, and the World Trade Organization (WTO) are highlighted in the financial press or on television nearly every day. From loans to Greece to trade deals in Asia, these organizations make headlines across the globe. Understanding these entities and their missions will provide greater insight into how these organizations help to shape the global economy.

The International Monetary Fund (IMF) is a global organization with 190 member countries currently based in Washington, D.C. The fund's purpose is to promote financial stability and economic growth among other objectives.

The World Trade Organization (WTO is also a global association with 164 member countries. The organization's purpose is to promote fair trade between nations. The World Bank is also an international organization and has a goal to reduce poverty through financial assistance.

The International Monetary Fund (IMF)

The IMF promotes itself as "an organization of 190 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world."1 It was created in 1944, while World War II was still raging, as part of the Bretton Woods Agreement. The agreement sought to create a monetary and exchange rate management system that might prevent a repeat of the currency devaluations that contributed to the economic challenges of that period.

The IMF Mission

The IMF advances its mission in a variety of ways. Monitoring and reporting on economic developments is a large part of the effort, including making recommendations to member countries on future courses of action. For example, in 2021, the IMF reviewed the state of the U.S. economy and recommended that the U.S. Federal Reserve hold off on its plans to increase interest rates because it might harm the economy as it emerges from the COVID-19 pandemic. Although the IMF's recommendations are not legally binding, they are made public. Economic policymakers are certainly aware of them and are undoubtedly influenced by them.

The World Bank

The World Bank Group, like the IMF, was created at Bretton Woods in 1944. The group is self-funded and has its home office in Washington, D.C. Its goal is to provide "financial and technical assistance to developing countries around the world" in an effort to "reduce poverty and support development." It consists of five underlying institutions, the first two of which are collectively referred to as The World Bank. **International Bank for Reconstruction and Development (IBRD).** This is the World Bank's lending arm. It provides financial assistance to credit-worthy, middle- and low-income nations.

International Development Association (IDA). IDA provides loans and grants to poor countries.

1. **International Finance Corporation (IFC).** In contrast to the World Bank, which focuses its efforts on governments, the IFC provides money and advice to private sector entities.
2. **Multilateral Investment Guarantee Agency.** MIGA seeks to encourage foreign direct investment in developing nations.
3. **International Centre for Settlement of Investment Disputes.** ICSID provides physical facilities and procedural expertise to help resolve the inevitable disputes that arise when money is at the heart of a disagreement between two parties.
4. **Advancing the World Bank Mission**

The World Bank pursues its objectives by delivering financial assistance to developing nations. It gives low- or no-interest loans and grants to finance “a wide array of investments in such areas as education, health, public administration, infrastructure, financial and private sector development, agriculture, and environmental and natural resource management.”15 For example, the World Bank loaned India $500 million in 2015 to support micro-, small- and mid-sized businesses.

The World Trade Organization (WTO)

The World Trade Organization (WTO) claims to be “the only global international organization dealing with the rules of trade between nations.”17 The WTO’s efforts center on developing trade agreements between nations to encourage cross-border commerce. This includes setting up the agreements, interpreting the agreements, and facilitating dispute settlement.2

Officially founded in 1995, the WTO traces its roots back to Bretton Woods where the General Agreement on Trade and Tariffs (GATT) was crafted in an effort to encourage and support trade between nations. Following up on GATT, the 1986-1994 Uruguay Roundtable trade negotiations resulted in the formal creation of the WTO.18 The WTO headquarters is located in Geneva, Switzerland. Like the IMF and the World Bank, the WTO is funded by its members.

Advancing the WTO Mission

The WTO seeks to facilitate cross-border trade. Negotiations are conducted in an all-or-nothing format, with every issue on the table discussed until resolved. Accordingly, there are no partial deals, so missed deadlines and protracted efforts that continue for many years are not uncommon. In addition to large-scale trade initiatives, the WTO also facilitates trade dispute negotiations, such as a disagreement between Mexico and the United States over tuna fishing.

The Bottom Line

While all three organizations promote themselves as fostering positive developments, not everyone agrees with their self-assessments. The organizations do provide financial assistance to countries in need, but like just about every other known method of obtaining financial resources, the money comes with strings attached and the motives behind the initiatives are often in question.

General Agreements on Tariff and Trade:

The General Agreement on Tariffs and Trade (GATT) **covers international trade in goods**. The workings of the GATT agreement are the responsibility of the Council for Trade in Goods (Goods Council) which is made up of representatives from all WTO member countries.

Functions of General Agreement on Tariffs and Trade (GATT)

Functions of GATT

In fulfillment of its objectives, GATT adopted certain measures. These may be discussed under the following headings.

1. Most favored nation clause
2. Trade negotiations

3. Tariff and non-tariff measures
4. Safeguards
5. Complaints and waivers
6. Settlement of disputes

1. Most Favored Nation clause

The "Most favored Nation clause is one of the significant provisions adopted by GATT. Under the concept of Most Favored Nation, all contracting parties of the agreement would be treated as most favored nations. The principal objective is that the benefits extended to one should also be extended to all contracting parties. There should be no discrimination among nations. Trading should be carried on the principle of non-discrimination and reciprocity. This clause discouraged the member countries from granting any new trade concessions unless those were mutually agreed upon. However, many escape clauses were found. Under specific circumstances, less developed countries were allowed to exercise the right to discriminate.

2. Tariff and Non-tariff measures

Tariffs were the important obstacle to international trade. Therefore, GATT encouraged negotiations for the reduction of hig4 tariffs, The participating countries agreed to cut tariff of thousands of industrial products. Reduction of tariff was on reciprocal and mutually advantageous basis. Article 11 of the GATT provided that all concessions granted by contracting parties must be entered in a schedule of concessions. Once a concession was included in the schedule of concessions, it could not be withdrawn except under specified circumstances.

3. Non-tariff measures

Post-World War II witnessed reduced distorting effects of non-trade barriers world trade. The Tokyo Round held during 1973 — 1979 tackled the problems of non-tariff barriers under more effective international discipline. All the agreements provide for special and more favorable treatment for developing countries. The negotiations led to the following non-tariff measures:

- restriction on use of subsidies,
- technical barriers,
- import licensing procedures,
- government procurement,
- custom valuation,
- permission of anti-dumping code.

To read more about the non-tariff measures of GATT, refer this article: Non-tariff measures of GATT

4. Complaints and waivers

Article XXII of the GATT entertains complaints from contacting party relating to the operation of the agreement. The contracting party who is likely to be deprived of the benefits under GATT agreement can request the other party for consultation. The basic principle of GATT is that member countries should consult one another on trade matters and problems. Article XXV of the GATT provides the procedure for granting waiver to some contracting party from the application of the provisions of the GATT. Waivers are granted on the approval by two thirds of voting contracting parties.

5. Settlement of disputes

GATT aimed at the smooth settlement of disputes among the contracting parties. GATT allows the member countries to settle problems among them by consulting one another on matters of trade. Initially, the contracting parties should resolve the disputes by holding talks on bilateral basis. In case of failure, the dispute may be referred to panels of independent experts formed under GATT council. The panel members are drawn from countries which have no direct interest in the disputes.

WTO agreements, TRIPS, TRIMS:

It is an agreement on Trade-Related Investment Measures which specifies the rules that are applicable to the domestic regulations a country applies to foreign investors. The agreement is applicable to all members of the World Trade Organization (WTO). The agreement was formalized in 1994 and came into effect in 1995.

GATT and Foreign Investment

Prior to the Uruguay Round negotiations, the linkage between trade and investment received little attention in the framework of the GATT.

Havana Charter

The Charter for an International Trade Organization (1948) contained provisions on the treatment of foreign investment as part of a chapter on economic development. This Charter was never ratified and only its provisions on commercial policy were incorporated into the General Agreement on Tariffs and Trade (GATT).

1955 Resolution on International Investment for Economic Development

In 1955, the GATT CONTRACTING PARTIES adopted a resolution on International Investment for Economic Development in which they, inter alia, urged countries to conclude bilateral agreements to provide protection and security for foreign investment.

The FIRA Panel

Perhaps the most significant development with respect to investment in the period before the Uruguay round was a ruling by a panel in a dispute settlement proceeding between the United States and Canada. In Canada — Administration of the Foreign Investment Review Act ("FIRA") (BISD 30S/140, 1984) a GATT dispute settlement panel considered a complaint by the United States regarding certain types of undertakings or engagements which were effectively required from foreign investors by the Canadian authorities as conditions for the approval of investment projects.

These undertakings pertained to the purchase of certain products from domestic sources (local content requirements) and to the export of a certain amount or percentage of output (export performance requirements). The Panel concluded that the local content requirements were inconsistent with the national treatment obligation of the GATT but that the export performance requirements were not inconsistent with GATT obligations.

The Panel emphasized that at issue in the dispute before it was the consistency with the GATT of specific trade-related measures taken by Canada under its foreign investment legislation and not Canada's right to regulate foreign investment per se.

The TRIMS Agreement:

The objectives of the Agreement, as defined in its preamble, include "the expansion and progressive liberalization of world trade and to facilitate investment across international frontiers so as to increase the economic growth of all trading partners, particularly developing country members, while ensuring free competition".

Limitation of Coverage to Trade in Goods

The coverage of the Agreement is defined in Article 1, which states that the Agreement applies to investment measures related to trade in goods only. Thus, the TRIMs Agreement does not apply to services.

What is a "Trade-Related Investment Measure

The term "trade-related investment measures" ("TRIMs") is not defined in the Agreement. However, the Agreement contains in an annex an Illustrative List of measures that are inconsistent with GATT Article III:4 or Article XI:1 of GATT 1994.

The TRIMs Agreement and Regulation of Foreign Investment

As an agreement that is based on existing GATT disciplines on trade in goods, the Agreement is not concerned with the regulation of foreign investment. The disciplines of the TRIMs Agreement focus on investment measures that infringe GATT Articles III and XI, in other words, that discriminate between imported and exported products and/or create import or export restrictions. For example, a local content requirement imposed in a non-discriminatory manner on domestic and foreign enterprises is inconsistent with the TRIMs Agreement because it involves discriminatory treatment of imported products in favour of domestic products. The fact that there is no discrimination between domestic and foreign investors in the imposition of the requirement is irrelevant under the TRIMs Agreement.

Basic Substantive Obligations: Article 2 and the Illustrative List

Article 2.1 of the TRIMs Agreement requires Members not to apply any TRIM that is inconsistent with the provisions of Article III (national treatment of imported products) or Article XI (prohibition of quantitative restrictions on imports or exports) of GATT 1994. An Illustrative List annexed to the TRIMs Agreement lists measures that are inconsistent with paragraph 4 of Article III and paragraph 1 of Article XI.

Mandatory and Non-mandatory Measures

The Illustrative List covers both TRIMs which are mandatory or enforceable under domestic law or under administrative rulings and TRIMs compliance with which is necessary to obtain an advantage.

Distinction between Paragraphs 1 and 2 of the Illustrative List

TRIMs identified in paragraph 1 of the Illustrative List as being inconsistent with Article III:4 concern the purchase or use of products by an enterprise, while the TRIMs listed in paragraph 2 as inconsistent with Article XI:1 of GATT 1994 concern the importation or exportation of products by an enterprise.

General exceptions

Article 3 of the TRIMs Agreement provides that all exceptions under GATT 1994 shall apply, as appropriate, to the provisions of the TRIMs Agreement.

Developing countries

Article 4 allows developing countries to deviate temporarily from the obligations of the TRIMs Agreement, as provided for in Article XVIII of GATT 1994 and related WTO provisions on safeguard measures for balance-of-payments difficulties.

Limitation of the benefits of the transition period to existing measures

TRIMs introduced less than 180 days before the date of the entry into force of the WTO Agreement did not benefit from these transition periods. Thus, the transition provisions of the TRIMs Agreement did not permit the introduction of new TRIMs that are inconsistent with the Agreement.

"Standstill" requirement during the transition period

The Agreement precluded Members from changing measures notified under Article 5.1 in a manner which would increase their inconsistency with the Agreement (Article 5.4). However, if a Member had notified a TRIM under Article 5.1, it could have applied, during the transition period, the same TRIM to a new investment in order to avoid a distortion of competition between the new investment and existing investments (Article 5.5).

Possible extension of the transition period

Under Article 5.3, the Council for Trade in Goods may, on request, extend the transition period for the elimination of TRIMs in the case of a developing country which demonstrates particular difficulties in implementing the provisions of the Agreement.

In August 2001, the Council for Trade in Goods adopted a series of Decision to extend the transition period for eight Members to December 2001, with the possibility of a further extension of two years. In November 2001, the CTG adopted another series of Decisions to extend the transition period for these same members for another two years, to December 2003 (for one Member the period was extended to May 2003 and for another to June 2003).

Transparency

Provisions designed to ensure transparency with respect to the application of TRIMs are contained in Article 6 of the TRIMs Agreement. This Article provides in particular for the notification to the WTO Secretariat of lists of publications in which TRIMs may be found. Notifications received under these provisions are listed in the document G/TRIMS/N/2/-series.

Committee on Trade-Related Investment Measures

Article 7 of the TRIMs Agreement establishes a Committee on Trade-Related Investment Measures as a forum to examine the implementation operation of the Agreement. The Committee meets not less than once a year. Much of the early work of the Committee focused on the notifications received under Article 5.1 of the Agreement. Today, the Committee's work is mainly focused on discussing specific concerns raised by certain Members regarding other Members' trade-related investment measures.

Dispute Settlement

The general WTO dispute settlement procedure, as laid down in the Dispute Settlement Understanding, applies to disputes arising under the TRIMs Agreement (Article 8). Issues relating to the alleged inconsistency of particular measures with the TRIMs Agreement have been raised in 34 requests for consultations under the DSU. 16 of these cases have moved to the establishment of a panel, while 6 have been settled or terminated through a mutually agreed solution. The remainders are still in consultation phase. A full listing of these disputes with summaries of the reports and findings can be found here..

Non Tariff Barriers and Disputes Settelements Mechanism:

The transition from tariffs to non-tariff barriers

One of the reasons why industrialized countries have moved from tariffs to NTBs is the fact that developed countries have sources of income other than tariffs. Historically, in the formation of nation-states, governments had to get funding. They received it through the introduction of tariffs. This explains the fact that most developing countries still rely on tariffs as a way to finance their spending. Developed countries can afford not to depend on tariffs, at the same time developing NTBs as a possible way of international trade regulation. The second reason for the transition to NTBs is that these barriers can be used to support weak industries or compensation of industries which have been affected negatively by the reduction of tariffs. The third reason for the popularity of NTBs is the ability of interest groups to influence the process in the absence of opportunities to obtain government support for the tariffs.

Administrative and bureaucratic delays at the border[

Among the methods of non-tariff regulation should be mentioned administrative and bureaucratic delays at the border, which increase uncertainty and the cost of maintaining inventory. For example, even though Turkey is in a (partial) customs union with the EU, transport of Turkish goods to the European Union is subject to extensive administrative overheads that Turkey estimates cost it three billion euros a year.

Censorship

Testifying before the United States Senate Committee on Finance, Subcommittee on International Trade, Customs, and Global Competitiveness on "censorship as a non-tariff barrier" in 2020, Richard Gere stated that economic interest compel studios to avoid social and political issues Hollywood once addressed, "Imagine Marty Scorsese's Kundun, about the life of the Dalai Lama, or my own film Red Corner, which is highly critical of the Chinese legal system. Imagine them being made today. It wouldn't happen

Embargoes

Embargoes are outright prohibition of trade in certain commodities.[9] As well as quotas, embargoes may be imposed on imports or exports of particular goods in respect of certain goods supplied to or from specific countries, or in respect of all goods shipped to certain countries. Although an embargo may be imposed for bio security reasons, more often the reasons are political (see economic sanctions and international sanctions). Embargoes are generally considered legal barriers to trade, not to be confused with blockades, which are often considered to be acts of war.

Foreign exchange restrictions and foreign exchange controls

Foreign exchange restrictions and foreign exchange controls occupy an important place among the non-tariff regulatory instruments of foreign economic activity. Foreign exchange restrictions constitute the management of transactions between national and foreign operators, either by limiting the supply of foreign currency (to restrict imports) or by state manipulation of exchange rates (to boost exports and limit imports).

Import deposits

Another example of foreign trade regulations is import deposits. Import deposits is a form of deposit, which the importer must pay the central bank for a definite period of time (non-interest bearing deposit) in an amount equal to all or part of the cost of imported goods]

Administrative regulation of capital movements

At the national level, administrative regulation of capital movements between states is carried out mainly within a framework of bilateral agreements, which include a clear definition of the legal regime, the procedure for the admission of investments and investors] It is determined by mode (fair and equitable, national, 'most favoured nation'), order of nationalization and compensation, transfer profits and capital repatriation and dispute resolution]

Licenses

The most common instruments of direct regulation of imports (and sometimes export) are licenses and quotas. Almost all industrialized countries apply these non-tariff methods.The license system requires that a state (through specially authorized office) issues permits for foreign trade transactions of import and export commodities included in the lists of licensed merchandises. Product licensing can take many forms and procedures. The main types of licenses are general license that permits unrestricted importation or exportation of goods included in the lists for a certain period of time; and one-time license for a certain product importer (exporter) to import (or export

Localization requirement

An importing country may require the prospective exporter to include a degree of local participation in the product or service. Options include a designated importer, a joint-venture company with majority local control, requirement for complete local manufacture which may imply transfer of intellectual property. The WTO has not reached a conclusion on the legitimacy of these measures

Standards

Standards take a special place among non-tariff barriers. Countries usually impose standards on classification, labelling and testing of products to ensure that domestic products meet domestic standards, but also to restrict sales of products of foreign manufacture unless they meet or exceed these same standards. These standards are sometimes entered to protect the safety and health of local populations and the natural environment.]

Quotas

Licensing of foreign trade is closely related to quantitative restrictions – quotas – on imports and exports of certain goods. A quota is a limitation in value or in physical terms, imposed on import and export of certain goods for a certain period of time. This category includes global quotas with respect to specific countries, seasonal quotas, and so-called "voluntary export restraints". Quantitative controls on foreign trade transactions are carried out through one-time license.

Quantitative restrictions on imports and exports are direct administrative forms of government regulation of foreign trade. Licenses and quotas limit the independence of enterprises with a regard to entering foreign markets, narrowing the range of countries in which firms can conduct trade for certain commodities. They regulate the range and number of goods permitted for import and export.

Agreement on a "voluntary" export restraint

In the past decade widespread practice of concluding agreements on the "voluntary" export restrictions and the establishment of import minimum prices imposed by leading Western nations upon exporters that are weaker in an economical or political sense. These types of restrictions involve the establishment of unconventional techniques] when trade barriers are introduced at the border of the exporting country instead of the importing country.

Thus, the agreement on "voluntary" export restraints is imposed by the exporter under the threat of sanctions to limit the export of certain goods to the importing country. Similarly, the establishment of minimum import prices should be strictly observed by the exporting firms in contracts with the importers of the country that has set such prices.

Kyoto protocal, FTA'S

Kyoto Protocol

The Kyoto Protocol was an international agreement that aimed to reduce carbon dioxide (CO_2) emissions and the presence of greenhouse gases (GHG) in the atmosphere. The essential tenet of the Kyoto Protocol was that industrialized nations needed to lessen the amount of their CO_2 emissions.

The protocol was adopted in Kyoto, Japan in 1997, when greenhouse gases were rapidly threatening our climate, life on the earth, and the planet. Today, the Kyoto Protocol lives on in other forms, and its issues are still being discussed.

Understanding the Kyoto Protocol

The Kyoto Protocol mandated that industrialized nations cut their greenhouse gas emissions at a time when the threat of global warming was growing rapidly. The Protocol was linked to the United Nations Framework Convention on Climate Change (UNFCCC). It was adopted in Kyoto, Japan on Dec. 11, 1997, and became international law on Feb. 16, 2005.

Countries that ratified the Kyoto Protocol were assigned maximum carbon emission levels for specific periods and participated in carbon credit trading. If a country emitted more than its assigned limit, then it would be penalized by receiving a lower emissions limit in the following period.

Major Tenets

Developed, industrialized countries made a promise under the Kyoto Protocol to reduce their annual hydrocarbon emissions by an average of 5.2% by the year 2012. This number would represent about 29% of the world's total greenhouse gas emissions.

Targets depended on the individual country. As a result, each nation had a different target to meet by that year.

Members of the European Union (EU) pledged to cut emissions by 8%, while the U.S. and Canada promised to reduce their emissions by 7% and 6%, respectively, by 2012

Responsibilities of Developed vs. Developing Nations

The Kyoto Protocol recognized that developed countries are principally responsible for the current high levels of GHG emissions in the atmosphere as a result of more than 150 years of industrial activity. As such, the protocol placed a heavier burden on developed nations than less-developed nations.

The Kyoto Protocol mandated that 37 industrialized nations plus the EU cut their GHG emissions. Developing nations were asked to comply voluntarily, and more than 100 developing countries, including China and India, were exempted from the Kyoto agreement altogether.

A Particular Function for Developing Countries

The protocol separated countries into two groups: Annex I contained developed nations, and Non-Annex I referred to developing countries. The protocol placed emission limitations on Annex I countries only. Non-Annex I nations participated by investing in projects designed to lower emissions in their countries.

For these projects, developing countries earned carbon credits, which they could trade or sell to developed countries, allowing the developed nations a higher level of maximum carbon emissions for that period. In effect, this function helped the developed countries to continue emitting GHG vigorously.

Kyoto Mechanisms

The Kyoto Protocol established three different mechanisms to enable countries additional ways to meet their emission-limitation target. The three mechanisms are:

- **The International Emissions Trading mechanism**: Countries that have excess emission units permitted to them but not used can engage in carbon trading and sell these units to countries over their target.
- **The Clean Development mechanism:** Countries with emission reducing or limiting commitments may implement emission-reducing projects in developing countries to earn certified emission reduction credits.
- **The Joint Implementation mechanism:** Countries with emission reducing or limiting commitments to earn emission reducing units from a project in another party.

Additional Kyoto Protocol Changes

Global emissions were still on the rise by 2005, the year the Kyoto Protocol became international law—even though it was adopted in 1997. Things seemed to go well for many countries, including those in the EU. They planned to meet or exceed their targets under the agreement by 2011. But others continued to fall short.

The United States and China—two of the world's biggest emitters—produced enough greenhouse gases to mitigate any of the progress made by nations who met their targets. In fact, there was an increase of about 40% in emissions globally between 1990 and 2009.

The Doha Amendment Extended Kyoto Protocol to 2020

In December 2012, after the first commitment period of the Protocol ended, parties to the Kyoto Protocol met in Doha, Qatar, to adopt an amendment to the original Kyoto agreement. This so-called Doha Amendment added new emission-reduction targets for the second commitment period, 2012–2020, for participating countries.

The Doha Amendment had a short life. In 2015, at the sustainable development summit held in Paris, all UNFCCC participants signed yet another pact, the Paris Climate Agreement, which effectively replaced the Kyoto Protocol.

The Paris Climate Agreement

The Paris Climate Agreement is a landmark environmental pact that was adopted by nearly every nation in 2015 to address climate change and its negative effects. The agreement includes commitments from all major GHG-emitting countries to cut their climate-altering pollution and to strengthen those commitments over time.

Every five years, countries engage in the Global Stock take, which is an assessment of their progress under the Paris Climate Agreement.

A major directive of the deal calls for reducing global GHG emissions to limit the earth's temperature increase in this century to 2 degrees (preferring a 1.5-degree increase) Celsius above preindustrial levels. The Paris Agreement also provides a way for developed nations to assist developing nations in their efforts to adapt climate control, and it creates a framework for monitoring and reporting countries' climate goals.

*** END ***