Unit I

Law of Contracts: Essentials of Valid Contract, Different Types of Contracts - Unlawful Contracts & Illegal Agreements – Quasi Contracts- Performance of Contracts – Special Contracts: Contingent Contracts – Indemnity, Guarantee, Bailment, Agency Contract.

Unit – II

Law of Partnership and Company Law: Formation of Firm, Kinds of Partners - Sale of Goods Act – Sale and Agreement to Sell – Conditions and Warranties – Ownership Transfer – Negotiable Instrument Act –Negotiable Instruments Types –Negotiations – Dishonour Of Instruments - Intellectual Property Rights.

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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 – IV

Economic, Political and Legal Environment of Business: Changing Dimensions of Legal Environment in India, Introduction to Competition Act, 2005, FEMA, Corporate Governance and Social Responsibility of Business - Industrial Policy, Fiscal and Monetary Policies, EXIM Policy; SEZ Policy,

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Foreign Investment: FDI, FII, Determinants of Foreign Investment- Favourable and Harmful Effect of The Operations of MNCs on Indian Economy - World Bank – IMF - General Agreement on Tariff and Trade - WTO Agreement, Non-Tariff Barriers and Dispute Settlement Mechanism, Kyoto Protocol, FTAs

UNIT-1: LAW OF CONTRACTS





Contract Law before Indian Contract Act, 1872

To understand the Contract Law before the Indian Contract Act, 1872, we should understand the journey of contract law during different time periods. In the ancient and medieval time, there was no specific law for contracts. For this purpose, generally, different sources of Hindu law like; Vedas, Dharam shastras, Smritis, Shrutis etc. were referred which gave a vivid description of the law similar to contracts in those times. During the period of Mauryas, contracts were in the form of "bilateral transactions" which were based on free consent on all the terms and conditions involved.

During the Mughal rule in India, contracts were governed by Mohammedan Law of Contract. In this law, the Arabic word 'Aqd' is known for contract which means a conjunction. In the same way, word 'Ijab' was used for proposal and 'Qabul' was used for acceptance. The formation of a contract according to Islamic law does not require any kind of formality; the only requirement is the express consent of both parties on the same thing in the same sense.

Hindu law is basically different from that of English law. Hindu law is actually the compilation of numerous customs and works of Smritikaras, who interpreted and analysed Vedas to develop the various aspect of Hindu law. According to Hindu law, minor, intoxicated person, old man or handicapped cannot enter into a valid contract. According to Narada smriti, someone of age upto 8 years is considered as an infant. Age from 8 years to 16 years is considered as boyhood and after 16 years the person is competent to enter into a contract.

During British period; before the advent of the Indian Contract Act, the English Law was applied in the Presidency Towns of Madras, Bombay and Calcutta under the Charter of 1726 issued by king George to the East India Company. If one of the parties of contract is from either of the religion and other is from other religion then the law of the defendant is to be used. This was followed in the presidency towns, but in cities outside the presidency towns, the matters were solved on the basis of justice, equity and good conscience. This procedure was followed till the Indian Contract Act was implemented in India.

The Law of contract: Introduction

The Law of Contract constitutes the most important branch of mercantile or commercial law. It affects everybody, more so, trade, commerce and industry. It may be said that the contract is the foundation of the civilized world. The law relating to contract is governed by the Indian Contract Act, 1872. It was formed on April 25, 1872 and came into force on September 01, 1872. The preamble to the Act says that it is an Act "to define and amend certain parts of the law relating to contract". It extends to the whole of India including the state of Jammu and Kashmir after removal of Article – 370 of Indian Constitution.

The Act mostly deals with the general principles and rules governing contracts. The Act is divisible into two parts. The first part (Section 1-75) deals with the general principles of the law of contract, and therefore applies to all contracts irrespective of their nature. The second part (Sections 124-238) deals with certain special kinds of contracts, e.g., Indemnity and guarantee, bailment, pledge, and agency.



As a result of increasing complexities of business environment, innumerable contracts are entered into by the parties in the usual course of carrying on their business. 'Contract' is the most usual method of defining the rights and duties in a business transaction. This branch of law is different from other branches of law in a very important aspect. It does not prescribe so many rights and duties, which the law will protect or enforce; instead it contains a number of limiting principles subject to which the parties may create rights and duties for themselves. The Indian Contract Act, 1872 codifies the legal principles that govern 'contracts'. The Act basically identifies the ingredients of a legally enforceable valid contract in addition to dealing with certain special type of contractual relationships like indemnity, guarantee, bailment, pledge, quasi contracts, contingent contracts etc. It basically defines the circumstances in which promises made by the parties to a contract shall be legally binding on them.

This unit refers to the essentials of a legally enforceable agreement or contract. It sets out rules for the offer and acceptance and revocation thereof. It states the circumstances when an agreement is voidable or enforceable by one party only, and when the agreements are void, i.e. not enforceable at all.

1.1 WHAT IS A CONTRACT?

The term contract is defined under section 2(h) of the Indian Contract Act, 1872 as-

"an agreement enforceable by law".

The contract consists of two essential elements:

(i) an agreement, and

(ii) its enforceability by law.

(i) Agreement - The term 'agreement' **given in Section 2(e)** of the Act is defined as- "every promise and every set of promises, forming the consideration for each other".

To have an insight into the definition of agreement, we need to understand promise.

Section 2 (b) defines promise as- "when the person to whom the proposal is made signifies his assent there to, the proposal is said to be accepted. Proposal when accepted, becomes a promise".

The following points emerge from the above definition:

1. when the person to whom the proposal is made
2. signifies his assent on that proposal which is made to him
3. the proposal becomes accepted
4. accepted proposal becomes promise

Thus, we say that an agreement is the result of the proposal made by one party to the other party and that other party gives his acceptance thereto of course for mutual consideration.

Agreement = Offer/Proposal + Acceptance + Consideration

(ii) Enforceability by law – An agreement to become a contract must give rise to a legal obligation which means a duly enforceable by law.

Thus, from above definitions it can be concluded that –

Contract = Agreement + Enforceability by law

On elaborating the above two concepts, it is obvious that contract comprises of an agreement which is a promise or a set of reciprocal promises, that a promise is the acceptance of a proposal giving rise to a binding contract. Further, section 2(h) requires an agreement capable of being enforceable by law before it is called 'contract'. Where parties have made a binding contract, they created rights and obligations between themselves.

Example 1: A agrees with B to sell car for ` 2 lacs to B. Here A is under an obligation to give car to B and B has the right to receive the car on payment of ` 2 lacs and also B is under an obligation to pay ` 2 lacs to A and A has a right to receive ` 2 lacs.

Example 2: Father promises his son to pay him pocket allowance of Rs. 500 every month. But he refuses to pay later. The son cannot recover the same in court of law as this is a social agreement. This is not created with an intention to create legal relationship and hence it is not a contract.

So, Law of Contract deals with only such legal obligations which has resulted from agreements. Such obligation must be contractual in nature. However, some obligations are outside the purview of the law of contract.

Example 3: An obligation to maintain wife and children, an order of the court of law etc. These are status obligations and so out of the scope of the Contract Act.

Difference between Agreement and Contract

Basis of differences	Agreement	Contract
Meaning	Every promise and every set of promises, forming the consideration for each other. (Promise + Consideration)	Agreement enforceable by law. (Agreement + Legal enforceability)
Scope	It's a wider term including both legal and social agreement.	It is used in a narrow sense with the specification that contract is only legally enforceable agreement.
Legal obligation	It may not create legal obligation. An agreement does not always grant rights to the parties	Necessarily creates a legal obligation. A contract always grants certain rights to every party.
Nature	All agreement are not contracts.	All contracts are agreements.

1.2 ESSENTIALS OF A VALID CONTRACT

Essentials of a valid contract

	As given by Section 10 of Indian Contract Act, 1872		Not given by Section 10 but are also considered essential
1	Agreement	1	Two parties
2	Free consent	2	Intention to create legal relationship

3	Competency of the parties	3	Fulfilments of legal formalities
4	Lawful consideration	4	Certainty of meaning
5	Legal object	5	Possibility of performance
6	Not expressly declared to be void [as per Section 24 to 30 and 56]	6	-

In terms of Section 10 of the Act, "all agreements are contracts if they are made by the free consent of the parties competent to contract, for a lawful consideration and with a lawful object and are not expressly declared to be void".

Since section 10 is not complete and exhaustive, so there are certain other sections which also contains requirements for an agreement to be enforceable. Thus, in order to create a valid contract, the following elements should be present:

1. **Two Parties:** One cannot contract with himself. A contract involves at least two parties- one party making the offer and the other party accepting it. A contract may be made by natural persons and by other persons having legal existence e.g. companies, universities etc. It is necessary to remember that identity of the parties be ascertainable.

   Example 4: To constitute a contract of sale, there must be two parties- seller and buyer. The seller and buyer must be two different persons, because a person cannot buy his own goods.

   In ***State of Gujarat vs. Ramanlal S & Co.*** when on dissolution of a partnership, the assets of the firm were divided among the partners, the sales tax officer wanted to tax this transaction. It was held that it was not a sale. The partners being joint owner of those assets cannot be both buyer and seller.

2. **Parties must intend to create legal obligations:** There must be an intention on the part of the parties to create legal relationship between them. Social or domestic type of agreements are not enforceable in court of law and hence they do not result into contracts.

   Example 5: A husband agreed to pay to his wife certain amount as maintenance every month while he was abroad. Husband failed to pay the promised amount. Wife sued him for the recovery of the amount. Here, in this case, wife could not recover as it was a social agreement and the parties did not intend to create any legal relations. ***(Balfour v. Balfour)***

   Example 6: Mr. Lekhpal promises to pay ` 5 lakhs to his son if the son passes the CA exams. On passing the exams, the son claims the money. Here, the son could not recover as it was a social agreement.

I. On the basis of the validity

1. (ii) When a person promises to do something for another person, but the other person prevents him from performing his promise, the contract becomes voidable at the option of first person.

2. **Example 21:** There is a contact between A and B to sell car of A to B for ` 2,00,000. On due date of performance, A asks B that he does not want to sell his car. Here contract is voidable at the option of B.

(iii) When a party to a contract promise to perform a work within a specified time, could not perform with in that time, the contract is voidable at the option of promisee.

Example 22: A agrees to construct a house for B upto 31-3-2022 but A could not complete the house on that date. Here contract is voidable at the option of B.

At this juncture it would be desirable to know **the distinction between a Void Contract and a Voidable Contract**. These are elaborated hereunder:

3.

S. No.	Basis	Void Contract	Voidable Contract
1	**Meaning**	A Contract ceases to be enforceable by law becomes void when it ceases to be enforceable.	An agreement which is enforceable by law at the option of one or more of the parties thereto, but not at the option of the other or others, is a voidable contract.
2	**Enforceability**	A void contract cannot be enforced at all.	It is enforceable only at the option of aggrieved party and not at the option of other party.
3	**Cause**	A contract becomes void due to change in law or change in circumstances beyond the contemplation of parties.	A contract becomes a voidable contract if the consent of a party was not free.

contract.

4	**Performance of contract**	A void contract cannot be performed.	If the aggrieved party does not, within reasonable time, exercise his right to avoid the contract, any party can sue the other for claiming the performance of the contract.
5	**Rights**	A void contract does not grant any legal remedy to any party.	The party whose consent was not free has the right to rescind the contract within a reasonable time. If so rescinded, it becomes a void contract. If it is not rescinded it becomes a valid contract.

4. **Illegal Contract:** It is a contract which the law forbids to be made. The court will not enforce such a contract but also the connected contracts. All illegal agreements are void but all void agreements are not necessarily illegal. Despite this, there is similarity between them is that in both cases they are void ab initio and cannot be enforced by law.

Example 23: Contract that is immoral or opposed to public policy are illegal in nature. Similarly, if R agrees with S, to purchase brown sugar, it is an illegal agreement.

According to Section 2(g) of the Indian Contract Act, "an agreement not enforceable by law is void". The Act has specified various factors due to which an agreement may be considered as void agreement. One of these factors is unlawfulness of object and consideration of the contract i.e. illegality of the contract which makes it void. The illegal and void agreement differ from each other in the following respects:

Basis of difference	**Void agreement**	**Illegal agreement**
Scope	A void agreement is not necessarily illegal.	An illegal agreement is always void.
Nature	Not forbidden under law.	Are forbidden under law.
Punishment	Parties are not liable for any punishment under the law.	Parties to illegal agreements are liable for punishment.

Quasi-Contract

Meaning: A quasi-contract is an obligation imposed by law on a person to prevent them from unfairly benefiting at the expense of another person, even though no actual contract exists between them.

In a normal contract, two parties voluntarily agree to certain terms and conditions. However, in a quasi-contract, there is no agreement between the parties. The law creates an obligation to ensure fairness and prevent unjust enrichment.

Ex: Suppose A mistakenly transfers ₹5,000 to B's bank account. B has not entered into any contract with A, but B is legally required to return the money. This is an example of a quasi-contract.

Types of quasi-contracts

1. **Supply of necessaries**: When a person supplies essential goods or services to someone who is legally incapable of contracting, reimbursement may be claimed from that person's property.
2. Payment by an interested person: A person who pays money that another person is legally bound to pay may claim reimbursement if the legal conditions are satisfied.
3. Non-gratuitous acts: When a person lawfully provides a service to another without intending it to be free, and the other person enjoys the benefit, compensation may be required.
4. Finder of goods: A person who finds another person's goods has responsibilities similar to those of a bailee and must take reasonable care of them.
5. Money paid by mistake or under coercion: A person who receives money or goods by mistake or under coercion must generally return them.

2. Performance of Contracts

Meaning: Performance of a contract means fulfilling the promises and obligations agreed upon by the parties to a contract.

Explanation: When two parties enter into a valid contract, each party must perform their respective duties according to the agreed terms. Performance may involve delivering goods, providing services, paying money, or completing specific work. The provisions relating to the performance of contracts are mainly covered under Sections 37–67 of the Indian Contract Act, 1872

1. Meaning of performance of contract

Performance of a contract means carrying out the promises made by the parties. When both parties fulfil their obligations, the contract is said to have been performed. For example, A agrees to sell a laptop to B for ₹30,000. A delivers the laptop, and B pays the amount. Both parties have performed the contract.

2. Actual performance

Actual performance occurs when a party completely fulfils their contractual obligations according to the terms of the agreement. For example, a seller agrees to deliver 100 bags of rice to a buyer and delivers all 100 bags as promised. This is actual performance.

3. Attempted performance or tender

Attempted performance occurs when a party offers to fulfil their contractual obligation, but the other party refuses to accept it. For example, a seller brings the agreed goods to the buyer at the correct time and place, but the buyer refuses to accept them without a valid reason. This may be a valid tender of performance if the legal requirements are satisfied.

4. Who must perform the contract?

A contract may be performed by the promisor personally, by an authorised agent, or by the promisor's legal representative where the law permits. If the contract depends on personal skill or ability, the promisor must generally perform it personally. For example, if a famous artist agrees to paint a portrait, another person cannot ordinarily perform that personal obligation in the artist's place.

5. Performance by joint promisors

When two or more persons jointly promise to perform an obligation, they may be required to perform it jointly, subject to the terms of the contract and applicable law. For example, A and B jointly borrow ₹20,000 from C. Their liability to repay the amount is governed by the contract and the rules relating to joint promisors.

6. Time and place of performance

A contract must be performed at the agreed time and place. If the contract specifies a particular date and location, the parties should follow those terms. For example, if a supplier agrees to deliver furniture to a college on 10 December, the supplier should deliver it according to the agreed schedule and location.

7. Reciprocal promises

Reciprocal promises are promises made by two parties in exchange for each other. Each party must perform their obligations according to the contract and the applicable legal rules. For

example, a seller promises to deliver a mobile phone, and the buyer promises to pay ₹15,000. Delivery and payment are reciprocal obligations.

8. Order of performance

When a contract contains several promises, the order in which they must be performed depends on the terms of the agreement and the applicable law. Some promises must be performed first, while others may be performed simultaneously. For example, a buyer may be required to pay when the seller delivers the goods, if that is what the contract provides.

9. Discharge of contract by performance

When the parties fulfil their contractual obligations, the contract is generally discharged by performance. This means the parties no longer have to perform those obligations that have been completed. For example, when a contractor completes the agreed work and the customer pays the full contractual amount, the contract is ordinarily discharged by performance.

10. Importance of performance of contract

Performance is important because it ensures that parties fulfil their promises, protects their legal rights, and maintains trust in business transactions. If a party fails to perform a contractual obligation without a valid legal reason, it may amount to a breach of contract, and the affected party may seek an appropriate legal remedy.

Special Contracts

Special contracts are specific types of contracts governed by the Indian Contract Act, 1872. They include contracts of indemnity, guarantee, bailment, pledge, and agency.

1. Contingent Contract

A contingent contract is a contract in which the performance depends on the happening or non-happening of an uncertain future event.

Example: A agrees to pay B ₹10,000 if B's house is damaged by fire. A's obligation depends on the occurrence of the specified event.

Features:

1. It depends on an uncertain future event.
2. The event must be collateral to the contract.
3. It becomes enforceable according to the rules applicable to contingent contracts.
4. If the specified event becomes impossible, the contract may become void, depending on its terms and the law.

Legal provisions: Sections 31–36 of the Indian Contract Act, 1872.

2. Contract of Indemnity

A contract of indemnity is a contract in which one party promises to protect another party against loss caused by the conduct of the promisor or another person.

Example: A promises to compensate B for any loss B suffers because of a claim made by C. If B suffers a covered loss, A must indemnify B according to the contract and applicable law.

Parties:

- Indemnifier: The person who promises to compensate for the loss.
- Indemnity-holder: The person who is protected against the loss.

Features:

1. It protects a party against specified losses.
2. It involves two parties.
3. The indemnifier is responsible for covered losses under the contract.
4. It provides financial protection against certain risks.

Legal provision: Section 124 of the Indian Contract Act, 1872.

3. Contract of Guarantee

A contract of guarantee is a contract to perform the promise or discharge the liability of a third person in case of that person's default.

Example: A takes a loan of ₹50,000 from a bank. B promises the bank that if A fails to repay the loan, B will repay it. Here, B acts as the guarantor.

Parties:

- Creditor: The person to whom the guarantee is given.
- Principal debtor: The person whose default is guaranteed.
- Surety: The person who gives the guarantee.

Features:

1. It involves three parties.
2. It provides security to the creditor.
3. The surety's liability generally arises when the principal debtor defaults.
4. A guarantee may be specific or continuing.

Legal provisions: Sections 126–147 of the Indian Contract Act, 1872.

Difference between Indemnity and Guarantee

Indemnity	Guarantee
Involves two parties.	Involves three parties.
Protects against specified losses.	Provides security against another person's default.
The indemnifier undertakes the indemnity obligation.	The surety's liability generally arises upon the principal debtor's default.
Example: Compensation for a covered loss.	Example: Repayment of a loan if the borrower defaults.

Agency contract:

A contract of agency is a contract in which one person authorises another person to act on their behalf or represent them in dealings with third parties.

A appoints B as an agent to sell A's house. B negotiates with buyers on behalf of A. Here, A is the principal and B is the agent.

Parties to a Contract of Agency

1. Principal: The person who authorises another person to act on their behalf.
2. Agent: The person who acts on behalf of the principal.

Features of Agency Contract

1. An agency contract creates a relationship between the principal and the agent.
2. An agent acts on behalf of the principal.
3. The principal is generally bound by contracts made by the agent within their authority.
4. An agent must follow the principal's lawful instructions.
5. An agent must act honestly and in the principal's interest.
6. An agency may be created by express agreement, implied conduct, necessity in appropriate circumstances, or ratification of an unauthorised act.

Duties of an Agent

1. To follow the principal's instructions.
2. To act with reasonable care and skill.
3. To maintain proper accounts.
4. To communicate important information to the principal.
5. To avoid conflicts of interest and unauthorised personal profit

Rights of an Agent

1. The right to receive agreed remuneration.

2. The right to retain money due from the principal, subject to law.
3. The right to be indemnified for lawful acts performed within the scope of authority.
4. The right to compensation for injury caused by the principal's neglect or lack of skill, where applicable.

Ex: A appoints B as an agent to purchase 100 bags of rice on A's behalf. B purchases the rice within the authority given by A. The purchase contract generally binds A, and A must fulfil the resulting obligations.

Legal provisions: Sections 182–238 of the Indian Contract Act, 1872

Unit-2

Law of partnership and company law

Meaning and Legal Background

A partnership is a relationship between persons who agree to share the profits of a business carried on by all or any of them acting for all. The governing statute is the Indian Partnership Act, 1932. Section 4 contains the central definition. The expression 'acting for all' is important because it represents mutual agency: each partner may act as an agent of the firm for the business of the firm, subject to the Act and the partnership agreement

The essential elements are an agreement between two or more persons; a business; an intention to share profits; and mutual agency. The agreement may be oral or written, although a written partnership deed is strongly recommended. Mere co-ownership of property or sharing of gross returns does not automatically create a partnership. Courts examine the real relationship and all relevant facts, including control, conduct and mutual agency

A partnership deed normally records the firm name, business address, nature of business, names and addresses of partners, capital contributions, profit-and-loss ratio, drawings, interest on capital and drawings, salary or commission, duties, decision-making, admission and retirement, dispute resolution and dissolution. Registration is made with the Registrar of Firms under sections 58 and 59. Registration is not generally compulsory under the central Act, but non-registration creates important restrictions on suits under section 69.

Firms under sections 58 and 59. Registration is not generally compulsory under the central Act, but non-registration creates important restrictions on suits under section 69.

Illustration

Example: Asha and Bala agree to contribute ₹3 lakh and ₹2 lakh to run a wholesale stationery business. They agree to share profits in the ratio 3:2 and both participate in management. Their relationship is likely to be a partnership. If Asha merely lends money and receives fixed interest without mutual agency, that fact alone does not make her a partner.

Managerial Importance

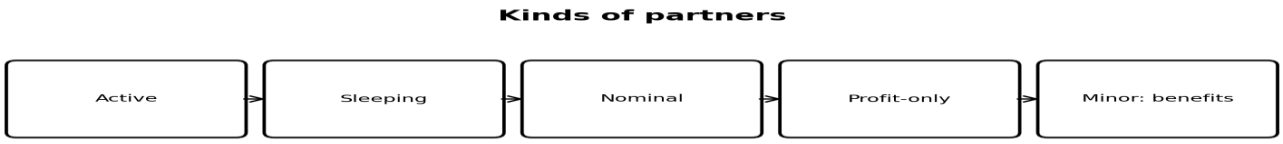
Management significance: Before starting a firm, partners should conduct due diligence, agree on roles and financial controls, document the arrangement and understand personal liability. A partnership firm is not a separate legal person in the same way as a company. Partners are generally jointly and severally liable for acts of the firm done while they are partners. The deed should therefore address authority limits, bank operations, accounting, insurance and exit arrangements.

Related Company Law: Formation of a Company

The Companies Act, 2013 provides a separate incorporation framework. Under section 3, a public company may be formed by seven or more persons, a private company by two or more persons, and a One Person Company by one person, subject to statutory requirements. Section 7 deals with filing incorporation documents with the Registrar of Companies. On

registration, the company becomes a body corporate under section 9. This is different from creating a traditional partnership firm.

Kinds of Partners



Rules, Classifications and Application

A partner in profits only agrees to receive a share of profits but may still be liable to third parties under the Act. A minor cannot become a full partner, but section 30 permits a minor to be admitted to the benefits of partnership with the consent of all partners. The minor's share is liable for acts of the firm, while the minor is not personally liable. On attaining majority, the person must decide within the statutory period whether to become a partner and give public notice as required.

Illustration

A partner by estoppel or holding out arises where a person represents themselves, or knowingly allows themselves to be represented, as a partner and a third party gives credit on that representation. A sub-partner is a person with whom an existing partner privately agrees to share their own profits; the sub-partner does not thereby become a partner of the firm.

Managerial Importance

Example: In a family-owned trading firm, Dev manages sales, Esha invests but remains away from operations, and Farah permits the firm to advertise her name as a partner. Dev is an active partner, Esha may be a sleeping partner, and Farah may face liability as a partner by holding out if a creditor relies on the representation. The legal result depends on the facts and statutory requirements

Step-by-step Analysis

When applying this topic to a business problem, first identify the parties and the commercial transaction. Next, identify the relevant document and the legal relationship it creates. Then locate the governing statutory rule, check whether the parties have varied a default rule by contract where permitted, and establish the important dates, notices, delivery events and evidence. Finally, explain the legal consequence and the practical remedy.

Common Mistakes to Avoid

Do not rely only on the title of a document; examine its substance. Do not assume that possession and ownership are always the same. Do not treat every payment failure as an

offence. Do not assume that sharing profits alone conclusively proves partnership. Do not assume that a business name or logo is automatically protected in every category of intellectual property. Apply the statutory definition and facts carefully.

Quick Revision

Remember the governing statute, the key definition, the essential elements, the relevant parties, the principal rights and liabilities, and one practical example. In examination answers, begin with the meaning, state the legal provision, explain the rule under suitable subheadings, give an illustration and end with the business significance.

SALE OF GOODS ACT, 1930

The Sale of Goods Act, 1930 regulates contracts in which a seller transfers or agrees to transfer ownership in goods to a buyer for a price. It is a key part of commercial law because businesses regularly purchase raw materials, inventory, machinery and finished products. The Act mainly concerns movable goods; it does not generally govern the sale of immovable property

Goods include every kind of movable property other than actionable claims and money, and include stocks and shares, growing crops, grass and things attached to or forming part of land that are agreed to be severed before sale. A contract of sale is formed through an offer to buy or sell goods for a price and acceptance. It may be absolute or conditional. The general principles of the Indian Contract Act also apply where they are not inconsistent with the Sale of Goods Act



The parties must have capacity to contract, consent must be free, the goods must be identified or capable of identification, and the consideration must be a money price. Goods may be existing, future or contingent. Existing goods may be specific, ascertained or unascertained. Future goods are to be manufactured or acquired by the seller after the contract. A contract for future goods operates as an agreement to sell until the goods come into a state in which ownership can pass.

Business relevance: Procurement managers should use clear purchase orders, specifications, inspection clauses, delivery terms, payment milestones and return procedures. A written record reduces disputes about quantity, quality, title, risk and delivery. The Act also provides

rules for unpaid sellers and buyers, so managers should understand both sides of a transaction.

The Act applies to contracts for sale of goods. It should be read with the Indian Contract Act, 1872 for general matters such as offer, acceptance, capacity, free consent and consideration. A contract may be made in writing, orally, partly in writing and partly orally, or inferred from conduct, subject to applicable law.

SALE AND AGREEMENT TO SELL

Section 4 distinguishes a completed sale from an agreement to sell. In a sale, ownership in the goods has transferred from seller to buyer. In an agreement to sell, ownership is to transfer at a future time or after a condition is fulfilled. The distinction is important because it affects risk, remedies and the rights of the parties if goods are damaged or one party defaults.

A sale creates a transfer of property in goods. An agreement to sell creates a contractual obligation to transfer property later. An agreement to sell becomes a sale when the relevant time passes or the conditions are fulfilled. For example, where a buyer purchases an identified laptop and ownership passes immediately, it is a sale. Where a buyer agrees to purchase a machine after it is manufactured and inspected next month, it is initially an agreement to sell.



In a sale, the buyer obtains ownership and normally has a proprietary interest in the goods. If the goods are destroyed after ownership has passed, the loss may fall on the buyer, subject to the contract and statutory rules. In an agreement to sell, ownership remains with the seller until it passes; if the goods are destroyed before risk passes, the seller may bear the loss. Risk generally follows property unless the parties agree otherwise or the Act provides otherwise

The seller’s remedy in a sale may include an action for the price where statutory conditions are satisfied. In an agreement to sell, the seller will generally claim damages for non-

acceptance rather than sue for the price, subject to the Act. The buyer may claim damages for non-delivery or seek other appropriate relief depending on the circumstances.

Management example: A company orders a custom-built generator for delivery after testing. Until the generator is completed, identified and the agreed transfer conditions are met, the arrangement is generally an agreement to sell. The purchase contract should specify when title and risk pass, who insures the generator during transit and what happens if testing fails

CONDITIONS AND WARRANTIES

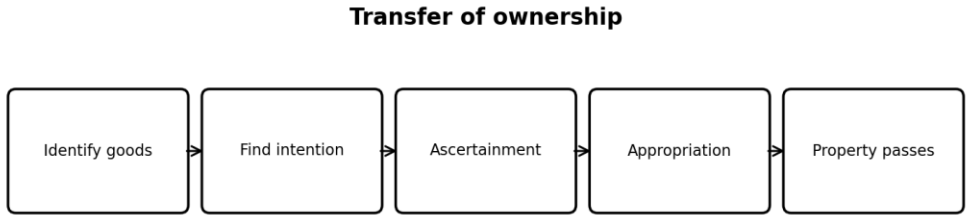
A stipulation in a contract of sale may be a condition or a warranty under section 12. A condition is essential to the main purpose of the contract. Its breach may entitle the buyer to reject the goods and treat the contract as repudiated, subject to statutory rules. A warranty is collateral to the main purpose; its breach ordinarily gives a right to claim damages but not to reject the goods solely on that ground.

Express conditions and warranties are written or spoken terms agreed by the parties. Implied terms arise by operation of law unless excluded or varied where legally permitted. Important implied conditions include the seller's right to sell, correspondence with description, fitness for a disclosed purpose in appropriate circumstances, and merchantable quality where goods are bought by description from a seller dealing in goods of that description. Sale by sample carries implied terms that the bulk corresponds with the sample and the buyer has a reasonable opportunity to compare

TRANSFER OF OWNERSHIP IN GOODS

Transfer of ownership, also called transfer of property in goods, determines when the buyer becomes owner. The Sale of Goods Act, 1930 contains rules in sections 18 to 25. Ownership is distinct from possession: a buyer may own goods before physical delivery, and a seller may physically hold goods after ownership has passed

For unascertained goods, ownership does not pass until the goods are ascertained. For specific or ascertained goods, the intention of the parties is central. That intention is gathered from the contract, conduct and circumstances. Where the goods are in a deliverable state and the contract is unconditional, ownership may pass when the contract is made, even if payment or delivery is postponed



Where the seller must do something to put specific goods into a deliverable state, ownership generally passes when that act is done and the buyer has notice. Where goods must be weighed, measured or tested to ascertain the price, ownership generally passes after the act is done and the buyer has notice. For unascertained or future goods, appropriation to the contract with the other party's assent is important

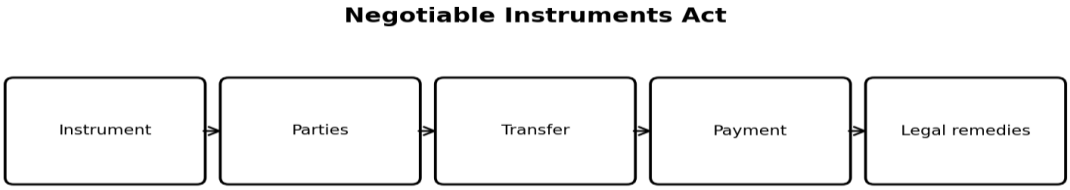
The seller may reserve the right of disposal until stated conditions are fulfilled. In such cases, ownership does not pass until those conditions are met. Delivery to a carrier may, depending on the contract and circumstances, amount to an unconditional appropriation, but the parties can reserve title or specify a different transfer point

Remember the governing statute, the key definition, the essential elements, the relevant parties, the principal rights and liabilities, and one practical example. In examination answers, begin with the meaning, state the legal provision, explain the rule under suitable subheadings, give an illustration and end with the business significance.

NEGOTIABLE INSTRUMENTS ACT, 1881

The Negotiable Instruments Act, 1881 provides the legal framework for promissory notes, bills of exchange and cheques. Negotiable instruments support commercial credit and payment by allowing certain written promises or orders for payment to be transferred from one person to another. The Act defines the instruments, the parties, negotiation, endorsement, liability and consequences of dishonour

A negotiable instrument is a promissory note, bill of exchange or cheque payable to order or bearer under section 13. A promissory note contains an unconditional undertaking in writing, signed by the maker, to pay a certain sum of money to a certain person, their order or bearer. A bill of exchange is an unconditional written order, signed by the drawer, directing a certain person to pay a certain sum to a specified person or order or bearer



A cheque is a bill of exchange drawn on a specified banker and payable on demand. The drawer issues the cheque, the drawee is the bank, and the payee receives payment. Other important terms include holder, holder in due course, maker, acceptor, indorser and indorsee. A holder in due course obtains the instrument for consideration, before it is overdue, and without sufficient cause to believe that the transferor's title is defective.

The Act contains presumptions relating to consideration, date, time of acceptance, transfer, order of endorsements and holder in due course, subject to the statutory conditions. These presumptions facilitate commercial dealings but do not remove the need for careful verification, proper records and compliance with banking requirements.

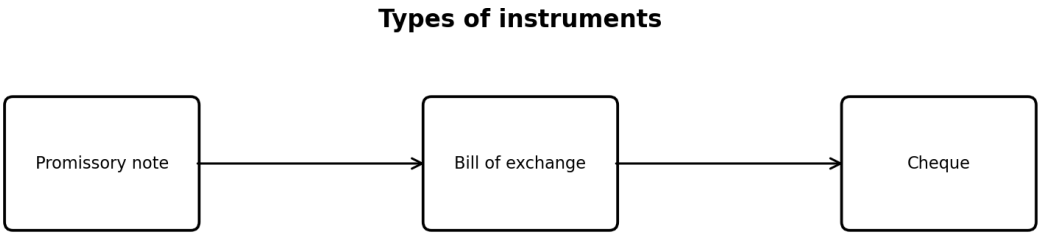
Management relevance: Businesses should maintain cheque controls, authorised signatories, positive pay or other bank safeguards where available, secure custody of instruments, timely presentation and reconciliation. Electronic payment methods are common, but the legal concepts of payment obligations and evidence remain important.

The maker signs a promissory note; the drawer draws a bill or cheque; the drawee is directed to pay; the acceptor accepts a bill; the payee is entitled to receive payment; the holder possesses the instrument and is entitled to receive or recover the amount; and the holder in due course satisfies the additional statutory conditions for that status

NEGOTIABLE INSTRUMENTS: TYPES AND FEATURES

The three principal negotiable instruments are promissory notes, bills of exchange and cheques. They are written instruments used to evidence or facilitate payment. Their form and legal effect differ, so managers should identify the instrument before accepting it as payment or security

A promissory note involves two principal parties: the maker, who promises to pay, and the payee, who receives payment. It must contain an unconditional promise, be in writing, be signed by the maker and state a certain sum of money. A mere acknowledgement of debt is not necessarily a promissory note because it may not contain a promise to pay.



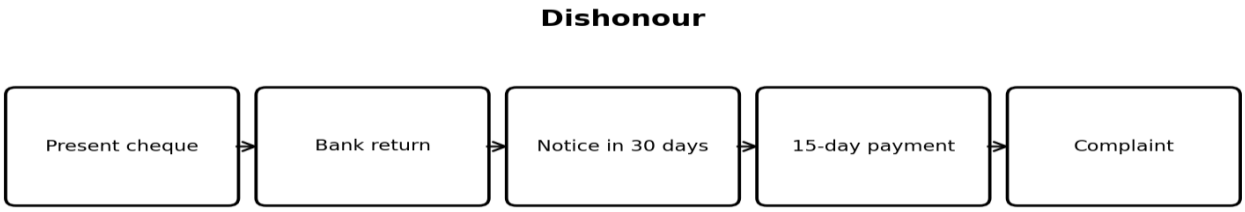
A bill of exchange generally involves three parties: drawer, drawee and payee. The drawer orders the draw to pay the payee. The drawee becomes an acceptor when acceptance is made in the legally recognised manner. Bills may be used in trade transactions to provide credit and document payment obligations

A cheque is drawn on a bank and is payable on demand. Cheques may be bearer or order instruments, subject to crossing and other statutory and banking rules. Crossing generally directs payment through a bank and can improve payment security. A cheque may be crossed generally or specially; account-payee markings are also used in banking practice

Features of negotiability include transferability, the ability of a lawful holder to sue in their own name, and special protection for a holder in due course. These features are subject to statutory requirements and defences. Instruments should be completed carefully; alterations, forged signatures, irregular endorsements and stale presentation can create disputes.

DISHONOUR OF NEGOTIABLE INSTRUMENTS

Dishonour occurs when an instrument is not accepted or paid in the manner required by law. A bill may be dishonoured by non-acceptance or non-payment. A promissory note or cheque may be dishonoured by non-payment. Dishonour can affect the rights of the holder against prior parties and may trigger statutory notice requirements



A cheque may be returned unpaid for reasons such as insufficient funds, exceeding an arrangement with the bank, account closure, stop-payment instructions or technical irregularities. Not every return reason automatically establishes an offence under section 138. The statutory ingredients must be satisfied, including that the cheque was issued for discharge, wholly or partly, of a legally enforceable debt or liability.

For section 138, the cheque must be presented within its validity period; the payee or holder in due course must issue a written demand notice within 30 days of receiving information of dishonour; and the drawer must fail to pay within 15 days after receiving the notice. A complaint must then be filed within the period prescribed by section 142, subject to the court's power to condone delay where applicable. The statutory punishment may extend to imprisonment up to two years, or fine up to twice the cheque amount, or both

A holder should preserve the original cheque, bank return memo, invoice or loan records, account statements, delivery proof, correspondence and proof of service of notice. The drawer should preserve evidence of payment, disputes, stop-payment reasons and communications. Limitation periods and procedural requirements are important; legal advice should be obtained promptly in an actual dispute

Business example: A supplier receives a cheque for goods delivered. The bank returns it for insufficient funds. The supplier should verify the legally enforceable debt, note the date of bank information, calculate the notice deadline and follow the statutory process. A casual reminder message is not a substitute for the formal notice required by section 138

INTELLECTUAL PROPERTY RIGHTS

Intellectual Property Rights (IPR) are legal rights that protect creations of the human mind and commercially valuable signs or information. They help businesses protect innovation, brand identity, creative works and confidential know-how. IPR can create competitive advantage, encourage investment and support licensing and technology transfer

A patent protects a qualifying invention that is new, involves an inventive step and is capable of industrial application, subject to exclusions under the Patents Act, 1970. A patent generally gives the owner a time-limited exclusive right, normally 20 years from the filing date, subject to statutory requirements and maintenance. A trademark distinguishes the goods or services of one business from those of another. It may protect words, logos, labels, shapes or other eligible signs

Copyright protects original literary, dramatic, musical and artistic works, films and sound recordings under the Copyright Act, 1957. It generally protects expression, not ideas themselves. Industrial designs protect the visual features of shape, configuration, pattern or ornament applied to an article under the Designs Act, 2000. Geographical indications identify goods as originating in a territory where a quality, reputation or characteristic is attributable to that origin

Trade secrets and confidential business information may be protected through confidentiality obligations, contracts, access controls and applicable legal principles. India does not have one single comprehensive trade secrets statute; protection often depends on contract and breach-of-confidence principles. Businesses should use non-disclosure agreements, restricted access, employee policies and secure systems

UNIT- 3

Theoretical Framework 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 influences that affect its life and development"

external

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:

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.

1. 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.

2. 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.

3. 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.

4. 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

5. 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. Hen ceforth 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- 4

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.

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 2

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.

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.

2. 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.

3. 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.

4. 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, granting redressal for any violations of rights. It treats all shareholders equally without any personal favouritism, and

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.

3. 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.

4. 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-5

FOREIGN INVESTMENT

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

Generally, FDI stakes 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
- Trading in TDR's
- Agricltural 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)

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 in the following year.

of MNC's

Multinationals Corporations:

Favorable and Harmful Effect of the Operationson 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.

Economic Policy new reforms. The reforms introduced were called

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.
5. **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." 17The 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 (CO2) 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 CO2 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 ~~ev~~en 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 ~~tw~~o of the world's biggest emitters ~~pr~~oduced 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.