BBA - I YEAR

DJB1A : ENVIRONMENT OF BUSINESS

SYLLABUS

UNIT – 1

Business Environment: Meaning – various environments affecting business – Social, Economic; Political and Legal; Cultural; Competitive Demographic; Technological and International environments.

UNIT – 2

Business and Culture: Culture – elements of Culture – impact of Foreign Culture Traditional Values and its impact – Change and Resistance to Change – Caste and Communities – Linguistic and Religious groups – Joint Family System.

UNIT – 3

Business and Society: Social Responsibilities of Business – Responsibilities to shareholders; Responsibility to employees; Responsibility to customer; Responsibility to the community; Responsibility to the Government – Business Ethics – Population – Demographic pattern changes – Standard of living – Urbanization – Migration.

UNIT – 4

Business and Government: State Regulations on Business – Industrial Licensing Policy – Technology – Indigenous Technology – Import of Technology – Impact of Technological changes of business.

UNIT – 5

Economic System: Socialism – Capitalism – Mixed Economy – Their impact of Business – Public Sector, Private Sector, Joint Sector – Objectives, growth, achievements and failures of Public Sector in India.

Text Books:

1. Business Environments – Francis Cherunilam, Himalaya Publishing House.
2. Business and Society – S. Sankaran, Margham Publications.

Reference Books:

1. Essentials of Business Environments – K. Aswathappa, Himalaya Publishing House.
2. Business and Society – Lokanathan and Lakshmi Ratan, Emerald Publishers.
3. Economic Environment of Business – M.Adikary, Sultan Chand & Sons.
4. Economic Environment of Business – Sampath, Mukerji, New Central Book Agency.
5. Business Environment and Public Policy – Rogene A. Buchholz Prentice – Prentice Hall of India Pvt. Ltd.

Unit –I

CHAPTER 1

INTRODUCTION TO BUSINESS ENVIRONMENT

Business Environment is the sum total of all external and internal factors that influence a business. These factors such as external factors and internal factors can influence each other and work together to affect a business. For example, a health and safety regulation is an external factor that influences the internal environment of business operations. Additionally, some external factors are beyond the control. These factors are often called external constraints. It is also defined as the total surroundings, which have a direct or indirect bearing on the functioning of business. It may also be defined as the set of external factors, such as economic factors, social factors, political and legal factors, demographic factors, technical factors etc., which are uncontrollable in nature and affects the business decisions of a firm.

Features of business environment: On the basis of the above discussion the features of business environment can be summarised as follows.

- **a.** Business environment is the sum total of all factors external to the business firm and that greatly influences their functioning.
- **b.** It covers factors and forces like customers, competitors, suppliers, government, and the social, cultural, political, technological and legal conditions.
- **c.** The business environment is dynamic in nature that means, it keeps on changing.
- **d.** The changes in business environment are unpredictable. It is very difficult to predict the exact nature of future happenings and the changes in economic and social environment and the like.
- **e.** Business Environment differs from place to place, region to region and country to country. Political conditions in India differ from those in Pakistan. Taste and values cherished by people in India and China vary considerably.

Significance of Business Environment: There is a close and continuous interaction between the business and its environment. This interaction helps in strengthening the business firm nd using its resources more effectively. The proper understanding of the environment helps the business in the following ways:

a. **Determining Opportunities and Threats:** The interaction between the business and its environment would help identify opportunities for and threats to the business. It enables the business enterprises for meeting the challenges successfully.
b. **Giving Direction for Growth:** The interaction with the environment leads to 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.
c. **Continuous Learning:** Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.
d. **Image Building:** Environmental understanding helps the business organisations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power.
e. **Meeting Competition:** It helps the firms to analyse the competitors' strategies and formulate their own strategies accordingly.
f. **Identifying Firm's Strength and Weakness:** Business environment helps to identify the individual firms strength and weaknesses in view of the technological and global developments.

Types of business environment: Business environment is of two type internal and External

1. **Internal environment:** Internal environment comprises of the factors in the immediate environment of the company that affect the performance of the company. In includes the
    a. Suppliers
    b. Competitors
    c. Marketing intermediaries
    d. Customers
    e. Pressure groups and
    f. General public.

Supplier form an important factor of the internal environment of business as the importance of reliable sources of supply are obvious. Supplier include

a. The financial labour input
b. Stock holders
c. Banks and other similar organizations that supply money to the organization are also termed as suppliers.

Managers always strive to ensure a study flow of inputs at the lowest price. Customers are also an important factor in the internal environment of business. The customers or the clients absorb the output of an organization and a business exists to meet the demands of the customers. Customers could be individuals, industries, government and other institutions. Labor force is also an important part of the internal environment of business. Other than these the business associates, competitors, regulatory agencies and the marketing intermediaries are also a part of the internal business environment.

2. **External environment:**External environment of Business are t**he** forces and institutions out side of the organization that can potentially affect the performance of the organization come under the external environment of Business. The macro environment of business consist of the economic, demographic, natural, cultural and political forces. The external environment of business is often categorized into the economic environment, political and government environment, socio cultural environment and the international environment. Confining business environment to uncontrollable external factors, it may be classified as Economic environment; and Non-economic environment.

   a. **Economic Environment** includes economic conditions, economic policies and economic system of the country.
   b. **Non-economic environment** comprises social, political, legal, technological, demographic and natural environment.

   All these have a bearing on the strategies adopted by the firms and any change in these areas is likely to have a far-reaching impact on their operations.

Economic environment: The survival and success of each and every business enterprise depend fully on its economic environment. The main factors that affect the economic environment are:

a. **Economic Conditions:** The economic conditions of a nation refer to a set of economic factors that have great influence on business organisations and their operations. These include gross domestic product, per capita income, markets for goods and services, availability of capital, foreign exchange reserve, growth of foreign trade, strength of capital market etc. All these help in improving the pace of economic growth.

b. **Economic Policies:** All business activities and operations are directly influenced by the economic policies framed by the government from time to time. The government keeps on changing these policies from time to time in view of the developments taking place in the economic scenario, political expediency and the changing requirement. Every business firm has to function strictly within the policy framework and respond to the changes therein. Some of the important economic policies are:

i. **Industrial policy:** The Industrial policy of the government covers all those principles, policies, rules, regulations and procedures, which direct and control the industrial enterprises of the country and shape the pattern of industrial development.

ii. **Fiscal policy:** It includes government policy in respect of public expenditure, taxation and public debt.

iii. **Monetary policy:** It includes all those activities and interventions that aim at smooth supply of credit to the business and a boost to trade and industry.

iv. **Foreign investment policy:** This policy aims at regulating the inflow of foreign investment in various sectors for speeding up industrial development and take advantage of the modern technology.

v. **Export–Import policy(Exim policy):** It aims at increasing exports and bridge the gap between expert and import. Through this policy, the government announces various duties/levies. The focus now-a-days lies on removing barriers and controls and lowering the custom duties.

c. **Economic System:** The world economy is primarily governed by three types of economic systems, viz.,

i. Capitalist economy

ii. Socialist economy and

iii. Mixed economy. India has adopted the mixed economy system which implies co-existence of public sector and private sector.

Non-economic environment: The various elements of non-economic environment are as follow:

a. **Social Environment:** The social environment of business includes social factors like customs, traditions, values, beliefs, poverty, literacy, life expectancy rate etc. The social structure and the values that a society cherishes have a considerable influence on the functioning of business firms. For example, during festive seasons there is an increase in the demand for new clothes, sweets, fruits, flower, etc.

   Due to increase in literacy rate the consumers are becoming more conscious of the quality of the products. Due to change in family composition, more nuclear families with single child concepts have come up. This increases the demand for the different types of household goods. It may be noted that the consumption patterns, the dressing and living styles of people belonging to different social structures and culture vary significantly.

b. **Political Environment**: This includes the political system, the government policies and attitude towards the business community and the unionism. All these aspects have a bearing on the strategies adopted by the business firms. The stability of the government also influences business and related activities to a great extent. It sends a signal of strength, confidence to various interest groups and investors. Further, ideology of the political party also influences the business organisation and its operations. Eg.Coca-Cola, a cold drink widely used even now, had to wind up operations in India in late seventies. Again the trade union activities also influence the operation of business enterprises. Most of the labour unions in India are affiliated to various political parties. Strikes, lockouts and labour disputes etc. also adversely affect the business operations. However, with the competitive business environment, trade unions are now showing great maturity and started contributing positively to the success of the business organisation and its operations through workers participation in management.

c. **Legal Environment:** This refers to set of laws, regulations, which influence the business organisations and their operations. Every business organisation has to obey, and work within the framework of the law. The important legislations that concern the business enterprises include:

i. Companies Act, 1956
ii. Foreign Exchange Management Act, 1999
iii. The Factories Act, 1948
iv. Industrial Disputes Act, 1972
v. Payment of Gratuity Act, 1972
vi. Industries (Development and Regulation) Act, 1951
vii. Prevention of Food Adulteration Act, 1954
viii. Essential Commodities Act, 2002
ix. The Standards of Weights and Measures Act, 1956
x. Monopolies and Restrictive Trade Practices Act, 1969
xi. Trade Marks Act, 1999
xii. Bureau of Indian Standards Act, 1986
xiii. Consumer Protection Act, 1986
xiv. Environment Protection Act
xv. Competition Act, 2002

Besides, the above legislations, the following are also form part of the legal environment of business.

i. **Provisions of the Constitution:** The provisions of the Articles of the Indian Constitution, particularly directive principles, rights and duties of citizens, legislative powers of the central and state government also influence the operation of business enterprises.
ii. **Judicial Decisions:** The judiciary has to ensure that the legislature and the government function in the interest of the public and act within the boundaries of the constitution. The various judgments given by the court in different matters relating to trade and industry also influence the business activities.

d. **Technological Environment:** Technological environment include the methods, techniques and approaches adopted for production of goods and services and its distribution. The varying technological environments of different countries affect the designing of products. For example, in USA and many other countries electrical appliances are designed for 110 volts. But when these are made for India, they have to be of 220 volts. In the modern competitive age, the pace of technological changes is very fast. Hence, in order to survive and grow in the market, a business has to adopt the technological changes from time to time. It may be noted that scientific research for improvement and innovation in products and services is a regular activity in most of the big industrial organisations. No firm in this competitive sphere can afford to persist with the outdated technologies.

e. **Demographic Environment:** This refers to the size, density, distribution and growth rate of population. All these factors have a direct bearing on the demand for various goods and services. For example a country where population rate is high and children constitute a large section of population, then there is more demand for baby products. Similarly the demand of the people of cities and towns are different than the people of rural areas. The high rise of population indicates the easy availability of labour. These encourage the business enterprises to use labour intensive techniques of production.

   The availability of skill labour in certain areas motivates the firms to set up their units in such area. For example, the business units from America, Canada, Australia, Germany, UK, are coming to India due to easy availability of skilled manpower. Thus, a firm that keeps a watch on the changes on the demographic front and reads them accurately will find opportunities knocking at its doorsteps.

f. **Natural Environment**: The natural environment includes geographical and ecological factors that influence the business operations. These factors include the availability of natural resources, weather and climatic condition, location aspect, topographical factors, etc. Business is greatly influenced by the nature of natural environment. For example, sugar factories are set up only at those places where sugarcane can be grown. It is always considered better to establish manufacturing unit near the sources of input. Further, government's policies to maintain ecological balance, conservation of natural resources etc. put additional responsibility on the business sector.

BUSINESS AND SOCIETY: The basic objective of business is to develop, produce and supply goods and services to customers. This has to be done in such a way as to allow companies to make a profit, which in turn demands far more than just skills in companies' own fields and processes.

Importance of business to society: The following are the benefits the society draw from the business. They are

1. Supplying goods and services that customer cannot, or do not want to, produce themselves
2. Creating jobs for customers, suppliers, distributors and coworkers. These people make money to support themselves and their families, pay taxes and use their wages to buy goods and services.
3. Continually developing new goods, services and processes
4. Investing in new technologies and in the skills of employees
5. Building up and spreading international standards, e.g. for environmental practices
6. Spreading "good practice" in different areas, such as the environment and workplace safety

Business and Ethics: Business ethics is the study of proper business policies and practices regarding potentially controversial issues, such as corporate governance, insider trading, bribery, discrimination, corporate social responsibility and fiduciary responsibilities. Law often guides business ethics, while other times business ethics provide a basic framework that businesses may choose to follow to gain public acceptance.

Business ethics ensure that a certain required level of trust exists between consumers and various forms of market participants with businesses. Business ethics goes beyond just a moral code of right and wrong; it attempts to reconcile what companies must do legally versus maintaining a competitive advantage over other businesses. Firms display business ethics in several ways.

Characteristics of Business Ethics

a. **Code of conduct**: Business ethics is a code of conduct. It tells what to do and what not to do for the welfare of the society. All businessmen must follow this code of conduct.

b. **Based on moral and social values**: Business ethics is based on moral and social values. It contains moral and social principles (rules) for doing business. This includes self-control, consumer protection and welfare, service to society, fair treatment to social groups, not to exploit others, etc.
c. **Gives protection to social groups**: Business ethics give protection to different social groups such as consumers, employees, small businessmen, government, shareholders, creditors, etc.
d. **Provides basic framework**: Business ethics provide a basic framework for doing business. It gives the social cultural, economic, legal and other limits of business. Business must be conducted within these limits.
e. **Voluntar** : Business ethics must be voluntary. The businessmen must accept business ethics on their own. Business ethics must be like self-discipline. It must not be enforced by law.
f. **Requires education and guidance**: Businessmen must be given proper education and guidance before introducing business ethics. The businessmen must be motivated to use business ethics. They must be informed about the advantages of using business ethics. Trade Associations and Chambers of Commerce must also play an active role in this matter.
g. **Relative Term**: Business ethics is a relative term. That is, it changes from one business to another. It also changes from one country to another. What is considered as good in one country may be taboo in another country.

Importance of Business Ethics

a. Building on a foundation of ethical behavior helps create long lasting positive effects for a company, including the ability to attract and retain highly talented individuals and building and maintaining a positive reputation within the community.
b. Running a business in an ethical manner from the top down builds a stronger bond between individuals on the management team, further creating stability within the company.
c. Employees make better decisions in less time with business ethics as a guiding principle; this increases productivity and overall employee morale.

d. The ethical operation of a company is directly related to profitability in both the short and long term. The reputation of a business from the surrounding community, other businesses and individual investors is paramount in determining whether a company is a worthwhile investment.

Business and Culture: Culture illustrates the accepted norms and values and traditional behaviour of a group. Deal and Kennedy defines culture as “the way a we do things around here”. However, culture also evolves over time. The culture of each country has its own beliefs, values and activities. In other words culture can be defined as an evolving set of collective beliefs, values and attitudes.

Culture is a key component in business and has an impact on the strategic direction of business. Culture influences management, decisions and all business functions from accounting to production. Culture is predominantly about national culture but this is only one aspect, business culture is in its own unique dimension includes getting off on the right foot, meetings, negotiation, formalities, social media use, internships and work placements and other elements which are highlighted on this website. It is related to behaviour, ethics, etiquette and more. A business culture will encompass as organisation’s values, visions, working style, beliefs and habits.

Importance of Culture in Business

a. The culture decides the way employees interact at their workplace. A healthy culture encourages the employees to stay motivated and loyal towards the management.
b. The culture of the workplace also goes a long way in promoting healthy competition at the workplace. Employees try their level best to perform better than their fellow workers and earn recognition and appreciation of the superiors. It is the culture of the workplace which actually motivates the employees to perform.
c. The culture of an organization represents certain predefined policies which guide the employees and give them a sense of direction at the workplace. Every individual is clear about his roles and responsibilities in the organization and know how to accomplish the tasks ahead of the deadlines.

d. No two organizations can have the same work culture. It is the culture of an organization which makes it distinct from others. The work culture goes a long way in creating the brand image of the organization. The work culture gives an identity to the organization. In other words, an organization is known by its culture.
e. The organization culture brings all the employees on a common platform. The employees must be treated equally and no one should feel neglected or left out at the workplace. It is essential for the employees to adjust well in the organization culture for them to deliver their level best.
f. The work culture unites the employees who are otherwise from different back grounds, families and have varied attitudes and mentalities. It gives the employees a sense of unity at the workplace. Certain organizations follow a culture where all the employees irrespective of their designations have to step into the office on time. Such a culture encourages the employees to be punctual which eventually benefits them in the long run. It is the culture of the organization which makes the individuals a successful professional.
g. Every employee is clear with his roles and responsibilities and strives hard to accomplish the tasks within the desired time frame as per the set guidelines. Implementation of policies is never a problem in organizations where people follow a set culture. The new employees also try their level best to understand the work culture and make the organization a better place to work.
h. The work culture promotes healthy relationship amongst the employees. No one treats work as a burden and moulds himself according to the culture.
i. It is the culture of the organization which extracts the best out of each team member. In a culture where management is very particular about the reporting system, the employees however busy they are would send their reports by end of the day. No one has to force anyone to work. The culture develops a habit in the individuals which makes them successful at the workplace.

Social Responsibility of Business

Every business enterprise is an integral part of the society. It uses the scarce resources of the society to continue and grow. Hence, it is important that no activity of business is injurious to the long run interests of the society. However, it is observed that, in practice, there are a few socially undesirable aspects of business such as, polluting the environment, non-payment of taxes, manufacturing and selling adulterated products, giving misleading advertisement and so on. This has resulted in the development of the concept of social responsibility of business whereby the owners and managers of business are made conscious about the responsibilities of their business towards the community and its customers, workers etc.

Social Responsibility: Social responsibility of business refers to the obligation of business enterprises to adopt policies and plans of actions that are desirable in terms of the expectation, values and interest of the society. It ensures that the interests of different groups of the public are not adversely affected by the decisions and policies of the business. 3.4.2

Importance of Social Responsibility to business: Social responsibility is a voluntary effort on the part of business to take various steps to satisfy the expectation of the different interest groups such as owners, investors, employees, consumers, government and society or community. The importance of following is as follows

a. **Public Image:** The activities of business towards the welfare of the society earn goodwill and reputation for the business which in turn bring in customers as well as attracts honest and competent employees to work with such employers.
b. **Government Regulation:** To avoid government action business should discharge their duties voluntarily, failing which may ultimately force the firm to close down its business.
c. **Survival and Growth:** Every business is a part of the society. Business utilizes the available resources like power, water, land, roads, etc. of the society. So for its survival and growth, support from the society is very much essential.
d. **Employee satisfaction:** Besides getting good salary, employee expect a good and healthy atmosphere to work. It is the employers duty to provide the same a employee satisfaction is directly related to productivity.
e. **Consumer Awareness:** Consumers have become very conscious about their rights. They protest against the supply of inferior and harmful products by forming different groups. This has made it obligatory for businesses to protect the interest of the consumers by providing quality products at the competitive price.

Social Responsibilities towards Different Groups: Responsibilities of the business cannot be limited to the owners. The interest other stakeholders has to be accounted. They are as follows

a. Responsibility towards the shareholders or owners
b. Responsibility towards the Employees
c. Responsibility towards the Consumers
d. Responsibility towards the Government
e. Responsibility towards the Community
f. Responsibility towards suppliers
g. Responsibility towards competitors

Questions for Discussions

1. Explain the features of Business Environment.
2. What are the importance of Business Environment?
3. What are the different components and types of Business Environment?
4. What is Ethics and Culture
5. State the importance of Social Responsibility of Business.

CHAPTER 2
BUSINESS AND GOVERNMENT

Business and Government: The relationship between business and government is important, both are major forces in our lives. They have strong relationship with each other, but the nature of relationship changes over time and between countries, firms, and sectors of the economy. Government affect companies' economic value than any other group of stakeholders except customers. Similarly business also actively involve in shaping government policy. The business has implications on democracy. Some would see it as a threat to democracy, while others would regard a successful free market economy as a precondition for the existence of democracy. The government may affect the business the following manner

1. Create laws that affect the business
2. Enforce procedures, rules and regulations that need to be followed
3. Purchase the products and services from the business
4. Provide capital and also regulate the flow of capital
5. Increase or decrease the cost of capital by adjusting the rate of interest
6. Compete with the business by offering the product/services themselves
7. Provides infrastructures and other support facilities for the betterment of busniness

8. Regulate the competition by allowing or disallowing new players both from within the country and outside.

The business has to respond according to the changes brought by the government. The management engage with government for its smoother functioning.

Political system:A political system is a system of politics and government. Political system refers to the social institution which relies on a recognized set of procedures for implementing and achieving the political goals of a community or society.

Main functions of a political system

1. To maintain integration of society by determining norms.
2. To adapt and change elements of social, economic, religious systems necessary for achieving collective (political) goals.
3. To protect the integrity of the political system from outside threats.

Types of Political Systems: There are three main types of political systems. These are discussed as under:

1. **Totalitarian system:** A system in which the state controls and regulates all phases of life considered essential for perpetuating its power and for carrying out programmes arbitrarily. It is the most extreme form of authoritarianism.. The centralized authority always dominates over the autonomy of individual or sub-groups within the society. Totalitarian states are ruled by one political party that organizes the citizens into a unified group. In practice, the state is represented by a politically powerful ruling class or elite that dominates all other interest groups.
2. **Oligarchic system:** Any form of government in which there is a 'rule by a few', over a large society is known as an oligarchic political system. It is a system in which a small group (elites) rules and holds supreme power over a larger society.
3. **Democratic system:** Democracy is a way of life in which an individual feels free to act within accepted boundaries of norms and also equal in respects of his/her rights. It is a form of government, a power structure in which people govern themselves.People participate in the government through their representatives that they elect.
4. **Communism:** Communism is an economic system, in which the government controls the distribution of resources.The idea that everyone should basically have equal access to material goods, thus eliminating class division in society.

Government influence on businesses:

1. Government influence on businesses by controlling the fiscal and monetary policy.
2. By controlling interest rates, the government can make money for capital investments or loans more or less available.
3. The control also has an indirect impact on inflation and unemployment rates.
4. The government can also exercise direct control over the import/export industries through the implementation of quotas and tariffs.

Constitution of India: The **Constitution of India** is the supreme law of India. It lays down the framework defining fundamental political principles, establishes the structure, procedures, powers and duties of government institutions and sets out fundamental rights, directive principles and the duties of citizens. It is the longest written constitution of any sovereign country in the world. The nation is governed by it. B. R. Ambedkar is regarded as its chief architect.

The constitution imparts constitutional supremacy and not parliamentary supremacy, as it is not created by the Parliament but, by a constituent assembly, and adopted by its people, with a declaration in its preamble. Parliament cannot override the constitution. It was adopted by the Constituent Assembly on 26 November 1949, and came into effect on 26 January 1950. With its adoption, the Union of India became the modern and contemporary Republic of India replacing the Government of India Act, 1935 as the country's fundamental governing document. To ensure constitutional autochthony, the framers of the constitution repealed the prior Acts of the British Parliament via Article 395 of the constitution. India celebrates its coming into force on 26 January each year, as Republic Day. The constitution declares India a sovereign, socialist, secular, democratic republic, assuring its citizens of justice, equality, and liberty, and endeavours to promote fraternity among them.

Structure: The Indian constitution is the worlds longest. At its commencement, it had 395 articles in 22 parts and 8 schedules. It is made up of almost 80,000 words. In its current, it has a preamble, 25 parts with 448 articles, 12 schedules, 5 appendices and 122 amendments, the recent one is to roll out of Goods and Services Tax.

Directive Principles of State Policy: The Directive Principles of State Policy are the guidelines or principles given to the central and state governments of India, to be kept in mind while framing laws and policies. These provisions, contained in Part IV (Article 36-51) of the Constitution of India, are not enforceable by any court, but the principles laid down therein are considered fundamental in the governance of the country, making it the duty of the State[1]to apply these principles in making laws to establish a just society in the country. The principles relate to social justice, economic welfare, foreign policy, and legal and administrative matters.

Directive Principles are classified under the following categories:

1. Economic and socialistic
2. Political and administrative
3. Justice and legal
4. Environmental
5. Protection of monuments and
6. Peace and security.

Questions for Discussion

1. What are the different types of Political System
2. Explain the Government influence in Business.
3. Explain the Constitution of India

UNIT II

CHAPTER 3

INDIAN ECONOMY

Indian Economy: The economy of India is the sixth-largest economy in the world measured by nominal GDP and the third-largest by purchasing power parity (PPP). The country is classified as a newly industrialised country, one of the G-20 major economies, a member of BRICS and a developing economy with an average growth rate of approximately 7% over the last two decades. India's economy became the world's fastest growing major economy in the last quarter of 2014, replacing the People's Republic of China. The Indian economy has the potential to become the world's 3rd-largest economy by the next decade, and one of the two largest economies by mid-century. According to the IMF the outlook for short-term growth is also good. India also topped the World Bank's growth outlook for 2015-16 for the first time with the economy having grown 7.6% in 2015-16 and expected to grow 8.0%+ in 2016-17.

Maharashtra is the wealthiest Indian state and has an annual nominal GDP of US$330 billion, nearly equal to that of Portugal and Pakistan and accounts for 12% of the Indian GDP followed by the states of Tamil Nadu (US$150 billion) and Uttar Pradesh (US$130 billion). The long-term growth prospective of the Indian economy is positive due to its young population, corresponding low dependency ratio, healthy savings and investment rates, and increasing integration into the global economy.

Key Highlights of Indian Economy

1. India has one of the fastest growing service sectors in the world.
2. India has become a major exporter of IT services, BPO services, and softwareservices. The IT industry continues to be the largest private sector employer in India.
3. India is also the third largest start-up hub in the world.
4. The agricultural sector is the largest employer in India's economy. India ranks second worldwide in farm output.
5. TheIndustry sector has held a constant share of 26% of GDP.
6. The Indian auto mobile industry is one of the largest in the world.
7. India has $600 billion worth of retail market in 2015 and one of world's fastest growing E-Commerce markets.

Economic system: An economic system is the system of production, distribution and consumption of goods and services of an economy. Alternatively, it is the set of principles and techniques by which problems of economics are addressed, such as the economic problem of scarcity through allocation of finite productive resources. The economic system is composed of people and institutions, including their relationships to productive resources, such as through the convention of property.

Types of Economic System

a. Capitalism
b. Socialism
c. Communism

a. **Capitalist economic system:** Capitalist economic system is a system in which individuals own all resources, both human and non-human. Governments intervene only minimally in the operation of markets, primarily to protect the private-property rights of individuals. Free markets in which suppliers and demanders can enter and exit the market at their own discretion are fundamental to the capitalist economic system.
b. **Socialism:** Socialist economic system is the one in which individuals own their own human capital and the government owns most other, non-human resources that is, most of the major factors of production are owned by the state. Land, factories, and major machinery are publicly owned.A socialist system is a form of command economy in which prices and production are set by the state. Movement of resources, including the movement of labor, is strictly controlled. Resources can only move at the direction of the centralized planning authority. Economic decisions about what and how much, how, and for whom are all made by the state through its central planning agencies.
c. **Communism:**Communist economic system is the one in which, all resources, both human and non-human, are owned by the state. The government takes on a central planning role directing both production and consumption in a socially desirable manner. Central planners forecast a socially beneficial future and determine the production needed to obtain that outcome. The central planners make all decisions,

guided by what they believe to be good for the country. The central planners also allocate the production to consumers based on their assessment of the individual's need.

National income: National income is the total value a country's final output of all new goods and services produced in one year. It is the total value of goods and services produced annually in a country. There are few methods of calculating national income:

1. **The income method:** The income method of calculating national income is to work out the total of all incomes received by people and organizations in the country. The national income includes the income earned by all the resources of the country from their participation in productive (i.e., money-earning) activities. It adds up all incomes received by the factors of production generated in the economy during a year. This includes wages from employment and self-employment, profits to firms, interest to lenders of capital and rents to owners of land.
2. **The output method:** National income is measured by the output method by calculating the total value of goods and services produced in the country during the year. The money value of goods and services produced in an economy in an accounting year is called Gross National Product (GNP). It is defined by J. R. Hicks as "the collection of goods and services reduced to a common basis by being measured in terms of money."It is the combined value of the new and final output produced in all sectors of the economy, including manufacturing, financial services, transport, leisure and agriculture.
3. **The expenditure method:** The expenditure method is the most widely used approach for estimating national income, which is a measure of the economy's output produced within a country's borders irrespective of who owns the means to production. The national income under this method is calculated by summing up all of the expenditures made on final goods and services. There are four main aggregate expenditures that go into calculating the income, they are consumption by households, investment by businesses, government spending on goods and services, and net exports, which are equal to exports minus imports of goods and services.

Questions for Discussion

1. What are the key highlight of Indian Economy.
2. What are the different types of Economic System.
3. What are the methods of calculating National Income.

CHAPTER 4
ECONOMIC PLANNING

Economic Planning: Economic planning is a term used to describe the long term plans of a government to manage the economy. It involves allocation resources across different sectors of the economy in tandem with the specified objectives. It involves selection choices like development of agricultural sector or industrial sector, public sector or private sector.

Economic planning in India was started in 1950 after independence, it was deemed necessary for economic development and growth of the nation. The first Prime Minister Jawaharlal Nehru started the five year plan taking the model from erstwhile Russia.

The objectives of our Five Year Plans are

1. To achieve high rate of growth to improve the standard of living of residents.
2. Economic self-reliance.
3. Social justice and reduction of inequalities.
4. Modernization of the economy.
5. Economic stability for prosperity.

An overview of all plans implemented in India is given below. The first eight plans had their emphasis on growing the public sector with massive investments in basic and heavy industries, but since the launch of the Ninth Plan in 1997, attention has shifted towards making government a facilitator in growth.

India's Ninth Five-Year Plan (1997-2002): The Eighth plan period ended in 1997. Implementation of the Ninth plan was to begin from the same year. But a series of political crises in the country delayed the formulation and approval of the plan by two years. The NDC finally approved the plan in February 1999, envisaging a GDP growth rate of 6.5 percent per annum. Though delayed by two years in approval, the plan was to run its period through to 2002.The ninth plan aimed at growth with social justice and equity.

Objectives:

1. Priority to agriculture and rural development with a view to generating adequate productive employment and eradication of poverty;
2. Accelerating the growth rate of the economy with stable prices;

3. Ensuring food and nutritional security for all, particularly the vulnerable sections of the society;
4. Providing basic minimum services of safe drinking water, primary healthcare facilities, universal primary education, shelter and connectivity to all in a time-bound manner,
5. Containing the growth of populations;
6. Ensuring environmental sustainability of the development process through social mobilisation and participation of people at all levels;
7. Empowerment of women and society's dis-advantaged groups such as the scheduled castes, scheduled tribes and other backward classes and minorities as agents of Socio-economic change and development;
8. Promoting and developing people's participatory institutions like Panchayati Raj Institutions, Co-operatives and self-help groups.
9. Strengthening efforts to build self-reliance;

The special feature of the Ninth Plan was the priority set out by the Prime Minister in the list titled 'Special Action Plan' (SAP). It concentrated on five areas: food and agriculture; physical infrastructure; health, education and drinking water; information technology and water resources.

Outlay: The size of the plan was estimated to be Rs. 8, 59,000 crore at 1996-97 prices. This included plans of the Centre, States and public sector undertakings. The gross budgetary support to the plan from the Centre was fixed at Rs. 3, 74,000 crore. Resources from public sector undertakings and states were estimated to be Rs. 2, 90,000 crore and Rs. 1, 95,000 crore respectively.

Assessment: The rate of growth of GDP during the ninth plan dropped to 5.3 percent from 6.7 percent during the Eighth plan. This was against the target of 6.5 percent. The rate of growth declined particularly in the agriculture and manufacturing sectors, whereas in the services sector there was a marginal increase in the growth rate. In the agriculture three of the five years of the Ninth Plan witnessed poor performance due to weather-related shocks.

Questions for Discussion

1. What is meant by economic planning? Give its importance.
2. Give a note on IX Five year plan

CHAPTER 4

INCOME- POVERTY AND SECTORS OF ECONOMY

Income distribution: Income distribution is how a nation's total GDP is distributed amongst its population. Income and its distribution have always been a central concern of economic theory and economic policy. Classical economists such as Adam Smith, Thomas Malthus and David Ricardo were mainly concerned with factor income distribution, that is, the distribution of income between the main factors of production, land, labour and capital. Modern economists are more concerned with the distribution of income across individuals and households.

Income distribution is the smoothness or equality with which income is dealt out among members of a society. If everyone earns exactly the same amount of money, then the income distribution is perfectly equal. If no one earns any money except for one person, who earns all of the money, then the income distribution is perfectly unequal. Society's income distribution falls somewhere in the middle between equal and unequal.

Income inequality: Income inequality is the unequal distribution of household or individual income across the various participants in an economy. Income inequality is often presented as the percentage of income to a percentage of population. For example, a statistic may indicate that 70% of a country's income is controlled by 20% of that country's residents.

Contributing Factors to Income Inequality

1. Education is known to affect equality in societies.
2. Competition for talent creates a salary divide.
3. Stagnant wages play a big role in inequality.
4. Family and social interactions impact earning potential. .
5. Increased demand for high-skilled workers adds to a widening wage gap.

Poverty describes the condition of being unable to earn enough income to pay for family's basic shelter and sustenance. It is a condition in which a person has not enough capital to fulfil his basic needs. Inequality is the difference of incomes among different people or households, whatever the levels of incomes. Poverty is having a low income. It's possible to have a society which is uniformly poor, and thus perfectly equal, or a society with wide variation of incomes but nobody in serious need.

Main Causes of Poverty in India

1. Heavy pressure of population
2. Unemployment and under employment
3. Capital Deficiency
4. Under-developed economy
5. Increase in Price
6. Net National Income
7. Rural Economy
8. Lack of Skilled Labour
9. Deficiency of efficient Entrepreneurs
10. Lack of proper Industrialisation
11. Low rate of growth
12. Outdated Social institutions
13. Improper use of Natural Resources
14. Lack of Infrastructure

Capital formation and Savings: Capital formation is a term used to describe the net capital accumulation during an accounting period for a particular country, and the term refers to additions of capital stock, such as equipment, tools, transportation assets and electricity. Countries need capital goods to replace the current assets that are used to produce goods and services, and if a country cannot replace capital goods, production declines. Generally, the higher the capital formation of an economy, the faster an economy can grow its aggregate income. Capital formation and savings are intertwined.

The process of capital formation consists of the following three stages:

1. **Creation of Saving**: The creation of saving is the first stage of capital formation. It means that there must be an increase in the volume of real savings, so that the sources

may be used for the production of consumption purposes and further may be released for other purposes. Therefore, for capital formation, some current consumption has to be sacrificed for obtaining a larger part of the flow of consumer goods in the near future.

2. **Mobilisation of Saving**: The next process of saving is that it must be mobilised by converting into investible funds. For this purpose, the existence of banking and other financial institutions are must. Banking facilities give considerable help to promote high rate of mobilisation and channelization of saving. In brief, sound and efficient banking system enables investors to invest more and more.
3. **Investment of Saving**: The final stage is the investment of saving into capital goods. It needs a class of efficient, dynamic, daring and skilled entrepreneurs. An able and efficient entrepreneur is always ready to make investments for the production of capital goods. In short, both saving and investment are crucial for capital accumulation.

Public Sector: The sector that is engaged in the activities of providing government goods and services to the general public is Public Sector. The enterprises, agencies, and bodies are fully owned, controlled and run by the Government whether it is central government, statement government or a local government. There are two types of public sector organisations, i.e. either the Government fully finances them through the revenues they raise by collecting taxes, duties, fees, etc. or the government holds more than 51% of the total share capital of the company which comes under various ministries. The enterprises are established with service motive. It is the largest sector, which works for the upliftment of the people by providing the following services to the people:

1. Generation of employment opportunities
2. Postal services
3. Providing education and health facilities at low cost
4. Providing security
5. Railway service

Private Sector: The segment of a national economy that is owned, controlled and managed by private individuals or enterprises is known as Private Sector. The private sector companies are divided on the basis of sizes like small & medium enterprises and large enterprises which are either privately or publicly traded organisations. They can be created in two ways, i.e. either by the formation of a new enterprise or by the privatisation of any Public Sector Enterprise.

Business entities of the private sector are generally established with the sole objective of making profit and building brand reputation. They provide quality services to the community to win the trust and goodwill from people to survive in the long run and compete with the enemies. These enterprises also have to follow the government law and order. It is the largest sector in terms of employees. In private sector performance is the basic criterion for job stability. The major services provided by the Private sector are as under:

1. Quality education
2. Telecommunication services
3. IT services
4. Courier Services
5. Infrastructure development

Differences between Public Sector and Private Sector

1. The following are the major differences between public sector and private sector:
2. Public Sector is a part of the country’s economy where the control and maintenance are in the hands of Government. If we talk about Private Sector, it is owned and managed by the private individuals and corporations.
3. The aim of the public sector is to serve people, but private sector enterprises are established with the profit motive.
4. In the public sector, the government has full control over the organisations. Conversely, Private Sector companies enjoy less government interference.
5. The employees of the public sector have the security of the job along with that they are given the benefits of allowances, perquisites, and retirement like gratuity, pension, superannuation fund, etc. which are absent in the case of the private sector.

6. In the private sector working environment is quite competitive which is missing in the public sector because they are not established to meet commercial objectives.
7. In general Public Sector uses Seniority for promoting employees, however, merit cum seniority is also taken as a base for promoting employees. Unlike Private Sector, where performance is everything, and so merit is considered as a parameter to promote them

Privatization: Privatization can refer to the act of transferring ownership of specified property or business operations from a government organization to a privately owned entity, as well as the transition of ownership from a publicly traded, or owned, company to a privately owned company. Privatization is also the process in which the government function involves transferring ownership of the associated business processes or facilities to a company within the private sector.

Techniques for Privatisation

1. Public offering of shares – all or parts of the shares of public limited company are offered for sale to the public;
2. Private sale of shares – all or part of the state- owned enterprise is sold to private individual or a group of purchasers;
3. New private investment in a state-owned enterprise – private share issues are subsidised by the private sector or the public;
4. Entry of the private sector into public sector – private groups allowed to get into areas reserved for the public sector, such as the power and telecommunications sectors in India;
5. Contracting out the services and utilities to private operators or contractors for operation and maintenance, while retaining ownership with the government. Like water supply, sewage treatment, etc.;
6. Sale of government or state enterprises' assets as private sale instead of shares;
7. Reorganisation or fragmentation of subsidiary units of a company;
8. Management/employee buy-out – in which the management or the employees acquire the controlling interest in which shares are purchased on credit extended by the government.

Privatisation in India: In 1991, the country experienced a balance of payments dilemma following the Gulf War and the downfall of the erstwhile Soviet Union. The country had to make a deposit of 47 tons of gold to the Bank of England and 20 tons to the Union Bank of Switzerland. This was necessary under a recovery pact with the IMF or International Monetary Fund. Furthermore, the International Monetary Fund necessitated India to assume a sequence of systematic economic reorganisations. Consequently, the then Prime Minister of the country, P V Narasimha Rao initiated ground breaking economic reforms famously known as LPG- Liberalisation Privatisation and Globalisation.

Privatization in India has been carried out in several stages; such as, deregulation, dereservation, privatisation and disinvestment. The fiscal crisis of 1991 was a result of the public sector's inability to generate adequate returns on investment. The government's attitude also changed markedly. The New Industrial Policy, 1991, advocated privatisation of public sector enterprises. For purposes of privatisation, the government has adopted the route of disinvestment which involves the sale of the public sector equity to the private sector and the public at large.

Fiscal policy: Fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. It is the sister strategy to monetary policy through which a central bank influences a nation's money supply. These two policies are used in various combinations to direct a country's economic goals. The governments influences macroeconomic productivity levels by increasing or decreasing tax levels and public spending. This influence, in turn, curbs inflation increases employment and maintains a healthy value of money.

There are two types of fiscal policy. They are

1. **Expansionary**: Expansionary fiscal policy is followed when an economy is in a recession. Typically this type of fiscal policy results in increased government spending and/or lower taxes. A recession results in a recessionary gap i.e. the aggregate demand (ie, GDP) is at a level lower than it would be in a full employment situation. In order to close this gap, a government will typically increase their spending which will directly increase the aggregate demand curve. At the same time,

the government may choose to cut taxes, which will indirectly affect the aggregate demand curve by allowing for consumers to have more money at their disposal to consume and invest. The actions of this expansionary fiscal policy would result in a shift of the aggregate demand and helping an economy grow. It stimulates economic growth. The government either spends more, cuts taxes, or does both if it can. The idea is to put more money into consumers' hands, so they spend more. That jumpstarts demand, which keeps businesses running and hopefully adds jobs.

2. **Contractionary fiscal policy:** Contractionary fiscal policy is essentially the opposite of expansionary fiscal policy. When an economy is in a state where growth is at a rate that is getting out of control, contractionary fiscal policy can be used to rein it in to a more sustainable level. If an economy is growing too fast or for example, if unemployment is too low, an inflationary gap will form. In order to eliminate this inflationary gap a government may reduce government spending and increase taxes. A decrease in spending by the government will directly decrease aggregate demand curve by reducing government demand for goods and services. Increases in tax levels will also slow growth, as consumers will have less money to consume and invest, thereby indirectly reducing the aggregate demand curve.

Tools of Fiscal Policy

1. **Taxation:** It includes income, capital gains from investments, property, sales, or just about anything else.
2. **Government spending:** This includes subsidies, transfer payments including welfare programs, public works projects, and government salaries.

QUESTIONS FOR DISCUSSION

1. What are the Factors that contribute to Poverty?
2. What is meant by Public and Private sector
3. Explain Privatisation of Indian Economy.
4. Give a note on Fiscal Policy.

UNIT – III

CHAPTER 5

INDUSTRIAL POLICY

Introduction: The Industrial policy of the Government for any country would be the real factor shaping the suitable environment for industries and business to thrive. Too much of restrictions and legal formalities would result in a constricted environment for the business. On the other hand, a liberal policy would be helpful for the industries to develop, according to the needs of the economy and consumers. Though planning authorities allocate resources according to the needs of the economy, their allocation would depend upon the policy of the government in power, and not according to the consumption wishes of the people.

Industrial Policy: The term Industrial Policy refers to the Government's policy towards the establishment of industries, their working and management. It includes all those principles, regulations, rules etc., which would influence the industrialization of the country and also nationalization of industries.

The industrial development of a country largely depends on the industrial policy adopted the Government. During the British days, the Government followed a policy of Laissez-faire in industrial development and it was only a spectator without actively participating as an entrepreneur. Only during war periods some measures were taken up by the Government which were nothing but measures to meet the exigency. The dawn of independence created new hopes and aspirations in the field of industry. The responsibility of industrialization of the country developed on the Indian Government which embarked upon a policy of actively promoting the much needed industrialization of the country. Industrial activity of the country since then is cared on the basis of policy statements made by the Government from home to time. The first industrial policy resolution in Independent India was formulated and announced by the Government in April 1948.

Industrial policy Resolution of 1948

Objectives: The Industrial Policy was designed to achieve the following objectives:

a. The establishment of a social order wherein justice and equality of opportunity shall be secured to all the people;
b. The promotion of standard of living of people by exploiting resources,
c. The increase in production both agricultural and industrial;
d. The offering of opportunities to all for employment
e. The need for careful planning and integration of efforts and the establishment of a National Planning Commission
f. The determination of State responsibility and private enterprise in industrialization and,
g. The regulation of private enterprise.

Classification: The Government classified the industries into four categories,

1. State monopolies
2. Basic and Key Industries
3. Private industries controlled and regulated by State; and
4. Completely private sector industries.

Defense, arms and ammunitions, atomic energy, strategic industries and railways were brought under the first category viz., complete State control. Basic and key industries, viz., iron and steel, aircraft manufacture, ship building telephone, telegraph and wireless apparatus, and mineral oils were brought under State control while starting new undertakings and the existing units were allowed to continue in the private sector. The Government would consider nationalization of basic and key industries in private sector after 10 years. Twenty important industries, such as cotton textiles, sugar, cement, paper, heavy chemicals, etc, were brought under the third category. These industries under private sector were subjected to State control and regulation. All other industries were brought under private sector without any State interference. Cottage and small industries were allowed to play their part in the economic development of the country through co-operatives.

Industrial Policy Resolution of 1956: The industrial policy was revised in 1956.

Objectives and Outlines of Industrial Policy Resolution in 1956: The objectives and outlines of Industrial Policy Resolution of 1956 were

1. Reduction of dispraise in income and wealth,
2. Prevention and concentration of economic power,
3. Building up a large and growing public sector,
4. Developing heavy and machine making industries and
5. To accelerate the rate of industrialization and economic growth.

In order to realize these objectives, the policy designed these broad outline.

1. State should assume predominant role and responsibility in industries undertakings by starting and developing new industries and affording necessary infrastructure.
2. Industrial units in the private sector should be fitted into the frame work of social and economic policies of the State.
3. State trading should be increased and more spheres of business activities should be brought in its fold.
4. Cottage and small industries will be supported as they provide immediate large scale employment, ensure more equitable distribution of income, and facilitate an effective mobilization of resources.
5. More attention will be paid to the organization of industrial co-operatives.
6. Disparities in the levels of employment among different regions should be reduced by extending power and transport facilities to backward areas.
7. Managerial and technical personnel should be provided to meet the growing needs of the public sector and small industries by introducing elaborate training facilities.

8. Proper and increased incentives will be provided for all those engaged in industries for improving working and living conditions raising the standard of efficiency by joint consultation.
9. Public sector undertakings ought to set an example and serve as a model.

New Classification of Industries according to the policy: Under the revised policy of 1956, the industries were reclassified into three categories, viz., Schedule A. Schedule B and the rest of the industries. Under Schedule A, Seventeen industries were listed and made purely state-owned. Though the existing private units were not disturbed, future development of these was the exclusive operation of the public sector. Twelve industries were brought under Schedule B. These twelve were brought under mixed sector where the industries would be progressively owned by the State, and private enterprise would have the opportunity to develop singlely or in participation with the States. All the remaining industries or residual industries were brought under the third category viz., private sector. But the Government retained the right or starting its own unit at any time.

Schedule A (State)

1. Arms and Ammunitions
2. Atomic Energy
3. Iron and Steel
4. Heavy castings and forging of iron and steel
5. Heavy machinery and plant required for iron and steel production, for mining, machine tool manufacture, and for such other basic industries as may be specified by the Central Government.
6. Heavy electrical plant.
7. Coal and lignite
8. Mineral oils
9. Mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamonds.
10. Minerals specified in the schedule to the atomic energy
11. Aircraft
12. Air Transport
13. Railway Transport
14. Ship building

15. Telephones, Cables and Wireless apparatus
16. Generation and distributions of electricity.

Schedule B

1. All other minerals except minor minerals as defined in section 3 of the Minerals - Concession Rule 1949.
2. Aluminum and other non-ferrous metals.
3. Machine Tools.
4. Ferro-alloys and tool steels.
5. Basic and intermediate products required for chemical industries such as the manufacture of drugs, dyestuffs and plastics.
6. Anti-biotic and other essential drugs.
7. Fertilizers, synthetic rubber, carbonization of coal, chemical pulp, road and sea transport.

Other Industries: All the remaining industries will be in the third category, viz., private sector, and the State will help this sector in accordance with the programmes formulated in the Five-Year Plans. Though the industries were reclassified in the aforesaid manner, it must be noted that the division into separate categories does not imply that they are being placed in water-tight compartments. It will be open for the State to start any industry not included in Schedule A or B when the needs of planning require such a step. In the same manner, even privately owned units may be permitted to produce anything falling in Schedule A if situation warrants that.

Industrial Policy Statement of July 1980

In 1980, when the Congress (I) Government came back to power with Indira Gandhi as Prime Minister, the Industrial Policy of the Government was restated on July 23, 1980. This new policy was in fact only an updated and refurbished version of the 1956 Industrial Policy Resolution. This policy statement of 1980 reiterated the basic policy Resolution of 1956. The policy emphasized the commitment of the Government towards rapid and balanced industrialization of the economy so as to benefit the common man in the form of increased availability of goods, higher per capita income and larger employment generation. The objectives of the new Policy Statement of 1980 were as follows:

a. Facilitating an increase in industrial production through optimum utilization of installed capacity.
b. Rapid and balanced industrialization of the country and increasing the availability of goods at reasonable prices.
c. Solving the problems of major industrial inputs like energy, transport and coal;
d. Correcting of regional imbalances through a preferential treatment to agro-based industries, and promoting optimum inter-sect oral relationship;
e. Promoting economic federalism through co-ordinate developed of small, medium and large enterprises.
f. Promotion of export-oriented and import substitution industries, and
g. Higher employment generation.

In order to achieve these objectivism the policy statement reiterated its faith in public sector. At the same time it emphasized the vital role of private sector in pursuing the goal of self-reliance and modernization. To generate more employment and also production, it was decided to permit and recognize additional capacities in industries over and above the originally endorsed capacities. Further, stress was laid on the improvement of technology and allocation of funds for research and development.

Several steps were initiated to implement the Policy Statement of July 1980. In order to promote the growth of small-scale industries, investment limits for small scale sector had been raised from Rs.10 Lakhs to Rs.20 Lakhs. The investment limits for ancillary units had been increased from Rs.15 Lakhs to Rs.25 Lakhs. Installed capacities in excess of licensed capacities in 34 selected industries had been regulated. These included basic industries and those producing mass consumption goods not reserved for the small sector, provided the firms were not units to which the Monopoly and Restrictive Trade Practices Act, 1969 or the Foreign Exchange Regulation Act, 1973 applied.

In order to encourage production for export, exemptions had been given in the vocational policy and production for export had been excluded to computing licensed capacity. To encourage production of alternative sources of energy, the Government delicensed the manufacture of equipment for exploitation of such source of energy like solar installations, wind power, bio-mass including bio-gas, geo-thermal energy, tidal power and sea power. Thus the Industrial Policy Statement gave sample scope for the private sector to expand its activities and even set up industries in the sector reserved for the State in 1956 Resolution.

New Industrial Policy 1991 (Economic Liberalization): The year 1991 and 1992 are of special significance in the Indian Economy, as it is now in the transitional stage from semi-controlled and bureaucratic-managed phase to liberalized market oriented regime. Many economic measures were introduced to achieve the objectives of new economic policies of the Government. Of these, the new Industrial Policy Statement is of vital importance, as it forms the centre of all economic policies of the Government.

The Government of India announced a New Industrial Policy (NIP) on July 24, 1991. The main objectives of the NIP are to build on the gains already made, correct the distortions and weaknesses that might have crept in, rejuvenate the dormant industrial sector, maintain a sustained growth in productivity and gainful employment and attain international competitiveness. All sectors are expected to grow and operate in harmony with each other to realize the broad national objectives of industrial development. The New Industrial Policy aims at bringing out radical changes in the following spheres:

a. Industrial Licensing
b. Foreign investment
c. Foreign Technology Agreements
d. Public Sector Management, and
e. Monopolies and Restrictive Trade Practices Act.

a. **Industrial Licensing:** The new policy had abolished industrial licensing for all projects except for a short list of industries related to core sector. According to the new policy:
    - No licenses are required to set up new units, expand or diversify the existing line of manufacture except in certain industries related to security and strategic considerations, social reasons, hazardous chemicals and over-riding reasons from environmental angle and items of elite consumption.
    - Areas where security and strategic concerns predominate will continue to be in the public sector.

- In projects where imported capital goods are not required, automatic clearance will be given.
- A flexible location policy will be followed.
- The system of phased manufacturing programmed is abolished
- No licensing will be required for the broad banding facility
- Mandatory convertibility clause will no longer be applicable to long term loans from the financial institutions for new projects.

b. **Foreign Investment:** Regarding foreign investment, the following changes have been effected:

- Approval will be given for direct foreign investment up to 51% of foreign equity in high priority industries.
- The payment of dividends will continue to be monitored by the Reserve Bank of India to ensure that outflows and inflows are matched over a period of time
- Foreign equity holdings need not necessarily be tied by foreign technology agreements.
- Majority foreign equity holding up to 51% will be allowed for trading companies primarily engaged in export activates.
- A specially Empowered Board will be constituted to negotiate with the international firms and approve foreign investment in select areas,

c. **Foreign Technology Agreement:** In the field of foreign technology agreements the following changes have been effected:

- Automatic permission will be given for foreign technology agreements in high priority industries, up to a lump sum payment of Rs.1 Crore, 5% of royalty for domestic sales and 8% for exports, subject to a total payment of 8% of sales over a ten year period from date of payment or 7years from commencement of commercial production.
- For other industries, other than those specified above, automatic permission will be given subject to the same guidelines as above, if no foreign exchange is required for any payments.
- No permission is necessary for hiring of foreign technicians or foreign testing of indigenously developed technologies.

d. **Public Sector Management:** One of the striking features of the new industrial policy is the substantive reduction in the role of the public sector in the future industrial development of the country. It may be recalled that the Industrial Policy Resolution of 1956 had accorded primacy to the public sector by reserving exclusively as many as 17 major industries, known as Schedule A industries. Further 12 other industries, known as Schedule B were indentified for the entry of the public sector. It was also provided in the policy resolution of 1956, that the State will have an over-riding power to start any industry other than these 29 industries specified under Schedule A and Schedule B.

Under the New Industrial Policy, the position and priority of Public Sector industries have been distinctly changed. The priority areas of the public sector industries have been confined to the following:

- Essential infrastructural goods and services
- Exploration and exploitation of oil and mineral resources
- Technology development and building up of manufacturing capacities in crucial areas and
- Manufacturing of products, based on strategic considerations, such as defense equipment, etc.

Consequently, only eight industries are now exclusively reserved in the core industrial sector and having regard to their weight ages, it would be evident that the role of public sector has been reduced by almost 50% of what it used to be earlier. As a corollary, as much as three-fourths of the industrial activities are now being made available for the private sector. According to the NIP, sick public sector units will be referred to Board of Industrial and Financial Reconstruction. A part of Government's shareholding of Public Sector units will be offered to the public financial institutions, general public and workers. Further, Public Sector units will be made more professional and given greater autonomy.

e. **Monopolies and Restrictive Trade Practices Act:** With the introduction liberalization and expansion schemes under NIP, the government has suitably amended the MRTP Act. The government, on 27th September 1991 promulgated an Ordinance to amend the MRTP Act of 1969. According to the amendment, the following changes have been effected:

- The requirement for large companies to seek prior approval of the Union Government for expansion, establishment of new undertakings, merger, amalgamations, takeover and appointment of Directors has been eliminated.
- At the same time, the provisions of the Act have been strengthened so as to give more powers to MRTP Commission with a view to taking effective steps to curb and regulate monopolistic, restrictive and unfair trade practices which are prejudicial to public interest and also to provide for derrent punishment for contravention of the orders passed by the Commission and the Government.
- The amended Act has been made applicable to all undertakings and financial institutions except trade unions and associations of workmen. It means that now public sector units would also be covered under the Act, so far as the provisions of the restrictive trade practices are concerned. Accordingly, consumers now would be able to complain to the MRTP commission, or the commission might take suo motu notice of unfair and restrictive practices by Electricity and Water supply Authorities, Railways, Airlines, Banks including the financial institutions such as the IDBI and IFCI, Chit Funds and Real Estate business;
- However, Government undertakings engaged in the production of Defence equipment, specified minerals, atomic energy, and Government mints will continue to be kept out of the purview of the Act from security point of view.
- In order to cope with the new and enlarged task the MRTP Commission would be strengthened both in terms of manpower and judicial provisions.

QUESTION FOR DISCUSSION

1. What do you mean by Industrial Policy? Explain its importance
2. Explain Industrial Resolution 1956
3. ExplainNew Industrial Policy 1991

CHAPTER 6

SMALL SCALE AND COTTAGE INDUSTIRES AND NEW ECONOMIC POLICY

1. Introduction: Small industries of various types together occupy an important place in the country's economy. These face many serious problems, most of which are associated with the smallness of their operations. The measures to promote them too are, in general, of different variety from those needed for the development of large industries, for all these reasons, these industries are dealt with separately in this chapter.

2.2. Importance: These industries, sometimes grouped under the general heading of Village and Small Industries (VSI), cover a wide variety of activities. The sector is split up into sub-sectors, namely, Khadi, Village Industries, handlooms, sericulture, handicrafts, coir, small scale industries and Power looms. Of these the first six sub-sectors constitute traditional industries and the last two, the modern small scale industries and power looms use modern technologies and are mostly urban oriented. Traditional industries, on the other hand, are mostly rural and semi-urban in character.

The sector is identified in terms of capital investment. All industrial units with a capital investment (on plant and machinery) of not more than Rs.3 crore are treated as small-scale units. For ancillary units (i.e., those supplying components etc., to large-scale industries and the export-oriented units), the limit of capital investment of up to Rs.25 lakhs belong to this sector. Capital investment covers only investment in plant and machinery. Land and factory building are excluded largely because of the wide variations in the prices of land at different places. As per this classification all industries with capital investment higher than specified for small-scale units are large-scale industries.

2.2.1. Employment: The most important single argument advanced in favour of these industries is that they generate a large volume of employment. This is considered to be of great relevance for a country like India where underemployment, unemployment and seasonal unemployment are rampant on a mass scale and where capital to industrialize on a massive scale is in acute short supply. In such a labour-abundant and capital-scarce economy, it is argued that the way out is to go in for small-scale and cottage industries which are labour-intensive and which require a very small amount of capital for every person employed.

2.2.2. Capital formation: Advocates of small-scale and cottage industries make a case for them on the basis that these do not require much capital. As such these fit well in the country where capital is scarce. But Dhar and Lydall criticize small-scale and cottage industries also on the ground that these industries will have unfavourable consequences for savings and capital formation. They argue that the establishment of these industries will, over a period of time, reduce further the availability of capital. Their argument runs as follows: one is that for every unit of output, these industries use more capital; two these industries, being labour-intensive, use a major proportion of the sale proceeds of output to pay workers whose marginal propensity to save is low. Thus a larger part of their incomes will be used for consumption, resulting in a lower rate of savings and capital formation for the economy.

2.2.3. Equitable distribution: Small-scale and cottage industries are eminently suitable for the fulfilment of the objective of social justice. As against large-scale industries which promote monopolistic trends and unequal distribution of incomes, small enterprises tend to create a situation of more equitable distribution of income. At least three arguments can be advanced in support in this. One, a large proportion of incomes generated in these enterprises gets distributed among workers. Two, income gets distributed among a very large number of people. Three, incomes get spread over a vast number of persons throughout the country. All these three benefits flow from the fact that these industries are labour-intensive and that these can be set up anywhere in the country.

Distribution aspects of small-scale and cottage industries unravel their twofold beneficent character. On the one hand, these industries enable a vast number of people to earn income and, on the other hand, these incomes are generated by the very people among whom they are distributed. Thus the two processes-distribution and production-take place through the same medium, i.e., labourers. As such, these industries become instruments of social justice par excellence. The promotion of these industries is, therefore, an essential feature of any programme which aims at removal of unemployment and poverty.

2.2.4. Use of latent resource: Another strong argument in favour of these industries is that these make it possible to use the latent resources which otherwise would lie idle. With the help of these industries, the country can use for the benefit of its development such resources as hoarded wealth, native entrepreneurship, family-labour, artisan’s skills, workers with little formal training, small savings of proprietors who will not use the banking system etc. Being thinly spread throughout the country, these resources cannot be used in large-scale industries. May be quite be sizable part of these resources is not fit to be used in modern large-scale industries. But these dormant resources can be made alive through small-scale and cottage industries to aid the development of the country.

2.2.5. Decentralization: An important and beneficial aspect of the spread of small-scale and cottage industries is the decentralization of economic activities. The growth of large factory industries that has so far taken place has been centralized in a few big cities like Bombay, Ahamedabad, Nagpur, Calcutta, etc., the rest of the country, and in particular rural areas, are almost without industries. Such a concentration of industries in small number of places has led to many evil consequences: overcrowding of cities; pollution of air injurious to health and efficiency; other social evils that result from over-concentration of population in areas like cities, etc. Centralization is dangerous also from the angle of security of the country. In the event of war, industrial towns are easy targets for enemy bombardment. Such a calamity can finish off in no time the life-line of the economic body.

Spreading industries throughout the county is, therefore, of vital importance. Besides using local resources, these industries will reduce the imbalances among regions and between urban and rural areas. By providing employment and income to people throughout the country, these industries will reduce the tension among people of different states, and promote national integration.

For the decentralization of economic activities, small-scale and cottage industries are eminently suitable. Because of low initial establishment costs, and because they do not require an elaborate economic infrastructure like roads, rails, houses, etc., these industries can be set up quickly in different parts of the country. Of course, it may not be possible to establish such industries in every village because even small industries are subject to business laws such as market size. In such cases a group of villages can be made the basis for setting up of these industries to cater to the needs of the people living around them.

2.2.6. Consumer Goods: These industries, predominantly producers of consumer goods, have a key place in the mechanism of development. Industrialization of the country, with emphasis on heavy industries, requires large capital investment, leaving little for large consumer goods industries. Besides, capital goods industries have long gestation periods. During the long interval of time, income gets generated without a corresponding increase in goods. Further, the goods produced by these industries are producer goods which can help in the production of consumer goods only at a much later stage.

In the meantime, consumer goods need to be increased to match rising income in the modern industrial sector. If this is not done, the result will be rise in the prices, leading to rise in the cost of production. Such a rise in prices will thus not only lower the standard of living of the poor workers, but will also jeopardize the very process of growth. Small-scale and cottage industries, which can be set up with small investment and with local resources, are capable of producing the much needed consumer goods within a short period of time. It is precisely for this reason that, till recently, India's strategy of industrialization biased in favour of heavy industries laid great emphasis on small-scale and cottage industries.

2.2.7. Foreign Exchange: From the angle of balance of payments, these industries are justified on two counts. One, they do not require much foreign exchange resources for their establishment and to that extent place almost no extra burden on balance of payments position, Two, these industries can contribute to the foreign exchange of the country through adding to exports. Already, the demand for such products as cotton handloom fabrics, silk fabrics, coir products, handicrafts, etc., exists. Further, many new products of the non-traditional small industries have begun to be exported.

2.2.8. Political and Social benefits: These industries also confer certain valuable political and social benefits. They can help in awakening the powerful dormant forces among masses for use in constructive activities. The freedom of work, self-reliance, self-confidence, enthusiasm to achieve, and all such traits of a healthy nation can be built around the material activities performed in these industries. These activities will be helpful in the preservation of the inherited skill of our artisans which would otherwise languish and disappear. A great many people in villagers and small-scale towns will be saved from the mechanical, monotonous and robot-like life associated with big industrial cities. These non-economic considerations cannot be concretized into cold statistics, but they speak volumes for themselves. These in fact are the essence of life. It is thus obvious that these industries are of great importance in India's economic life and development. In this connection one may quote from the Second Plan: "They provide immediate large-scale employment; they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilization of capital and skill which might otherwise remain unutilized. Some of the problems that unplanned urbanization tends to create will be avoided by the establishment of small centers of production all over the country".

2.3. Several Difficulties: These industries, despite their importance for the economy, are not contributing to their full towards the development of the country along the desirable lines. It is because these are beset with a number of problems in regard to their operations. These may be described as under.

2.3.1. Inadequacy of finance: A serious problem of these industries is in respect of credit, both for long-term and short-term purposes. These are evident from the fact that the supply of credit has not been commensurate with their needs associated with fixed and working capital. Equally, the credit has lagged much behind the volume of activity that these small units generate in the fields of storage, transport, distribution etc. Further, very often the credit has not been timely. Its delayed availability has been a major factor in causing much of industrial sickness in this sector. The credit, situation is particularly hard for he very small r tiny units. The system of finance,, comprised of financial institutions, commercial banks and cooperatives, is not wholly in tune with their very small and specific requirements. As a result quite a significant proportion of these units is dependent upon high-cost credit of private money lenders.

2.3.2. Difficulties of marketing: These industries are also up against the crucial problem of marketing their products. The problem arises from such factor as small scale of production, lack of standardization of products, inadequate market intelligence, competition, from technically efficient units, insufficient holding capacity in case of overproduction or deficient demand etc. No doubt measures have been taken to provide marketing support to these industries, but these have as yet covered only a small segment.

For example, in respect of handloom cloth, marketing support through public emporia has accounted for sale of goods of only about one-tenth of the production. In the case of handicrafts only one hundredth of the production gets marketing support. Apart from the inadequacy of marketing facilities the cost of promoting and selling their products too is high. This is specially so in respect of the sales outlets opened by the Khadi and village Industries Commission. The result is large and increasing subsidies which impose heavy burden on the government budgets.

2.3.3. Shortage of raw materials: Then there is the problem of raw materials, which continues to plague these industries. Raw materials are available neither in sufficient quantity, nor of requisite quality, nor at reasonable rates. Being small purchases, the producers are not able to undertake bulk buying as the large industries can do. The result is taking whatever is available, of whatever quality and at high prices. This affects adversely their production, product, quality, and costs. The government efforts like the supply of raw materials through State Small Industries Development Corporations, import quotas etc, have not yielded much. The fact is that this sector gets more or less a "residuary" treatment in raw material distribution allocation. So is the case of critical inputs like iron and steel, coal and coke, petro-chemicals, supply of power etc. These industries do not receive equal treatment vis-a-vis large industries, in the distribution of these scarce inputs. While this is a big problem of this sector in general, the tiny producers face extraordinary difficulties in meeting their small requirements.

2.3.4. Low-level technology: The methods of production which the small and tiny enterprises use are old and inefficient. The result is low productivity, poor quality of products and high costs. The producers for want of information know very little about modern technologies which have revolutionized production in small units in advanced countries. There is little of research and development

The Features of New Economic Policy 1991: In 1990s the govt. of India in order to come out of the economic crisis decided to devote from its previous economic policies and learn towards Privatization. In July 1991 when the devaluation of Indian currency took place the govt. started announcing its new economic policies one after another. Though these polices pertained to different aspects of the economic field they had one thing in common. The economic element was to orient the Indian system towards the world market it is in this context the govt. launched its new economic policy which consisted of among other things three important features. Liberalization, Privatization and Globalization .Liberalization of the economy means to free if from direct or physical control imposed by the govt. economic reforms were based on the assumption that marten forces could guide the economy in a more effective manner than govt.

Main objectives of New –Economic Policy – 1991: The main objectives behind the launching of the new economic policy (NEP) in 1991 by the union finance minister Dr. Manmohan Singh, could be stated as follows:

- The main objective was to plunge Indian economy in to the arena of 'Globalization and to give it a new thrust on market orientation.
- The NEP intended to bring down the rate of inflation and to remove imbalances in payment.

- It intended to move towards higher economic growth rate and to build sufficient foreign exchange reserves.
- It wanted to achieve economic stabilization and to convert the economic in to a market economy by removing all kinds of unnecessary restrictions.
- It wanted to permit the international flow of goods, services, capital, human resources and technology, without many restrictions.

Beginning with mid-1991, the govt. has made some radical changes in its policies bearing on trade, foreign investment exchange rate, industry, fiscal of fairs etc…The various elements, when put together, constitute an economic policy which marks a big departure from what has gone before.

The main characteristics of new Economic Policy 1991 are:

1. **Delicensing:** Only six industries were kept under licensing scheme.
2. **Entry to Private Sector:** The role of public sector was limited only to four industries; rest all the industries were opened for private sector also.
3. **Disinvestment**: Disinvestment was carried out in many public sector enterprises.
4. **Liberalization of Foreign Policy:** The limit of foreign equity was raised to 100% in many activities, i.e., NRI and foreign investors were permitted to invest in Indian companies.
5. **Liberalization in Technical Area:** Automatic permission was given to Indian companies for signing technology agreements with foreign companies.
6. **Setting up of Foreign Investment Promotion Board (FIPB):** This board was set up to promote and bring foreign investment in India.
7. **Setting up of Small Scale Industries:** Various benefits were offered to small scale industries.

Three Major Components or Elements of New Economic Policy: There are three major components or elements of new economic policy- Liberalization, Privatization, Globalization.

1. Liberalisation: Liberalization refers to end of license, quota and many more restrictions and controls which were put on industries before 1991. Indian companies got liberalization in the following way:

a. Abolition of license except in few.

b. No restriction on expansion or contraction of business activities.
c. Freedom in fixing prices.
d. Liberalization in import and export.
e. Easy and simplifying the procedure to attract foreign capital in India.
f. Freedom in movement of goods and services
g. Freedom in fixing the prices of goods and services.

2. Privatisation: Privatization refers to giving greater role to private sector and reducing the role of public sector. To execute policy of privatization government took the following steps:

a. Disinvestment of public sector, i.e., transfer of public sector enterprise to private sector
b. Setting up of Board of Industrial and Financial Reconstruction (BIFR). This board was set up to revive sick units in public sector enterprises suffering loss.
c. Dilution of Stake of the Government. If in the process of disinvestments private sector acquires more than 51% shares then it results in transfer of ownership and management to the private sector.

3. Globalisation: It refers to integration of various economies of world. Till 1991 Indian government was following strict policy in regard to import and foreign investment in regard to licensing of imports, tariff, restrictions, etc. but after new policy government adopted policy of globalization by taking following measures:

a. Import Liberalization. Government removed many restrictions from import of capital goods.
b. Foreign Exchange Regulation Act (FERA) was replaced by Foreign Exchange Management Act (FEMA)
c. Rationalization of Tariff structure
d. Abolition of Export duty.
e. Reduction of Import duty.

As a result of globalization physical boundaries and political boundaries remained no barriers for business enterprise. Whole world becomes a global village. Globalization involves greater interaction and interdependence among the various nations of global economy.

Impact of Changes in Economic Policy on the Business or Effects of Liberalization and Globalization: The factors and forces of business environment have lot of influence over the business. The common influence and impact of such changes in business and industry are explained below:

1. Increasing Competition: After the new policy, Indian companies had to face all round competition which means competition from the internal market and the competition from the MNCs. The companies which could adopt latest technology and which were having large number of resources could only survive and face the competition. Many companies could not face the competition and had to leave the market. For example, Weston Company which was a leader in T. V. market with more than 38% share in T.V. market lost its control over the market because of all round competition from MNCs. By 1995-96, the company almost became unknown in the T.V market.

2. More Demanding Customers: Prior to new economic policy there were very few industries or production units. As a result there was shortage of product in every sector. Because of this shortage the market was producer-oriented, i.e., producers became key persons in the market. But after new economic policy many more businessmen joined the production line and various foreign companies also established their production units in India.

As a result there was surplus of products in every sector. This shift from shortage to surplus brought another shift in the market, i.e., producer market to buyer market. The market became customer- oriented and many new schemes were made by companies to attract the customer. Nowadays products are produced/manufactured keeping in mind the demands of the customer.

3. Rapidly Changing Technological Environment: Before or prior to new economic policy there was a small internal competition only. But after the new economic policy the world class competition started and to stand this global competition the companies need to adopt the world class technology. To adopt and implement the world class technology the investment in R & D department has to increase. Many pharmaceutical companies increased their investment in R and D department from 2% to 12% and companies started spending a large amount for training the employees.

4. Necessity for Change: Prior to 1991 business enterprises could follow stable policies for a long period of time but after 1991 the business enterprises have to modify their policies and operations from time to time.

5. Need for Developing Human Resources: Before 1991 Indian enterprises were managed by inadequately trained personnel's. New market conditions require people with higher competence skill and training. Hence Indian companies felt the need to develop their human skills.

6. Market Orientation: Earlier firms were following selling concept, i.e., produce first and then go to market but now companies follow marketing concept, i.e., planning production on the basis of market research, need and want of customer.

7. Loss of Budgetary Support to Public Sector: Prior to 1991 all the losses of Public sector were used to be made good by government by sanctioning special funds from budgets. But today the public sectors have to survive and grow by utilizing their resources efficiently otherwise these enterprises have to face disinvestment. On the whole the policies of Liberalization, Globalization and Privatization have brought positive impacts on Indian business and industry. They have become more customer focus and have started giving importance to customer satisfaction.

8. Export a Matter of Survival: The Indian businessman was facing global competition and the new trade policy made the external trade very liberal. As a result to earn more foreign exchange many Indian companies joined the export business and got lot of success in that. Many companies increased their turnover more than double by starting export division. For example, the Reliance Company, Videocon, MRF, Ceat Tires, etc. got a great hold in the export market.

QUESTIONS FOR DISCUSSION

1. What do you mean by Small Scale Industries. Give its difficulties.
2. What are the main features of New Economic Policy
3. Explain the impact of LPG

UNIT - IV

CHAPTER 7

LEGAL ENVIRONMENT OF BUSINESS

There are various laws that are used to ensure that the business works in the right way. These laws are put in place to regulate the way the business is done and are meant to curb unethical business activities. Therefore, there is needed to look at the laws and the reason why they were passed. In this case, we will look at the law that regulates businesses in United State of America. The paper outlines various laws that regulate businesses, their intended purpose in the business, and how they affect the business.

Types of the law that affect the business: The main laws that affect the business include consumer protection law, antitrust law, environmental law and the law that protect the public interest. The laws that affect business occupations are occupational qualifications, diversity laws, employee's health and safety. Laws that affect the business organization are incorporation law, bankruptcy, patents law, copyrights and trademark law. All these laws affect the business in one way and the other and should be adhered to at all cost to ensure that the business function is regulated.

Laws that affect business occupation: There are several laws that have been put in place to ensure that the businesses act ethically in their place of business execution. Laws that affect their occupation, occupation qualification, business diversity as well as laws that promote health and safety of the employees have been put in place.

Laws regulating business occupation: Most of the federal government across the globe has put in place the level of skills , qualification, and experience required too ensure that one is able to be hired to execute a certain duty. Each professional globally requires a certain level of. This is to ensure that the people who are hired are able to serve them public interest. These requirements have been extended to the private company to ensure that the services that are offered by these companies are up to the standard. These companies must ensure that they comply with these rules to ensure quality services are offered as regulation demands.

Antitrust law: The initial reason of establishing this law was to check the issue of the monopoly that had affected the business sector for a long time. The law started after the civil war with an increase in petroleum, cotton and other agricultural products. The Sherman act of 1890 made a declaration that restraint of trade or other related actions by monopolies were illegal.

Objectives of the antitrust law are the Countering Unfair Competition, protecting the rights, priorities and interests of businesses and consumers by enhancing fair competition for better economic growth. There are two categories of unfair competition the traditional ones that are the likes of the counterfeits, bribes and adverts contrary to the product. The other category is by the government by certain persons in power who misuse their power to access of institutions or generally interference with the economy to a point that it is seen as sabotage to the local producers or manufacturers. The government however cannot sue or charge themselves and so they are at liberty to go free on unfair completion. Termination of monopolies could boost the productivity and quality of products produced. The antitrust laws are meant to deal with some four services, which include

1. The avoidance of entry to agreements, which hamper free and fair competition and lead to eventual unsuccessful business.
2. Regulation of monopolies or bigger and dominant companies from preventing small-scale companies being competitive.
3. Feasible competition is enhanced in the Oligopolistic industries.
4. Merging companies need to be monitored to concentrate on production and handle effectively the economic pressures.
5. This was later amended by the Robinson-Pitman Act was more of an amendment of the Clayton Act mainly dealing with the non-competitive procedures used in the discrimination of the equity in distribution.

Consumer safety laws: This is a law that protects the consumers of the products from intoxicated products that may eventually turn to be hazardous to the human life (Reed, 2004). To ensure that the law is understood on the way they affect the business, some of the case studies in US are covered. One of them is about the snail oil. The company that was selling noxious tonic s in US in late 1800 ensured that there is need for consumer safety laws. This is because what they sold at that time was health in the human life hen used in small quantities. Nevertheless, some others were poisonous and resulted to very many deaths. Another case that ensured that the law to protect the consumer was paramount was about Kansa Pharmacist who pledged guilty of having diluted chemotherapy drug of around thirty-four people to get profit out of it in 2002.

Environmental protection law: This is a class of law that governs how the companies should behave towards natural environment. It is a core value for the government to protect the natural environments to ensure long time health for its people (Melvin, 2010). This is done to ensure that all the companies comply on the law that protects the environment. It came to being after the companies that were involved made susceptible not to protect the environment. From the year 200, the disposal cost of toxic and nontoxic waste increased significantly.

Laws related to public interest that affect business environment: There are laws that have been put in place to ensure that by compliance by the business sectors they will benefit the public. public interest are set standard that are put in place by the legal bodies or by the court to ensure that certain business actions are evaluated according to their appropriateness and brought into a control (McGraw-Hill, 2002). Private's benefits area measured against effects that are caused to the public at large by company pursuing a certain course of actions. If certain course of actions is thought by the court or judges that they will reduce the public welfare, it will not matter the way the private companies will benefit. These actions are termed to be illegal.

Laws governing diversity: This law ensure that a level playing ground ahs been put in place for all the company. It ensures that there are standardized hiring, promoting and retention of the people in the company according to the qualification of the people. It also ensures that it postulate the way the lay off employees should be done without affecting them. It gives the procedures that should be done to ensure that the process is due and can be understood. Failure to compliance to this law where the company tends to be discriminatory to its employees, it can be highly fined.

Health and safety promoting laws: There are various laws that govern the company on the way they should protect the health and safety of their people at work. In United State, Department of Labour occupational Safety and Health Organization are agencies that responsible for the enacting of these laws. The companies invest heavily to ensure that they comply with this law. They offer their employees medical covers as well as safety equipment to ensure that they are safe.

FORMS OF BUSINESS ORGANIZATION: A business entity is an organization that uses economic resources or inputs to provide goods or services to customers in exchange for money or other goods and services. Business organizations come in different types and different forms of ownership. These are the basic forms of business ownership:

I. **Sole Proprietorship:** A sole proprietorship is a business owned by only one person. It is easy to set-up and is the least costly among all forms of ownership. The owner faces unlimited liability; meaning, the creditors of the business may go after the personal assets of the owner if the business cannot pay them. The sole proprietorship form is usually adopted by small business entities.

Advantages of a Sole Proprietorship

a. Easiest and least expensive form of ownership to organize.
b. Sole proprietors are in complete control, and within the parameters of the law, may make decisions as they see fit.
c. Profits from the business flow-through directly to the owner's personal tax return.
d. The business is easy to dissolve, if desired.

Disadvantages of a Sole Proprietorship

a. Sole proprietors have unlimited liability and are legally responsible for all debts against the business. Their business and personal assets are at risk.
b. May be at a disadvantage in raising funds and are often limited to using funds from personal savings or consumer loans.
c. May have a hard time attracting high-calibre employees, or those that are motivated by the opportunity to own a part of the business.
d. Some employee benefits such as owner's medical insurance premiums are not directly deductible from business income (only partially as an adjustment to income).

II. **Partnership:** A partnership is a business owned by two or more persons who contribute resources into the entity. The partners divide the profits of the business among themselves. In general partnerships, all partners have unlimited liability. In limited partnerships, creditors cannot go after the personal assets of the limited partners.

Advantages of a Partnership

a. Partnerships are relatively easy to establish; however time should be invested in developing the partnership agreement.
b. With more than one owner, the ability to raise funds may be increased.
c. The profits from the business flow directly through to the partners' personal tax return.
d. Prospective employees may be attracted to the business if given the incentive to become a partner.
e. The business usually will benefit from partners who have complementary skills.

Disadvantages of a Partnership

a. Partners are jointly and individually liable for the actions of the other partners.
b. Profits must be shared with others.
c. Since decisions are shared, disagreements can occur.
d. Some employee benefits are not deductible from business income on tax returns.
e. The partnership may have a limited life; it may end upon the withdrawal or death of a partner.

Types of Partnerships that should be considered:

1. **General Partnership:** Partners divide responsibility for management and liability, as well as the shares of profit or loss according to their internal agreement. Equal shares are assumed unless there is a written agreement that states differently.
2. **Limited Partnership:** Partnership with limited liability "Limited" means that most of the partners have limited liability (to the extent of their investment) as well as limited input regarding management decision, which generally encourages investors for short term projects, or for investing in capital assets. This form of ownership is not often

used for operating retail or service businesses. Forming a limited partnership is more complex and formal than that of a general partnership.

3. **Joint Venture:** Acts like a general partnership, but is clearly for a limited period of time or a single project. If the partners in a joint venture repeat the activity, they will be recognized as an ongoing partnership and will have to file as such, and distribute accumulated partnership assets upon dissolution of the entity.

III. **Corporation:** A corporation is a business organization that has a separate legal personality from its owners. Ownership in a stock corporation is represented by shares of stock. The owners (stockholders) enjoy limited liability but have limited involvement in the company's operations. The board of directors, an elected group from the stockholders, controls the activities of the corporation. In addition to those basic forms of business ownership, these are some other types of organizations that are common today:

Advantages of a Corporation

a. Shareholders have limited liability for the corporation's debts or judgments against the corporation.
b. Generally, shareholders can only be held accountable for their investment in stock of the company. (Note however, that officers can be held personally liable for their actions, such as the failure to withhold and pay employment taxes.
c. Corporations can raise additional funds through the sale of stock.
d. A Corporation may deduct the cost of benefits it provides to officers and employees.
e. Can elect S Corporation status if certain requirements are met. This election enables company to be taxed similar to a partnership.

Disadvantages of a Corporation

a. The process of incorporation requires more time and money than other forms of organization.
b. Corporations are monitored by federal, state and some local agencies, and as a result may have more paperwork to comply with regulations.
c. Incorporating may result in higher overall taxes. Dividends paid to shareholders are not deductible from business income; thus this income can be taxed twice.

Subchapters Corporation: A tax election only; this election enables the shareholder to treat the earnings and profits as distributions, and have them pass through directly to their personal tax return. The catch here is that the shareholder, if working for the company, and if there is a profit, must pay his/herself wages, and it must meet standards of "reasonable compensation". This can vary by geographical region as well as occupation, but the basic rule is to pay yourself what you would have to pay someone to do your job, as long as there is enough profit. If you do not do this, the IRS can reclassify all of the earnings and profit as wages, and you will be liable for all of the payroll taxes on the total amount.

IV. **Limited Liability Company:** Limited liability companies (LLCs) in the USA, are hybrid forms of business that have characteristics of both a corporation and a partnership. An LLC is not incorporated; hence, it is not considered a corporation. Nonetheless, the owners enjoy limited liability like in a corporation. An LLC may elect to be taxed as a sole proprietorship, a partnership, or a corporation.

V. **Cooperative:** A cooperative is a business organization owned by a group of individuals and is operated for their mutual benefit. The persons making up the group are called members. Cooperatives may be incorporated or unincorporated. Some examples of cooperatives are: water and electricity (utility) cooperatives, cooperative banking, credit unions, and housing cooperatives.

Federal Tax Forms for LLC: Taxed as a partnership in most cases; corporation forms must be used if there are more than 2 of the 4 corporate characteristics, as described above. In summary, deciding the form of ownership that best suits your business venture should be given careful consideration. Use your key advisors to assist you in the process.

QUESTIONS FOR DISCUSSION

1. What are the different laws that affect business?
2. What are the different types of business organisation?
3. What are the different types of Partnership firm

CHAPTER 8

ENVIRONMENTAL POLLUTION CONTROL AND PREVENTION

Over the course of the twentieth century, growing recognition of the environmental and public health impacts associated with anthropogenic activities (discussed in the chapter Environmental Health Hazards) has prompted the development and application of methods and technologies to reduce the effects of pollution. In this context, governments have adopted regulatory and other policy measures (discussed in the chapter Environmental Policy) to minimize negative effects and ensure that environmental quality standards are achieved.

The objective of this chapter is to provide an orientation to the methods that are applied to control and prevent environmental pollution. The basic principles followed for eliminating negative impacts on the quality of water, air or land will be introduced; the shifting emphasis from control to prevention will be considered; and the limitations of building solutions for individual environmental media will be examined. It is not enough, for example, to protect air by removing trace metals from a flue gas only to transfer these contaminants to land through improper solid waste management practices. Integrated multimedia solutions are required.

The Pollution Control Approach: The environmental consequences of rapid industrialization have resulted in countless incidents of land, air and water resources sites being contaminated with toxic materials and other pollutants, threatening humans and ecosystems with serious health risks. More extensive and intensive use of materials and energy has created cumulative pressures on the quality of local, regional and global ecosystems.

Before there was a concerted effort to restrict the impact of pollution, environmental management extended little beyond laissez-faire tolerance, tempered by disposal of wastes to avoid disruptive local nuisance conceived of in a short-term perspective. The need for remediation was recognized, by exception, in instances where damage was determined to be unacceptable. As the pace of industrial activity intensified and the understanding of cumulative effects grew, a pollution control paradigm became the dominant approach to environmental management.

Two specific concepts served as the basis for the control approach:

1. The assimilative capacity concept, which asserts the existence of a specified level of emissions into the environment which does not lead to unacceptable environmental or human health effects.
2. The principle of control concept, which assumes that environmental damage can be avoided by controlling the manner, time and rate at which pollutants enter the environment

Under the pollution control approach, attempts to protect the environment have especially relied on isolating contaminants from the environment and using end-of-pipe filters and scrubbers. These solutions have tended to focus on media-specific environmental quality objectives or emission limits, and have been primarily directed at point source discharges into specific environmental media (air, water, soil).

Applying Pollution Control Technologies: Application of pollution control methods has demonstrated considerable effectiveness in controlling pollution problems - particularly those of a local character. Application of appropriate technologies is based on a systematic analysis of the source and nature of the emission or discharge in question, of its interaction with the ecosystem and the ambient pollution problem to be addressed, and the development of appropriate technologies to mitigate and monitor pollution impacts.

Dietrich Schwela and Berenice Goelzer explain the importance and implications of taking a comprehensive approach to assessment and control of point sources and non-point sources of air pollution. They also highlight the challenges - and opportunities - that are being addressed in countries that are undergoing rapid industrialization without having had a strong pollution control component accompanying earlier development.

Marion Wichman-Fiebig explains the methods that are applied to model air pollutant dispersion to determine and characterize the nature of pollution problems. This forms the basis for understanding the controls that are to be put into effect and for evaluating their effectiveness. As the understanding of potential impacts has deepened, appreciation of effects has expanded from the local to the regional to the global scale.

Hans-Ulrich Pfeffer and Peter Bruckmann provide an introduction to the equipment and methods that are used to monitor air quality so that potential pollution problems can be assessed and the effectiveness of control and prevention interventions can be evaluated.

John Elias provides an overview of the types of air pollution controls that can be applied and the issues that must be addressed in selecting appropriate pollution control management options.

The challenge of water pollution control is addressed by Herbert Preul in an article which explains the basis whereby the earth’s natural waters may become polluted from point, non-point and intermittent sources; the basis for regulating water pollution; and the different criteria that can be applied in determining control programmes. Preul explains the manner in which discharges are received in water bodies, and may be analysed and evaluated to assess and manage risks. Finally, an overview is provided of the techniques that are applied for large-scale wastewater treatment and water pollution control.

A case study provides a vivid example of how wastewater can be reused - a topic of considerable significance in the search for ways that environmental resources can be used effectively, especially in circumstances of scarcity. Alexander Donagi provides a summary of the approach that has been pursued for the treatment and groundwater recharge of municipal wastewater for a population of 1.5 million in Israel.

Ecosystem: The idea of an ecosystem has been adopted for social and economic systems. An "ecosystem" is the environment that a company is part of, including suppliers, partners, consumers, and the underlying structure and behaviour of the technology, markets and social context. Framing economic interactions as being an ecosystem promotes establishing alliances with companies that might have been seen as competitors. There are many possible economic relationships, just as there are many possible relationships between organisms in a biological ecosystem.

Business ecosystem: The network of organizations – including suppliers, distributors, customers, competitors, government agencies and so on – involved in the delivery of a specific product or service through both competition and cooperation. The idea is that each business in the "ecosystem" affects and is affected by the others, creating a constantly evolving relationship in which each business must be flexible and adaptable in order to survive, as in a biological ecosystem.

Business Ecosystem Application in Business

1. **Complexity:** Complexity refers to "systems with many different parts which, by a rather mysterious process of self-organization, become more ordered and more informed than systems which operate in approximate thermodynamic equilibrium with their surroundings". On the other hand, "complex systems contain many relatively independent parts which are highly interconnected and interactive".
2. **Self-organization:** Self-organization has not been defined unambiguously in literature. Thus, the definition must be drawn from the features and functions that are reported relating to self-organization. Self-organization concerns ability of complex

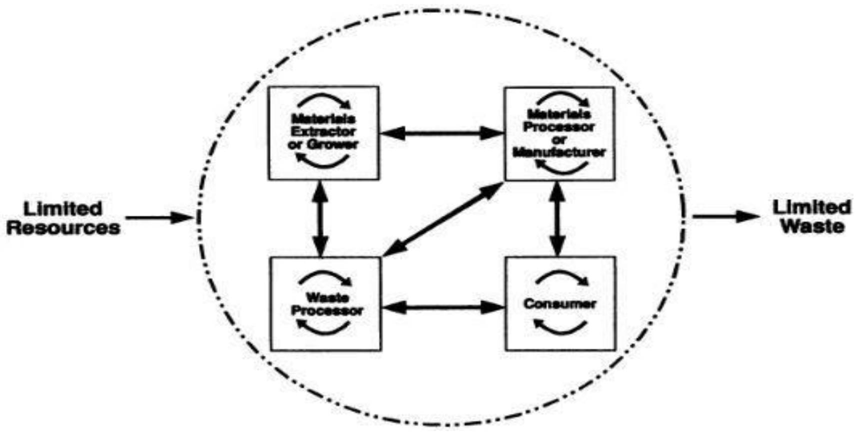
systems to create new order and coherence. She refers to Kauffman's view on spontaneous order; he calls it self-organization, which is one of the key characteristics of complex systems.

3. **Emergence:** Emergence, self-organization, evolution and adaptation are closely linked to each other, which may cause confusion of the individual significance of each concept. Frankly, emergent properties are the result of self-organization, while adaptation links these properties to the environment, and evolution concerns their long-term achievements. There is still something, which could be sharpened and it is the objectivity in terms of recognizing this phenomenon. If emergence is defined by unexpectedness, it raises a question about subjective observer, who expects something to happen and something not to happen. This problem is present with some other definitions as well, because they mention unpredictability as an aspect of emergent phenomena.
4. **Co-evolution:** Co-evolution appears in business ecosystems as the evolution of one company affecting the evolution of other companies. An example of that is the classical case of microprocessors and software. While microprocessor producers develop more efficient processors, the software producers quickly make use of the new opportunities and the software becomes heavier, which causes pressure to develop even more efficient processors. Also strategic changes of one company affect strongly to possibilities of other companies in its ecosystem. This is why managers should consider the broad impact of their decisions over the whole ecosystem.
5. **Adaptation:** Adaptation can be criticized for the passive role of environment. Adapting always means adapting to something, and it incorporates the thought that the adapting unit is not capable of having an effect on its environment. This is why some authors, including Mitleton-Kelly, use rather solely concepts of evolution and co-evolution. The whole ecosystem adapts to the external constraints. For example governmental restrictions, taxes and tariffs are those constraints, which are set by the other party and are not very likely to change by co-evolution. When the environment changes, a business ecosystem adapts to changed conditions by emergence, co-evolution and self-organization.

Industrial ecology: Industrial Ecology is the study of industrial systems aimed at identifying and implementing strategies that reduce their environmental impact. Industries, such as manufacturing and energy plants, extract raw materials and natural resources from the earth and transform them into products and services that meet the demands of the population.

Industrial ecology was developed as a way to better understand the impact industry has on the environment. Therefore, industrial ecologists, or those who study industrial ecology, work to understand the industrial systems that are in place and find ways to use fewer natural resources and find new uses for waste materials or by products.

Industrial ecologists approach problems with the mindset that industrial systems can become more efficient and sustainable if the problems are looked at from all directions. Therefore, it is right to think of industrial ecology as a multidisciplinary field that combines aspects of economics, engineering, sociology, technology and environmental science.



Recycling industry: Businesses and industries create large amounts of waste in their daily activities. Reducing the amount of rubbish created at work through methods such as recycling will benefit the business as well as the environment. Waste disposal costs are greatly reduced through recycling and ultimately, less waste ends up in landfills.

Advice on Waste Reduction

- Find out about waste collection services in your area by contacting your local council.
- If there are no collection services for businesses in your area, work with staff to organize recycling schemes where materials are collected and transported to suitable recycling sites.
- Work with suppliers to organize transportation of goods in reusable containers that use less packaging.

- Materials that produce large volumes of waste should be the main targets for recycling.
- Use refillable dispensers in the work place opposed to individual disposable ones, such as water dispensers.

LAWS AND DIRECTIVES

Directive on Batteries

- The European Commission issued this directive in March 2001.
- Aims to increase the recycling of batteries.
- Batteries that have more than 5ppm of cadmium by weight are banned.
- Systems should be set up whereby old batteries can be returned for free, where they will be recycled.
- 55% of all batteries that are collected should be recycled.
- Consumers must be informed about eco-friendly batteries.

Kyoto Agreement

- The Kyoto protocol was agreed in December 1997.
- Aims to reduce the emission of harmful greenhouse gasses.
- The UK must reduce its current emissions by 12.5%.

ELVs Directive

- The European Commission issued the End of Life Vehicles Directive in September 2000.
- Aims to increase the recycling of vehicles.
- By 2007, all vehicles should be accepted for recycling by treatment facilities free of charge.
- By 2006, 85% of ELVs should be recycled. By 2015, 95% of ELVs should be recycled.

Landfill Directive

- The EC Landfill Directive came into force in the UK in June 2002.
- Aims to reduce the amount of waste sent to landfill sites.
- Landfills should be split up into 3 groups:
    - Hazardous
    - Non-hazardous

- Inert Waste

- Specifies a ban on certain waste products entering landfills.
- Waste acceptance criteria must be met before materials are deposited in landfills.

Ozone Depletion Chemicals Regulations

- The latest of these regulations were introduced in June 2000.
- Aims to reduce the amount of ozone depletion chemicals released into the atmosphere.
- Ozone depletion chemicals include:
    - Chlorofluorocarbons (CFCs)
    - Hydrocholorofluorocarbons (HCFCs)
    - Hydrobromoflourocarbons (HBFCs)
    - Sulphur dioxide
    - Nitrogen oxides
- It is illegal to dispose of fridges and freezers without firstly destroying the ozone depletion chemicals within them.

Packaging Waste Directive

- The European Commission issued this directive in 1994.
- Aims to reduce and recover packaging waste.
- Member states must implement a system for recycling packaging materials.
- European Commission targets for packaging recycling in 2008 are as follows:
    - Glass – 71%
    - Paper – 70%
    - Aluminium – 35.5%
    - Steel – 61.5%
    - Plastic – 23.5%
    - Wood – 21%
- An overall recovery target of 70% should be reached by 2008.

Special Waste Regulations

- The latest of these regulations were introduced in 1996.
- Aims of reduction and better handling of hazardous waste materials.
- With the exception of household waste, the movement of hazardous waste must be tracked until it reaches its destination.
- To find further information of handling hazardous waste in your region, contact:

- The Environment Agency (England and Wales)
- Scottish Environment Protection Agency (Scotland)
- Environment and Heritage Service (N Ireland)

QUESTION FOR DISCUSSION

1. Give the approaches for controlling Pollution.
2. Explain the concept of Ecosystem and Business Ecosystem
3. Give a note on the Recycling Industry.

UNIT - V
CHAPTER 9
INTERNATIONAL BUSINESS

International Business conducts business transactions all over the world. These transactions include the transfer of goods, services, technology, managerial knowledge, and capital to other countries. International business involves exports and imports. International Business is also known, called or referred as a Global Business or an International Marketing.

An international business has many options for doing business, it includes,

1. Exporting goods and services.
2. Giving license to produce goods in the host country.
3. Starting a joint venture with a company.
4. Opening a branch for producing & distributing goods in the host country.
5. Providing managerial services to companies in the host country.

Features of International Business: The nature and **characteristics** or features of international business are:-

1. **Large scale operations**: In international business, all the operations are conducted on a very huge scale. Production and marketing activities are conducted on a large scale. It first sells its goods in the local market. Then the surplus goods are exported.
2. **Integration of economies**: International business integrates (combines) the economies of many countries. This is because it uses finance from one country, labour from another country, and infrastructure from another country. It designs the product in one country, produces its parts in many different countries and assembles the product in another country. It sells the product in many countries, i.e. in the international market.
3. **Dominated by developed countries and MNCs**: International business is dominated by developed countries and their multinational corporations (MNCs). At present, MNCs from USA, Europe and Japan dominate (fully control) foreign trade. This is because they have large financial and other resources. They also have the best

technology and research and development (R & D). They have highly skilled employees and managers because they give very high salaries and other benefits. Therefore, they produce good quality goods and services at low prices. This helps them to capture and dominate the world market.

4. **Benefits to participating countries**: International business gives benefits to all participating countries. However, the developed (rich) countries get the maximum benefits. The developing (poor) countries also get benefits. They get foreign capital and technology. They get rapid industrial development. They get more employment opportunities. All this results in economic development of the developing countries. Therefore, developing countries open up their economies through liberal economic policies.
5. **Keen competition**: International business has to face keen (too much) competition in the world market. The competition is between unequal partners i.e. developed and developing countries. In this keen competition, developed countries and their MNCs are in a favourable position because they produce superior quality goods and services at very low prices. Developed countries also have many contacts in the world market. So, developing countries find it very difficult to face competition from developed countries.
6. **Special role of science and technology**: International business gives a lot of importance to science and technology. Science and Technology (S & T) help the business to have large-scale production. Developed countries use high technologies. Therefore, they dominate global business. International business helps them to transfer such top high-end technologies to the developing countries.
7. **International restrictions**: International business faces many restrictions on the inflow and outflow of capital, technology and goods. Many governments do not allow international businesses to enter their countries. They have many trade blocks, tariff barriers, foreign exchange restrictions, etc. All this is harmful to international business.
8. **Sensitive nature**: The international business is very sensitive in nature. Any changes in the economic policies, technology, political environment, etc. have a huge impact on it. Therefore, international business must conduct marketing research to find out and study these changes. They must adjust their business activities and adapt accordingly to survive changes.

Importance of International Business: The economic importance of international business is discussed below.

The points below highlight the importance of international business:

1. **Earn foreign exchange**: International business exports its goods and services all over the world. This helps to earn valuable foreign exchange. This foreign exchange is used to pay for imports. Foreign exchange helps to make the business more profitable and to strengthen the economy of its country.
2. **Optimum utilisation of resources**: International business makes optimum utilisation of resources. This is because it produces goods on a very large scale for the international market. International business utilises resources from all over the world. It uses the finance and technology of rich countries and the raw materials and labour of the poor countries.
3. **Achieve its objectives**: International business achieves its objectives easily and quickly. The main objective of an international business is to earn high profits. This objective is achieved easily. This it because it uses the best technology. It has the best employees and managers. It produces high-quality goods. It sells these goods all over the world. All this results in high profits for the international business.
4. **To spread business risks**: International business spreads its business risk. This is because it does business all over the world. So, a loss in one country can be balanced by a profit in another country. The surplus goods in one country can be exported to

another country. The surplus resources can also be transferred to other countries. All this helps to minimise the business risks.

5. **Improve organisation's efficiency**: International business has very high organisation efficiency. This is because without efficiency, they will not be able to face the competition in the international market. So, they use all the modern management techniques to improve their efficiency. They hire the most qualified and experienced employees and managers. These people are trained regularly. They are highly motivated with very high salaries and other benefits such as international transfers, promotions, etc. All this results in high organisational efficiency, i.e. low costs and high returns.
6. **Get benefits from Government**: International business brings a lot of foreign exchange for the country. Therefore, it gets many benefits, facilities and concessions from the government. It gets many financial and tax benefits from the government.
7. **Expand and diversify**: International business can expand and diversify its activities. This is because it earns very high profits. It also gets financial help from the government.
8. **Increase competitive capacity**: International business produces high-quality goods at low cost. It spends a lot of money on advertising all over the world. It uses superior technology, management techniques, marketing techniques, etc. All this makes it more competitive. So, it can fight competition from foreign companies.

Types of International Business:-

Six Types of International Business: International business refers to any business activities conducted across national boundaries. There are number of ways to internationalizing the business. Business can choose among these five basic activities to start.

1. **Importing & exporting**: Imports: a good or service brought into one country from another. Exports: a good or service produced in one country then get marketed to other country. Import-export is the most fundamental and the largest international business activity, and it is often the first choice when the businesses decide to expand abroad as it is the easiest way to enter the market with a small outlay of capital.
2. **Licensing:** Licensing is one of other ways to expand the business internationally. Licensing is the arrangement between a firm, called licensor, allows another one to use its intellectual property such as brand name, copy right, patent, technology,

trademark and so on for a specific period of time. The licensor gets benefits in term of the royalty. The company may choose to sell the products under the licensing when the domestic production costs are too high, strict government regulations, or the company wants to sell and produce standardized products everywhere.

3. **Franchising:** Franchising is closely related to licensing. Franchising is a parent company (franchiser) gives right to another company (franchisee) to do business using the franchiser's name and products in a prescribed manner. Franchising is different from the licensing in terms of the franchisees have to follow much stricter guidelines. Moreover, licensing is more about the manufacturers while franchising is more popular with restaurants, hotels, and rental services. For example, McDonald, KFC, Pizza Hut and so on.
4. **Strategic partnerships & Joint venture:** A strategic partnership or alliance is a positive aspect of the cooperation of two or more companies in different countries are joined together for mutual gain. A joint venture is a special type of strategic alliance, where the partners across globe collectively found a company to product goods and services. The cooperation between the companies allow them to share the production cost, technologies, development, and sales networks. The resources will be pooled to mutual advantages and put the companies in win-win situations. For example, Motorola and Toshiba joined a strategic partnership to develop manufacturing processes for microprocessors.
5. **5. Foreign direct investment (FDI):** Foreign direct investment is a company's physical investment such as into the building and facilities in the foreign country, and acts as a domestic business with a full scale of activity. Companies practice FDI to get benefits from cheaper labour costs, tax exemptions, and other privileges in that foreign country. The host country will get benefits by the introduction of new products, services, technologies and managerial skills. Also, FDI helps facilitate progressive internal policy reforms of the host country, and enhance the economic situation. For example, Intel, which is United States based company, has made the FDI in many countries in Southeast Asian.
6. **Multi National Corporations (MNC):** A multinational corporation (MNC) or multinational enterprise (MNE) is a corporation registered in more than one country or has operations in more than one country. It is a large corporation which both produces and sells goods or services in various countries. It can also be referred to as

an international corporation. The first multinational corporation was the Dutch East India Company, founded March 20, 1602.

Corporations may make a foreign direct investment. Foreign direct investment is direct investment into one country by a company located in another country. Investors buy a company in the country or expand operations of an existing business in the country.

A corporation may choose to locate in a special economic zone, a geographical region with economic and other laws that are more free-market-oriented than a country's typical or national laws.

Multinational corporations are important factors in the processes of globalization. National and local governments often compete against one another to attract MNC facilities, with the expectation of increased tax revenue, employment and economic activity. To compete, political powers push toward greater autonomy for corporations. MNCs play an important role in developing economies of developing countries.

Many economists argue that in countries with comparatively low labour costs and weak environmental and social protection, multinationals actually bring about a "race to the top." While multinationals will see a low tax burden or low labour costs as an element of comparative advantage, MNC profits are tied to operational efficiency, which includes a high degree of standardization. Thus, MNCs are likely to adapt production processes in many of their operations to conform to the standards of the most rigorous jurisdiction in which they operate.

As for labour costs, while MNCs pay workers in developing countries far below levels in countries where labour productivity is high (and accordingly, will adopt more labour-intensive production processes), they also tend to pay a premium over local labour rates of 10% to 100%.

Finally, depending on the nature of the MNC, investment in any country reflects a desire for a medium- to long-term return, as establishing a plant, training workers and so on can be costly. Therefore, once established in a jurisdiction, MNCs are potentially vulnerable to arbitrary government intervention like expropriation, sudden contract renegotiation and the arbitrary withdrawal or compulsory purchase of licenses. Thus both the negotiating power of MNCs and the "race to the bottom" critique may be overstated while understating the benefits (besides tax revenue) of MNCs becoming established in a jurisdiction.

EXTERNAL ENVIRONMENT

A business does not operate in a vacuum. It has to act and react to what happens outside the factory and office walls. These factors that happen outside the business are known as external factors or influences. These will affect the main internal functions of the business and possibly the objectives of the business and its strategies.

Main Factors: The main factor that affects most business is the degree of competition how fiercely other businesses compete with the products that another business makes. The other factors that can affect the business are:

1. **Social** – how consumers, households and communities behave and their beliefs. For instance, changes in attitude towards health, or a greater number of pensioners in a population.
2. **Legal** – the way in which legislation in society affects the business. E.g. changes in employment laws on working hours.
3. **Economic** – how the economy affects a business in terms of taxation, government spending, general demand, interest rates, exchange rates and European and global economic factors.
4. **Political** – how changes in government policy might affect the business e.g. a decision to subsidies building new houses in an area could be good for a local brick works.
5. **Technological** – how the rapid pace of change in production processes and product innovation affect a business.
6. **Ethical** – what is regarded as morally right or wrong for a business to do. For instance should it trade with countries which have a poor record on human rights.

Changing External Environment: Markets are changing all the time. It does depend on the type of product the business produces, however a business needs to react or lose customers. Some of the main reasons why markets change rapidly:

1. Customers develop new needs and wants.
2. New competitors enter a market.
3. New technologies mean that new products can be made.
4. A world or countrywide event happens e.g. Gulf War or foot and mouth disease.
5. Government introduces new legislation e.g. increases minimum wage.

Political Environment: Government actions which affects the operations of a company or business environment. These actions may be on local, regional, national or international level. Business owners and managers pay close attention to the political environment to gauge how government actions will affect their company.

The impact of Political Environment of Economy

The Economic Policies have depended upon the political policies of a political party. In this way political environment of a country has great impact on the business houses. The dominated role of public sector in our country is outcome of 'socialist pattern of society' adopted by the Congress Party. In short, important economic policies such as industrial policy, foreign capital policy, fiscal policy and import policy are often political decisions which established the great impact of political & legal environment on the business houses. A stable and dynamic political environment is indispensable for business growth.

The political institutions i.e. legislature, Executive and Judiciary plays important role in economic policies as well as in development of country whereas the legislature is vested with most vital powers like policy making, budget making and executive control. The decisions of the legislature affect each and every activity of business houses. Legislatures have to check that profit earning is not only justified but also whether the activities of business houses are in a manner beneficial to the society. The other important political institution is the 'Executives of the actual law and policies enforcing agency. What the legislative made in their chamber actually come in force in the hands of executives. In the way the functions of executive also effects the economic development. Sometimes the legislature makes some policies but there is conflict between the executives and business houses about implementation. In case of such conflicts, the judiciary, the third important political institution resolves the conflicts. It is the power of the judiciary to settle legal disputes that effect business considerably. It is therefore necessary to discuss about the impact of political and legal environment on the economy.

Depending upon the nature and stage of development of the economy, the behaviour of the private sector, the political philosophy, social attitudes, administration system etc. it is a universal phenomenon that state controls economy. In the modern era, two most powerful institutions in the society are 'business' and government which meet on common grounds or otherwise together they determine the public policy both foreign and domestic for a nation. But four corner development of a country is only possible if the government plays significant role in the economy of a country. Normally government plays for important roles in an economy and Government regulation of the economy may be broadly divided into two parts; direct and indirect control. The reservation of industries to small scale, public and cooperative sector, licensing system, import and export regulations, the subsidies for different sectors are some examples of regulatory measurements of the governments.

For the development of economy, state/government will have to assume direct responsibility to build up and strengthen the necessary development of infrastructure i.e. transport, power, finance, marketing and institutions for training and guidance along with other promotional activities.

A well planned economy may lead to a country on the path of development. State especially plays important role in planning economy. How to use resources the achieve the goal within the time frame set etc. are the basic needs for proper development of economy and proper planning is most important tool for the same. Sometimes to boost-up the economic development government plays the role of entrepreneur. It establishes the business enterprises and bears the risks. Dominating trend of public sector is basic ingredient of under developed countries. But recently many governments have resorted to privatization.

Cultural Environment: The activities of humans and their relationship with their environments now and in days of old are visible in the cultural environment. The cultural environment consists of relics, the cultivated environment, scenery and traditional biotopes. It is protected by means of legislation, collaboration between environmental and cultural administration, and the actions of citizens.

The National Board of Antiquities takes part in preserving, maintaining and developing the continuously changing cultural environs. To support the planning of land usage, the National Board of Antiquities also releases statements related to archaeological culture heritage, built heritage and the cultural landscape, as well as developing methods for protection, maintenance and repairs and spreading knowledge about the values and opportunities connected with cultural environments.

Environment and Human Culture: This concentration focuses on the diverse and complex ways in which culture and environment intersect, considering both historical traditions and contemporary institutions. Cultures have profound impacts on human perceptions of and engagements with the other-than-human. Human responses to landscapes or ecosystems, plants or animals, animate or inanimate features of the environment are shaped by technology, language, media, and a range of cultural assumptions and institutions, while environmental factors have their own shaping influence. These intersections vary greatly among cultures and among historical periods, and understanding their dynamics varies greatly among academic disciplines. This cluster of courses is representative of work which can be done.

Interaction of Human Culture and the Environment: In the mid 1970's and early 1980's, the field of clinical psychology underwent a revolution with the emergence of family therapy. Therapists initially understood disorders as being the result of a linear chain of causality. For instance, one theory of schizophrenia held that the disorder resulted from exposure to a certain pattern of behaviour on the part of the patient's mother. Mothers of schizophrenics were often found to be particularly cold, unresponsive, dominant, and conflict-inducing towards their children. Researchers argued that such "schizophrenogenic" behaviour was the direct cause of the disorder. Successful treatment, then, required the patient and mother to examine their relationship and seek out better, more positive methods of interaction.

Family therapists, however, then began to realize that the aetiology of the disorder was far more complex than simply the mother inducing the disorder within the child. The schizophrenic and the mother were enmeshed within a complex system of interactions both within, as well as outside, the family. Thus, the schizophrenic was affected by both his mother and father, the schizophrenic himself had an impact on his parents, the father and mother affected each other through their marital relationship, and social and cultural norms had an overall impact on all members of the family.

Family systems researchers realized that these various relationships were constantly changing, and that each one had a significant effect on the others. Problems within the family were now understood in terms of circular causality rather than linear. For instance, it might very well be true that the schizophrenic's mother is cold, conflict-inducing, and unresponsive towards him. It is also true, however, that the schizophrenic manifests very bizarre behaviour, such as hearing voices, acting on paranoid impulses, hallucinating, and displaying inappropriate (or flat) emotional responses. These behaviours would certainly affect the mother, as she would be stressed and deeply concerned for her child's well being. The mother might also be affected by a strained marital relationship with her husband, which itself might be negatively impacted by the child's schizophrenic behaviour.

Finally, the family might be negatively affected by the society in which they live, as their neighbours or colleagues might view them as outcasts and purposely isolate them because of their child's inappropriate behaviour. Ultimately, this series of negative interactions may result in a feedback loop, in which maladaptive behaviour is amplified and the child's schizophrenic behaviour worsens.

QUESTIONS FOR DISCUSSION

1. What do you mean by International Business? Explain its importance.
2. What are the different types of International Business?
3. What are the different components of Business Environment in International area?

CHAPTER 10
INTERNATIONAL TRADE AND WTO

Government Influence on Trade And Investment

International trade is affected by a number of factors including, in particular' the government policies. The economic policies, in general, may affect the foreign trade. The trade policy and regulations have a direct bearing on the trade. While governments endeavour to promote exports, imports in many cases are hit by protectionism or trade barriers.

The Foreign Trade (Development and Regulation) Act, 1992: This Act which replaced the Imports and Exports (Control) Act, 1947, came into force on June 19, 1992. Besides the FTDR Act, there are some laws which control the trade in certain items. For instance, the export of antiquities is regulated under the Antiquities and Art Treasures Act 1972; export of coffee is regulated by the Coffee Board under the Indian Coffee Act 1942; export of tea is regulated under Tea Act, 1953, etc. The export and import of currency notes, bank notes and coins were controlled by the Reserve Bank of India under the Foreign Exchange Management Act (FEMA), 1999.The FTDR Act lays down that no export or import shall be made by any person except in accordance with the provisions of this Act, the orders and rules made under this Act and the export and import policy.

Objective: The objective of the Act is to provide for the development and regulation of foreign trade by facilitating imports into, and augmenting exports from India and for matters connected therewith or incidental there to. A drastic and welcome change in the attitude of the government is reflected in the statement of objective of the new law, the Foreign Trade (Development and Regulation) Act, 1992, which has replaced the Imports and Exports (Control) Act, 1947. The objective of this Act is to provide for the development and regulation of foreign trade by facilitating imports into, and augmenting exports from India and formatters connected there with or incidental thereto. Contrast this with the objective of the 1947 Act: to prohibit or control imports and exports. The objective of the new Act reflects a positive and dynamic attitude in contrast to the negative attitude of the old Act.

However, the bureaucracy is yet to imbibe the spirit of the new attitude which is laid down in the paper'

Main Provisions: The main provisions of the FTDR Act are the following: Development and Regulation: The FTDRA empowers the Central Government to make provision for the development and regulation of foreign trade by facilitating imports and increasing exports. Prohibition and Restriction: The Act also empowers the Central Government to take provisions for prohibiting, restricting or otherwise regulating the import or export of goods and when required. All goods which are so regulated under this sub-section shall be deemed to be goods the import or export of which has been prohibited under Section 11 of the Customs Act, I96Z, and all the provisions of that Act shall have effect accordingly.

Investment Patterns:

1. **Natural resource-seeking investment:** As its denomination suggests, natural resource-seeking investment takes place by the motivation of firms to secure access to certain natural resources that are located in the host country. The firm may be seeking access to resources that it cannot obtain in its home country, or which are available at lower cost and better terms than in the home country. Natural resource-seeking FDI may take place in non-renewable resources—such as oil, gas, and mineral resources—or potentially renewable resources such as agriculture, fisheries, and forestry.
2. **Market-seeking investment:** Market-seeking investment is motivated by the potential to deliver goods and services to individuals, businesses, and other entities within the host state. Also known as 'demand oriented', today this kind of investment arises both in goods and services. In relation to goods, market-seeking investment often occurs in sectors where the product must be fresh (e.g. foodstuffs) or is too difficult, heavy, or expensive to transport cost-effectively (e.g. beverages). If the product can be produced cost-effectively in smaller quantities it is more likely to be a target for market-seeking investment than a product that can be transported easily and yields substantial economies of scale in production.
3. **Efficiency-seeking investment:** Efficiency-seeking investment is the result of the emergence of patterns of international production, and the surge of global value chains. As will be further explained in Section III below, the liberalization of trade in manufactured goods made possible by the implementation of GATT between 1950s and 1980s, and the huge competitive pressure that such liberalization exerted over multinational firms to come up with more efficient production strategies, has a lot to do with the birth of this type of FDI. Efficiency-seeking investment is motivated by the investor's need to locate part of its productive process in one or more countries in order to maintain a competitive position not in those markets, but in international ones

4. **Strategic asset-seeking investment:** Strategic asset-seeking investment occurs when a multinational enterprise enters a market motivated to acquire strategic assets, usually intangible—such as a brand, know how, or network of suppliers—that will provide a key competitive advantage to the firm in a given market. In this article, we distinguish between two types of strategic asset-seeking investment. First, there is investment motivated by the need to acquire or control an asset of another firm—which generally results in a merger or acquisition. These assets are 'unique, intangible, and organizationally-embedded', such as brand assets, managerial know-how, or advanced technology. This is by far the most common form of strategic-asset FDI and the focus of our analysis in this article.
5. **Financial Environment**: A financial environment is a part of an economy with the major players being firms, investors, and markets. Essentially, this sector can represent a large part of a well-developed economy as individuals who retain private property have the ability to grow their capital. Firms are any businesses that offer goods or services to consumers. Investors are individuals or businesses that place capital into businesses for financial returns. Markets represent the financial environment that makes this all possible.

Historically, firms were very small or even nonexistent in economies or financial markets. Though a few firms have always been in existence, the ability for a large number of firms was not possible until markets became more mature. Mature markets allow for more access to resources necessary to produce goods and services. As firms begin to grow, expand, and multiply, higher capital needs to persist in order for firms to succeed. Capital sources include money from outside parties, such as investors.

Many times investors are individuals who have more capital than is necessary to provide a sufficient living standard. Any excess capital can actually make individuals more money if they invest the funds into a firm that offers a financial return. This symbiotic relationship in the financial environment allows both parties to increase their capital. Many different factors play a role for individuals making investments. A few of these may include risk, current market conditions, and competition, among others.

Institutions in International Financial System: There are a number of institutions who are part of the international financial system. These institutions can be classified into the following categories:

1. National banks and domestic financial institutions which deal in foreign currencies and foreign credits.
2. International brokers of repute.
3. Regional or multi-national banks or corporations dealing in international markets and borrowing/ lending in these markets.
4. Regional Finance and Development Corporations and banks such as the Asian Development Bank, Commonwealth Finance Corporation, Latin American Development Bank, Bank for International Settlements, etc.
5. International financial organizations like International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and International Development Agency (IDA).

Working in a Financial Environment: International financial system relates to the management of and trading in international money and monetary assets. These monetary assets are claims on foreign currency, foreign deposits and investments and/or foreign assets. The claims may be denominated in various foreign currencies purchased and sold and involve exchange as between various currencies. Thus, these transactions give rise to

1. Borrowing and lending operations in foreign currencies or trading in financial assets denominated in foreign currencies and
2. A foreign exchange transaction involving an exchange of one currency for another. The first is called the foreign currency market and the second is the foreign exchange market.

Foreign Exchange Market: International economic and commercial relations between countries involve exchange of goods and services and payments for these exchanges. The payments lead to conversion of one currency into another. Each country has its own financial system and its own currency and financial assets. Exchanges between the money and financial assets of one country for money or financial assets of another country constitute international financial transactions. These transactions are put through the foreign exchange market. The demand for any currency as against its supply in such markets determines the exchange rate. These financial assets could be money or near-money assets, cheques, drafts, mail transfers and other negotiable instruments.

International Currency Markets: As an adjunct to the exchange markets, there are international currency markets where internationally accepted currencies, namely, the so-called reserve currencies, are traded. These relate to the deposits of such currencies with international banks at an agreed rate of interest. The excess funds in these reserve currencies owned by countries, institutions and governments having surplus receipts over payments would be lent out to banks and other financial institutions for various durations at a rate of interest. The currencies are in demand for meeting the balance of payments deficits or for investment in fixed capital or for working capital purposes.

Tariff: A tax imposed on imported goods and services. Tariffs are used to restrict trade, as they increase the price of imported goods and services, making them more expensive to consumers. A specific tariff is levied as a fixed fee based on the type of item (e.g., $1,000 on any car). An ad-valorem tariff is levied based on the item's value (e.g., 10% of the car's value). Tariffs provide additional revenue for governments and domestic producers at the expense of consumers and foreign producers. They are one of several tools available to shape trade policy.

Nontariff Barrier: A nontariff barrier is a form of restrictive trade where barriers to trade are set up and take a form other than a tariff. Nontariff barriers include quotas, embargoes, sanctions, levies and other restrictions and are frequently used by large and developed economies. Nontariff barriers are another way for an economy to control the amount of trade that it conducts with another economy, either for selfish or altruistic purposes.

Difference between Tariff and Non-Tariff Barriers

1. With tariffs the Government receives the revenue whereas no revenue is received by the Government by applying non-tariff measures. However, it is favoured as an appropriate measure to meet the demand of the country and to protect the industry.
2. Non-tariff measures protect the procedures and make them feel more secure than under a tariff. But incentives are not there under tariffs.

3. In tariff customer's classification and valuation procedures pose a problem before the customs authorities. Where-as under non-tariff measures no such problem arises.
4. Non-tariff barriers to trade induce the domestic producers to form monopolistic organizations with a view to keeping output low and prices high. This is not possible under import duty. Non-tariff barriers remain ineffective if monopolistic tendencies prevail in the country.
5. Non-tariff measures are flexible than tariff. Imposition of tariff and amendments are subject to legislative enactment.
6. In non-tariff the price differences will be greater in two countries because there is no free flow of imports; but in tariff—price differentiation will be equal to the cost of tariff and transportation between exporting and importing countries.
7. Tariffs are simple to operate. Tariff rates once fixed through legislation require no individual allocation of licensing quotas or exchange. For non-tariff measures numbers of authorities are there to administer. It may result in political interference or corruption.
8. Tariff favours particularly to efficient firms in the country but non-tariff measures benefit established firm because they get quotas or import licenses.
9. Non-tariffs discriminate against new-comers but tariff do not discriminate.

Different types of Tariff and Non-Tariff Barriers

Tariff Barriers : Tariff is a customs duty or a tax on products that move across borders. The most important of tariff barriers is the customs duty imposed by the importing country. A tax may also be imposed by the exporting country on its exports. However, governments rarely impose tariff on exports, because, countries want to sell as much as possible to other countries. The main important tariff barriers are as follows:

1. **Specific Duty:** Specific duty is based on the physical characteristics of goods. When a fixed sum of money, keeping in view the weight or measurement of a commodity, is levied as tariff, it is known as specific duty.

   For instance, a fixed sum of import duty may be levied on the import of every barrel of oil, irrespective of quality and value. It discourages cheap imports. Specific duties are easy to administer as they do not involve the problem of determining the value of imported goods. However, a specific duty cannot be levied on certain articles like works of art. For instance, a painting cannot be taxed on the basis of its weight and size.

2. **Ad valorem Duty:** These duties are imposed “according to value.” When a fixed percent of value of a commodity is added as a tariff it is known as ad valorem duty. It ignores the consideration of weight, size or volume of commodity.The imposition of ad valorem duty is more justified in case of those goods whose values cannot be determined on the basis of their physical and chemical characteristics, such as costly works of art, rare manuscripts, etc. In practice, this type of duty is mostly levied on majority of items.
3. **Combined or Compound Duty:** It is a combination of the specific duty and ad valorem duty on a single product. For instance, there can be a combined duty when 10% of value (ad valorem) and Re 1/- on every meter of cloth is charged as duty. Thus, in this case, both duties are charged together.
4. **Sliding Scale Duty:** The import duties which vary with the prices of commodities are called sliding scale duties. Historically, these duties are confined to agricultural products, as their prices frequently vary, mostly due to natural factors. These are also called as seasonal duties.
5. **Countervailing Duty:** It is imposed on certain imports where products are subsidised by exporting governments. As a result of government subsidy, imports become more cheaper than domestic goods. To nullify the effect of subsidy, this duty is imposed in addition to normal duties.
6. **Revenue Tariff:** A tariff which is designed to provide revenue to the home government is called revenue tariff. Generally, a tariff is imposed with a view of earning revenue by imposing duty on consumer goods, particularly, on luxury goods whose demand from the rich is inelastic.
7. **Anti-dumping Duty:** At times, exporters attempt to capture foreign markets by selling goods at rock-bottom prices, such practice is called dumping. As a result of dumping, domestic industries find it difficult to compete with imported goods. To offset anti-dumping effects, duties are levied in addition to normal duties.
8. **Protective Tariff:** In order to protect domestic industries from stiff competition of imported goods, protective tariff is levied on imports. Normally, a very high duty is

imposed, so as to either discourage imports or to make the imports more expensive as that of domestic products.

Non-Tariff Barriers: A non tariff barrier is any barrier other than a tariff that raises an obstacle to free flow of goods in overseas markets. Non-tariff barriers, do not affect the price of the imported goods, but only the quantity of imports. Some of the important non-tariff barriers are as follows:

1. **Quota System:** Under this system, a country may fix in advance, the limit of import quantity of a commodity that would be permitted for import from various countries during a given period. The quota system can be divided into the following categories:

    a. **Tariff/Customs Quota:** Certain specified quantity of imports is allowed at duty free or at a reduced rate of import duty. Additional imports beyond the specified quantity are permitted only at increased rate of duty. A tariff quota, therefore, combines the features of a tariff and an import quota.
    b. **Unilateral Quota:** The total import quantity is fixed without prior consultations with the exporting countries.
    c. **Bilateral Quota:** In this case, quotas are fixed after negotiations between the quota fixing importing country and the exporting country.
    d. **Multilateral Quota:** A group of countries can come together and fix quotas for exports as well as imports for each country.
2. **Product Standards:** Most developed countries impose product standards for imported items. If the imported items do not conform to established standards, the imports are not allowed. For instance, the pharmaceutical products must conform to pharmacopoeia standards.
3. **Domestic Content Requirements:** Governments impose domestic content requirements to boost domestic production. For instance, in the US bailout package (to bailout General Motors and other organizations), the US Govt. introduced 'Buy American Clause' which means the US firms that receive bailout package must purchase domestic content rather than import from elsewhere.
4. **Product Labeling:** Certain nations insist on specific labeling of the products. For instance, the European Union insists on product labeling in major languages spoken in EU. Such formalities create problems for exporters.

5. **Packaging Requirements:** Certain nations insist on particular type of packaging materials. For instance, EU insists on recyclable packing materials, otherwise, the imported goods may be rejected.
6. **Consular Formalities:** A number of importing countries demand that the shipping documents should include consular invoice certified by their consulate stationed in the exporting country.
7. **State Trading:** In some countries like India, certain items are imported or exported only through canalizing agencies like MMTC. Individual importers or exporters are not allowed to import or export canalized items directly on their own.
8. **Preferential Arrangements:** Some nations form trading groups for preferential arrangements in respect of trade amongst themselves. Imports from member countries are given preferences, whereas, those from other countries are subject to various tariffs and other regulations.
9. **Foreign Exchange Regulations:** The importer has to ensure that adequate foreign exchange is available for import of goods by obtaining a clearance from exchange control authorities prior to the concluding of contract with the supplier.
10. **Other Non-Tariff Barriers:** There are a number of other non – tariff barriers such as health and safety regulations, technical formalities, environmental regulations, embargoes, etc.

GATT and WTO

GATT lives on as the foundation of the WTO. Although the 1947 agreement itself is technically defunct, its provisions were incorporated into the GATT 1994 agreement, designed to keep the trade agreements going while the WTO was being set up. The GATT 1994 is itself a component of the WTO Agreement. (Source: "Understanding the WTO: The GATT Years," WTO)

General Agreement on Tariffs and Trade - GATT: The General Agreement on Tariffs and Trade (GATT) was the first world-wide multi-lateral free trade agreement. It was in effect from June 30, 1948, until January 1, 1995, when it was absorbed by the World Trade Organization (WTO).

Purpose: The purpose of GATT was to eliminate the harmful trade protectionism that sent global trade down 65% during the Great Depression. By removing tariffs, it boosted international trade and restored economic health to the world after the devastation of World War II.

History of GATT: GATT grew out of the Bretton Woods Agreement, which created the created the World Bank and the International Monetary Fund (IMF) to coordinate global economic growth. The third organization was to be the highly ambitious International Trade Organization (ITO). The 50 countries that started negotiations wanted it to be an agency within the United Nations that would create rules, not just on trade, but also employment, commodity agreements, business practices, foreign direct investment, and services. The ITO charter was agreed to in March 1948, but the U.S. Congress and some other countries' legislatures, refused to ratify it. In 1950, the Truman Administration declared defeat, ending the ITO.

At the same time, 15 countries focused just on negotiating a trade agreement. They successfully agreed on elimination of trade restrictions affecting $10 billion of trade, or a fifth of the world's total. The deal was signed between 23 countries on October 30, 1947, and put into force on June 30, 1948. Since GATT was technically just an agreement under the provisions of U.S. Reciprocal Trade Act of 1934, and it didn't require the approval of Congress. That's because it was supposed to be replaced by the ITO. Throughout the years, rounds of further negotiations on GATT continued, mostly to further reduce tariffs. In the mid-1960s, the Kennedy Round added an Anti-Dumping Agreement, and the Tokyo Round in the seventies improved other aspects of trade. The Uruguay round lasted from 1986-1994, and created the World Trade Organization (WTO). (Source: "Understanding the WTO: The GATT Years," WTO)

The Role of the WTO in Trade Agreements: Once agreements move beyond the regional level, they usually need help. That's where the World Trade Organization (WTO) steps in. It is an international body helps negotiate global trade agreements. Once in place, the WTO enforces the agreement and responds to complaints.

The WTO currently enforces the GATT or the General Agreement on Tariffs and Trade. The world almost received greater free trade from the next round, known as the Doha Round Trade Agreement. If successful, Doha would have reduced tariffs across the board for all WTO members. Unfortunately, the two most powerful economies refused to budge on a key sticking point. Both the U.S. and the EU resisted lowering farm subsidies. These subsidies made their food export prices lower than those in many emerging market countries. These low food prices would have put many local farmers out of business, sending them to look for jobs in over-crowded urban areas. That doomed the Doha round, and possibly all future world multi-lateral trade agreements.

The failure of Doha allowed China to gain a global trade foothold. It has signed bilateral trade agreements with dozens of countries in Africa, Asia, and Latin America. In return for loans and technical or business support, Chinese companies receive rights to develop the country's oil and other commodities.

Regional Block: In general terms, regional blocks are associations of nations at a governmental level to promote trade within the block and defend its members against global competition. Defence against global competition is obtained through established tariffs on goods produced by member states, import quotas, government subsidies, onerous bureaucratic import processes, and technical and other non-tariff barriers. Since trade is not an isolated activity, member states within regional blocks also cooperate in economic, political, security, climatic, and other issues affecting the region. In terms of their size and trade value, there are four major trade blocks and a larger number of blocks of regional importance.

QUESTIONS FOR DISCUSSION

1. What are the regulations that regulates International Trade?
2. What do you mean by Tariff and Non-tariff barrier? Explain.
3. Give the history of GATT and its relationship with WTO
4. What is the role of WTO in International Trade?

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