BUSINESS ENVIRONMENT

UNIT-1

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WHAT IS BUSINESS

Business is an economic activity which is related with continuous production of good and services for satisfying human wants.

1. Exchange of goods/services
2. Deals in numerous transactions.
3. Profit is main objective.
4. Risk and uncertainties.
5. Buyer and seller.
6. Marketing and distribution of goods/services.
7. To satisfy human wants.
8. Social obligation

Business does not function in isolation or in vacuum. It is affected by internal and external factors. These internal and external factors collectively constitute business environment. Internal environmental factors are within the control of business, whereas external factors are beyond the control of business.

'Environment' refers to the system in which human beings live and they have to adjust themselves according to it. So it is surroundings, external agents, influences or circumstances under which something exists.

***Business Environment can be defined as the aggregate of all those forces, factors and institutions which directly affect the working of a business organization.**

Some of these constituents may be static, while others may be changing.

"Business Environment is the aggregate of all conditions, events and influences that surround and affect the business." **Keith Davis**

"Business Environment encompasses the climate or set of conditions-economic, social, political or institutional in which business operations are conducted." **Prof. Weimer**

"The term Business Environment of a company is defined as the pattern of all external influences that affect its life and development." **Andrews**

"The total of all things external to firms and industries that affect the function of the organisation is called business environment." **Wheeler**

***CHARACTERISTICS/NATURE OF BUSINESS ENVIRONMENT**

Business Environment is very complicated, dynamic and multi-dimensional and affects different business institutions in different ways. It exhibits many characteristics like:

1. Complex

Environment comprises of many factors. All these factors are related to each other. Therefore, their individual effect on the business cannot be recognised. This is perhaps the reason which makes it difficult for the business to face them.

2. Dynamic

As is clear that environment is a mixture of many factors and changes in some or the other factors continue to take place. Therefore, it is said that business environment is dynamic.

3. Uncertain

Nothing can be said with any amount of certainty about the factors of the business environment because they continue to change quickly. The professional people who determine the business strategy take into consideration the likely changes beforehand.

4. *Multi-dimensional

Business environment is related to the local conditions and this is the reason as to why the business environment happens to be different in different countries and different even in the same country at different places.

6. Interdependent components

The different factors of business environment are co-related. For example, change in the import-export policy with the coming of a new government.

In this case, the coming of new government to power and change in the import-export policy are political and economic changes respectively. Thus, a change in one factor affects the other factor.

***IMPORTANCE/SIGNIFICANCE OF BUSINESS ENVIRONMENT:**

Business and its environment are closely inter-related and mutually interdependent. Environment has its bearing on business and business has its bearing on environment. The success of business lies in understanding the environmental changes and adapting its business policies accordingly.

The surroundings of business enterprise which are constantly changing, carry with them both opportunities and risks or uncertainties which can make or mar the future of business. Significance of the study of environment in business sector may be explained as follows:

1. Early identification of opportunities helps a business organization to be the first to exploit them.

2. A business organization should make its policies keeping in view the demands of environment.

3. The study of business environment is important to ensure optimum utilization of resources like, financial resources, human resource and physical resource etc.

4. Environment analysis helps the business organizations to identify strengths and weaknesses.

5. Environment analysis helps the business organizations to identify threats and explore opportunities available to business.

6. Environment analysis helps in adapting latest technological development which results in improved efficiency.

7. Scanning the business environment helps to understand Political Situation and its effect on business.

8. Scanning the business environment helps to understand economic policies of Government and their impact on business.

9. Because of globalization, the impact of international events on business is increasing. To understand global events and their impact on business, study of international environment is must.

10. By environmental analysis, business organizations come to know about the strategies of competitors to formulate counter plans.

11. Environment analysis helps in understanding the market conditions i.e. change in demand/supply, change in fashion, taste, boom or depression etc.

SCANNING BUSINESS ENVIRONMENT

There is a close and continuous interaction between business and its environment. So it is essential to understand and scan the environment to ensure effective utilization of resources. SWOT analysis is an analysis undertaken by business firms to understand their external and internal environment. The term SWOT consists of four words:

S = Strengths

W = Weaknesses

O = Opportunities

T = Threats

SWOT analysis is applied to formulate effective organizational strategies. Through SWOT analysis, the business firms can match Strengths and Weaknesses existing with an organization with the Opportunities and Threats existing in the external environment.

COMPONENTS/TYPES/CONSTITUENTS/FACTORS OF BUSINESS ENVIRONMENT

Every business faces two types of environments simultaneously i.e. Internal Environment and External Environment.

1. INTERNAL ENVIRONMENT

All those factors within an organization which impart strengths or cause weaknesses constitute the internal environment. These factors can be controlled by business but they are quite important in shaping the behaviour of people working in it. Hence, managers have to take internal factors into account while taking actions.

2. EXTERNAL ENVIRONMENT

All those factors outside the organization which provide opportunities or pose a threat to the organization make up the external environment. These factors are those over which the business organization has no control.

According to William Glueck and Jauck

"In environment there are external factors, which constantly bring opportunities and threats to the business firm. In includes Economic, Social, Technological and Political conditions."

Examples of situations that may cause change in the external environment include:

(i) Improvement in production techniques

(ii) Fluctuations in the levels of demand

(iii) Fluctuations in interest rates

(iv) Changes in laws and regulations

(v) Changes in taxation

(vi) New social trends, fashions or life styles

(vii) International influences

TYPES OF EXTERNAL ENVIRONMENT

MICRO ENVIRONMENT

Micro environment consists of factors in the company's immediate environment that affect the performance of the company. These include the suppliers, marketing intermediaries, competitors, customers and the public.

According to Philip Kotler

"The micro environment consists of factors in the company's immediate environment which affect the performance of the business unit. These include suppliers, marketing intermediaries, competitors, *customers and the public."*

According to Hill and Jones

*"The micr*o environment of a company consists of elements that directly affect the company such as *competitors, customers and suppliers."*

MICRO ENVIRONMENT

1. Suppliers

Suppliers are important for any business unit. Suppliers are those who supply the inputs like raw material and components to the company. Organizations should keep two things in mind regarding suppliers:

Reliability

Multiple suppliers

2. Customers or clients

A business exist only because of its customers. Hence, a major task of a business is to create and sustain customers. Monitoring the customer's sensitivity is a pre-requisite for business success.

A company may have different types of customers

(i) Individual and household customers

(ii) Government bodies

(iii) Foreign customers

(iv) Retail customers

(v) Wholesale customers

To succeed in capturing and sustaining customers, following points must be kept in mind:

(i) Buyer's behaviour data can be used in constructing a customer profile.

(ii) Geographical factors should also be analyzed to know the opportunities and threats.

(iii) In the era of free trade, foreign customers can be attracted by making such products which can compete with foreign products.

(iv) Single customer of a company is full of risks as it places the company in a poor bargaining position.

(v) The business firm should make separate products for separate segments. Following can be the basis of segmentation:

(a) Income level of customers

(b) Age of customers

(c) Personality and life style of customers

(d) Tastes and preferences of customers

(e) Quantity to be purchased by customers

(f) Education level of customers

3. Competitors

Competitor means other business units which are making similar products or a very close substitute of our product. Competitors play a vital role in running the business enterprise. Business has to adjust its various activities according to the behaviour of the competitors.

4. Market Intermediaries

Every business enterprise may be assisted by market intermediaries which include agents, brokers who help the company find customers. It is a link between company and final consumer. Market intermediaries help the company to promote, sell and distribute its goods to final buyers.

Examples:

Wholesalers, retailers, advertising agencies, consultancy firms, banks, insurance companies, warehouse, transport agencies etc.

5. Public

Public is any group that has actual or potential interest in the business. To achieve this interest, it has its impact on the business. Public includes users and non-users of the product like Environmentalists, NGOs, Local Community, Media.

EXTERNAL ENVIRONMENT

A company and the forces operate in a larger Macro environment that shape opportunities and pose threats to the company. These factors are generally more uncontrollable than the micro forces.

According to Philip Kotler

"Macro environment includes forces that create opportunities and pose threat to the business unit. It includes economic, demographic, natural, technological, political and cultural environments."

According to Hill and Jones

"The macro environment consists of the broader economic, social, political, legal, demographic and technological setting within which the industry and the business units are placed."

1. ECONOMIC ENVIRONMENT

Economic environment consists of economic factors that influence the business in a country. It is very complex and dynamic in nature that keeps on changing with the change in policies or political situations.

Key components of economic environment are:

(A) **Economic Conditions of Public**

(B) **Economic Policies**

(C) **Economic System**

2. POLITICAL-LEGAL ENVIRONMENT

Political environment affects different business units significantly. A stable and dynamic political environment is essential for business growth. Whenever there is a change in the Government in a democratic country, it is a sign of change in economic policies. The Political environment of business depends on:

1. Ideology of the Government
2. Political Establishment
3. Political Stability in the country
4. Relations with other countries
5. Defense and Military Policy
6. Centre State Relationship
7. Approach of Opposition parties towards business

LEGAL ENVIRONMENT

Legal environment constitutes the laws framed by the Government and various legislations passed in the parliament. The businessman cannot overlook the legislations because he has to perform his business transactions with in the framework of legal environment. Every aspect for business is regulated by law in India. Government has also framed legislations which regulate and control the business.

Some of the main legislations regulating the business are as follows:

1. Industrial Dispute Act, 1947
2. Factories Act, 1948
3. Consumer Protection Act, 1986
4. Companies Act, 1956
5. Foreign Exchange Management Act 1999
6. Securities and Exchange Board of India Guidelines, 2000

3. SOCIAL & CULTURAL ENVIRONMENT

Business is an integral part of society and both influence each other. Influence exercised by social and cultural factors is known as socio-cultural environment. These factors include: attitude of people, family system, caste system, religion, education, marriage, habits and preferences, languages, urbanization, customs and traditions, ethics etc.

4. TECHNOLOGICAL ENVIRONMENT

A systematic application of scientific knowledge is known as technology. Everyday there are vast changes in products, services, lifestyles and living conditions, these changes must be analyzed by every business unit and should adapt these changes.

5. DEMOGRAPHIC ENVIRONMENT

Demographic environment refers to the study of the features of population i.e. size of population, growth rate, gender ratio, age composition, income level, education level, family size, family structure etc. All these factors affect size of demand, tastes, fashion, liking, preferences of consumer etc.

6. NATURAL OR ECOLOGICAL ENVIRONMENT

It includes geographical and ecological factors such as natural resources, weather and climatic conditions, port facilities, topographical factors such as soil, rivers, rainfall, pollution etc. Every business unit must look for these factors before choosing the location for their business.

7. INTERNATIONAL/ GLOBAL ENVIRONMENT

International environment is important for industries directly depending on import and export. A recession in foreign market or protection policy by foreign nations may create difficulties for industries depending on exports. Liberalization of import may help some industries but may adversely affect other industries. Following factors of International environment affect business:

1. Globalization
2. Liberalization
3. International agreements and declarations
4. International terrorism
5. Cultural exchange

SOCIAL RESPONSIBILITY OF BUSINESS

Social Responsibility of Business can be defined as the obligation an organization's management team has towards the interests and welfare of the society or community that provides it with resources and environment to not only survive but flourish.

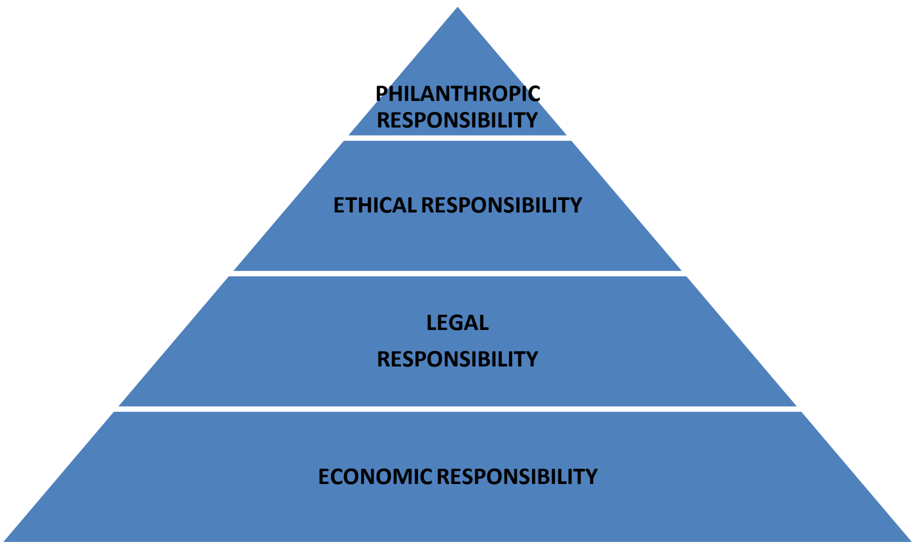
In other words, Social Responsibility is the way your company gives back to and takes care of the community it is located in and the greater society we are all a part of.

"Conceptually social responsibility may be taken up to mean intelligent and objective concern for the welfare of the society." **K.R. Andrews**

"Social responsibility is the personal obligation of every one as he acts for his own interests to assure that the rights and legitimate interests of all other are not impinged." **Koontz and O'Donnel**

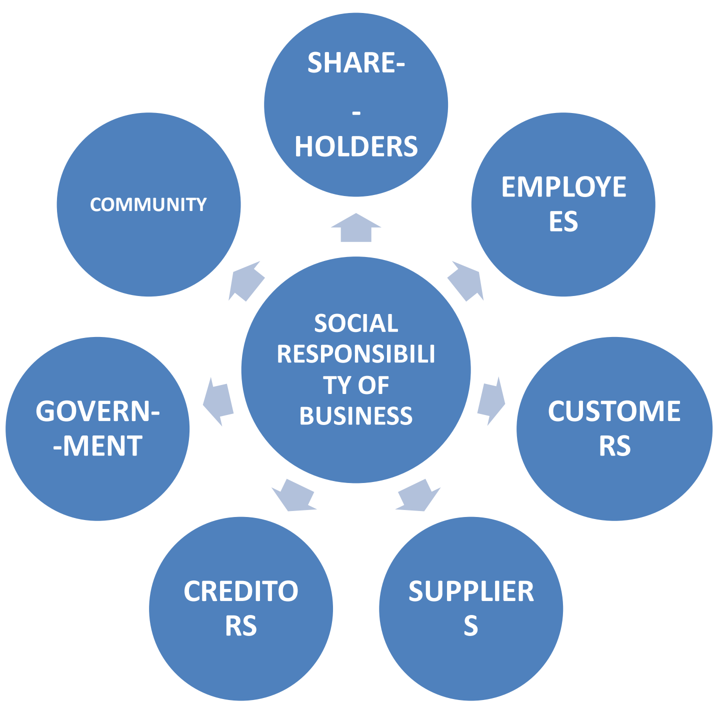
There are four dimensions of Corporate Responsibilities:

1. Economic: Responsibility to earn profit for owners
2. Legal: Responsibility to comply with laws
3. Ethical: Doing what is right, just and fair
4. Voluntary and Philanthropic: Promoting human welfare and goodwill. Being a good corporate citizen contributing to community and quality of life.



SOCIAL RESPONSIBILITY PYRAMID

RESPONSIBILITY OF BUSINESS TOWARDS VARIOUS STAKEHOLDERS



Responsibility towards Shareholders

IMPORTANCE OF SOCIAL RESPONSIBILITY OF BUSINESS

Social Responsibility of Business is important for organization and its stakeholders due to following reasons:

1. Increased productivity and quality
2. Reducing operating cost
3. Increased sales and customer loyalty
4. Reduced in corruption
5. Improved financial performance
6. Improved transparency and reporting
7. Reduced regulatory oversight

Responsibility towards Shareholders

1. Shareholders are source of funds for the company. They expect maximization of the value of their investment in the company.
2. It is the duty of management to see that the financial position of the company is sound and the company always looks for growth.
3. The management should keep the shareholders well informed about the progress and financial position of the company.
4. The assets of the company are purchased with the funds provided by the shareholders. The management is responsible to safeguard these assets.

Responsibility towards Workers

1. Every business should pay reasonable wages and salaries to its employees so that they may satisfy their needs and lead a good life.
2. Good working conditions are necessary to maintain the health of the workers. Since workers spend about 8 hours at work place, they must be provided with good working conditions.
3. Workers should be provided with adequate benefits such as housing and medical facilities, insurance cover and retirement benefits.
4. The management should recognize the workers' right to fair wages, to participate in decision affecting their working life, to form trade unions etc.
5. The workers should be helped by training and other means to improve their skills.

Responsibility towards Customers

1. The management should produce goods which meet the needs of the consumers of different classes, tastes and with different purchasing power.
2. The management should make goods of right quality available to right people at the right time and place at reasonable price.

3. The management should provide a prompt, adequate and courteous service to customers and handle their grievances carefully.

4. The management should ensure that advertisement and statement issued by the business are true and fair.

5. The management should not indulge into unfair and unethical practice such as black marketing, hoarding, adulteration etc.

Responsibility towards Suppliers

1. Giving regular orders for purchase of goods.

2. Dealing on fair terms and conditions.

3. Availing reasonable credit period.

4. Informing about the taste of consumers.

5. Timely payment of dues

6. Informing the suppliers for future development plans.

Responsibility towards Creditors

1. Provide accurate information regarding financial health of the organization.

2. Fairness in transactions

3. Promote a healthy atmosphere where creditors, suppliers and other interest groups are treated as patterns in a co-operative endeavor.

Responsibility towards Government

1. To abide by the laws of the nation

2. To pay government taxes honestly

3. To avoid corrupting government employees

4. To encourage fair trade practices.

Responsibility towards Community

1. The management should not indulge in any practice which is not fair from social point of view. Society expects that the business uses the factors of production effectively and efficiently.

2. The management can develop the surrounding area for the well being of workers and general public. It should take preventive measures against water and air pollution and should contribute to community development activities.

3. It is the responsibility of management to help increase direct and indirect employment in the area where it is functioning.

4. The management should make best possible use of capital, raw material, machine, technical knowledge and other resources for the well-being of the society.

New Companies Bill, 2013

Parliament has passed a new bill which is the first major overhaul of Company law in more than 50 years. The legislation strengthens accounting standards and shareholder rights, and makes it mandatory for companies with market capitalisation of more than Rs. 500 crore to spend 2 per cent of their annual net profits on Corporate Social Responsibility (CSR), such as social work or charity.

Schedule 7 of the Act lists out activities, which a qualified company can take up in discharging its CSR and includes promotion of education, promoting of gender equality and empowering women and employment enhancing vocational skills. Section 135 and Schedule 7 specifically provide that a preference should be given to the local area where a company operates.

UNIT-II
ECONOMIC SYSTEM

SYLLABUS

Capitalism
Socialism
Communism
Mixed Economy
Public Sector and Private Sector

ECONOMIC SYSTEM

An economic system is a system designed by a nation to utilize its resources for satisfying the needs and wants of people.

An economic system consists of those institutions which a given nation or group of nations has chosen or accepted as the means through which their resources are utilized for the satisfaction of human wants.

W.W. Loucks

An economy is a system by which people get a living. *A.J. Brown*

An economy is a system which produces goods and provides services with the help of all natural and physical resources for the purpose of providing living to its people. It includes all agricultural firms, mines, workshops, factories, shops, roads, railways, ships, insurance and banking companies, schools, hospitals etc, which help directly in producing goods and services for providing satisfaction to human wants and living to the people.

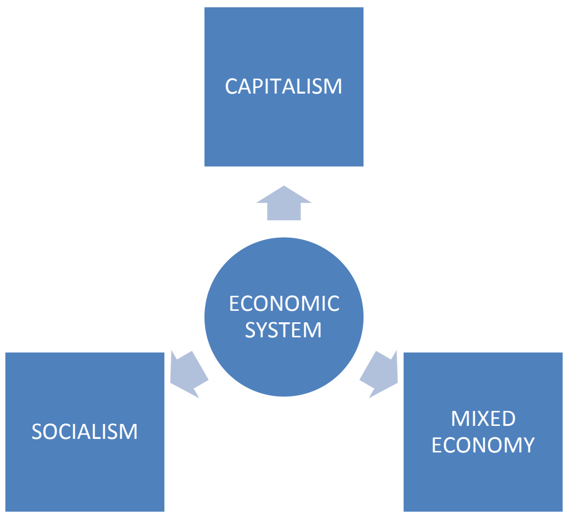
In every economy mutual interaction among people depends to a large extent on the ownership of the means of production. Ownership of means of production may assume many forms, i.e. ownership of private individuals, ownership of government, ownership of both private individuals and government. These different forms of ownership of means of production give rise to alternative forms of economic systems.

- **Household**
- **Firm**
- **Industry**
- **Government**

are Basic Units of an Economic System.

There are three types of Economic Systems found in the world:

1. **Capitalism**
2. **Socialism**
3. **Mixed Economy**



CAPITALISM

In capitalistic economy, all means of production like firms, factories, mineral resources etc are owned, managed and controlled by private entrepreneurs. Government does not interfere in the economic activities. They are free to run them in the way they like. Their main motive is to earn profit. It is also known as **Free Market Economy** or **Free Enterprise Economy**.

Origin and growth of Capitalism dates back to 18^{th} century after the Industrial revolution in England and other nations of Europe. US, UK, Japan are the examples of this economy.

Capitalism is a system in which property is privately owned and economic decisions are privately made.

Ferguson and Krips

FEATURES OF CAPITALISM

1. A very outstanding feature of capitalism is the economic freedom. Everybody is free to choose any trade or business or industry or occupation as one like and one feels more profitable.
2. Individuals can hold, use or sell their property as they like or they can pass it on to their heirs after death.

3. The consumer occupies a key position in capitalism. Consumers have complete freedom of choice of consumption. The production decisions are based on consumer desires.

4. The government plays a part but it is limited. Its role is required only to define and protect property rights, ensure freedom or entry and exit, enforce contractual agreements among private entrepreneurs.

5. In capitalism competition is found among producers, seller and consumers. Producers compete to produce better, sellers compete to attract maximum consumers and consumers compete with each other in obtaining goods and services of better quality.

6. In a capitalistic economy an individual is free to save as much as he can and invest or spend that saved money the way he likes.

7. In capitalism, price mechanism guides the producers and consumers. Price mechanism means that price is determined by the interaction of the forces of demand and supply. Price mechanism helps producers to decide what to produce, how much to produce, when to produce and where to produce.

MERITS AND DEMERITS OF CAPITALISM

MERITS	DEMERITS
Capitalism is democratic in nature since all the producers, sellers, consumers etc are free to do the work of their choice.	Greatest demerit of capitalism is unequal distribution of wealth and income. This render rich more rich and poor more poor.
Capitalism increases productivity of all the factors of production. It offers higher standard of living to people and leads to rapid economic growth.	Capitalism leads to division of society in two classes. Rich and capitalist class leads a luxurious life and labour class struggles to get even two square meals.
The scare resources are used most economically and with minimum waste so that their cost of production may come to minimum.	Capitalism promotes materialistic attitude in the people. The lust for profit and wealth gives rise to several social evils.
People get incentives to save and invest more because of right of private property and inheritance. It increases saving and investments which lead to a higher rate of capital formation.	Competition, one of the distinctive features of capitalism can be quite wasteful in reality when an advertisement is used to compete out other competitor from the market.

SOCIALISM

In socialistic economic system, economy is controlled by government and it directly intervenes in economic activities in the interest of social well being.

The concept of socialist economy was propounded by Karl Marx and Friedrich Engels in 1848 in their work “The Communist Manifesto”. The system was first adopted by USSR in 1917 before its disintegration in late eighties.

China, Vietnam, Cuba, Hungry, Polland are the examples of this economy.

*Socialism is a system under which the economic system of the country is controlled and regulated by the government so as to ensure welfare and equality of opportunity to people in a society.

FORMS OF SOCIALISM

Among different forms of socialism, two are most important:

Democratic Socialism

Means of production and other activities are controlled and regulated by the government but at the same time there is freedom of occupation and consumption.

Totalitarian Socialism

Economy is completely controlled by the government and people have to work under the direction of the government. It is popularly called **Communism**.

FEATURES OF SOCIALISM

1. All important means of production are owned, managed and controlled by state. Government represents the society. But it does not mean that an individual cannot keep his private property.

2. Decisions regarding production, costs, prices, wages etc are taken by Planning Commission. For this purpose, a planning commission is set up. Planning Commission prepares the plans and implement them.

3. State being the chief entrepreneur there is not cut-throat competition as found under capitalist economy. All the wastage of competition is prevented.

4. Socialism recognizes human values. A main criterion of socialism is ‘Man is not for wealth but wealth is for man.’

5. Socialist system aims at an equitable distribution of income. Government decides the fair distribution of income.

6. Socialism promotes social equality. As all the members work to earn their living, there are no such classes as capitalist class or labour class.

7. Government in socialist economy do not differentiate among people and provide equal opportunity of education, occupation and other social benefits to all members of the society.

MERITS AND DEMERITS OF SOCIALISM

MERITS	DEMERITS
Under socialism, income is distributed on just and equitable basis; equal opportunities are provided to everyone.	People are made to work according to directions of state. Hence, they lose individual initiatives and incentives to work.
All important economic decisions are taken by Central Authority (Planning Commission) which ensures allocation of resources for maximum social welfare and satisfaction.	Consumers lose freedom of choice of goods and services and workers lose freedom of choice of occupation since all power is vested on the government.
Under socialism, there is no wasteful advertisement. Goods and services are produced as per actual needs of people.	Prices are not determined on the basis of demand and supply which is necessary for effective functioning of an economy.
Cyclical fluctuations which are common in capitalism do not occur in socialism. Situations like boom, depression, unemployment, over-production etc do not raise their ugly heads.	Bureaucratic controls and procedural bottlenecks lead to approvals to be taken from the government which promotes bribery and other forms of corruption.

***DIFFERENCE BETWEEN CAPITALISM/PRIVATE SECTOR & SOCIALISM/PUBLIC SECTOR**

BASIS OF DIFFERENCE	**CAPITALISM/PRIVATE SECTOR**	**SOCIALISM/PUBLIC SECTOR**
Ownership of means of production	Owned and controlled by private entrepreneurs.	Owned and controlled by State.
Economic Decisions	Decisions are taken by private entrepreneurs.	Decisions are taken by State.
Consumers' sovereignty	Consumers' sovereignty is the essence for success.	Consumers' sovereignty is not so important.
Basic Motive	Capitalism is based on profit motive.	Socialism is based on social welfare.
Distribution of Income	Unequal distribution of Income and	Equal distribution of Income and

and Wealth	wealth.	wealth.
Competition	Capitalism promotes perfect competition.	Socialism bans competition.
Nature	Capitalism implies free economy.	Socialism implies controlled economy.
Freedom of occupation and consumption	People enjoy freedom of occupation and consumption.	People do not enjoy freedom of occupation and consumption.
Role of Government	Confined to regulation and control of economy.	Government plays a key role in the economy.
Economic Incentives	Capitalism provides highest incentives for greater efficiency, hard work and entrepreneurial ability.	Socialism kills efficiency and ability.
Class struggle	Capitalism divides the society into two parts-rich and poor.	Socialism promotes social justice.
Economic stability	Capitalism causes trade cycles, fluctuations and economic instability.	Socialism promotes economic stability and sustained growth.

MIXED ECONOMIC SYSTEM

*Mixed economy is a system in which both public and private sectors work simultaneously to promote the economic welfare of the society. It is also known as Dual Economy.

After the depression of 1929, J.M. Keynes suggested a new economic system. In this system, private and public sector co-operate with each other with a view to achieve economic objectives as well as promotion of social welfare. India, Canada etc have mixed economic system.

Mixed economy is that economy in which both public and private institutions exercise economic control.

Samuelson

Government usually owns public utility services like, Railways, Road Transport, Air Services, Shipping, Defense, Supply of water, electricity, education and health facilities, post and communication etc.

Consumer goods industries, small scale industries and agriculture etc are generally owned by private entrepreneurs.

Government keeps a watch on the activities of private entrepreneurs to ensure maximum utilization of resources and to protect the interest of workers, consumers and weaker sections of society.

FEATURES OF MIXED ECONOMIC SYSTEM

1. Under mixed economy public and private sectors work hand in hand. Industries of public utility are owned by Government and consumer goods industries are owned by private entrepreneurs.
2. Mixed economy functions through both the price mechanism and government direction.
3. Economic planning is an important feature of mixed economy. It maintains a balance between public and private sector. The two sectors are not rivals to each other; they cooperate with each other.
4. Aim of production under this system is to earn profit and to promote social welfare. If the government is convinced that any private industry is working against the interest of the society, it nationalizes such industry.

MERITS AND DEMERITS OF MIXED ECONOMIC SYSTM

MERITS	DEMERITS
Public and private sector industries cooperate with each other to achieve rapid economic growth.	The public sector and private sector do not always work in a complementary manner.
Government provides essential services such as Railways, Roads, Power, Communication, Education, Hospitals etc.	Mixed economy cannot continue for long period. In the course of time, either it assumes the form of capitalism or socialism
In mixed economy both private and public sectors ensures optimum utilization of resources.	The government can take over any industry at any time. This creates a fear of nationalization in private entrepreneurs.
Mixed economy ensures fair distribution of income and wealth. Profit earned by public enterprises can be utilized for capital formation and providing facilities to poor.	In practice, private sector remains unable to achieve efficiency because of constant and strict government controls. Public sector remains inefficient due to lack of initiative and responsibility.
Poor people are protected against exploitation by rich. The government takes several legislative measures to safeguard the interests of people.	Mixed economy suffers from the evil of corruption and hence economic progress is adversely affected.

PUBLIC SECTOR AND PRIVATE SECTOR

PUBLIC SECTOR ENTERPRISE

Public enterprise refers to that industrial institution which is owned, managed and controlled by the government. Public enterprises are also known as Government Enterprises, State Enterprises and Government Industries.

"The term public enterprise usually refers to government ownership and active operation of agencies engaged in supplying the public with goods and services which alternatively might be supplied by private enterprise operations." *Encyclopedia Britanica*

OBJECTIVES OF PUBLIC SECTOR ENTERPRISE

Following are the main objectives of Public Enterprises:

1. To help in the rapid economic growth and industrialization of the country and create necessary infrastructure for economic development.
2. To earn return on investment and generate resources for development.
3. To promote redistribution of income and wealth.
4. To create employment opportunities.
5. To promote balanced regional development.
6. To assist the development of small scale and ancillary industries.
7. To promote import substitution, save and earn foreign exchange.

FEATURES OF PUBLIC SECTOR ENTERPRISE

1. Public sector industries are owned, managed and controlled by the government. The government may be Central or State.
2. In public sector industries, major part of the capital is invested by the Government. Hence, along with the ownership, management also vests with the Government.
3. Public sector enterprises are engaged in production and/or supply of goods and services. For some industries, only public enterprises have the right of production and distribution.
4. Public sector enterprises work under the guidance of a Central Planning Authority. These enterprises minimize the occurrence of trade cycle.

5. Public sector enterprises are very important source for implementing the government policies. The government implement its various polices through these enterprises.

6. Public sector enterprises are essentially operative in the interest of the public. Efforts are made by these enterprises to satisfy all possible human needs.

7. Public sector enterprises help in the development of infrastructure necessary for the development of a country. All the facilities like water, power, transportation, communication, banking etc are developed by public enterprises.

PROBLEMS OF PUBLIC SECTOR ENTERPRISE

1. Most important problem of public sector enterprises is 'how these industries should be organized and managed so that national welfare may be promoted.

2. There is unnecessary gap between planning and implementation of projects in public sector enterprises. Actual implementation gets very late and this increases the cost.

3. Responsibility of providing funds rests with the government which is provided through budget and plan, so public sector enterprises often suffers from shortage of funds.

4. Public sector enterprises are audited by internal auditor and final audit is done by Comptroller and Auditor General of India.

5. A number of public sector enterprises are established with foreign collaboration. These enterprises are dominated by foreign technicians and experts. Therefore, Indian technicians and experts do not get proper opportunity of development.

6. Employees are appointed by Public Service Commission. So often posts remain vacant for a long time.

7. Public sector enterprises suffer from red-tapism.

8. Generally IAS, IPS officers are deputed on the key posts of these enterprises, who are not necessarily so efficient to run an enterprise.

9. Direct or indirect interference of politicians creates disturbance.

PRIVATE SECTOR ENTERPRISE

Private enterprise refers to all those industrial units or corporation engaged in production which are owned by private individuals and managed by them for profit motive.

These days, private sector is qualitatively different from private sector of the past in the sense that the corporate industrial units are owned by the shareholders and managed by professional managers. They are not always interested in profits for shareholders but have other corporate objectives as well such as expansion and consolidation, social consciousness and social welfare etc.

Private sector includes the following:

1. Organized sector (All large scale units)

2. Unorganized sector (Individual units)

3. Small scale units

PROBLEMS OF PRIVATE SECTOR ENTERPRISE

1. Bureaucratic delays in getting license, permits and necessary government clearances.
2. Corruption while getting necessary clearance form various government departments.
3. Increase in foreign competition as a result of liberalization and globalization. It has adversely affected small scale industries.
4. Problem of finance and credit for small scale private sector industries.
5. Interest rates on loan are still very high in comparison to international interest rates.
6. Tax rates are still very high. Tax procedures are still very complicated.

UNIT-III
INDUSTRIAL POLICY

CONTENT

- Industrial Policy
- Historical Perspective of Industrial Policy
- Socio-economic implications of Liberalization, Privatization, Globalization

INTRODUCTION

Industrial Policy is a comprehensive concept which provides guidance and out-lines of the policy for establishment and working of industries.

Industrial Policy includes rules, regulations, principles and procedures to regulate the industrial undertakings of a country in the desired direction so as to achieve broader objective like industrial development, economic development, balanced regional development, increase in employment etc. Industrial Policy includes policy regarding labour and capital, cottage and small industries, foreign capital and protection etc.

“Industrial Policy is an instrument with the help of which the state participates in the growth process.”

INTRODUCTION

Industrial Policy refers to government's policy towards industries; their establishment, functioning and growth. Any Industrial Policy may reflect two aspects:

First, the ideology of the government, which determines the nature of industrialization.

Second, the governing rules and principals which provide a framework behind the ideology.

HISTORICAL PRESPECTIVE: INDUSTRIAL POLICY

Till before first world war, the state was not expected to interfere in the industrial field.

The exigencies of II world war forced the state in India to show interest in industry and efforts were made to formulate policy of postwar industrial reconstruction and development.

1914-1918	First World War
1939-1945	Second World War

HISTORICAL PRESPECTIVE: INDUSTRIAL POLICY

1948	The Industrial Policy Resolution was passed
6th April 1948	First Industrial Policy was declared
26th Jan 1950	The constitution was adopted
March 1950	India's Planning Commission was constituted
1951	Industrial Development and Regulation Act

Five industrial policies at different time intervals have so far been formulated in India, i.e. Industrial Policy, 1948, 1956, 1977, 1980 and 1991 respectively.

*OBJECTIVES OF INDUTRIAL POLICY

Following are the objective of an Industrial Policy:

1. The basic objective of industrial policy is to increase industrial production of the country.
2. Optimizing production by directing the flow of scare resources in investment areas in accordance with national priorities.
3. Industrial policy helps in balanced regional development. Industrial policy may contain provisions for providing facilities or concessions for development of backward areas of the country.
4. Cordial relations between workers and management are essential for rapid and sustainable industrialization. A comprehensive industrial policy helps to establish cordial relations.
5. Industrial policy helps in prevention of monopoly and unfair trade practices.
6. An appropriate industrial policy envisions to attract foreign

FIRST INDUSTRIAL POLICY, 1948

First Industrial Policy of independent India was declared by the first Prime Minister of India, Jawaharlal Nehru on April 06, 1948. The Industrial Policy Resolution of 1948 aimed at acceleration of the industrial development of the country. The Government suggested to establish mixed economy in India by this policy.

Industrial Policy Resolution, 1948 was passed at a time when, our constitution was not adopted and there was no legal framework. But the idea was to keep the industries under the exclusive ownership of Government (Public Sector), Private Sector and Joint sector. The constitution came into effect in 1950 and in March 1950, India's Planning Commission was constituted. This was followed by an Industrial (Department and Regulation) Act of IDR Act of 1951.

INDUSTRIAL POLICY, 1956

With the approach of rapid industrial growth and development, the next industrial policy, 1956 gave primacy to the role of state to assume a predominant and direct responsibility for industrial development.

The Industrial Policy, 1956 is regarded as the economic constitution of India. The objective of socialistic pattern had been expressed in the form of industrial development in this policy.

The supporters of private sector criticized this policy that the private sector will be eaten away by the huge public sector. But this thinking did not prove true. This policy helped in development of both the public and private sectors.

INDUSTRIAL POLICY, 1977

Industrial Policy, 1977 was declared by non-congress government, Janata Party. The main objective of this policy was to provide encouragement and incentives to small and cottage industries, against big industrial houses and multinational companies. The logic behind it was that due to expansion of small industries, opportunities of employment will increase on the one side and on the other side concentration of economic power will be under control.

INDUSTRIAL POLICY, 1980

The Industrial Policy, 1980 was mainly guided by considerations of growth. The congress party under the leadership of Smt. Indira Gandhi again came to power. This policy was improved version of Industrial Policy, 1956. In this policy, discrimination between small and large industries was reduced.

This policy favoured a more capital intensive path for development and paved the way for the expansion of large and big industrial houses.

*NEW INDUSTRIAL POLICY, 1991

On July 24, 1991, the Government headed by P.V. Narsimha Rao announced a new industrial policy which was altogether different from all previous policies.

This policy laid emphasis on increasing foreign collaboration, setting economy free from unnecessary controls and making public sector to work in a free environment. This policy is also known as Open, Liberal and Revolutionary Policy.

OBJECTIVES OF NEW INDUSTRIAL POLICY, 1991

1. To abolish the monopoly of any sector in any field of manufacturing except on strategic or security grounds.
2. To encourage private entrepreneurship and investment in industrial activities.
3. To enhance support to small scale sector.
4. To bring overall changes in the economic structure of the country and build a sound and diversified industrial base.
5. To increase the competitiveness of industries for the welfare of the common man.
6. To maintain a sustained growth in productivity and gainful employment.
7. To remove regulatory system and other weaknesses.
8. To achieve technological dynamism in the country.
9. To attain global competitiveness.
10. To encourage a liberalized environment and to simplify the various

*FEATURES OF NEW INDUSTRIAL POLICY, 1991

The broad features of New Industrial Policy were as follows:

1. The Government reduced the number of industries under compulsory licensing.
2. Many of the industries reserved for the public sector under the earlier policy, were de-reserved. The role of the public sector was limited to industries of strategic importance.
3. Disinvestment was carried out in case of many public sector industrial enterprises.
4. Policy towards foreign capital was liberalised. The share of foreign equity participation was increased and in many activities 100 per cent Foreign Direct Investment (FDI) was permitted.
5. Automatic permission was now granted for technology agreements with foreign companies.
6. Foreign Investment Promotion Board (FIPB) was set up to promote and channelize foreign investment in India.
7. Appropriate measures were taken to remove obstacles in the way of

LIBERALISATION

*Liberalisation means to reduce unnecessary restrictions and controls on business units imposed by the government. It means procedural simplification, relaxing trade and industry from unnecessary bureaucratic hurdles.

The economic reforms that were introduced in Industrial Policy, 1991 were aimed at liberalising the Indian business and industry from all unnecessary controls and restrictions.

Through this liberalisation, Indian economy has opened up and started interacting with the world. This has resulted in easy entry of foreign business organizations. This has further resulted in stiff competition and efficiency. Ultimately, liberalisation has helped in achieving high growth rate, easy availability of goods at

LIBERALISATION

Liberalisation of the Indian industry has taken place with respect to:

(i) abolishing licensing requirement in most of the industries except a short list.

(ii) freedom in deciding the scale of business activities i.e. no restrictions on expansion or contraction of business activities,

(iii) removal of restrictions on the movement of goods and services,

(iv) freedom in fixing the prices of goods services,

(v) reduction in tax rates and lifting of unnecessary controls over the economy,

(vi) simplifying procedures for imports and experts, and

(vii) making it easier to attract foreign capital and technology to India.

Advantages/Positive Economic & Social Implications of Liberalisation	Disadvantages/Negative Economic & Social Implications of Liberalisation
With liberalisation, inflow of foreign investment has increased. Foreign investors consider India as a favourable destination.	Liberalisation has promoted automation, computerisation and mechanisation of industrial activities which in turn has resulted into unemployment.
After liberalisation, foreign exchange reserves of India has improved because of huge inflow of foreign investment and increase in exports.	Private sector units and foreign enterprises prefer to set up their units in areas which are already developed and have good infrastructure. It has increased regional imbalances.
As a result of liberalisation, many domestic and foreign enterprises have started business operations. It has resulted in increased competition.	Liberalisation has adversely affected domestic business units which are not strong enough to compete with MNCs. Many domestic units have become sick and have been closed.

Advantages/Positive Economic & Social Implications of Liberalisation	Disadvantages/Negative Economic & Social Implications of Liberalisation
Before liberalisation, inflation rate was very high. With liberalisation competition and production have increased. It has helped in checking the rising prices.	Most of the MNCs have entered in the premium product segments and have targeted upper income group persons. It has further increased income inequalities.
Before liberalisation, various licenses, quotas, permits, approvals were required to be taken from government officials. These officials used to demand bribe for granting these licenses, grants etc. with liberalisation these restrictions have been liberalised. It has helped to check corruption.	Liberalisation has increased dependence on foreign nations. With liberal import of foreign goods, Indian consumers have increasingly using foreign goods. It has hampered the self-sufficiency of our nation.
	Liberalisation gives emphasis on

*PRIVATIZATION

*Privatization refers to a process in which ownership and management of public sector transfers to the private sector. It also means the withdrawal of the state from an industry or sector.

Privatization, may have several meanings. Primarily, it is the process of transferring ownership of a business, enterprise, agency, public service, or public property from the public sector (a government) to the private sector, either to a business that operates for a profit or to a non-profit organization.

"Privatization is the general process of involving the private sector in the ownership or operation of a state owned enterprise." Barbaba Lee & John Nellis

*PRIVATIZATION

Due to the policy reforms announced in 1991, the expansion of public sector has literally come to a halt and the private sector registered fast growth in the post liberalised period. The issues of privatisation include:

(i) reduction in the number of industries reserved for the public sector from 17 to 8 (reduced further to 3 later on) and the introduction of selective competition in the reserved area;

(ii) disinvestment of shares of selected public sector industrial enterprises in order to raise resources and to encourage wider participation of general public and workers in the ownership in business;

(iii) improvement in performance through an MOU system by which managements are to be granted greater autonomy, but held accountable for specified results

*Advantages/Positive Economic & Social Implications of Privatization	*Disadvantages/Negative Economic & Social Implications of Privatization
Privatization of public sector industries increases their productivity, profitability and effectiveness.	Under privatization, private sector gives more importance to profit motive than social welfare.
In private sector persons with professional qualification are appointed. So, benefit of professional management can be availed through privatization.	Privatization implies class struggle. Capitalists and labourers have conflicting interests that adversely affect smooth functioning of the economy.
By increasing the area of private sector competition has increased and consumers are benefited as a result of increase in competition.	Privatization is not a guarantee of the success of an industrial unit. Number of sick industrial units in private sector is still very high.
Privatization encourages foreign investors to invest in domestic economy. In India, from Aug 1991	Trade unions in India oppose privatization. According to them, it will spread unemployment and

*Advantages/Positive Economic & Social Implications of Privatisation	*Disadvantages/Negative Economic & Social Implications of Privatisation
Through privatisation, the private sector will share the burden of economic development and will provide funds for capital investment.	Profit motive is the guiding principle of privatisation. Entrepreneurs are more inclined to produce goods that cater to luxuries and comforts.
Privatisation puts an end to problems like red-tapism, nepotism etc. The rule of ‘Earn according to Work’ is followed. This increases the feeling of responsibility among staff.	Because of inadequate infrastructure, private sector hesitates to set up units in backward areas. It leads to regional imbalance.
Privatisation encourages new inventions, research and development activities.	Because of profit motive, the private sector units ignore key and basic industries.
Privatisation promotes industrialisation. It creates employment, boosts industrial	Privatisation increases direct foreign investment in the country. This slowly give rise to

GLOBALISATION

Globalisation means linking the economy of a country with the economies of other countries by means of free trade, free mobility of capital and labour etc. It also means inviting multinational companies to invest in India.

"*Globalisation refers to the rapid and world wide expansion of market.*"

N. Vaghul Globalisation has four parameters;

1. Reduction of trade barriers so as to permit free flow of goods across national frontiers.

2. Creation of an environment in which free flow of capital can take place among nation states.

3. Creation of an environment permitting free flow of technology.

4. Creation of an environment in which free movement of labour can take place in different countries of the world.

WHY GLOBALISATION?

There are several reasons why companies go global. Money is the primary motive for growing global. Some other reasons are:

1. The rapid shrinking of time and distance across globe because of faster communication, speedier transportation, growing financial flows, growing population and rapid technological changes encouraged companies to go global.
2. Cheap labour in other countries attracts foreign investors.
3. Companies often set up overseas plant to reduce high transportation costs.
4. Some companies set up plant overseas so as to be close to their raw material supply and to market their finished products.

Advantages/Positive Economic & Social Implications of Globalisation	Disadvantages/Negative Economic & Social Implications of Globalisation
As a result of globalisation, India's share in the world trade has substantially gone up.	Globalisation has increased income inequalities. Globalisation has benefitted MNCs and big industrial units.
As a consequence of globalisation, there has been a considerable increase in Foreign Direct Investment and Foreign Portfolio Investment.	Indian business units have to compete with foreign industrial units. Many Indian industrial units have been closed since they failed to compete.
Globalisation has promoted collaboration of foreign companies with many Indian companies.	Globalisation is exploiting unskilled workers by giving lower wages, less job security, long working hours.
As a result of globalisation, foreign exchange reserves have also increased.	

Advantages/Positive Economic & Social Implications of Globalisation	Disadvantages/Negative Economic & Social Implications of Globalisation
Globalisation has permitted Indian business units to expand their business in the whole world. Ex- Infosys, TCS, Wipro, Reliance etc.	With globalisation dominance of foreign institutions has increased. Ex- Pepsi, Coca-Cola.
Globalisation has enabled the inflow of foreign technology which is superior and advanced.	With the increasing use of computers and automatic machines, employment avenues are reduced.
Globalisation has promoted employment opportunities. Foreign companies are establishing their production and trading units in India.	Globalisation tends to transfer talented manpower to industrial countries for better career prospects and facilities.
Globalisation promotes cross	Globalisation has also brought in

ESSENTIALS OF GLOBALISATION

1. Business freedom
2. Facilities
3. Government support
4. Resources
5. Competitiveness
6. Orientation

LICENSING POLICY

A license is a written permission granted to an enterprise by the government according to which the product mentioned therein can be manufactured by the enterprise. The license also includes many other particulars such as:

The place where the factory is to be produced.

The name of the product to be produced.

The limit of the production capacity.

Expansion of the enterprise etc.

Indian government resorted to licensing system in order to maintain control over industries according to Industries Development and Regulation Act, 1951.

BUSINESS ENVIRONMENT
UNIT-IV
BBA 2ND SEM

MONETARY POLICY

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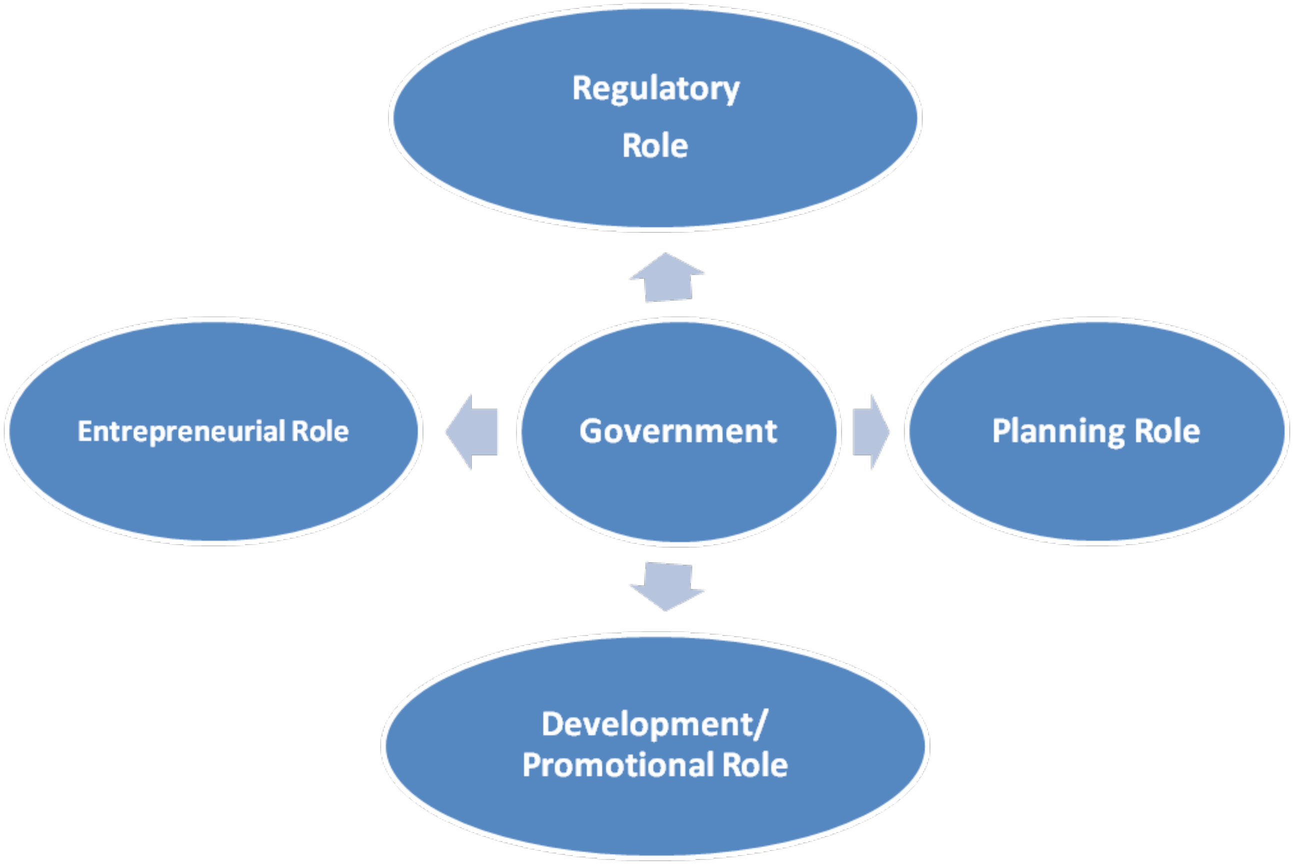
CONTENT

- Role of Government in regulation and development of business;
- Monetary Policy
- Fiscal Policy
- EXIM Policy
- FEMA

ECONOMIC ROLE OF GOVERNMENT IN BUSINESS



*ROLE OF GOVERNMENT IN BUSINESS

1. Government is responsible for framing laws, policies and implementing them for smooth functioning of economic system.
2. Government is responsible for providing peaceful atmosphere by maintaining law and order. In the absence of peaceful atmosphere in the economy, business activities cannot be performed smoothly.
3. It is the responsibility of government to provide basic infrastructural facilities like power, transport, water supply and other amenities etc.
4. Government should provide sound system of money and credit. It includes banking, capital and money market. From these institutions, business units can raise funds to carry on business activities.
5. Government has established Research and Technology Development Centers. Government makes available technology to private entrepreneurs. Thus, by providing latest technology to the business units, government is playing significant role in increasing the efficiency of business units.
6. Government imposes tariffs and quotas to protect domestic business units from competition.

*ROLE OF GOVERNMENT IN BUSINESS

7. Government agencies conduct inspection to ensure quality products to consumers and to prohibit the sale of sub-standard goods. Government issues licenses, permits, quotas to business units so as to regulate them in desired direction.

8. Government provides assistance to Micro and Small Enterprises in form of concessional loans, marketing support, infrastructure support, technical support etc. Government also provides tax concessions, subsidies to them.

9. Government provides support to business units by arranging trade fairs, exhibitions etc. These fairs and exhibitions provide platform to domestic business units to display their products. Government also help business units in exporting their products to various countries.

10. For ensuring balanced regional development and upliftment of backward regions, government provides various facilities to business units.

11. Business units need information for taking decisions, framing policies, strategies etc. Government agencies collect and publish

MONEY

Money, to an economist is something that plays three specific roles in an economy, and the cash in your pocket is only one form. Money is a very special kind of financial asset that has three important functions.

A medium of exchange

A store of value

A unit of account

MONETARY OR CREDIT POLICY

By economic policy one understands the set of rules that help to attain multiple objectives. The policy maker has certain tools such as monetary policy, fiscal policy etc by which these objectives are achieved.

Monetary policy is concerned with regulation and control of the quantity of money and credit for attaining certain economic objectives.

"Monetary policy is any conscious action undertaken by the monetary authorities to change the quantity, availability or cost of money." G.K. Shaw

"Monetary policy is the attitude of the political authority towards the monetary system of the community under its control." Paul Einzig

*OBJECTIVES OF MONETARY POLICY

1. Monetary policy is aimed at expanding and contracting money supply according to the needs of the economy.
2. To maintain stability in prices. It implies control over inflation.
3. Monetary policy promotes economic growth. Those sectors which are quite significant for the economic growth are provided with adequate availability of credit.
4. Boom and depression are the main phases of business cycle. Monetary policy puts a check on boom and depression. In boom, credit is contracted so as to reduce money supply and thus check inflation. In depression, credit is expanded so as to increase money supply and thus promote demand in the economy.

*OBJECTIVES OF MONETARY POLICY

5. By regulating and offering higher rate of interests on deposits, monetary policy encourages public to save and invest.
6. By providing concessional loans to productive sectors, small and medium entrepreneurs, special loan schemes for unemployed youth, monetary policy promotes employment.
7. Through monetary policy, RBI issues directives to banks for setting up branches in unbanked areas and therefore promotes financial inclusion.
8. Monetary policy helps to achieve stability in external value to Rupee. RBI takes appropriate steps like purchase/sale of foreign currency to regulate demand and supply of foreign currency.

FEATURES OF MONETARY POLICY

1. Active Policy
2. Controlled Money supply
3. Seasonal Variations
4. Flexible
5. Investment and Saving oriented
6. Wide range of methods of credit control

INSTRUMENTS OF MONETARY POLICY

Control of credit is one of the objectives of monetary policy of India. Control of credit (*Credit control) means increase or decrease of the flow of credit in the economy in accordance with the need. Reserve Bank of India (RBI) adopts following instruments for credit control:

1. Quantitative or General Credit Control
2. Qualitative or Selective Credit Control

INSTRUMENTS OF MONETARY POLICY

Quantitative Credit Control

- Bank Rate
- Statutory Liquidity Ratio (SLR)
- Open Market Operations
- Cash Reserve Ratio (CRR)
- Multiple Rates of Interest
- Repurchase Auction Rate (Repo) & Reverse Repurchase Auction Rate (Reverse Repo)

Qualitative or Selective Credit Control

- Change in Margin requirement of Loans
- Moral Persuasion
- Credit Monitoring Arrangements
- Direct Action
- New Loan System for delivery of Bank Credit
- Ceiling on Loans

1. QUANTITATIVE CREDIT CONTROL

This type of control regulates the total quantity of credit in the economy. It is not for a particular sector/product. To control the total quantum of credit, RBI has adopted following measures:

1. Bank Rate (Discount Rate)

   If a bank falls short of required amount of reserves on hand, it can borrow funds from RBI at the rate of interest known as Bank Rate. Currently bank rate is 6.5%.

2. Statutory Liquidity Ratio (SLR)

   It means a certain percentage of deposits is to be kept by banks in the form of liquid assets. This is kept by the bank itself. Currently SLR is 19.25%.

1. QUANTITATIVE CREDIT CONTROL

3. Open Market Operations

   It means that the bank controls the flow of credit through the sale and purchase of securities in open market.

4. Cash Reserve Ratio (CRR)

   Cash Reserve Ratio is the minimum cash reserve that every bank has to maintain with Reserve Bank. Currently CRR is 4%.

5. Multiple Rates of Interest

   Under multiple rate of interest, RBI fixes credit quota for various commercial banks. If banks borrow funds from RBI within their quota, they are charged interest at bank rate but if banks borrow funds more than fixed quota, they are charged higher interest rates (more than bank rate).

1. QUANTITATIVE CREDIT CONTROL

6. Repurchase Auction Rate (Repo Rate) and Reverse Repurchase Auction Rate (Reverse Repo Rate)

   ‘Repo’ and ‘Reverse Repo’ rates are the main monetary policy rates.

   ‘Repo’ rate means the interest rate at which commercial banks can borrow funds from RBI. Currently ‘Repo’ rate is 6.25%.

   ‘Reverse Repo’ rate means the interest rate given by RBI on deposits made by commercial bank with it. Currently ‘Reverse Repo’ rate is 6.0%.

2. QUALITATIVE CREDIT CONTROL

This refers to the control of specific credit meant for certain specific objectives. It refers to regulating and controlling the credit to a specific sector. It is discriminatory in nature as it is not applicable to the whole economy.

1. Change in Margin requirement of loans

   Margin is the difference between loan value and market value of security. It is fixed by RBI. For different types of loan, margin requirement is different.

2. Moral Persuasion

   RBI can also exercise moral influence upon the member banks with a view to pursue the monetary policy. RBI convinces commercial banks to curb loan to unproductive sectors. It advices them to extend more credit to priority sector i.e. agriculture, small industries etc.

2. QUALITATIVE CREDIT CONTROL

3. Credit Monitoring Arrangements

   Under this scheme, RBI monitors and scrutinizes all sanctions of bank loan exceeding Rs 5 crore to any single party for working capital requirements.

4. Direct Action

   Under this, RBI can stop any commercial bank from any type of transaction. In case of non-compliance of the orders of RBI, it can resort to direct action against member bank.

5. New Loan system for delivery of bank credit

   Under this scheme, maximum 75% of loan demanded will be sanctioned as long term loan and remaining 25% will be allowed only for short period for working capital requirements. It is applicable on borrowers who demand loan exceeding Rs 20 crore.

2. QUALITATIVE CREDIT CONTROL

6. Ceiling on loans

   Ceiling on loan for any single project from the banking sector has been fixed at Rs 500 crore. The banks can sanction maximum loan of Rs 500 crore for a single project.

LIMITATIONS OF MONETARY POLICY

1. Reserve Bank of India has little control over the supply of money. The decision regarding currency to be printed is dictated by Finance Ministry to Reserve Bank of India.
2. The monetary policy has played only a limited role in controlling the inflationary pressure. Prices are affected by many factors. These factors are beyond the control of monetary policy.
3. People in India prefer to make use of cash rather than cheques. A major portion of cash generally continues to circulate in the economy with coming to the banks in the form of deposits. This reduces the credit capacity of banks.

LIMITATIONS OF MONETARY POLICY

4. The existence of black money limits the working of monetary policy. The government cannot regulate the black money in accordance with the objectives of monetary policy.
5. An important limitation arises from its conflicting objectives. To achieve the objective of economic development, money supply has to be increased; but to achieve the objective of price stability, money supply has to be decreased.
6. Banking services are not available in some rural and remote areas of the country. Monetary policy cannot regulate credit in such areas.

SUGGESTIONS FOR MONETARY POLICY

RBI appointed a committee to review the monetary policy under the chairmanship of Shri S. Chakravarty in 1982. The committee gave following recommendations:

1. Price stability should be the main objective of the monetary policy.
2. There should be proper coordination between Monetary and Fiscal policy.
3. The banks should have greater freedom in determining their rate of interest.
4. Money market in India should be strengthened so as to make it more efficient.
5. RBI should fix monetary targets so as to regulate the growth of money supply in desired direction.
6. RBI should give guidelines for credit allocation to different sectors, agriculture, industry, service sector etc.
7. Monetary policy should be strictly implemented for achieving its objectives.

FISCAL OR BUDGETARY POLICY

Fiscal Policy is a part of economic policy of the government which is related to government income and expenditure. It is aimed at achieving certain objectives like rapid economic development, reduction in economic inequalities, promoting capital formation etc. Fiscal policy of the government is reflected in its annual budget.

Fiscal policy may be defined as that part of the government economic policy which deals with taxation, government expenditure, borrowings, deficit financing and debt management in an economy.

"Fiscal policy means any decision to change the level, composition or timing of government expenditure or to change the rate and structure of tax." G.K. Shaw

OBJECTIVES OF FISCAL POLICY

1. To mobilize resources for rapid economic development of the country.
2. To increase the rate of saving in the country so that sufficient financial resources can be obtained from within the economy.
3. To increase the rate of investment in the country so as to promote capital formation.
4. To remove poverty and unemployment.
5. To reduce economic inequality.
6. To reduce regional disparities.
7. To achieve economic stability.
8. To achieve favourable balance of payments.

FEATURES OF FISCAL POLICY

1. Fiscal policy has played significant role in the capital formation of public and private sectors. It leads to further economic development of the nation.
2. Fiscal policy has provided incentives to private sector for investment and production. To set up industries in backward areas, several tax concessions have been given.
3. Fiscal policy has also helped mobilization of resources. To execute the plans, resources have mainly been provided by internal resources.
4. Fiscal policy has provided several incentives for savings to household and corporate sectors. Concessions and tax exemptions have been given on life insurance, NSCs, Provident Fund, Infrastructure Bonds etc.

FEATURES OF FISCAL POLICY

5. Fiscal policy has been providing finance for development of public enterprises. These enterprises have been set up in the area of basic and heavy industries. These enterprises have played significant role in industrial development of nation.
6. Through fiscal policy government spends huge amount on public health education, safe drinking water, welfare of weaker sections of the society, child welfare, woman welfare etc.
7. Fiscal policy has been helpful to alleviate poverty. Considerable public expenditure is incurred on programs like, Jawahar Rozgar Yojna, Prime Minister Rozgar Yojna, Mahatma Gandhi National Rural Employment Guarantee Act, etc. Subsidy given on food, kerosene oil, LPG etc has also benefitted the poor people.

*LIMITATIONS OF FISCAL POLICY

1. Deficit financing has proved inflationary. Deficit financing results in increase in money supply, which results in fall in the value of money.
2. In India share of direct tax is less than the share of indirect tax. Such tax structure proves burdensome for the poor.
3. Indian tax administration has been very poor. Because of this, there is enormous tax evasion.
4. Fiscal policy has failed to check inequality of income. Because of defective indirect tax system, poor class has to bear the burden of indirect taxes like the rich class.
5. Various public sector units are running in loss. Huge investment in public enterprises have failed to generate adequate return on investment.

*LIMITATIONS OF FISCAL POLICY

5. Fiscal policy has failed to control non-development expenditure. Government spends huge amount on non-development expenses like defense expenses, election expenses, subsidies, foreign travels, interest payment etc.
6. Under fiscal policy government has taken huge public debt both from internal and external sources. This has resulted into undue interest burden on government.
7. Despite working of more than five decades, fiscal policy has not been much successful in eradicating poverty and unemployment. Fiscal policy has failed to provide productive employment. Even now 21% of our population is living below poverty line.

*SUGGESTIONS FOR FISCAL POLICY

Following suggestions are offered to bring about reforms in fiscal policy:

1. Non-developmental expenditure should be scaled down.
2. Government should reduce its dependence on public debt as it imposes.
3. Agriculture sector should be brought under tax net to reduce government dependency on public debt or deficit financing.
4. Efficiency of public sector enterprises must be improved. Public sector units should be managed by professionals not by bureaucrats.
5. Taxation system should be broad based so that large population is brought under tax net.
6. More importance should be given to direct tax.
7. Strict measures should be taken to check tax evasion in the country.

*SUGGESTIONS FOR FISCAL POLICY

8. The tax structure should be made more progressive so that its burden may fall more heavily on the rich than on the poor.
9. Taxation system must be simple. It will check tax evasion and tax payers will have no inconvenience in paying the tax.
10. Loss making public sector units should be privatized.
11. Some government departments are over staffed. Surplus staff should be down sized.
12. Various subsidies are given by government i.e. food subsidy, fertilizer subsidy, petroleum subsidy, export subsidy etc. These subsidies should be reduced as these put undue burden on government.
13. Implementation of various projects should be strictly monitored so as to check leakage of funds and ensure control over government expenses.

EXIM OR FOREIGN TRADE POLICY

In the era of globalization, no economy in the world can remain cut off from rest of the world. Export and import play a significant role in the economic development of all the developed and developing countries.

Export refers to selling goods and services to other countries while imports means buying goods and services from other countries. To regulate import and export in the desired direction it is very important that government frames some rules and regulations for exports and imports.

EXIM (Export-Import) policy regulates exports and imports of a country. It frames rules and regulations for exports and imports. This policy is also known as Foreign Trade Policy or Commercial Policy. This policy is prepared periodically by Ministry of Commerce, Government of India.

TYPES OF EXIM POLICY

*__Free Trade Policy__

When no restrictions are imposed on imports and exports of goods and services, it is known as free trade policy. It is a situation where nations do not impose custom duties or other taxes on the import of goods from other countries.

Protectionist Trade Policy

This policy refers to that situation in which government impose restrictions on imports and export of goods and services. This policy helps the developing countries in increasing investment and capital formation and reducing the deficit of balance of payment.

NEW EXIM POLICY 2015-2020

The FTP for 2015-20 seeks to achieve the following objectives:

(i) To provide a stable and sustainable policy environment for foreign trade in merchandise and services.

(ii) To link rules, procedures and incentives for exports and imports with other initiatives such as “Make in India”, “Digital India” and “Skills India”, to create an Export Promotion Mission for India.

(iii) To promote the diversification of India’s export basket by helping various sectors of the Indian economy to gain global competitiveness with a view to promoting exports

(iv) To create an architecture for India’s global trade engagement with a view to expanding its markets and better integrating with major regions, thereby increasing the demand for India’s products and contributing to the Government’s flagship “Make in India” initiative.

(v) To provide a mechanism for regular appraisal in order to rationalise imports and reduce the trade imbalance.

NEW EXIM POLICY 2015-2020

The success of trade policy is critically dependent on the coordinated efforts of the Government of India as a whole as well as State Governments.

- Help improve Indian export competitiveness and deepen engagements with new markets.
- Operationalise institutional mechanisms in existing bilateral and regional trade agreements;
- Deepen and widen the export basket;
- Reduce transaction costs;
- Make efforts to reduce the cost of export credit.

NEW EXIM POLICY 2015-2020

- Rationalise tax incidence-introduce.
- Help improve infrastructure eg. ports, laboratories and Common Facility Centres.
- Promote product standards, packaging and branding of Indian products.
- Help improve manufacturing by mainstreaming exports
- Incentivise potential winners for promising markets;
- Promote and diversify Services Exports.

EXIM BANK

Export-Import Bank of India (EXIM Bank) is a specialized financial institution, wholly owned by Government of India, set up in 1982, for financing, facilitating and promoting foreign trade of India.

Since its inception, Exim Bank has been both a catalyst and a key player in the promotion of cross border trade and investment.

Exim Bank is managed by a Board of Directors, which has representatives from the Government, Reserve Bank of India, Export Credit Guarantee Corporation of India, a financial institution, public sector banks, and the business community.

EXIM BANK

Exim Bank India has, over the period, evolved into an institution that plays a major role in partnering Indian industries, particularly the Small and Medium Enterprises, in their globalisation efforts, through a wide range of products and services offered at all stages of the business cycle, starting from import of technology and export product development to export production, export marketing, pre-shipment and post-shipment and overseas investment.

OBJECTIVES OF EXIM BANK

- To ensure and integrated and co-ordinated approach in solving the allied problems encountered by exporters in India.
- To pay specific attention to the exports of capital goods.
- Export projection
- To facilitate and encourage joint ventures and export of technical services and international and merchant banking.
- To extend buyers' credit and lines of credit.
- To tap domestic and foreign markets for resources for undertaking development and financial activities in the export sector.

FUNCTIONS OF EXIM BANK

- Planning, promoting and developing exports and imports;
- Providing technical, administrative and managerial assistance for promotion, management and expansion of exports; and
- Undertaking market and investment surveys and techno-economic studies related to development of exports of goods and services.

FOREIGN EXCHANGE MANAGEMENT ACT (FEMA)

Foreign exchange transactions were regulated in India by the Foreign Exchange Regulation Act (FERA), 1973. Following the economic liberalization and globalization in the Industrial Policy, 1991, government realized the need of replacing strict provisions of FERA. Hence, Foreign Exchange Management Act was passed in 1999 and it was enforced w.e.f. 1st January, 2000.

Provisions of FEMA regarding foreign exchange transactions are simple and liberal. FEMA is a much smaller enactment having only 49 Sections against 81 Sections of FERA.

Following are the objectives of FEMA:

1. To facilitate external trade.
2. To facilitate external payment.
3. To promote the orderly development and maintenance of foreign exchange rate.

FEATURES OF FEMA

Following are the main features of Foreign Exchange Management Act:

1. This Act has replaced Foreign Exchange Regulation Act (FERA).
2. It is applicable to whole of India.
3. It also applies to all branches, offices and agencies outside India, owned or controlled by a person resident in India. Therefore, this act enjoys extra-territorial jurisdiction.

4. Reserve Bank of India (RBI) is the overall controlling authority in respect of FEMA as RBI is the guardian and custodian of foreign exchange reserves in India.

DIFFERENCE BETWEEN FEMA & FERA

FERA	FEMA
It is an old enactment, passed in 1973. Now this act has been replaced.	It is a new enactment. It was passed in 1999.
It was a long act with 81 Sections. It was very strict in nature.	It is a small act with 49 Sections. It is liberal in nature.
Approach towards foreign exchange transactions was very conservative and restrictive.	The approach towards foreign exchange transactions is very positive and welcoming.
Penalty provisions were very hard. In this Act, imprisonment was imparted to the person violating the provisions.	It provides only for monetary penalty for violating the provisions. Imprisonment is imparted only on non-payment of monetary penalty.
The scope of FERA was very wide. It dealt with all the transactions related to foreign exchange, i.e. anything and everything related to foreign exchange was controlled by FERA.	The scope of FEMA is narrow. It deals only with specified transactions related to foreign exchange i.e. it checks and control only those transactions which are specifically mentioned in the Act.

UNIT-V

CONTENT

- Overview of International Business Environment
- Trends in World Trade
- WTO-Objectives and Role in International Trade

INTERNATIONAL BUSINESS ENVIRONMENT

International Trade or Foreign Trade refers to the trade between two countries. Purchaser and Seller are citizens of two different countries.

"International Trade consists of transactions between residents of different countries."

Wasserman & Haltman

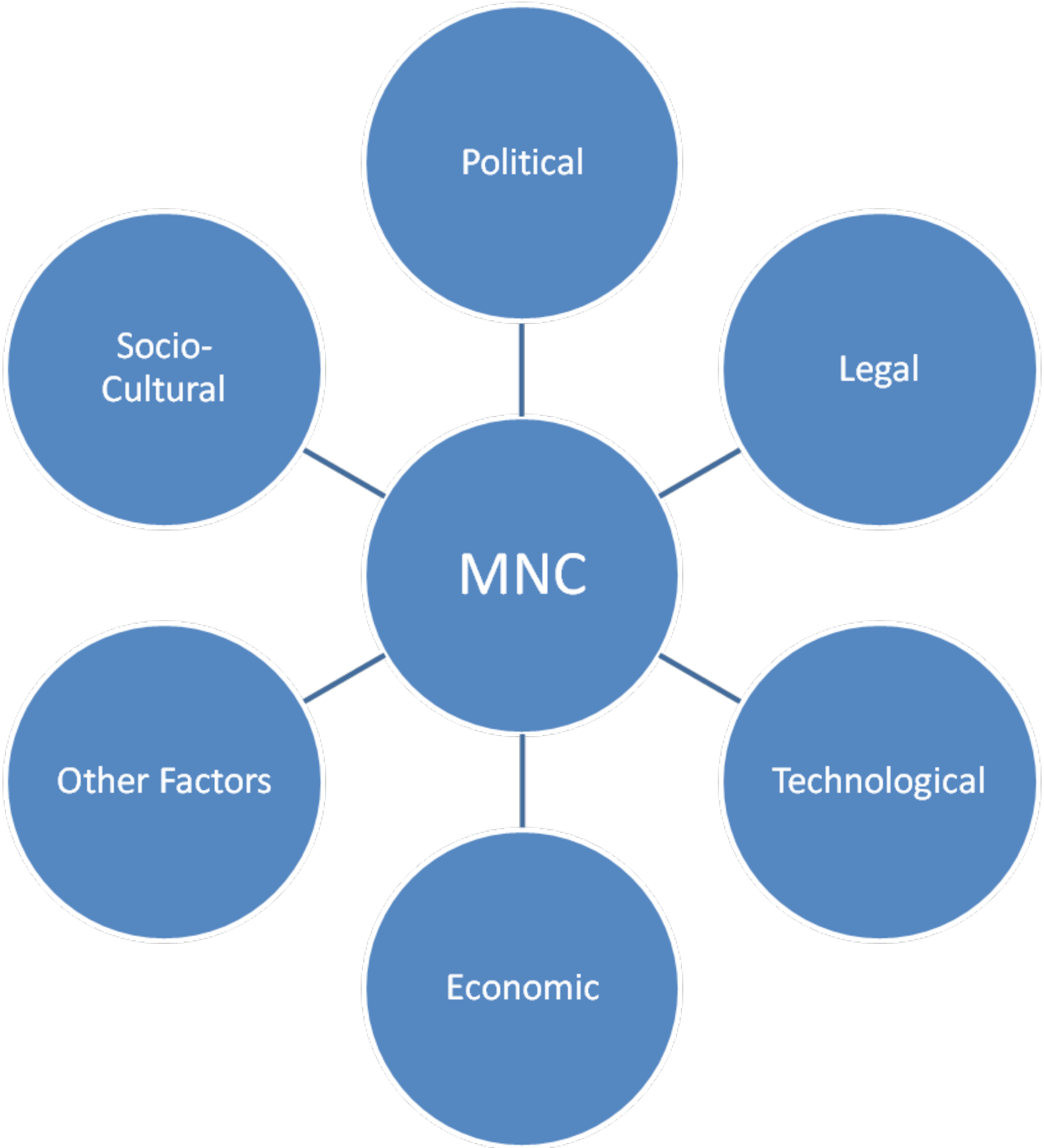
International business means carrying of business activities beyond national boundary.

*International business environment is composed of Economic Environment, Political Environment, Legal Environment, Socio-cultural Environment, Technological Environment and other factors which affect international trade and finance.

NEED FOR STUDY OF INTERNATIONAL BUSINESS ENVIRONMENT

1. Rapid increase in international trade.
2. Increasing role of Multinational Corporations
3. Increase in Foreign Investment
4. Free flow of goods among different countries because of reduction in tariff and non-tariff barriers.
5. Free flow of technology
6. Increasing role of International Organizations like IMF, World Bank, WTO etc.
7. Increase in International Trade Agreements among different nations, corporate houses etc.
8. Effect of Economic, Political, Legal, Socio-cultural and Technological environment of one country on other countries.
9. Effect of economic crisis, trade cycles, terrorism, war etc. in one country on other country.

INTERNATIONAL BUSINESS ENVIRONMENT



INTERNATIONAL ECONOMIC ENVIRONMENT

Economic environment is the most important component of International business environment. It includes:

1) Economic environment of domestic economy
2) Stages of business cycle
3) Foreign investment
4) International Institutions (IMF, WTO, World Bank)
5) International Trade Agreements

INTERNATIONAL ECONOMIC ENVIRONMENT

Economic Environment affecting International Trade

- **Economic Environmen t of Domestic Economy**
  (a)Economic Conditions
  (b)Economic Policies
  (c)Economic System
- **Business Cycle**
  (a)Prosperity
  (b)Boom
  (c)Decline
  (d)Depression
  (e)Recovery
- **Foreign Investmen t**
  (a)FDI
  (b)Portfolio Invest- ment
- **International Institutions**
  (a)IMF
  (b)World Bank
  (c)WTO
  (d)UNCTAD
- **International Trade Agreements**
  (a)GSP
  (b)Counter Trade

*TRENDS IN WORLD TRADE

World trade expansion depends on economic growth of world economy, relation among different countries, international liquidity and different forums which are working for promotion of foreign trade. At present, there is an indication of increase in world trade. The credit for this increase in world trade largely goes to WTO.

World trade helps a country to utilize its natural resources and to export its surplus production. Previously, world trade was in the form of barter-trade. Then gold was used as a medium of exchange. Later because of shortage of gold and other limitation, its use was discontinued. Later currencies of five countries American Dollar, U.K.'s Pound Sterling, German's Deutsche Mark, Japanese Yen and France Franc were used as internationally accepted currencies for foreign trade.

*TRENDS IN WORLD TRADE

Trends in world trade can be analyzed in the following manner:

1. Increase in world’s exports

Year	World’s Export (in Million US Dollars)
1980	**2 049 411**
1990	**3 495 693**
2000	**6 452 624**
2005	**10 501 737**
2010	**15 300 667**
2015	**21 817 705**

*TRENDS IN WORLD TRADE

2. Top Exporters in World Trade

1. China
2. Germany
3. USA
4. Japan
5. Netherlands

*TRENDS IN WORLD TRADE

3. Top Importers in World Trade

1. USA
2. China
3. Germany
4. Japan
5. France

*TRENDS IN WORLD TRADE

4. **Exports of Developing Countries**

   Among developing countries, the top five countries in world trade are China, Hong Kong, Taiwan, Korea and Singapore.

5. **Composition of World Trade**

   Presently world trade includes engineering goods, capital goods, technology, computer software, services, chemicals along with agricultural goods. So composition of world trade is changing and share of industrial goods and services is expanding at a faster rate, than traditional export items.

*TRENDS IN WORLD TRADE

6. **Shift from Bilateral Trade to Multilateral Trade**

   Earlier world trade was mainly bilateral. With the growth in WTO, there is a shift from bilateral trade to multilateral trade. Multilateral trade agreements have promoted world trade.

7. **Shift from Restricted Trade to Free Trade**

   Earlier various tariff and non-tariff restrictions were imposed on world trade. These restrictions were in the form of import quotas, custom duties, discriminatory transport charges, import restraints, license system, subsidies etc. But now as per the directions of WTO, both tariff and non-tariff barriers to international trade have been

PROBLEMS OF DEVELOPING COUNTRIES RELATED TO INTERNATIONAL TRADE

1) Problem of balance of payment
2) Deterioration in the Terms of Trade
3) Less growth in exports of primary products
4) Backward technology
5) Essential imports
6) Dumping
7) More demand of consumption goods
8) Backward industrial structure
9) Foreign competition
10) Increase in price of crude oil
11) Lack of Entrepreneurs

DUMPING

If a company exports a product at a price lower than the price it normally charges on its own home market, it is said to be "dumping" the product.

Many countires take action against dumping in order to defend their domestic industries. The WTO agreement does not pass judgment. Its focus is on how governments can or cannot react to dumping. It disciplines anti-dumping actions, and it is often called the "**Anti-Dumping Agreement**".

DUMPING

GATT (Article 6) allows countries to take action against dumping. Typically anti-dumping action means charging extra import duty on the particular product from the particular exporting country in order to bring its price closer to the "normal value" or to remove the injury to domestic industry in the importing country.

SUGGESTIONS FOR DEVELOPING COUNTRIES

1) Use of modern technology
2) Promoting mutual trade among developing countries
3) Developing import substitutes in domestic economy of developing nations
4) Diversification of exports
5) Strong regional trade organizations of developing nations
6) Control over domestic inflation
7) Population control in developing nations so as to generate more surplus for exports
8) Strong marketing efforts by government of developing nations to publicize domestic products

WORLD TRADE
ORGANIZATION

*WORLD TRADE ORGANIZATION (WTO)

World Trade Organization (WTO) was formed to promote free trade among its member nations. Its main objective is to promote multilateral trade in goods and services by eliminating tariff and non-tariff barriers.

WTO came into existence on 1 January, 1995 and had 124 member nations. It is having its head office in Geneva, Switzerland. At present, there are 164 member nations. India has been the founder member of both GATT and WTO. Roberto Azevedo is the Director-General of WTO.

WTO is the only global international organization dealing with the rules of trade between nations.

*WORLD TRADE ORGANIZATION (WTO)

At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters and importers conduct their business.

WTO's predecessor, the General Agreement on Tariffs and Trade (GATT) was established after second World War.

GATT was the only multilateral instrument governing international trade from 1946 until the WTO was established on 1 January 1995.

FACT FILE-WTO

Location: Geneva, Switzerland

Established: 1 January 1995

Created by: Uruguay Round Negotiations (1986-94)

Membership: 164 countries

Secretariat staff: 640

Head: Roberto Azevêdo (Director-General)

Official languages: English, French and Spanish

Official Website: www.wto.org

DIRECTOR GENERAL (WTO)

*OBJECTIVES OF WTO

1. The primary aim of WTO is to implement the new world trade agreements.
2. To promote multilateral trade.
3. To promote free trade by abolishing tariff and non-tariff barriers.
4. To promote world trade in a manner that benefits every member country.
5. To ensure that developing countries get a better share in the advantages resulting from the expansion of international trade.
6. To remove all hurdles in the way of open world trading system and use world trade as an effective instrument to boost economic growth.
7. To enhance competitiveness among all trading partners so as to benefit consumers.
8. To increase the level of production and productivity with a view to increase the level of employment.
9. To expand and utilize world resources in the most optimum manner.
10. To improve the standard of living of the global population and speed up economic development of member nations.
11. To take special steps for the development of poorest nations.

*FUNCTIONS OF WTO

- Administering WTO trade agreements
- Forum for trade negotiations
- Handling trade disputes with the help of its Dispute Settlement Body (DSB)
- Monitoring national trade policies with the help of its Trade Policy Review Body (TPRB)
- Technical assistance and training for developing countries
- Cooperation with other international organizations like International Monetary Fund and World Bank

ROLE OF WTO IN INTERNATIONAL TRADE

1. Before WTO, foreign trade was bilateral. WTO has promoted multilateral trade.
2. WTO has promoted foreign trade among all its member nations. The efforts of WTO have helped to increase the volume of world trade.
3. Before WTO, international trade was done mainly in goods. But WTO has promoted trade in services also and thereby changed the composition of world trade.
4. WTO has set up Dispute Settlement Body (DSB) for settlement of disputes. it submits its report within 6 months but in case of urgency this time period is reduced to 3 months.

ROLE OF WTO IN INTERNATIONAL TRADE

5. WTO has urged the member nations to reduce subsidy on agriculture inputs and outputs. It will promote agricultural exports.
6. WTO agreements help to restrict dumping activities in the world trade.
7. WTO provides for reduction in tariff and non-tariff barriers to international trade.

*DIFFERENCE BETWEEN GATT AND WTO

GATT	WTO
GATT was applied on a provisional basis in the attempt to establish an International Trade Organization.	WTO is a permanent Institution.
The main focus of GATT was on trade in goods.	The focus of WTO is on trade in goods and services.
GATT was less powerful and its dispute settlement system was slow and inefficient.	WTO is more powerful and its dispute settlement system is fast, strong and efficient.
In GATT, there was no pre-decided time of holding sessions.	In WTO, ministerial meet is held after every two years.
GATT had a small secretariat managed by Director General.	WTO has a large secretariat and huge organizational set up.

*ACHIEVEMENTS OF WTO

1. Greater market orientation.
2. Tariffs replacing non-tariff barriers.
3. Services trade under multilateral system.
4. Trade reforms in developing countries.
5. Bilateralism has replaced unilateralism in trade.
6. Continuous monitoring of trade policy developments.

*FAILURES OF WTO

1. Liberalization process incomplete.
2. Major benefits to developed countries.
3. Not sensitive to anti-dumping activities.
4. One size fits all approach in multilateral trade rules.
5. All members not equally integrated in the multilateral system.
6. Implementing issues becoming a source of concern.

WTO & INDIA

ADVANTAGES TO INDIA	DISADVANTAGES TO INDIA
Increase in Exports	Burden of royalty
Policy Assistance	Prominence to Developed nations
Trade links	Price rise
Settlements of Disputes	Challenge to Service sector
Increase in FDI	Bad effect on Domestic industries
Availability of Foreign goods	