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Environmental analysis and management

(MBA Sem.- 1)

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Unit1

Business Environment-Meaning Nature, Significance & Scope

Meaning of Business Environment –

The term 'business environment' means the sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but that may affect its performance. As one writer has put it– "Just take the universe, subtract from it the subset that represents the organization, and the remainder is environment". Thus, the economic, social, political, technological and other forces which operate outside a business enterprise are part of its environment. So also, the individual consumers or competing enterprises as well as the governments, consumer groups, competitors, courts, media and other institutions working outside an enterprise constitute its environment. The important point is that these individuals, institutions and forces are likely to influence the performance of a business enterprise although they happen to exist outside its boundaries. For example, changes in government's economic policies, rapid technological developments, political uncertainty, changes in fashions and tastes of consumers and increased competition in the market — all influence the working of a business enterprise in important ways. Increase in taxes by government can make things expensive to buy. Technological improvements may render existing products obsolete. Political uncertainty may create fear in the minds of investors. Changes in fashions and tastes of consumers may shift demand in the market from existing products to new ones. Increased competition in the market may reduce profit margins of firms. On the basis of the foregoing discussion, it can be said business environment, has the following features:

(i) Totality of external forces: Business environment is the sum total of all things external to business firms and, as such, is aggregative in nature.

(ii) Specific and general forces: Business environment includes both specific and general forces. Specific forces (such as investors, customers, competitors and suppliers) affect individual enterprises directly and immediately in their day-to-day working. General forces (such as social, political, legal and technological conditions) have impact on all business enterprises and thus may affect an individual firm only indirectly.

(iii) Inter-relatedness: Different elements or parts of business environment are closely interrelated. For example, increased life expectancy of people and increased awareness for health care have increased the demand for many health products and services like diet Coke, fat-free cooking oil, and health resorts. New health products and services have, in turn, changed people's life styles.

(iv) Dynamic nature: Business environment is dynamic in that it keeps on changing whether in terms of technological improvement, shifts in consumer preferences or entry of new competition in the market.

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

(vi) Complexity: Since business environment consists of numerous interrelated and dynamic conditions or forces which arise from different sources, it becomes difficult to comprehend at once what exactly constitutes a given environment. In other words, environment is a complex phenomenon that is relatively easier to understand in parts but difficult to grasp in its totality. For example, it may be difficult

to know the extent of the relative impact of the social, economic, political, technological or legal factors on change in demand of a product in the market. (vii) Relativity: Business environment is a relative concept since it differs from country to country and even region to region. Political conditions in the USA, for instance, differ from those in China or Pakistan. Similarly, demand for sarees may be fairly high in India whereas it may be almost non-existent in France. importance of Business importance of Business environment Just like human beings, business enterprises do not exist in isolation. Each business firm is not an island unto itself; it exists, survives and grows within the context of the element and forces of its environment. While an individual firm is able to do little to change or control these forces, it has no alternative to responding or adapting according to them. A good understanding of environment by business managers enables them not only to identify and evaluate, but also to react to the forces external to their firms.

The importance of business environment and its understanding by managers can be appreciated if we consider the following facts:

(i) It enables the firm to identify opportunities and getting the first mover advantage: Opportunities refer to the positive external trends or changes that will help a firm to improve its performance. Environment provides numerous opportunities for business success.

(ii) It helps the firm to identify threats and early warning signals: Threats refer to the external environment trends and changes that will hinder a firm's performance. Besides opportunities, environment happens to be the source of many threats. Environmental awareness can help managers to identify various threats on time and serve as an early warning signal.

(iii) It helps in tapping useful resources: Environment is a source of various resources for running a business. To engage in any type of activity, a business enterprise assembles various resources called inputs like finance, machines, raw materials, power and water, labour, etc., from its environment including financiers, government and suppliers.

(iv) It helps in coping with rapid changes: Today's business environment is getting increasingly dynamic where changes are taking place at a fast pace. It is not the fact of change itself that is so important as the pace of change. Turbulent market conditions, less brand loyalty, divisions and sub-divisions (fragmentation) of markets, more demanding customers, rapid changes in technology and intense global competition are just a few of the images used to describe today's business environment.

(v) It helps in assisting in planning and policy formulation: Since environment is a source of both opportunities and threats for a business enterprise, its understanding and analysis can be the basis for deciding the future course of action (planning) or training guidelines for decision making (policy).

(vi) It helps in improving performance: The final reason for understanding business environment relates to whether or not it really makes a difference in the performance of an enterprise. The answer is that it does appear to make a difference.

Economic Environment

Social Environment

Legal Environment

Technological Environment

Political Environment

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Discussion of the various factors constituting the general environment of business is given below:

(i) **Economic Environment**: Interest rates, inflation rates, changes in disposable income of people, stock market indices and the value of rupee are some of the economic factors that can affect management practices in a business enterprise. Short and long term interest rates significantly affect the demand for product and services of the working of business enterprises. RBI is a key regulator of the country's economic environment since it influences the interest rates n Controls the flow of money in the economy n Regulates the working of banks

(ii) **Technological Environment**: Technological environment includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business.

(iii) **Social Environment**: The social environment of business include the social forces like customs and traditions, values, social trends, society's expectations from business, etc. Traditions define social practices that have lasted for decades or even centuries. Elements of Social Environment is attitudes towards product innovations, lifestyles, occupational distribution and consumer preferences

Environmental Scanning

Environmental scanning is a process that systematically surveys and interprets relevant data to identify external opportunities and threats that could influence future decisions. It is closely related to a S.W.O.T. analysis and should be used as part of the strategic planning process.

Components of external scanning that could be considered include:

- Trends: What trends are occurring in the marketplace or industry that could affect the organization either positively or negatively?
- Competition: What is your competition doing that provides them an advantage? Where can you exploit your competition's weaknesses?
- Technology: What developments in technology may impact your business in the future? Are there new technologies that can make your organization more efficient?
- Customers: How is your customer base changing? What is impacting your ability to provide top-notch customer service?
- Economy: What is happening in the economy that could affect future business?
- Labor supply: What is the labor market like in the geographies where you operate? How can you ensure ready access to high-demand workers?
- Political/legislative arena: What impact will election outcomes have on your business? Is there impending legislation that will affect your operations?

Each organization must identify what external factors are most impactful to make the environmental scan a useful tool.

The next step is to conduct an internal scan of the organization. Review the company's vision, mission and strategic plan. Examine the organization's strengths and weaknesses. Consider where the company is now and where it plans to be in five or 10 years. Interview or survey leaders of the company.

Once an organization has gathered information about the external world, its competitors and itself, it should then develop strategies to respond to impacts when the need arises.

When conducting an environmental scan, a variety of methods should be used to collect data, including reviewing publications, conducting focus groups, interviewing leaders inside and outside the organization, and administering surveys.

Environmental scanning is an important component of strategic planning as it provides information on factors that will affect the organization in the future. The information gathered will allow leadership to proactively respond to external impacts.

Capitalism vs. Socialism: An Overview

Capitalism and socialism are the two primary economic systems used to understand the world and the way economies work. Their distinctions are many, but perhaps the fundamental difference between capitalism and socialism lies in the scope of government intervention in the economy. The capitalist economic model relies on free-market conditions to drive innovation and wealth creation and regulate corporate behavior; this liberalization of market forces allows for the freedom of choice, resulting in either success or failure. The socialist-based economy incorporates elements of centralized economic planning, utilized to ensure conformity and to encourage equality of opportunity and economic outcome.

- Capitalism is a market-driven economy. The state does not intervene in the economy, leaving it up to market forces to shape society and life.

- Socialism is characterized by state ownership of businesses and services. Central planning is used to attempt to make society more equitable.
- Most countries are mixed economies, falling in between the extremes of capitalism and socialism.

Capitalism

In a capitalist economy, property and businesses are owned and controlled by individuals. The production and prices of goods and services are determined by how in-demand they are and how difficult they are to produce. Theoretically, this dynamic drives companies to make the best products they can as cheaply as they can, meaning that consumers can choose the best and cheapest products. Business owners should be driven to find more efficient ways of producing quality goods quickly and cheaply.

This emphasis on efficiency takes priority over equality, which is of little concern to the capitalist system. The argument is that inequality is the driving force that encourages innovation, which then pushes economic development. In a capitalist economy, the state does not directly employ the workforce. This can lead to unemployment during times of economic recession.

Socialism

In a socialist economy, the state owns and controls the major means of production. In some socialist economic models, worker cooperatives have primacy over production. Other socialist economic models allow individual ownership of enterprise and property, albeit with high taxes and stringent government controls.

The primary concern of the socialist model, in contrast, is an equitable redistribution of wealth and resources from the rich to the poor, out of fairness and to ensure "an even playing field" in opportunity and outcome. To achieve this, the state intervenes in the labor market. In fact, in a socialist economy, the state is the primary employer. During times of economic hardship, the socialist state can order hiring, so there is full employment even if workers are not performing tasks that are particularly in demand from the market.

The other major school of left-wing economic thought is communism. Both communism and socialism oppose capitalism, but there are important distinctions between them.

Unit 2

The Politico Legal Environment

In this sub-unit, the politico-legal aspects of the business environment are discussed. The government is a political institution. As discussed earlier it also has a social purpose, it enacts and executes social policies and exists with social consent, providing ways and means of maximizing social benefits and minimizing social costs. In other words, the government and its structure and style have a definite impact on business, and is on immense social value.

More so in the modern world, where business of any type and size is affected by the government policies, programmes, and legislation. We see that, very often, depending on the nature of the government at work, businessmen define and reorient their business strategy and tactics.

Quite a few of the government policies are executed through legislations. These legislations enactments, rules and regulations, directives and guidelines, issued by the government, constitute the politico-legal environment of business. For a successful manager it becomes necessary to take stock of the relevant politico-legal environment of business and then capitalize on the opportunities offered by it.

1.1 THE CRITICAL ELEMENTS OF THE POLITICO-LEGAL ENVIRONMENT OF BUSINESS ARE:

The Form and Structure of the Government: It is a very important and decisive factor for the business sector. Democracy states government of the people, by the people and for the people. At the enterprise level also people's participation is very important. We authorize the local Government to collect some business taxes and spend money on local activities, when we accept the principle of democratic decentralization. Thus, the system of government and the structure of administration affects business.

The Ideology of the Ruling Party: It influences ownership, management, structure and size of business. The philosophy of the ruling party may help or hurt the course of business activity.

The Strength of the Opposition: Opposition has a very important role in democracy. The party which gets an absolute majority forms the government under the two party system whereas, the party which gets a relative majority forms the Government with the collaboration of some other political parties. The candidates who do not command majority forms the opposition.
The strength of the opposition depends on whether the opposition parties are united or divided. To protect, promote and regulate business in the best interests of society, opposition is as important as a dedicated government.

The Role and Responsibility of the Bureaucracy: The work done by the Government is through the bureaucracy Ministers change from time to time, but Government administration must run without any break. Here the bureaucracy comes in. The bureaucracy is very powerful in enforcing Government rules and regulations, systems and procedures, licenses and restrictions.

The bureaucracy enjoys tremendous power in the context of a system environment based on a host of controls and regulations. When the Government proposes liberalization, relaxation of rules and regulations, streamlining of systems and procedures, control becomes redundant and meaningless.

Political Stability: Business grows in a Politically stable region. Whenever the nation becomes politically unstable, the flow of foreign capital and enterprise is adversely affected, and this in turn effect the business, both, national and multinational.

The Velocity of Government Policies, Plans and Programs: If policies and programs are stable then business can plan its activities. otherwise it faces a tremendous amount of "non-market" risk and uncertainties. Stable policies help corporate planning and build up business confidence.

Socio-economic Legislation's: Laws are needed to protect consumers, workers, managers, owners, shareholders and society at large. MRTP, FERA, IORA and so on are some of the business legislation's to maintain order in the industrial economy. Industrial order and harmony is a condition for survival and expansion of business.

Politico-legal Institutions: These are the parts of the non-economic environment of business's. The functioning of the legislative, executive and judicial organs of the Government affects business environment directly and indirectly.

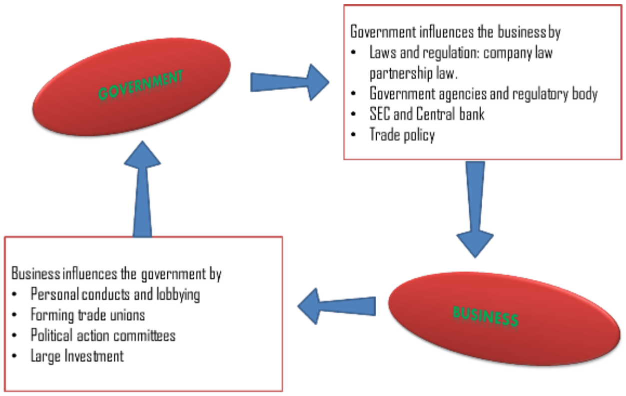
2 RELATIONSHIP BETWEEN GOVERNMENT AND BUSINESS ORGANIZATIONS

Government and business institutions in a country in many ways are interrelated and interdependent. In today's global economy, businessmen and entrepreneurs are the driving forces of the economy.

In a planned economy or even in the market economy government holds control of shaping the business activates of a country.

For maintaining a steady and upward economic growth The Government must try to make the environment for business organizations suitable.

And the organizations must follow the laws of governments' to run the businesses smoothly and making sure there is a level playing field.



The main goal of businesses is to make a profit and governments' goal is to ensure economic stability and growth. Both of them are different but very co-dependent.

For this, the government and organizations or businesses always try to influence and persuade each other in many ways for various matters.

A balanced relationship between the government and businesses is required for the welfare of the economy and the nation.

Let's see how government and business organizations try to influence each other.

2.1 How Business Organizations Influences the Government

Organizations try to force the government to act in ways that benefit the business activities. Of Course, for that, an organization must go through legitimately.

But sometimes we see that organizations try to go over the line.

Anyways, these are the common methods that business organizations us to influence government policies.

- **Personal Conducts and Lobbying**

The corporate executives and political leaders and government officials are in the same social class. This creates a personal relationship between both parties. Also, organizations formally from the group to present their issues to government bodies.

- **Forming Trade Unions And Chamber Of Commerce**

Trade unions and the chamber of commerce are associations of business organizations with a common interest. They work to find the common issues of organizations and present reports, holds dialogue to discuss them with government bodies.

- **Political Action Committees**

Recently in the 2012 US elections, the term "super PACs" was a common topic in many discussions. Political action committees (PACs) or are special organizations formed to solicit money and distribute to political candidates.

Most times the rich executives donate money to the political candidates whose political views are similar to them.

- **Large Investment**

Companies if can make a very large investment in industries or projects, could somehow affect government policies.

We see these very often in developing countries where foreign corporate wants to invest in these countries.

These works in another way around, where the government tries to implement the policy to attract foreign investment.

2.2 HOW GOVERNMENT INFLUENCES THE BUSINESS ORGANIZATIONS

The government attempts to shape the business practices through both, directly and indirectly, implementing rules and regulations.

The government most often directly influences organizations by establishing regulations, laws, and rules that dictate what organizations can and cannot do.

To implement legislation, the government generally creates special agencies to monitor and control certain aspects of business activity.

For example, the environment protection agency handles **Central Bank**, Food and Drug Administration, Labor Commission, Securities, and Exchange Commission and much more.

These agencies directly create, implement laws and monitor its application in the organization.

Governments sometimes take an indirect approach to shaping the activities of business organizations. These are also done by implementing laws or regulations but they are not always mandatory.

For instance, the government sometimes tries to change organizations' policies by their tax codes.

The government could give tax incentives to companies that have an environment-friendly waste management system in a production factory.

Or, tax incentives could be provided to companies that have established their production facilities in a less developed region in the country. As a result, more often the businesses would probably do so.

However, this regulation and its implementation must be to an optimal degree.

Constitutional Provision Affecting Business

Equality of Status and of Opportunity::
According to this concept every businessman should believe and give equal opportunity to others. This can be achieved through eradication of poverty. This does not mean winning gap between the poor and rich.

It means that every citizen has access to shops, public restaurants, hotels, places of public entertainment etc., and is free to use wells, tanks, roads and places of public resort maintained at state funds.

In the employment aspects, the appointment to offices under the state also equal opportunity shall be provided to all the citizens, and no person shall be denied employment on grounds of religion, race, caste, sex, descent, and place of birth, residence or any of them.

- Freedom to reside or settle any part of the territory.

- Freedom to practice any profession, or to carry on any occupation, trade or business.

The right to freedom is also applied equally in business. The businessmen can express their problems freely to the government and can get a solution to it. Similarly, every citizen has the right to choose any business or profession and can form unions, and conduct meetings.

(3) Right against Exploitation (Articles 23 to 24):
Articles 23 to 24 deal with the right against exploitation and seek to prevent exploitation of weaker sections of society by unscrupulous persons as well as the state. Article 23 prohibits traffic in human beings, involuntary work without payment and other forms of forced labour. Article 24 prohibits the employment of children below 14 years of age in factories and hazardous occupations, employing women employees in night shifts in factories etc.

Article 30 confers upon a minority community the right to establish and administer educational institutions of its choice.

A notable feature of the educational and cultural right is that unlike other fundamental rights, it is not subject to any restriction, except that the State can make special provisions for the advancement of any socially and educationally backward classes of citizens.

Economic Importance:
The economic importance of Directive Principles of State Policy is:

(i) To provide adequate means of livelihood for all the citizens.

(ii) To secure equal pay for work to both men and women.

(iii) To protect the workers, especially children.

(iv) To regulate the economic system of the country that it does not lead to concentration of wealth and means of production.

(v) To make provision for securing right to work, to education and to public assistance in cases of unemployment, old age, sickness and similar other cases.

(vi) To ensure a decent standard of living and facilities of leisure for all workers.

Constitutional Provisions Regarding Trade, Commerce and Intercourse within the Territory of India:

Articles 301 to 307 of Constitution of India deals with the constitutional provisions regarding Trade and Commerce. The framers of the Indian Constitution were fully conscious of the importance of maintaining the economic unity of the Union of India.

Free movement and exchange of goods throughout the territory of India was essential for the Economic Unity of the country which alone could sustain the progress of the country.

Prior to the integration of India and enforcement the new constitution there were in existence a large number of Indian states which in exercise of their sovereign powers, had created customs barriers between themselves and the rest of India, thus hindering at several points which constituted the boundaries of those Indian states, the free flow of commerce.

Thus the main object of Article 301 was obviously to encouraging the free-flow of stream of trade and commerce throughout the territory of India. The word ‘trade’ means ‘buying’ or ‘selling’ of goods while the term ‘commerce includes all forms of transportation such as by land, air or water.

The term ‘intercourse’ means movement of goods from one place to another. Thus, the words ‘trade commerce and intercourse’ covers all kinds of activities which are likely to come under the nature of commerce.

Article 302 of Indian Constitution explains the power of parliament to impose restrictions on trade, commerce and intercourse. The Parliament may by law impose it. Such restrictions on the freedom of trade, commerce or intercourse between one state and another or within any part of the territory of India, as may be required in the public interest.

Article 303 deals with the restrictions on the legislative powers of the Union and of the states with regard to trade and commerce. It provides that parliament shall not have power to make any law giving any preference to any one state over another by virtue of any entry relating to trade and commerce in any one of the list in the VIIth Schedule.

But under Clause (2) of this article the parliament may however, discriminate among states. If it is declared by a law that it is necessary to do so for the purpose of dealing with the situation arising from scarcity of goods in any part of the Territory of India. The question whether there is a scarcity of goods in any part of India is for the parliament to decide.

Article 304 explains State's power to regulate trade and commerce. The details, (a) impose on goods imported from other states (or the Union Territories) any tax to which similar goods manufactured or produced in that state are subject. So, however as not to discriminate between goods so imported and goods so manufactured or produced; and (b) impose such reasonable restrictions on the freedom of trade, commerce or Intercourse with or within that state as my be required in the public interest.

Article 305 saves existing laws and laws providing for state monopolies insofar as the president may by order otherwise direct. Article 307 empowers parliament to appoint such authority as it considers appropriate for carrying out purposes of Articles 301, 302, 303 and 304. It can confer on such authorities such powers and duties as it thinks necessary.

Important Business Law

2.2.1 MRTP (Monopolies and Restrictive Trade Practices) Act

1. 1. The act came into force from 1st June, 1970. The act aims to prevent concentration of economic power, provide for control of monopolies, and protect consumer interest. Currently, the MRTP Act has been renamed as the Competition Act, 2002, with a few changes to it.
2. To ensure that the operation of the economic system does not result in the concentration of economic power in the hands of few. To provide for the control of monopolies To prohibit monopolistic and restrictive trade practices. After the amendment of the act in 1984, a 4th objective was introduced, which was Regulation of Unfair Trade Practices.
3. The MRTP Act extends to the whole of India except Jammu and Kashmir. Unless the Central Government otherwise directs, this act SHALL NOT apply to: Any undertaking owned or controlled by a Government company Any undertaking owned or controlled by the Government Any undertaking owned or controlled by a corporation (not being a company established by or under any Central, Provincial or State Act)
4. _Any trade union or other association of workmen or employees formed for their own reasonable protection as such workmen or employees. Any undertaking engaged in an industry, the management of which has been taken over by any person or body of persons under powers by the Central Government. Any undertaking owned by a co-operative society formed and registered under any Central, Provincial or State Act. Any financial institution.
5. _A Monopolistic Trade Practice is that which represents abuse of market power in production and marketing of goods and services by eliminating potential competitors, charging unreasonably high prices, preventing or reducing competition, limiting technical development, deteriorating product quality, etc.

6. _Poorly resourced commission. Inadequacy in dealing effectively with anti-competitive practices, due to lack of definitions, cumbersome procedures and scarce resources. Absence of specification of identifiable anti- competition practices. Anti-competition practices like cartels, predatory pricing, rigging etc. are not specifically mentioned in the MRTP Act.
7. At the time of drafting of the MRTP Act, the economic and trade milieu prevalent at that time constituted India only for its various provisions. However, ever since, there has been considerable movement towards liberalization, privatization and globalization (i.e. the New Economic Policy 1991). Hence, the law needed to yield to the changing scenario on both the economic and trade fronts.
8. _It can be said that the MRTP Act was successful to an extent. However, due to scarcity of resources, lack of clearly defined procedures and cumbersome rules and regulations, the Act wasn't as effective as it was supposed to be. Also, the changing economic and trade environment (brought by the New Economic Policy, 1991) made it necessary for a change in the MRTP Act.

2.2.2 Industrial Development And Regulation Act1951

1. IDRA,1951 Industrial Development Regulation Act• Passed in 1951 to implement the IPR,1948 (Industrial Policy Resolution)• --the IPR had laid down the national objectives to be achieved• --for this the Govt. must have the power to direct, regulate, and control industrial investment, location, expansion, management, growth, etc.
2. This Act empowered the Govt.: To make rules for registration of existing industries License all new undertakings Rules for regulating production & development of industries in the 'Schedule' Consultation with state govts. on these matters. Act provided for constitution of a Central Advisory Council & Development Councils.
3. COVERAGE OF THE ACT:• The whole of India and to all factories manufacturing any item in the Ist Schedule to the Act.• Exemptions: by the GOI. By official Gazette notification
4. CENTRAL ADVISORY COUNCIL & DEVELOPMENT COUNCILS:• CAC: By GOI to advise on matters of development and regulation of such industries. Chairman and all members to be appointed by GOI Max number of members = 30 To represent interests of owners, employees, consumers, primary suppliers etc., of the such industries Also sub committees of the CAC
5. DEVELOPMENT COUNCIL: May perform any of the following: Recommending targets for production, co-coordinating production programs, and reviewing progress Suggesting efficiency norms Measures for max utilization of installed capacity Better marketing and distribution Standardization of products Distribution of controlled materials Work study, O&M study etc. Training and re-training of workers
6. Scientific and industrial research (also industrial psychology) Standardization of accounting and costing methods Statistics Decentralization and subcontracting—for SSIs
7. REGULATION OF SCHEDULED INDUSTRIES• Registration of Existing Undertakings:• Incl. PSUs• + get certificate with installed capacity and other details
8. Industrial Licensing:• All new units will require a license• For this there will be Licensing Committee.• 5 types of licenses: - for new undertakings substantial expansion production of new articles change in location carrying on business(COB)• Govt. may give exemption, revoke or amend the license
9. Objectives of Licensing achieve desired pattern of dispersal of industries encourage new entrepreneurs and avoid concentration of power & promote SSIs regulate foreign capital and

proper use of technology and scale economies control industrial pollution ensure adequate supply of goods employment generation

10. Power to Investigate, exercise control, take over management: (even sold)• --If unjustifiable fall in output, or in quality or rise in price• --such order to have effect for max. 5years—may be extended (up to max 12 years).
11. Power to provide relief to certain industrial undertakings:--where management control has been taken over by Govt.• --validity: 1 year – may be extended (up to 8yrs)• May suspend the applicability of provisions Acts like Indl Disputes Act, MW Act or any contract/agreement in force at the time of take over.5. Price and Distribution Controls:

12. LICENSE:• A written permission from GOI to manufacture specified articles in the Schedule• --contains particulars: name, location, articles to be manufactured, capacity etc.• --if the application is approved and no further clearances required: then Industrial License

FEMA Act

What is FEMA?

It is a set of regulations which empowers Reserve Bank of India to pass regulations and enables Government of India to pass rules relating to foreign exchange in tune with foreign trade policy of India.

Which Act did FEMA replace?

FEMA replaced an act called Foreign Exchange Regulation Act (FERA).

What is FERA and when was it passed?

FERA (Foreign Exchange Regulation Act) legislation was passed in 1973. It came into effect on January 1, 1974. FERA was passed to regulate the financial transactions concerning foreign exchange and securities. FERA was introduced when Forex reserves of the country were very low.

Why was FERA replaced?

FERA did not comply with the post-liberalization policies of the Government.

What is the main change brought in FEMA compared to FERA?

It made all the criminal offences as civil offences.

Main Features of Foreign Exchange Management Act, 1999

1. It gives powers to the Central Government to regulate the flow of payments to and from a person situated outside the country.
2. All financial transactions concerning foreign securities or exchange cannot be carried out without the approval of FEMA. All transactions must be carried out through “Authorised Persons.”
3. In the general interest of the public, the Government of India can restrict an authorised individual from carrying out foreign exchange deals within the current account.
4. Empowers RBI to place restrictions on transactions from capital Account even if it is carried out via an authorized individual.

5. As per this act, Indians residing in India, have the permission to conduct a foreign exchange, foreign security transactions or the right to hold or own immovable property in a foreign country in case security, property or currency was acquired, or owned when the individual was based outside of the country, or when they inherit the property from individual staying outside the country.

Structure of FEMA.

1. Head Office of FEMA, also known as Enforcement Directorate, headed by Director is located in New Delhi.
2. There are 5 zonal offices in Delhi, Mumbai, Kolkata, Chennai and Jalandhar, each office is headed by Deputy Director.
3. Every 5 zones are further divided into 7 sub-zonal offices headed by Assistant Directors and 5 field units headed by Chief Enforcement Officers.

Consumer Protection Act

The Consumer Protection Act, 2000(COPRA) is an Act of the Parliament of India enacted in 1986 to protect the interests of consumers in India. It is replaced by The Consumer Protection Act 2019. It is made for the establishment of consumer councils and other authorities for the settlement of consumer's grievances and matters connected there with it. The act was passed in Assembly in October 1986 and came into force on December 24, 1986. The statute on the right was made before this COPRA act

2.3 SIGNIFICANCE OF THE ACT

This Act is regarded as the 'Magna Carta' in the field of consumer protection for checking unfair trade practices, ‘defects in goods’ and ‘deficiencies in services’ as far as India is concerned. It has led to the establishment of a widespread network of consumer forums and appellate courts all over India. It has significantly impacted how businesses approach consumer complaints and have empowered consumers to a greater extent.

2.4 CONSUMER PROTECTION COUNCIL

Consumer Protection Councils are established at the national, state and district level to increase consumer awareness.

2.4.1 Various Consumer Organizations

To increase the awareness of consumers, there are many consumer organizations and NGOs that have been established.

CONSUMER GUIDANCE SOCIETY OF INDIA (CGSI) was THE FIRST CONSUMER ORGANISATION ESTABLISHED IN INDIA IN 1966.

It was followed by many others such as

(1) Consumer Education And Research Centre (Gujarat)

(2) Bureau Of Indian Standards

(3) Federation Of Consumer Organization In Tamil Nadu

(4) Mumbai Grahak Panchayat

(5) Consumer Voice (New Delhi)

(6) Legal Aid Society (Kolkata)

(7) Akhil Bhartiya Grahak Panchayat

(8) The Consumers Eye India.

(9) United India Consumer's Association.

2.5 CONSUMER DISPUTES REDRESSAL AGENCIES

- District Consumer Disputes Redressal Forum (DCDRF): Also known as the "District Forum" established by the State Government in each district of the State. The State Governments may establish more than one District Forum in a district. It is a district-level court that deals with cases valuing up to ₹2 million (US$28,000).
- State Consumer Disputes Redressal Commission (SCDRC): Also known as the "State Commission" established by the State Government in the State. It is a state-level court that takes up cases valuing less than ₹10 million (US$140,000)
- National Consumer Disputes Redressal Commission (NCDRC): Established by the Central Government. It deals with matters of more than 10 million.

2.5.1 Objectives of Central Council

The objectives of the Central Council is to promote and to protect the rights of the consumers such as:-

1. The right to be protected against the marketing of goods and services which are hazardous to life and property.
2. The right to be informed about the quality, quantity, potency, purity, standard and price of goods or services, as the case may be to protect the consumer against unfair trade practices;
3. The right to be assured, wherever possible, access to a variety of goods and services at competitive prices ;
4. The right to be heard and to be assured that consumer's interest will receive due consideration at appropriate forums;
5. The right to seek redressal against unfair trade practices or restrictive trade practices or unscrupulous exploitation of consumers
6. The right to consumer education.

Unit-03

International Business- An Overview

International business refers to the trade of goods, services, technology, capital and/or knowledge across national borders and at a global or transnational scale.

It involves cross-border transactions of goods and services between two or more countries. Transactions of economic resources include capital, skills, and people for the purpose of the international production of physical goods and services such as finance, banking, insurance, and construction. International business is also known as globalization.

To conduct business overseas, multinational companies need to bridge separate national markets into one global marketplace. There are two macro-scale factors that underline the trend of greater globalization. The first consists of eliminating barriers to make cross-border trade easier (e.g. free flow of goods and services, and capital, referred to as "free trade"). The second is technological change, particularly developments in communication, information processing, and transportation technologies.

2.6 OVERVIEW

"International business" is also defined as the study of the internationalization process of multinational enterprises. A multinational enterprise (MNE) is a company that has a worldwide approach to markets, production and/or operations in several countries. Well-known MNEs include fast-food companies such as: McDonald's (MCD), YUM (YUM), Starbucks Coffee Company (SBUX), Microsoft (MSFT), etc. Other industrial MNEs leaders include vehicle manufacturers such as: Ford Motor Company, and General Motors (GMC). Some consumer electronics producers such as Samsung, LG and Sony, and energy companies such as Exxon Mobil, and British Petroleum (BP) are also multinational enterprises.

Multinational enterprises range from any kind of business activity or market, from consumer goods to machinery manufacture; a company can become an international business. Therefore, to conduct business overseas, companies should be aware of all the factors that might affect any business activities, including, but not limited to: difference in legal systems, political systems, economic policy, language, accounting standards, labor standards, living standards, environmental standards, local cultures, corporate cultures, foreign-exchange markets, tariffs, import and export regulations, trade agreements, climate, and education. Each of these factors may require changes in how companies operate from one country to another. Each factor makes a difference and a connection.

2.7 Physical and social factors of competitive business and social environment

The conduct of international operations depends on a company's objectives and the means with which they carry them out. The operations affect and are affected by the physical and societal factors and the competitive environment.

2.7.1 Operations

All firms that want to go international have one goal in common; the desire to increase their respective economic values when engaging in international trade transactions. To accomplish this goal, each firm must develop its individual strategy and approach to maximize value, lower costs, and increase profits. A firm's value creation is the difference between *V* (the value of the product being sold) and *C* (the cost of production per each product sold).

Value creation can be categorized as: *primary activities* (research and development, production, marketing and sales, customer service) and as *support activities* (information systems, logistics, human resources). All of these activities must be managed effectively and be consistent with the firm strategy. However, the success of firms that extend internationally depends on the goods or services sold and on the firm's core competencies (Skills within the firm that competitors cannot easily match or imitate). For a firm to be successful, the firm's strategy must be consistent with the environment in which the firm operates. Therefore, the firm needs to change its organizational structure to reflect changes in the setting in which they are operating and the strategy they are pursuing.

Once a firm decides to enter a foreign market, it must decide on a mode of entry. There are six different modes to enter a foreign market, and each mode has pros and cons that are associated with it. The firm must decide which mode is most appropriately aligned with the company's goals and objectives. The six different modes of entry are exporting, turnkey projects, licensing, franchising, establishing joint ventures with a host-country firm, or setting up a new wholly owned subsidiary in the host country.

The first entry mode is exporting. Exporting is the sale of a product in a different national market than a centralized hub of manufacturing. In this way, a firm may realize a substantial scale of economies from its global sales revenue. As an example, many Japanese automakers made inroads into the U.S. market through exporting. There are two primary advantages to exporting: avoiding high costs of establishing manufacturing in a host country (when these are higher) and gaining an experience curve. Some possible disadvantages to exporting are high transport costs and high tariff barriers. The second entry mode is a turnkey project. In a turnkey project, an independent contractor is hired by the company to oversee all of the preparation for entering a foreign market. Once the preparation is complete and the end of the contract is reached, the plant is turned over to the company fully ready for operation.

Licensing and franchising are two additional entry modes that are similar in operation. Licensing allows a licensor to grant the rights to an intangible property to the licensee for a specified period of time for a royalty fee. Franchising, on the other hand, is a specialized form of licensing in which the "franchisor" sells the intangible property to the franchisee, and also requires the franchisee operate as dictated by the franchisor.

Lastly, a joint venture and wholly owned subsidiary are two more entry modes in international business. A *joint venture* is when a firm created is jointly owned by two or more companies (Most joint venture are 50-50 partnerships). This is in contrast with a wholly owned subsidiary, when a firm owns 100 percent of the stock of a company in a foreign country because it has either set up a new operation or acquires an established firm in that country.

2.7.1.1 Types of operations

Exports and import

- Merchandise exports: goods exported—not including services.
- Merchandise imports: The physical good or product that is imported into the respective country. Countries import products or goods that their country lacks in. An example of this is that Colombia must import cars since there is no Colombian car company.
- Service exports: As of 2018, the fastest growing export sector. The majority of the companies create a product that requires installation, repairs, and troubleshooting, Service exports is simply a resident of one country providing a service to another country. A cloud software platform used by people or companies outside the home country.
- "Tourism and transportation, service performance, asset use".
- Exports and Imports of products, goods or services are usually a country's most important international economic transactions.

International Trade Theory

2.8 WHAT IS INTERNATIONAL TRADE THEORY?

International trade theories are simply different theories to explain international trade. Trade is the concept of exchanging goods and services between two people or entities. *International trade* is then the concept of this exchange between people or entities in two different countries.

People or entities trade because they believe that they benefit from the exchange. They may need or want the goods or services. While at the surface, this many sound very simple, there is a great deal of theory, policy, and business strategy that constitutes international trade.

In this section, you'll learn about the different trade theories that have evolved over the past century and which are most relevant today. Additionally, you'll explore the factors that impact international trade and how businesses and governments use these factors to their respective benefits to promote their interests.

2.9 WHAT ARE THE DIFFERENT INTERNATIONAL TRADE THEORIES?

2.10 CLASSICAL OR COUNTRY-BASED TRADE THEORIES

2.11 MERCANTILISM

Developed in the sixteenth century, mercantilism was one of the earliest efforts to develop an economic theory. This theory stated that a country's wealth was determined by the amount of its gold and silver holdings. In it's simplest sense, mercantilists believed that a country should increase its holdings of gold and silver by promoting exports and discouraging imports. In other words, if people in other countries buy more from you (exports) than they sell to you (imports), then they have to pay you the difference in gold and silver. The objective of each country was to have a trade surplus, or a situation where the value of exports are greater than the value of imports, and to avoid a trade deficit, or a situation where the value of imports is greater than the value of exports.

2.12 MODERN OR FIRM-BASED TRADE THEORIES

In contrast to classical, country-based trade theories, the category of modern, firm-based theories emerged after World War II and was developed in large part by business school professors, not economists. The firm-based theories evolved with the growth of the multinational company (MNC). The country-based theories couldn't adequately address the expansion of either MNCs or intraindustry trade, which refers to trade between two countries of goods produced in the same industry. For example, Japan exports Toyota vehicles to Germany and imports Mercedes-Benz automobiles from Germany.

Unlike the country-based theories, firm-based theories incorporate other product and service factors, including brand and customer loyalty, technology, and quality, into the understanding of trade flows.

2.13 COUNTRY SIMILARITY THEORY

Swedish economist Steffan Linder developed the country similarity theory in 1961, as he tried to explain the concept of intraindustry trade. Linder's theory proposed that consumers in countries that are in the same or similar stage of development would have similar preferences. In this firm-based theory, Linder suggested that companies first produce for domestic consumption. When they explore exporting, the companies often find that markets that look similar to their domestic one, in terms of customer preferences, offer the most potential for success. Linder's country similarity theory then states that most trade in manufactured goods will be between countries with similar per capita incomes, and intra industry trade will be common. This theory is often most useful in understanding trade in goods where brand names and product reputations are important factors in the buyers' decision-making and purchasing processes.

2.14 PRODUCT LIFE CYCLE THEORY

Raymond Vernon, a Harvard Business School professor, developed the product life cycle theory in the 1960s. The theory, originating in the field of marketing, stated that a product life cycle has three distinct stages: (1) new product, (2) maturing product, and (3) standardized product. The theory assumed that production of the new product will occur completely in the home country of its innovation. In the 1960s this was a useful theory to explain the manufacturing success of the United States. US manufacturing was the globally dominant producer in many industries after World War II.

It has also been used to describe how the personal computer (PC) went through its product cycle. The PC was a new product in the 1970s and developed into a mature product during the 1980s and 1990s. Today, the PC is in the standardized product stage, and the majority of manufacturing and production process is done in low-cost countries in Asia and Mexico.

The product life cycle theory has been less able to explain current trade patterns where innovation and manufacturing occur around the world. For example, global companies even conduct research and development in developing markets where highly skilled labor and facilities are usually cheaper. Even though research and development is typically associated with the first or new product stage and therefore completed in the home country, these developing or emerging-market countries, such as India and China, offer both highly skilled labor and new research facilities at a substantial cost advantage for global firms.

2.15 Global Strategic Rivalry Theory

Global strategic rivalry theory emerged in the 1980s and was based on the work of economists Paul Krugman and Kelvin Lancaster. Their theory focused on MNCs and their efforts to gain a competitive advantage against other global firms in their industry. Firms will encounter global competition in their industries and in order to prosper, they must develop competitive advantages. The critical ways that firms can obtain a sustainable competitive advantage are called the barriers to entry for that industry. The barriers to entry refer to the obstacles a new firm may face when trying to enter into an industry or new market. The barriers to entry that corporations may seek to optimize include:

- research and development,
- the ownership of intellectual property rights,
- economies of scale,
- unique business processes or methods as well as extensive experience in the industry, and
- the control of resources or favorable access to raw materials.

2.16 PORTER'S NATIONAL COMPETITIVE ADVANTAGE THEORY

In the continuing evolution of international trade theories, Michael Porter of Harvard Business School developed a new model to explain national competitive advantage in 1990. Porter's theory stated that a nation's competitiveness in an industry depends on the capacity of the industry to innovate and upgrade. His theory focused on explaining why some nations are more competitive in certain industries. To explain his theory, Porter identified four determinants that he linked together. The four determinants are (1) local market resources and capabilities, (2) local market demand conditions, (3) local suppliers and complementary industries, and (4) local firm characteristics.

1. **Local market resources and capabilities (factor conditions).** Porter recognized the value of the factor proportions theory, which considers a nation's resources (e.g., natural resources and available labor) as key factors in determining what products a country will import or export. Porter added to these basic factors a new list of advanced factors, which he defined as skilled labor, investments in education, technology, and infrastructure. He perceived these advanced factors as providing a country with a sustainable competitive advantage.
2. **Local market demand conditions.** Porter believed that a sophisticated home market is critical to ensuring ongoing innovation, thereby creating a sustainable competitive advantage. Companies whose domestic markets are sophisticated, trendsetting, and

demanding forces continuous innovation and the development of new products and technologies. Many sources credit the demanding US consumer with forcing US software companies to continuously innovate, thus creating a sustainable competitive advantage in software products and services.

3. **Local suppliers and complementary industries.** To remain competitive, large global firms benefit from having strong, efficient supporting and related industries to provide the inputs required by the industry. Certain industries cluster geographically, which provides efficiencies and productivity.
4. **Local firm characteristics.** Local firm characteristics include firm strategy, industry structure, and industry rivalry. Local strategy affects a firm's competitiveness. A healthy level of rivalry between local firms will spur innovation and competitiveness.

In addition to the four determinants of the diamond, Porter also noted that government can chance play a part in the national competitiveness of industries. Governments can, by their actions and policies, increase the competitiveness of firms and occasionally entire industries.

Porter's theory, along with the other modern, firm-based theories, offers an interesting interpretation of international trade trends. Nevertheless, they remain relatively new and minimally tested theories.

Barriers of Trade

Trade barriers are government-induced restrictions on international trade.

Economists generally agree that trade barriers are detrimental and decrease overall economic efficiency; this can be explained by the theory of comparative advantage.

Most trade barriers work on the same principle: the imposition of some sort of cost (money, time, bureaucracy, quota) on trade that raises the price or availability of the traded products. If two or more nations repeatedly use trade barriers against each other, then a trade war results. Barriers take the form of tariffs (which impose a financial burden on imports) and non-tariff barriers to trade (which uses other overt and covert means to restrict imports and occasionally exports).

In theory, free trade involves the removal of all such barriers, except perhaps those considered necessary for health or national security. In practice, however, even those countries promoting free trade heavily subsidize certain industries, such as agriculture and steel.

2.17 OVERVIEW

High income countries tend to have less trade barriers than middle income countries which, in turn, tend to have less trade barriers than low income countries. Small states tend to have lower trade barriers than large states. The most common trade barriers are on agricultural goods. Textiles, apparel and footwear are the manufactured goods which are most commonly protected by trade barriers. Tariffs have been declining in the last twenty years as the influence of the World Trade Organization has grown, but states have increased their use of non-tariff barriers.

According to Chad Bown and Meredith Crowley, world trade is "probably" vastly more liberal in current times than was the case historically. According to Ronald Findlay and Kevin H. O'Rourke, "for the nineteenth and twentieth centuries trade barriers and transport costs were the most important barriers to trade". They also write, "during the mercantilist era price gaps were as likely to be due to trade monopolies, pirates, and wars as to transport costs and tariffs, which are more easily quantifiable."

The barriers can take many forms, including the following:

- Tariffs
- Non-tariff barriers to trade include:
    - Import licenses
    - Export control / licenses
    - Import quotas
    - Subsidies
    - Voluntary Export Restraints
    - Local content requirements
    - Embargo
    - Currency devaluation
    - Trade restriction

2.18 IMPACTS OF TRADE BARRIERS ON BUSINESS

Trade barriers are often criticized for the effect they have on the developing world. Because rich-country players call most of the shots and set trade policies, goods such as crops that developing countries are best at producing still face high barriers. Trade barriers such as taxes on food imports or subsidies for farmers in developed economies lead to over production and dumping on world markets, thus lowering prices and hurting poor-country farmers. Tariffs also tend to be anti-poor, with low rates for raw commodities and high rates for labor-intensive processed goods. Trade barriers are mostly a combination of conformity and per-shipment requirements requested abroad, and weak inspection or certification procedures at home. The impact of trade barriers on companies and countries is highly uneven. One particular study showed that small firms are most affected (over 50%)

Another negative aspect of trade barriers is that they result in a limited choice of products and would therefore force customers to pay higher prices and accept inferior quality.

Trade barriers obstruct free trade. Before exporting or importing to other countries, firstly, they must be aware of restrictions that the government imposes on the trade. Subsequently, they need to make sure that they are not violating the restrictions by checking related regulations on tax or duty, and finally they probably need a license in order to ensure a smooth export or import business and reduce the risk of penalty or violation. Sometimes the situation becomes even more complicated with the changing of policy and restrictions of a country.

2.19 EXAMPLES OF FREE TRADE AREAS

- North American Free Trade Agreement (NAFTA)
- South Asia Free Trade Agreement (SAFTA)
- European Free Trade Association
- Union of South American Nations
- New West Partnership (An internal free-trade zone in Canada between Alberta, British Columbia, and Saskatchewan)
- Gulf Cooperation Council common market

MNC in India

A **multinational corporation** (**MNC**) is a corporate organization that owns or controls production of goods or services in at least one country other than its home country. Black's Law Dictionary suggests that a company or group should be considered a multinational corporation if it derives 25% or more of its revenue from out-of-home-country operations. However, a firm that owns and controls 51% of a foreign subsidiary also controls production of goods or services in at least one country other than its home country and therefore would also meet the criterion, even if that foreign affiliate generates only a few percent of its revenue. A multinational corporation can also be referred to as a **Multinational Enterprise** (**MNE**), a **Transnational Enterprise** (**TNE**), a **Transnational Corporation** (**TNC**), an **International Corporation**, or a **Stateless Corporation** There are subtle but real differences between these terms.

Most of the largest and most influential companies of the modern age are publicly traded multinational corporations, including *Forbes Global 2000* companies. Multinational corporations are subject to criticisms for lacking ethical standards. They have also become associated with multinational tax havens and base erosion and profit shifting tax avoidance activities.

2.20 OVERVIEW

Toyota is one of the world's largest multinational corporations with its headquarters in Toyota City, Japan.

A multinational corporation (MNC) is usually a large corporation incorporated in one country which produces or sells goods or services in various countries. The two main characteristics of MNCs are their large size and the fact that their worldwide activities are centrally controlled by the parent companies.

- Importing and exporting goods and services
- Making significant investments in a foreign country
- Buying and selling licenses in foreign markets
- Engaging in contract manufacturing — permitting a local manufacturer in a foreign country to produce its products
- Opening manufacturing facilities or assembly operations in foreign countries

MNCs may gain from their global presence in a variety of ways. First of all, MNCs can benefit from the economy of scale by spreading R&D expenditures and advertising costs over their global sales, pooling global purchasing power over suppliers, and utilizing their technological and managerial know-how globally with minimal additional costs. Furthermore, MNCs can use their global presence to take advantage of underpriced labor services available in certain developing countries, and gain access to special R&D capabilities residing in advanced foreign countries.

The problem of moral and legal constraints upon the behavior of multinational corporations, given that they are effectively "stateless" actors, is one of several urgent global socioeconomic problems that emerged during the late twentieth century.

Potentially, the best concept for analyzing society's governance limitations over modern corporations is the concept of "stateless corporations". Coined at least as early as 1991 in *Business Week*, the conception was theoretically clarified in 1993: that an empirical strategy for defining a stateless corporation is with analytical tools at the intersection between demographic analysis and transportation research. This intersection is known as logistics management, and it describes the importance of rapidly increasing global mobility of resources. In a long history of analysis of multinational corporations we are some quarter century into an era of stateless corporations - corporations which meet the realities of the needs of source materials on a worldwide basis and to produce and customize products for individual countries.

One of the first multinational business organizations, the East India Company, was established in 1601. After the East India Company, came the Dutch East India Company, founded March 20, 1603, which would become the largest company in the world for nearly 200 years.

The main characteristics of multinational companies are:

- In general, there is a national strength of large companies as the main body, in the way of foreign direct investment or acquire local enterprises, established subsidiaries or branches in many countries;

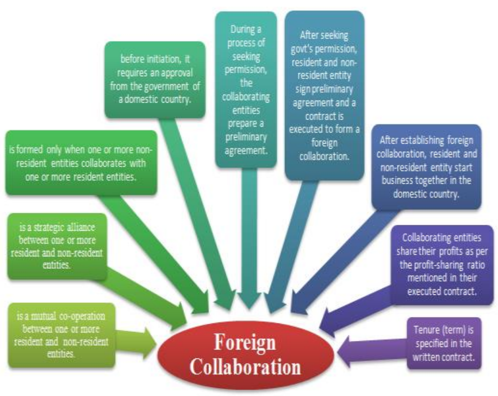
- It usually has a complete decision-making system and the highest decision-making centre, each subsidiary or branch has its own decision-making body, according to their different features and operations to make decisions, but its decision must be subordinated to the highest decision-making centre;
- MNCs seek markets in worldwide and rational production layout, professional fixed-point production, fixed-point sales products, in order to achieve maximum profit;
- Due to strong economic and technical strength, with fast information transmission, as well as funding for rapid cross-border transfers, the multinational has stronger competitiveness in the world;
- Many large multinational companies have varying degrees of monopoly in some area, due to economic and technical strength or production advantages.

2.21 Foreign Direct Investment

When a corporation invests in the country which it is not domiciled, it is called foreign direct investment (FDI). Countries may place restrictions on direct investment; for example, China has historically required partnerships with local firms or special approval for certain types of investments by foreigners although some of these restrictions were eased in 2019. Similarly, the United States Committee on Foreign Investment in the United States scrutinizes foreign investments.

Foreign Collaboration

The meaning of foreign collaboration is depicted in the following chart.



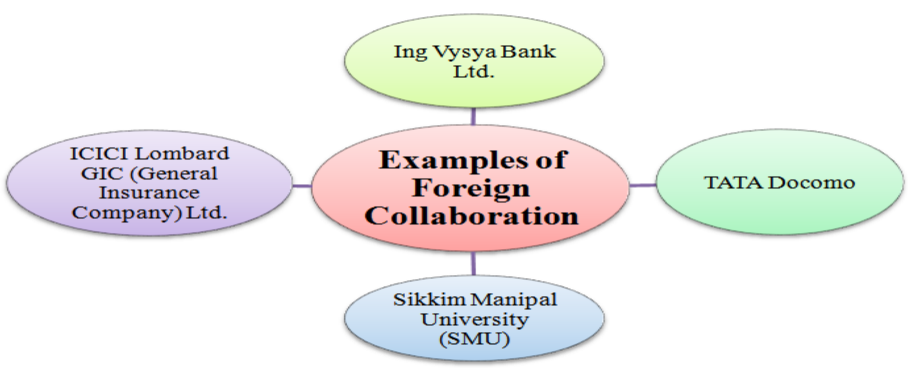
Following important points convey the meaning of foreign collaboration:

1. Foreign collaboration is a mutual co-operation between one or more resident and non-resident entities. In other words, for example, an alliance (a union or an association) between an abroad based company and a domestic company forms a foreign collaboration.
2. It is a strategic alliance between one or more resident and non-resident entities.
3. Only two or more resident (native) entities cannot make a foreign collaboration possible. For its formation and as per above definitions, it is mandatory that one or more non-resident (foreign) entities must always collaborate with one or more resident (domestic) entities.

4. Before starting a foreign collaboration, both entities, for example, a resident and non-resident company must always seek approval (permission) from the governmental authority of the domestic country.
5. During an ongoing process of seeking permission, the collaborating entities prepare a preliminary agreement.
6. According to this preliminary agreement, for example, the non-resident company agrees to provide finance, technology, machinery, know-how, management consultancy, technical experts, and so on. On the other hand, resident company promises to supply cheap labour, low-cost and quality raw-materials, ample land for setting factories, etc.
7. After obtaining the necessary permission, individual representative of a resident and non-resident entity sign this preliminary agreement. Signature acts as a written acceptance to each other's expectations, terms and conditions. After signatures are exchanged, a contract is executed, and foreign collaboration gets established. Contract is a legally enforceable agreement. All contracts are agreements, but all agreements need not necessarily be a contract.
8. After establishing foreign collaboration, resident and non-resident entity start business together in the domestic country.
9. Collaborating entities share their profits as per the profit-sharing ratio mentioned in their executed contract.
10. The tenure (term) of the foreign collaboration is specified in the written contract.

2.22 EXAMPLES OF FOREIGN COLLABORATION

Some prominent examples of foreign collaboration are depicted below.



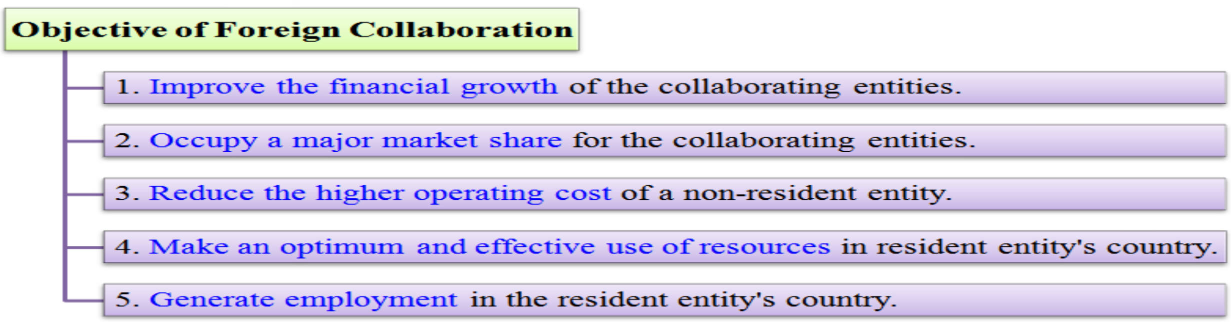
The examples of foreign collaboration between an indian and abroad entity:

1. ICICI Lombard GIC (General Insurance Company) Limited is a financial foreign collaboration between ICICI Bank Ltd., India and Fairfax Financial Holdings Ltd., Canada.
2. ING Vysya Bank Ltd. is a financial foreign collaboration formed between ING Group from Netherlands and Vysya Bank from India.
3. Tata DOCOMO is a technical foreign collaboration between Tata Teleservices from India and NTT Docomo, Inc. from Japan.
4. Sikkim Manipal University (SMU) from India runs some academic programs through an educational foreign collaboration with abroad universities like Liverpool School of

Tropical Medicine from UK, Loma Linda and Louisiana State Universities from USA, Kuopio University from Finland, and University of Adelaide from Australia.

2.23 OBJECTIVES OF FOREIGN COLLABORATION

The objectives of foreign collaboration are listed in the following image.



The main intention or prime goal or objective of foreign collaboration is to:

1. Improve the financial growth of the collaborating entities.
2. Occupy a major market share for the collaborating entities.
3. Reduce the higher operating cost of a non-resident entity.
4. Make an optimum and effective use of resources available in the resident entity's country.
5. Generate employment in the resident entity's country.

Joint Venture

Joint Venture is a business preparation in which more than two organizations or parties share the ownership, expense, return of investments, profit, governance, etc. To gain a positive synergy from their competitors, various organizations expand either by infusing more capital or by the medium of Joint Ventures with organizations.

Joint Ventures can be with a company of same industry or can be of some other industry, but with a combination of both, they will generate a competitive advantage over other players in the market.

In short, when two or more organizations join hands together for creating synergy and gain a mutual competitive advantage, the new entity is called a Joint Venture. It can be a private company, public company or even a foreign company.

In India, many companies underwent joint venture with various foreign companies, which were either technologically more advanced or geographically more scattered. The major joint ventures in India were done in sectors like Insurance, Banking, Commercial Transport vehicle, etc

2.23.1 Possibilities in a Joint Venture

A joint venture can be very flexible which can be in context to the requirements of the organization. The agreement between the companies should have detailed terms and conditions with respect to the activities that will be carried by them. This aids in clarification and don't allow any ambiguity between the stakeholders. The agreement also helps to designate the actual scope of work which either of parties has to conduct.

Two organizations of different countries can also undergo a Joint Venture to conduct a business. In this case, the directives issued by the respective governments have to be followed before entering into any kind of Joint Venture. These norms help the governments to keep a check on the activities of the organizations and ensure a legal activity is conducted by the organizations in Joint Venture.

Characteristics of a Joint Venture

1. Creates Synergy

A joint venture is entered between two or more parties to extract the qualities of each other. One company may possess a special characteristic which another company might lack with. Similarly, the other company has some advantage which another company cannot achieve. These two companies can enter into a joint venture to generate synergies between them for a greater good. These companies can work on economies of large scale to give cost advantage.

2. Risk and Rewards can be Shared

In a typical joint venture agreement between two or more organization, may be of the same country or different countries, there are many diversifications in culture, technology, geographical advantage and disadvantage, target audience and many more factors to overcome. So the risks and rewards pertaining to the activity for which the joint venture is agreed upon can be shared between the parties as decided and entered into the legal agreement.

3. No Separate Laws

As for joint venture, there is no separate governing body which regulates the activities of the joint venture. Once they are into a corporate structure, then the Ministry of Corporate Affairs in association with Registrar of Companies keep a check on companies. Apart from that, there is no separate law for governing joint ventures.

Advantages of Joint Venture

1. Economies of Scale

Joint Venture helps the organizations to scale up with their limited capacity. The strength of one organization can be utilized by the other. This gives the competitive advantage to both the organizations to generate economies of scalability.

2. Access to New Markets and Distribution Networks

When one organization enters into joint venture with another organization, it opens a vast market which has a potential to grow and develop. For example, when an organization of United States of America enters into a joint venture with another organization based at India, then the company of United States has an advantage of accessing vast Indian markets with various variants of paying capacity and diversification of choice.

At the same time, the Indian company has the advantage to access the markets of the United States which is geographically scattered and has good paying capacity where the quality of the product is not compromised. Unique Indian products have big markets across the globe.

3. Innovation

Joint ventures give an added advantage to upgrading the products and services with respect to technology. Marketing can be done with various innovative platforms and technological up gradation helps in making good products at efficient cost. International companies can come up with new ideas and technology to reduce cost and provide better quality products.

4. Low Cost of Production

When two or more companies join hands together, the main motive is to provide the products at a most efficient price. And this can be done when the cost of production can be reduced or cost of services can be managed. A genuine joint venture aims at this only to provide best products and services to its consumers.

5. *Brand Name*

A separate brand name can be created for the Joint Venture. This helps in giving a distinctive look and recognition to the brand. When two parties enter into a joint venture, then goodwill of one company which is already established in the market can be utilized by another organization for gaining a competitive advantage over other players in the market.

For example, a big brand of Europe enters into a joint venture with an Indian company will give a synergic advantage as the brand is already established across the globe.

6. Access to Technology

Technology is an attractive reason for organizations to enter into a joint venture. Advanced technology with one organization to produce superior quality of products saves a lot of time, energy, and resources. Without the further investment of huge amount again to create a technology which is already in existence, the access to same technology can be done only when companies enter into joint venture and give a competitive advantage.

Unit- 4

International Trade Policy

A **commercial policy** is referred to as a **trade policy** or **international trade policy**) is a government's policy governing international trade. Commercial policy is an all encompassing term that is used to cover topics which involve international trade. Trade policy is often described in terms of a scale between the extremes of free trade (no restrictions on trade) on one side and protectionism (high restrictions to protect local producers) on the other. A nation's commercial policy will include and take into account the policies adopted by that nation's government while negotiating international trade. There are several factors that can have an impact on a nation's commercial policy, all of which can have an impact on international trade policies.

2.24 THEORIES ON INTERNATIONAL TRADE POLICY

2.25 **TRADE POLICY HAS BEEN CONTROVERSIAL SINCE THE DAYS OF MERCANTILISM. ECONOMICS (OR POLITICAL ECONOMY) HAS DEVELOPED IN MAJOR PART AS AN EFFORT TO MAKE CLEAR VARIOUS EFFECTS OF TRADE POLICIES.**

2.26 TYPES AND ASPECTS OF COMMERCIAL POLICY

2.26.1 Regionalism

Regionalism, or Regional Trade Agreements (RTA), are trade policies and agreements that are crafted by the nations in a region for the purposes of increasing international trade in the area. RTAs have been described by supporters as a means of increasing free trade with the goal of eventually merging into larger, either bilateral or multilateral, trade deals. The more relatively local area of RTAs are useful in resolving trade issues as well without causing gridlock in other trade agreements. Critics of RTAs say that they are a hindrance to the negotiation of trade because they can be lopsided or unfairly beneficial to one side over the other sides, particularly if some of the participants are nations that are still in development.

As China was rising in economic power and prominence, they turned to regionalism as a strategic method of leveling the playing field with Europe and the United States. In 2000, China signed the Bangkok agreement with the Association of Southeast Asian Nations (ASEAN) to reduce tariffs in the region. The signing of the agreement also began the push for a formal Free Trade Agreement between China and ASEAN. However, strained relations between China and other Asian nations such as Japan have prevented the same level of regional FTAs to be put in place with Northeast Asia.

2.26.2 Bilateral Free Trade Agreements

When two countries enter into a bilateral trade agreement, they are essentially giving one another special deals and favorable treatment in the arrangements. These privileges can include lowering tariffs on each other's goods and services. The United States has signed such treaties as the North American Free Trade Agreement in 1994 as well as with Israel in the 1980s. Experts who support such free trade agreements argue that these deals help to increase competition and offers larger markets that businesses can reach out to. Critics of bilateral agreements claim that a larger nation, such as the United States, can use these agreements to unfairly push smaller states into much harsher work loads than the World Trade Organization already requires.

Relations between the European Union and South Korea have led to both parties signing several bilateral agreements regarding trade policy. In 2009, South Korea and the EU signed the EU-Korea Free Trade Agreement. The signing of the agreement created an FTA that is second only to NAFTA in size. The agreement held the benefits of increased free trade between the participants in the FTA as well as increased challenge to the United States.

2.26.3 Preferential Trade Agreements

Preferential agreements are trade deals that involve nations making deals with specific countries that can aid the interests of one another as opposed to the nondiscriminatory deals that are pushed by the WTO. Nations have been increasingly preferring such deals since the 1950s as they are quicker to show gains for the parties involved in the agreements. A common argument that has been made is that it allows businesses to open up markets that would otherwise be considered closed and therefore falls into the free trade idea that most countries will push for. Countries that have similar levels of GDP and a higher scope in their economies as well as their relative position to one another and the rest of the world are more likely to have preferential trade agreements. PTAs can also be applied to regional areas with unions such as NAFTA, the European Union, and ASEAN being examples of regional PTAs.

Those who oppose PTAs argue that these deals have increased the importance of where a product is made so that tariffs can be applied accordingly. The certification of a product's origin also unfairly holds back smaller countries that have less resources to spend. Others argue that PTAs can hinder negotiations of trade disputes and places an emphasis of which country has more power.

2.27 WAYS IN WHICH COMMERCIAL POLICY IS AFFECTED

2.27.1 Tariffs

Trade tariffs are a tax that are placed on the import of foreign goods. Tariffs increase the price of imports and are usually levied onto the country the goods are being imported from. Governments will use tariffs as a way to promote competition within their own country with businesses of the foreign country that wishes to sell their goods or services. In some instances, a country's government will use them as a means of protectionism for their own interests. In modern history, generally starting at the mid-20th century, the use of tariffs has been largely diminished in favor of the rise of international trade. Beginning in 2017, the Trump administration began to impose tariffs on several of nations that were involved in trade deals with the United States. The countries targeted by the Trump Tariffs then retaliated with their own tariffs on American goods.

2.27.2 Import Quotas

Import quotas are the limitations of the amount of goods that can be imported into the country from foreign businesses. Generally, an import quota is set for a specific period of time with one year being the most common metric. Some versions of the quotas limits the quantity of specific goods being imported into a country while other versions place the limit on the value of those goods. The objectives of quotas can include: the protections of a nations interests, ensuring a balance of trade so as not to create deficits, retaliation to restrictive trade policies of other countries that do business on the international playing field.

EXIM Policy (Export Import Policy)

EXIM policy is a set of guidelines and instructions established by the **DGFT** in matters related to the import and export of goods in India.

The **Foreign TradePolicy** of India is guided by the Export Import in known as in short **EXIM Policy** of the Indian Government and is regulated by the **Foreign Trade Development and Regulation Act, 1992**.

DGFT (Directorate General of Foreign Trade) is the main governing body in matters related to Exim Policy. The main objective of the Foreign Trade (Development and Regulation) Act is to provide the development and **regulation of foreign trade** by facilitating imports into, and augmenting exports from India. Foreign Trade Act has replaced the earlier law known as the imports and Exports (Control) Act 1947.

EXIM Policy

Indian **EXIM Policy** contains various policy related decisions taken by the government in the sphere of Foreign Trade, i.e., with respect to imports and exports from the country and more especially **export promotion measures**, policies and procedures related thereto. Trade Policy is prepared and announced by the Central Government (Ministry of Commerce). India's Export Import Policy also know as Foreign Trade Policy, in general, aims at developing export potential, improving export performance, encouraging foreign trade and creating favorable balance of payments position.

Policy of India has been described in the following documents:

Objectives of the Exim Policy: -

Government control import of non-essential items through the

EXIM Policy. At the same time, all-out efforts are made to promote exports. Thus, there are two aspects of Exim Policy; the import policy which is concerned with regulation and management of imports and the export policy which is concerned with exports not only promotion but also regulation. The main objective of the Government's EXIM Policy is to promote exports to the maximum extent. Exports should be promoted in such a manner that the economy of the country is not affected by unregulated **exportable items** specially needed within the country. Export control is, therefore, exercised in respect of a limited number of items whose supply position demands that their exports should be regulated in the larger interests of the country. In other words, the main objective of the Exim Policy is:

- To accelerate the economy from low level of economic activities to high level of economic activities by making it a globally oriented vibrant economy and to derive maximum benefits from expanding global market opportunities.
- To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components,' consumables and capital goods required for augmenting production.
- To enhance the techno local strength and efficiency of Indian agriculture, industry and services, thereby, improving their competitiveness.
- To generate new employment.
- Opportunities and encourage the attainment of internationally accepted standards of quality.
- To provide quality consumer products at reasonable prices.

Governing Body of Exim Policy

The Government of India notifies the Exim Policy for a period of five years (1997-2002) under Section 5 of the **Foreign Trade (Development and Regulation Act), 1992**. The current

Export Import Policy covers the period 2002-2007. The Exim Policy is updated every year on the 31st of March and the modifications, improvements and new schemes became effective from 1st April of every year.

All types of changes or modifications related to the EXIM Policy is normally announced by the Union Minister of Commerce and Industry who co-ordinates with the Ministry of Finance, the **Directorate General of Foreign Trade**
and network of **Dgft Regional Offices**.

The principal objectives of the Export Import Policy 1997 -2002 are as under:

- To accelerate the economy from low level of economic activities to high level of economic activities by making it a globally oriented vibrant economy and to derive maximum benefits from expanding global market opportunities.
- To motivate sustained economic growth by providing access to essential raw materials, intermediates, components,' consumables and capital goods required for augmenting production.
  To improve the technological strength and efficiency of Indian agriculture, industry and services, thereby, improving their competitiveness.
- To create new employment. Opportunities and encourage the attainment of internationally accepted standards of quality.
- To give quality consumer products at practical prices.

Impact of Exim Policy 1997 –2002

(a) Globalization of Indian Economy:
The Exim Policy 1997-02 proposed with an aim to prepare a framework for globalizations of Indian economy. This is evident from the very first objective of the policy, which states. "To accelerate the economy from low level of economic activities to-high level of economic activities by making it a globally oriented vibrant economy and to derive maximum benefits from expanding global market opportunities."

(b) Impact on the Indian Industry:
In the EXIM policy 1997-02, a series of reform measures have been introduced in order to give boost to India's industrial growth and generate employment opportunities in non-agricultural sector. These include the reduction of duty from 15% to 10% under EPCG scheme that enables Indian firms to import capital goods and is an important step in improving the quality and productivity of the Indian industry.

(c) Impact on Agriculture:
Many encouraging steps have been taken in the Exim Policy 1997-2002 in order to give a boost to Indian agricultural sector. These steps includes provision of additional SIL of 1 % for export of agro products, allowing **EOU's** and other units in EPZs in agriculture sectors to 50% of their output in the domestic tariff area (DTA) on payment of duty.

(d) Impact on Foreign Investment.
In order to encourage foreign investment in India, the Exim Policy 1997-02 has permitted 100% foreign equity participation in the case of 100% EOUs, and units set up in EPZs.

(e) Impact on Quality up gradation:
The SIL entitlement of exporters holding ISO 9000 certification has been increased from 2% to 5% of the FOB value of exports, which has encouraged Indian industries to undertake research and development programmers and upgrade the quality of their products.

(f) Impact on Self-Reliance:-
The Exim Policy 1997-2002 successfully fulfills one of the India's long terms objective of Self-reliance. The Exim Policy has achieved this by encouraging domestic sourcing of raw materials, in order to build up a strong domestic production base. New incentives added in the Exim Policy have also added benefits to the exporters.

Objectives of the Exim Policy: 2002 - 2007
The main objectives of the Export Import Policy 2002-2007 are as follows:

1. To encourage economic growth of India by providing supply of essential raw materials, intermediates, components, consumables and capital goods required for augmenting production and providing services.

2. To improve the technological strength and efficiency of Indian agriculture, industry and services, thereby improving their competitive strength while generating new employment opportunities and encourage the attainment of internationally accepted standards of quality; and
3. To provide consumers with good quality products and services at internationally competitive prices while at the same time creating a level playing field for the domestic producers.

. **Globalization**

2.28 WHAT IS GLOBALIZATION?

Globalization is the spread of products, technology, information, and jobs across national borders and cultures. In economic terms, it describes an interdependence of nations around the globe fostered through free trade.

On one hand, globalization has created new jobs and economic growth through the cross-border flow of goods, capital, and labor. On the other hand, this growth and job creation is not distributed evenly across industries or countries. Specific industries in certain countries, such as textile manufacturing in the U.S. or corn farming in Mexico, have suffered severe disruption or outright collapse as a result of increased international competition.

Globalization motives are idealistic, as well as opportunistic, but the development of a global free market has benefited large corporations based in the Western world. Its impact remains mixed for workers, cultures, and small businesses around the globe, in both developed and emerging nations.

2.29 GLOBALIZATION EXPLAINED

Corporations gain a competitive advantage on multiple fronts through globalization. They can reduce operating costs by manufacturing abroad. They can buy raw materials more cheaply because of the reduction or removal of tariffs. Most of all, they gain access to millions of new consumers.

Globalization is a social, cultural, political, and legal phenomenon.

- Socially, it leads to greater interaction among various populations.
- Culturally, globalization represents the exchange of ideas, values, and artistic expression among cultures.
- Globalization also represents a trend toward the development of single world culture.
- Politically, globalization has shifted attention to intergovernmental organizations like the United Nations (UN) and the World Trade Organization (WTO).
- Legally, globalization has altered how international law is created and enforced.

Types of Globalization

- **Economic globalization**: is the development of trade systems within transnational actors such as corporations or NGOs;

- **Financial globalization**: can be linked with the rise of a global financial system with international financial exchanges and monetary exchanges. Stock markets, for instance, are a great example of the financially connected global world since when one stock market has a decline, it affects other markets negatively as well as the economy as a whole.
- **Cultural globalization**: refers to the interpenetration of cultures which, as a consequence, means nations adopt principles, beliefs, and costumes of other nations, losing their unique culture to a unique, globalized supra-culture;
- **Political globalization**: the development and growing influence of international organizations such as the **UN** or **WHO** means governmental action takes place at an international level. There are other bodies operating a global level such as NGOs like ***Doctors without borders*** or ***Oxfam****;*
- **Sociological globalization**: information moves almost in real-time, together with the interconnection and interdependence of events and their consequences. People move all the time too, mixing and integrating different societies;
- **Technological globalization:** the phenomenon by which millions of people are interconnected thanks to the power of the digital world via platforms such as Facebook, Instagram, Skype or Youtube.
- **Geographic globalization:** is the new organization and hierarchy of different regions of the world that is constantly changing. Moreover, with transportation and flying made so easy and affordable, apart from a few countries with demanding visas, it is possible to travel the world without barely any restrictions;
- **Ecological globalization:** accounts for the idea of considering planet Earth as a single global entity – a common good all societies should protect since the weather affects everyone and we are all protected by the same atmosphere.

Liberalization

In simple words, liberalisation refers to a relaxation of government restrictions in the areas of social, political and economic policies. In the context of economic policy, liberalization refers to lessening of government regulations and restrictions for greater participation by private entities. It is a process to removing controls systems in order to encourage economic development. The economy is thrown open and the best goods and services compete in the market and the consumer has a choice and monopolies disappear. In India, economic liberalisation is initiated in 1991 with the goal of making the economy more market-oriented and expanding the role of private and foreign investment.

These include partial, sometimes full privatisation of government institutions and assets, greater labour market, tax rebates for businesses, reduced restrictions on both domestic and offshore capital, opening markets for free trade.

There has been a revolutionary change in Indian Economy since the espousal of the New Economic Strategy in 1991. This had great impacts on all the areas of life in India. When a nation becomes liberalised, the economic effects can be intense for the country and as well as for the investors.

Economic liberalisation is relaxing the government regulations in a country to allow the private sector companies to operate business transactions with comparatively fewer restrictions.

The economic liberalization in India refers to the economic liberalization of the country's economic policies, with the goal of making the economy more market oriented and expanding the role of private and foreign investment.

2.30 Meaning of Liberalisation

Liberalisation (or liberalization) is any method of how a state raises limitations on some private individual ventures. Liberalisation befalls when something which was forbidden is no longer forbidden or when government laws are loosened.

Liberalisation was begun to put an end to these limitations and open multiple areas of the economy. Though some liberalisation proposals were prefaced in the 1980s in areas of export-import policy, technology up-gradation, fiscal policy and foreign investment, industrial licensing, economic reform policies launched in 1991 were more general. There are a few significant areas, namely, the financial sector, industrial sector, foreign exchange markets, tax reforms and investment and trade sectors which gained recognition in and after 1991.

2.31 Liberalisation in India

Since the adoption of the New economic strategy in 1991, there has been a drastic change in the Indian economy. With the arrival of liberalisation, the government has regulated the private sector organisations to conduct business transactions with fewer restrictions.

For developing countries, liberalisation has opened economic borders to foreign companies and investments. Earlier, Investors has to encounter difficulties to enter countries with many barriers.

These barriers included tax laws, foreign investment restrictions, accounting regulations, and legal issues. The economic liberalisation reduced all these obstacles and waived few restrictions over the control of the economy to the private sector.

2.31.1 Objective

- To boost competition between domestic businesses

- To promote foreign trade and regulate imports and exports
- Improvement of technology and foreign capital
- To develop a global market of a country
- To reduce the debt burden of a country
- To unlock the economic potential of the country by encouraging the private sector and multinational corporations to invest and expand.
- To encourage the private sector to take an active part in the development process.
- To reduce the role of the public sector in future industrial development.
- To introduce more competition into the economy with the aim of increasing efficiency.

2.31.2 Reforms under Liberalisation

- Deregulation of the Industrial Sector
- Financial Sector Reforms
- Tax Reforms
- Foreign Exchange Reforms
- Trade and Investment Policy Reforms
- External Sector Reforms
- Foreign Exchange Reforms
- Foreign Trade Policy Reforms

2.31.3 Impact of Liberalisation

2.31.4 Positive Impact of Liberalisation in India

1. Free flow of capital: Liberalisation has enhanced the flow of capital by making it affordable for businesses to reach the capital from investors and take a profitable project.

2. Diversity for Investors: The Investors will be benefitted by investing a portion of their business into a diversifying asset class.

3. Impact on Agriculture: In this area, the cropping designs have experienced a huge change, but the impact of liberalisation cannot be accurately measured. Government restrictions and interventions can be seen from production to distribution of the crop.

2.31.5 Negative Impact of Liberalisation in India

1. The weakening of the economy: Enormous restoration of political power and economic power will lead to weakening the entire Indian economy.

2.Technological Impact: Fast development in technology allows many small scale industries and other businesses in India to either adjust to changes or shut their businesses.

3. Mergers and Acquisitions: Here small businesses are merging with big companies, therefore, the small companies employees may need to enhance their skilled and technologically advanced. This enhancing of skill and the time it might take may lead to non-productivity and can be a burden to the company's capital.

2.32 Economic Reforms during Liberalisation

Several sectors were affected by the outburst of the impact of Liberalization. Few economic reforms were:

- Financial Sector Reforms
- Tax Reforms / Fiscal Reforms
- Foreign Exchange Reforms / External Sector Reforms
- Industrial Sector Reforms

Foreign Exchange Rate Mechanism

2.33 What Is an Exchange Rate Mechanism (ERM)?

An exchange rate mechanism (ERM) is a device used to manage a country's currency exchange rate relative to other currencies. It is part of an economy's monetary policy and is put to use by central banks.

2.33.1 KEY POINTS

- An exchange rate mechanism (ERM) is a way that central banks can influence the relative price of its national currency in forex markets.
- The ERM allows the central bank to tweak a currency peg in order to normalize trade and/or the influence of inflation.
- More broadly, ERM is used to keep exchange rates stable and minimize currency rate volatility in the market.

2.34 The Basics of the Exchange Rate Mechanism

An exchange rate mechanism is not a new concept. Historically, most new currencies started as a fixed exchange mechanism that tracked gold or a widely traded commodity. It is loosely based on fixed exchange rate margins, whereby exchange rates fluctuate within certain margins.

2.34.1 WTO and its impact on Indian Business

What is the World Trade Organization?

"The World Trade Organization is 'member-driven', with decisions taken by General agreement among all member of governments and it deals with the rules of trade between nations at a global or near-global level. But there is more to it than that."

They deal with: agriculture, textiles and clothing, banking, telecommunications, government purchases, industrial standards and product safety, food sanitation regulations, intellectual property, and much more. The WTO agreements are lengthy and complex because they are legal texts covering a wide range of activities

Introduction •

The World Trade Organization (WTO) is an organization that intends to supervise and liberalize international trade. The WTO is the only global international organization dealing with the rules of trade between nations.

• At its heart are the WTO agreements, negotiated and signed by the bulk of 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.

• The WTO superseded and replaced the GATT which was a provisional, multilateral agreement governing.

• International trade from 1947 until Jan 1, 1995

• The WTO has larger membership than GATT.

• The number of members stand at 153.

• India is one the founding members of the WTO.

WTO: The Beginnings/ History

• The World Trade Organization (WTO) came into being on January 1st 1995. It was the outcome of the lengthy (1986-1994) Uruguay round of GATT negotiations. The WTO was essentially an extension of GATT.

• It extended GATT in two major ways. First GATT became only one of the three major trade agreements that went into the WTO (the other two being the General Agreement on Trade in Services (GATS) and the agreements on Trade Related Aspects of Intellectual Property Rights (TRIPS)).

• Second the WTO was put on a much sounder institutional footing than GATT. With GATT the support services that helped maintain the agreement had come into being in an ad hoc manner as the need arose. The WTO by contrast is a fully fledged institution (GATT also was, at least formally, only an agreement between contracting parties and had no independent existence of its own while the WTO is a corporate body recognized under international law).

Objective of WTO

• The primary aim of WTO is to implement the new world trade agreement. • To promote multilateral trade .

• To promote free trade by abolishing tariff & non-tariff barriers.

• To enhance competitiveness among all trading partners so as to benefit consumers

• To increase the level of production & productivity with a view to increase the level of employment in the world.

• To expand & utilize world resources in the most optimum manner.

• To improve the level of living for the global population & speed up economic development of the member nations.

• To take special steps for the development of poorest nations.

Functions of WTO

• Implementing WTO agreements & administering the international trade.

• Cooperating with IMF & World Bank & its associates for establishing coordination in Global Trade Policy- Making.
• Settling trade related disputes among member nations with the help of its Dispute Settlement
• Reviewing trade related economic policies of member countries with help of its Trade Policy Review Body (TPRB).
• Providing technical assistance & guidance related to management of foreign trade & fiscal policy to its member nations.
• Acting as forum for trade liberalization.
• India is one of the founder members of WTO.
• WTO is an international trade organization having set of rules & principles, mutually designed & agreed upon to promote international trade in general & reduction of tariffs barriers & removal of import restrictions in particular.

ORGNISATIONAL STRUCTURE

General Council Council for Trade in Goods Council for Intellectual Property Rights in Trade Council for Trade In Services GC: Dispute Settlement Body GC: Trade Policy Review Body Ministerial Conference Committee on Budget Committee On trade & development Trade-related intellectual property rights council Council for goods Council for services Committee on BOP

Role of WTO

• The main goal of WTO is to help the trading industry to become smooth, fair, free and predictable. It was organized to become the administrator of multilateral trade and business agreements between its member nations. It supports all occurring negotiations for latest agreements for trade. WTO also tries to resolve trade disputes between member nations.
• Multi-lateral agreements are always made between several countries in the past. Because of this, such agreements become very difficult to negotiate but are so powerful and influential once all the parties agree and sign the multi-lateral agreement. WTO acts as the administrator. If there are unfair trade practices or dumping and there is complain filed, the staff of WTO are expected to investigate and check if there are violations based on the multi-lateral agreements.

Favorable impact
1.Increase in export earning
ii. Growth in merchandise export;

• The WTO has both favorable and non-favorable impact on Indian economy

Growth in service exports

• The WTO introduced the GATS (General Agreement on Trade in Service) that proved beneficial for countries like India. India’s service exports increased from 5 billion US $(1995) to 102 billion US $ (2008- 09) for 45% of India's service. 2.Agriculture export • Reduction of trade barrier and domestic subsidies raise the price of agricultural products in international market, India hopes to benefit from this in the form of higher export earning from agriculture.

Textile and clothing

• Textiles and clothing. The phasing out of the MFA (Multi Fiber Arrangements) will help the developing countries like India to increase the export of textile and clothing.
• Foreign direct investment
• As per the TRIMs agreement, restrictions on foreign investment have been withdrawn by the member nations of the WTO. This has benefited developing countries by way of foreign direct investment, euro equities and portfolio investment. In 2008-09 the net foreign direct investment in India was 35 billion US$.
Unfavorable impact 1.

TRIPs (Trade Related aspects of Intellectual Property)

• Protection of intellectual property rights has been of the major concerns of the WTO. As a member of the WTO, India has to comply with the TRIPs standards.
• However, the agreement on TRIPs goes against the Indian patent act 1970, in the following way.

i. Pharmaceutical sector • Under the Indian patent act 1970, only process patents are granted to chemicals, drugs and medicines. Thus, a company can legally manufacture once it had the product patent. So Indian pharmaceutical companies could sell good quality products at low prices. However under TRIPs agreement, product patents will also be granted that will raise the prices of medicines, thus keeping them out of reach of the poor people, fortunately, most of drugs manufactured in India are off – patents and so will be less affected.
ii. Agriculture • Since the agreement on TRIPs extends to agriculture as well; it will have considerable implications on Indian agriculture. The MNG, with their huge financial resources may also take over seed production and will eventually control food production. Since a large majority of Indian population depends on agriculture for their livelihood, these developments will have serious consequences. • Micro – organisms: under TRIPs agreement patenting has been extended to micro organisms as well. These mills largely benefit MNCS and not developing like India.

TRIMs (Trade Related Investment Measures)

• The agreement on TRIMs also favors developing nations as there are no rules in the agreement to formulate international rules for controlling business practices of foreign investors. Also, complying with the TRIMs agreement will contradict our objective of self-reliant growth based on locally available technology and resources.

GATS (General Agreement on Trade in Services)

The agreement on GATS will also favor the developed nations more. Thus, the rapidly growing services sector in India will now have to compete with now have to complete with giant foreign firms. Moreover, since foreign firms are allowed to remit their profits, dividends and royalties to their parent company, it will cause foreign exchange burden for India.

Trade and Non-tariff barriers • Reduction of trade and non-tariff barriers has adversely affected the exports of various developing nations. Various Indian products have been hit by non-tariff barriers. These include textiles, marine product, floriculture, pharmaceutical basmati rice, carpets, leather goods etc.

Unit- 5

Industrial Ecology & Recycling Industry

Industrial Ecology is a nascent and challenging discipline for scientists, engineers, and policymakers. Often termed the "science of sustainability," the contemporary origins of industrial ecology are associated with an article titled "Strategies for Manufacturing," written by Frosch and Gallopoulos and published in 1989 in *Scientific American*. However, historically, indirect references to the concept of industrial ecology date back to the early 1970s. The multidisciplinary nature of industrial ecology makes it difficult to provide a consistent and universally accepted definition, but the following statement captures the essence of the topic:
Industrial ecology is the means by which humanity can deliberately and rationally approach and maintain sustainability, given continued economic, economic, cultural, and technological evolution. The concept requires that an industrial ecosystem be viewed not in isolation from its surrounding system, but in concert with them. It is a systems view in which one seeks to optimize the total materials cycle from virgin material, to finished material, to component, to product, to obsolete product, and to ultimate disposal. Factors to be optimized are resources, energy and capital.

Industrial Ecology

Industrial ecology is an approach that applies the ecosystem metaphor and model to suggest that industrial systems should be restructured in order to make them compatible with the way natural ecosystems function. It is promoted as an approach to close industrial production loops and reduce waste, thereby making better use of resources and preventing the overuse of raw materials.
In this approach, corporations should optimize the consumption of energy and materials, minimize waste generation, and use the effluents of one process as the raw material for another process. The existing industrial systems are seen as being antithetical to Nature in that they have linear throughput, whereas in Nature there is round put as loops are closed. Terms such as 'round put', 'closing the loop', and 'industrial symbiosis' are used to distinguish industrial ecology from existing throughput systems of industry that are materially open and rely on non renewable. This approach has been used by some leading environmental thinkers to offer critiques of capitalist and socialist modes of economic production as being expansionist and linear and therefore non sustainable.

The industrial (eco) system is seen as analogous to a natural ecosystem, where there is no waste. This approach has been somewhat influential in engineering, chemistry, and other scientific and technological disciplines, but has been both lauded and critiqued by urban planners and geographers for its selective use of ecological metaphors and its inadequate treatment of social and political–economic processes. The tensions between firms in competition in the marketplace, and firms cooperating to develop industrial ecology processes, is under-theorized in the industrial ecology literature. Work by human geographers on trust has added an important perspective beyond the technical literature or unexamined assumptions about the nature of competition and cooperation.

2.35 **RECYCLING**

the process of recovering and reusing waste products—
from household use, manufacturing, agriculture, and business—
and thereby reducing their burden on the environment. During World War I and World War II, shortages of essential materials led to collection drives for silk, rubber, and other commodities. In recent years the environmental benefits of recycling have become a major component of waste management programs.

2.35.1Waste Disposal and Recycling

For many years direct recycling by producers of surplus and defective materials constituted the main form of recycling. However, indirect recycling, the recycling of materials after their use by consumers, became the focus of activity in the 1990s. For some time, most **solid waste** has been deposited in landfills or dumps. Landfills are filling up, however, and disposal of wastes in them has led to environmental problems. Also, government (which had little authority over disposal of wastes until the 1970s) now has extensive regulatory powers.

An Environmental Management System ("EMS") is a tool that is continuously growing in importance for companies. Most companies need to manage their products/services, employee safety, public opinion, environmental impact and other related opportunities. An EMS encompasses the methods and means to manage all of these aspects within your organization and helps you run and document its programs for environment-related management. If you want to become certified to ISO 14001:2015 we offer an all-in one certification package.

This can and does include comprehensive and systematic planning and commitment of key resources for developing, implementing and maintaining procedures for the preservation of the environmental systems of the planet. Basically, an EMS allows an organization to continuously monitor and improve all of their processes and impacts as it relates to the environmental system that they have created as part of their ongoing operations.

Environmental management system awareness begins with an environmental management system assessment, including applications for environmental management system. It then explores environmental management systems requirements with guidance for use including, but not limited to:

- Environmental management system components
- How to implement an environmental management system
- Environmental management system costs
- Combined (or integrated) quality and environmental management systems
- Environmental management system improvement

In order to help address both the immediate and the long-term impacts of this process, an environmental management system example must start with an overall strategic position and commitment by management. To aid individual companies with this process and lower the costs of implementation and ensure acceptance by other organizations such as customers, local and national governments and the public, the International Organization of Standardization, (ISO), which is a worldwide organization that develops many different kinds of standards, has created a series of standards to help implement environmental management systems.

ISO 14000 is a body of knowledge that is critical to both the creation and implementation of an

ISO 14001:2015 is a standard for an Environmental Management System (EMS), which enables your organization to create a plan to control your processes to minimize the environmental impact and continually analyze the results and improve your systems. Purchasing and reviewing this standard is generally one of the first steps toward certification or registration.*

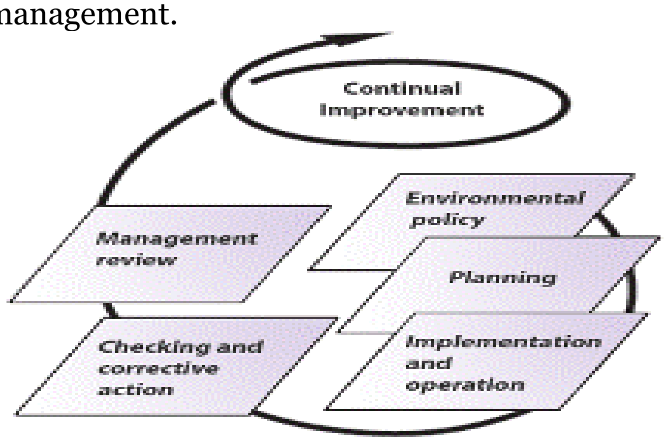
*(*In order to help fund its international operations, ISO requires that it receive revenue from the publication and distribution of these standards, so based on this request, the standards must be purchased.)*

Why do companies want to pursue An Environmental Management system guided by ISO 14001?

At its core, environmental management is really a duty of service for generations to come. In ensuring that all nations create and operate in a manner that will preserve the earth's resources and ensure habitability, we have done what is required to support life. More specifically, by influencing all nations to act and be a part of this process, we create more of a "level playing field" in which products and services are provided at more of a fair and competitively balanced level. Certification to ISO 14001 is a tangible expression of this mission.

The Influences of a Growing Market

Putting ISO 14001 Environmental Management Systems into place and actually becoming certified in this area is generally good business. This is because it assures all the constituents of a company including customers, shareholders, suppliers, regulators and general public that this company is actively managing its environmental systems. By having an EMS in place that continues to function with changes in the market environment, it also helps minimize the costs and downstream risks with environmental management.



An EMS follows a Plan-Do-Check-Act Cycle, or PDCA.

1. Develop an environmental policy
2. Planning your EMS
3. Implementing it in your organization
4. Monitor the system
5. Take action

The model is continuous because an EMS is a process of continual improvement in which an organization is constantly reviewing and revising the system.

3 WHAT ARE ENVIRONMENTAL MANAGEMENT SYSTEMS (EMS)?

An environmental management system (EMS) can be developed in compliance with the ISO 14001 standard as part of an organization's strategy to implement its environmental policy and address governmental regulations. An EMS focuses resources on meeting the commitments identified in the organization's policy. As specified in *Environmental Management: Quick and Easy*, these commitments could include reducing or eliminating the negative environmental impacts of its products, services, and activities and/or increasing their positive effects.

3.1 ENVIRONMENTAL MANAGEMENT SYSTEMS COMPONENTS

The three primary processes of a management system include:

1. Core processes, their outputs, and the identification of significant environmental aspects and impacts
2. Key supporting processes, such as those for maintaining awareness of legal requirements, ensuring competency of employees, providing infrastructure, communicating EMS information, and monitoring and evaluating environmental performance
3. Management system supporting processes, such as document control, record control, and internal auditing

Like many quality management systems, environmental management systems reinforce a need to align processes into integrated systems of processes, all focused on providing the highest value to the customer. In this sense, the primary customer of the EMS is the local, regional, and global environment. Secondary customers may include the organization's owners or shareholders, customers, government agencies, and employees.

3.2 ISO 14001:2015 AND ENVIRONMENTAL MANAGEMENT SYSTEMS

The International Organization for Standardization (ISO) developed an international standard, ISO 14001, to specify requirements for environmental management systems. According to ISO, more than 300,000 organizations in 171 countries have certified to ISO 14001, including more than 3,800 companies in the Unites States.

The standard was revised in 2015. As part of the development process, ISO conducted a continual improvement survey to develop an understanding of the needs of current, past, and potential users.

The purpose of the ISO 14001 management system standard is to specify general requirements and guidelines that, when followed, should provide reasonable assurance that the outputs from the system will have minimal negative environmental impact and improved environmental performance. It should be noted that the ISO 14001 standard is nonprescriptive; that is, it details what should be done, not necessarily how to do it.

The ISO 14001 standard is developed around the plan-do-check-act (PDCA) model of improvement, an iterative process that must be applied regularly to ensure benefits are being realized and the standard is being upheld. The primary operational components of an ISO 14001 EMS can be grouped as follows:

Plan:

1. Environmental aspects
2. Legal and other requirements 3 Create/update environmental policy.

Do:

1) Resources, responsibilities, and authority
2) Competence, training, and awareness
3) Communication
4) Documentation
5) Control of documents
6) Operational control
7) Emergency preparedness and response

Check:

1) Monitor and measure
2) Evaluate compliance
3) Nonconformity, corrective and preventive action
4) Control of records
5) Internal audits

Act:

1. Management review
2. ISO 14001 audit

3.3 WHAT ARE THE BENEFITS OF AN ENVIRONMENTAL MANAGEMENT SYSTEM?

The advantages of using an environmental management system include:

- Ensuring a holistic approach to environmental impacts
- Focusing on only critical aspects and processes

- Making use of time-tested, mature approaches recognized worldwide
- Establishing positive relationships with regulators

1. Corporate reputation and image
2. Lower environmentally related costs and fees
3. Increased access to new customers
4. Direct savings through environmental source reduction

There are three approaches to measuring improvements within an organization:

1. **Management system improvement:** Qualitative and quantitative improvements to management support processes, such as employee training and awareness, compliance assurance processes, or corrective/preventative action programs
2. **Organizational reputation:** Unquantifiable improvements in an organization's reputation or improved relations with regulatory bodies, community organizations, or other interested parties
3. **Financial benefits:** Quantitative cost savings or cost avoidance associated with any of the improvements

Since the ISO 14001 standard is non-prescriptive, it is important to understand that an environmental management system is what any organization makes it. If one organization does not realize the expected benefits from its management system, an improvement team should identify the organization's level of maturity and take the steps needed to proceed to the next level in order to reach the full potential of the environmental management system.

Environmental accounting is a subset of accounting proper, its target being to incorporate both economic and environmental information. It can be conducted at the corporate level or at the level of a national economy through the System of Integrated Environmental and Economic Accounting, a satellite system to the National Accounts of Countries[1] (among other things, the National Accounts produce the estimates of Gross Domestic Product otherwise known as GDP).

Environmental accounting is a field that identifies resource use, measures and communicates costs of a company's or national economic impact on the environment. Costs include costs to clean up or remediate contaminated sites, environmental fines, penalties and taxes, purchase of pollution prevention technologies and waste management costs.

An environmental accounting system consists of environmentally differentiated conventional accounting and ecological accounting. Environmentally differentiated accounting measures effects of the natural environment on a company in monetary terms. Ecological accounting measures the influence a company has on the environment, but in physical measurements.

There are several advantages environmental accounting brings to business; notably, the complete costs, including environmental remediation and long term environmental consequences and externalities can be quantified and addressed.

environmental audit is a type of evaluation intended to identify environmental compliance and management system implementation gaps, along with related corrective actions. In this way they perform an analogous (similar) function to financial audits. There are generally two different types of environmental audits: compliance audits and management systems audits. Compliance audits tend to be the primary type in the US or within US-based multinationals. Environmental compliance audits

As the name implies, these audits are intended to review the site's/company's legal compliance status in an operational context. Compliance audits generally begin with determining the applicable compliance requirements against which the operations will be assessed. This tends to include federal regulations, state regulations, permits and local ordinances/codes. In some cases, it may also include requirements within legal settlements.

Compliance audits may be *multimedia* or *programmatic*. Multimedia audits involve identifying and auditing all environmental media (air, water, waste, etc.) that apply to the operation/company. Programmatic audits (which may also be called *thematic* or *media-specific*) are limited in scope to pre-identified regulatory areas, such as air.

Audits are also focused on operational aspects of a company/site, rather than the contamination status of the real property.

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