Business Environment

DEMGN303

Edited by:
Dr. Mridula Mishra

LOVELY
PROFESSIONAL
UNIVERSITY

Business Environment

Edited By
Dr. Mridula Mishra

CONTENTS

Unit 1:	**Indian Business Environment** *Jaskiran Kaur, Lovely Professional University*	1
Unit 2:	**Indian Economy** *Jaskiran Kaur, Lovely Professional University*	26
Unit 3:	**National Income** *Jaskiran Kaur, Lovely Professional University*	39
Unit 4:	**Economic Environment of India** *Jaskiran Kaur, Lovely Professional University*	55
Unit 5:	**Socio-Cultural Environment** *Jaskiran Kaur, Lovely Professional University*	74
Unit 6:	**Political and Legal Environment** *Jaskiran Kaur, Lovely Professional University*	91
Unit 7:	**Industrial and Investment Policy** *Jaskiran Kaur, Lovely Professional University*	114
Unit 8:	**Taxation System in India** *Jaskiran Kaur, Lovely Professional University*	135
Unit 9:	**Goods and Service Tax** *Jaskiran Kaur, Lovely Professional University*	150
Unit 10:	**International Organizations and Monetary System** *Jaskiran Kaur, Lovely Professional University*	171
Unit 11:	**International Trading Environment** *Jaskiran Kaur, Lovely Professional University*	188
Unit 12:	**Economic Integration** *Jaskiran Kaur, Lovely Professional University*	205
Unit 13:	**Social Security Schemes** *Jaskiran Kaur, Lovely Professional University*	219
Unit 14:	**Contemporary Issues** *Jaskiran Kaur, Lovely Professional University*	242

Unit 1: Indian Business Environment

CONTENT

Objectives

Introduction

1.1 Theoretical Framework of Business Environment

1.2 Recent Developments in Political, Economic and Social Environment

1.3 Techniques of Environmental Scanning and Monitoring

1.4 SWOT Analysis of Indian Economy

1.5 Summary

1.6 Keywords

1.7 Review Questions

1.8 Further/ Suggested Readings

Objectives

- Assess the theoretical framework of business environment.
- Discuss the recent developments in political, economic, and financial environment.
- Explain the techniques of scanning the environment.
- Conduct a SWOT analysis of the Indian economy.

Introduction

Environment literally means the surroundings, external objects, influences, or circumstances under which someone or something exists. The environment of any organization is "the aggregate of all conditions, events and influences that surround and affect it." Davis, K, The Challenge of Business, (New York: McGraw Hill, 1975), p. 43.

Environment refers to all external forces which have a bearing on the functioning of business. Jauch and Gluecke has defined environment as "The environment includes factors outside the firm which can lead to opportunities or a threat to the firm. Although there are many factors the most important of the sectors are socio-economic, technological, supplier, competitor and govt."

The recent changes in tariff rates have changed the toy industry of India with the market now being dominated by Chinese products. A slight change in the Reserve Bank of India's monetary policy can increase or decrease interest rates in the market. A slight shift in the government's fiscal policy can shift the whole demand curve towards the right or the left.

Example: Hindustan Lever Limited (HLL) took advantage of the new takeover and merger codes and acquired brands like Kissan from the UB group, TOMCO (Tata Oil Mills Company) and Lakme from Tata and Modern Foods from the government, besides many other small takeovers and mergers.

The new moguls of the Indian business are those who predicted the changes in the environment and reacted accordingly. Azim Premji of Wipro, Narayana Murthy of Infosys, Subhash Goyal of ZEE, the Ambanis of Reliance, L.N. Mittal of Mittal Steel, Sunil Mittal of Bharti Telecom are some of them.

Even a small businessman who plans to open a small shop as a general merchant in his town needs to study the environment before deciding where he wants to open his shop, the products he intend to sell and what brands he wants to stock.

The relation between a business and an environment is not a one way affair. The business also equally influences the external environment and can bring about changes in it. Powerful business lobbies for instance, actively work towards changing government policies.

The business environment is not all about the economic environment but also about the social and political environment. Politically, after the Congress government came to power at the center with the support of the CPI in May 2004, the whole process of disinvestments took a U-turn. Similarly, a new sociological order in India today has created a market for fast foods, packaged foods, multiplexes, designer names, Valentine day gifts and presents, and gymnasiums and clubs etc.

So it is quite obvious that success in a business depends upon better understanding of the environment. A successful organization doesn't look at the environment on an ad hoc basis but develops a system to study the environment on a continuous basis to try and protect the organization from every possible threat and to take the advantage of every opportunity. Some times better and timely understanding of the environment can even turn a threat into an opportunity.

1.1 Theoretical Framework of Business Environment

The framework of business environment can be divided into three broad dimensions:

1. Internal Environment
2. Macro Environment (External Environment)
3. Micro Environment (Relevant Environment, Competitive Environment)

1.1.1 Internal Environment

Internal environment is internal to the organization and it is controllable. In brief important internal factors are as follows:

1. **Culture and Value System**: Organizational culture can be viewed as a system of shared values and beliefs that shape a company' behavioural norms. A value is an enduring preference for a code of conduct or an end - state. The value system of founders has a great and lasting impact on the value system of organization. Value system not only influences the operations and behaviour it also influences the choice of business.
2. **Mission and Objectives**: The business domain of the company. The mission and objectives of the company guide priorities, direction, of development, business philosophy, and business policy.
3. **Management Structure and Nature**: Structure is the way in which the tasks and sub tasks are related. Structure is about the hierarchical relationship, span of management relationship between different functional areas. Structure of top management, pattern of shareholding etc.
4. **Human Resource:** It deals with factors like manpower planning, recruitment and selection, and development, compensation, communication, and appraisal. Besides this internal environment includes corporate resources, production/operation of goods and services, finance and accounting system and methods, marketing, and distribution.

1.1.2 External Environment

External or Macro or General Environment consists of factors external to the industry that may have significant impact on the firm's strategies. Here we will look at six broad dimensions: Demographic, Socio-cultural, Political/Legal, Technological, Economic and Global.

All these dimensions of general environment are interrelated. These dimensions not only influence businesses, but also influence each other. After a political change in 1991, when Congress government came to power, major economic change took place in the form of LPG, i.e., Liberalization, Privatization, and Globalization. This led to an enhancement in the technological environment of the country. This technological and economical change has transformed the socio-culture environment of the country.

Globalization has also enabled India to become the software superpower of the world. All global organizations now have a new and vast market, as well as cheap manufacturing hub, which has compelled them to change their global marketing and manufacturing strategies.

With this, over the last ten years there has been a drastic change in the India's demography as per capita incomes have risen. The number of young achievers and high earners has increased drastically, which changed the entire demand schedule of products:

1. Political Environment: It is the political environment of the country which decides the fortune of the business in a country.

Did u know? After 1917 revolution in USSR suddenly a political change transform the whole equation of business. In India in 1977 Janta government came in power and because of this Coca Cola and IBM have to leave the country. Because of Janta government all liquor company have to close their operations. After the change in the regime in the USSR in late 1980s and early 1990s the whole equation of business changed in Russia.

Recently when Dr. Manmohan Singh led UPA government came in power and new economic policy changed the whole definition of business in India on the one hand it gave a bulk of new opportunities for business on the other hand it also brought threat for inefficient organizations. Not only political philosophy but also political stability has a significance importance. More stable will be the political environment of country the more conducive will be the environment for business. The consensus among various political parties on key issues are also relevant in this case.

2. Regulatory and Legal Environment: The political environment governs the legal and regulatory environment of country. The regulatory environment plays a vital role by dictating the do's and don'ts of a business. Every country has a different legal environment.

In India we have the Companies Act that governs companies, the MRTP Act which restricts monopoly, various laws regarding shares, the Consumer Protection Act, environmental laws, and the implementation of GATS. GATS has resulted in the implementation of international laws regarding patents. There are also laws for import and export, licensing etc. that have a drastic impact on business and the future of organizations.

When an NRI Lord Swaraj Paul, a British citizen, tried to take over Escorts, its owners, the Nandas approached the government to save their company. A law restricting any NRI from purchasing shares of an Indian company came into force, and Escorts was saved.

Figure 1.1: Dimensions in External Environment

3. Demographic: It is the demographic environment which decides the marketing mix for an organization. It decides the type of product the organization comes out with. In India a lot of research and efforts are undertaken to reduce the cost of products and to launch products at the cheapest possible rates.

Example: A one rupee sachet of shampoo or a five-rupee ice-cream cone.

It is the demography that decides the pricing, promotion and distribution strategies. 70% of India's population is lives in villages and of this, 70% are youth, which is why every business house is launching new products, specifically for rural market.

Example: ITC launched its unique and ambitious program called e-chaupal, targeted at the rural market.

4. Socio-culture: Socio-culture variables like the beliefs, value system, attitudes of people and their demographic composition have a major impact on their personality and behavior style. The consumers' preferences have undergone a drastic change through the 1990s. This has led to the production of more cars, refrigerators, air conditioners and other articles that were at one time considered ostentatious and luxurious.

Not only this, socio-culture paradigms also dictate the preference of consumer in different regions.

Example: Companies launch different products in the south and north because of differing preferences. Companies have to change their product portfolio because of cultural preferences as McDonalds and KFC did when they launched their restaurant chain in India.

5. Technological: Technological forces present a wide range of opportunities and threats that have to be accounted for in the process of business strategy formulation. Technological advancement may dramatically affect an "organization's products, services, markets, suppliers, distributors, competitors, customers, manufacturing process, marketing practices, financial composition, and competitive position." Some of the important factors that influence operating in the technological environment are:

(a) Sources of technology like company sources, external sources and foreign sources, cost of technology acquisition, collaboration and transfer of technology.

(b) Rate of change in technology, rate of obsolesce.

(c) Impact of technology on human being, the man machine system, and the environmental effect of technology.

(d) Communication and infrastructural technology in management.

In fact, technology is today a decisive factor. From FMCG to the microprocessor industry, everybody is investing heavily in technology. The technological knowledge of a consumer also influences the decisions. Organizations must modify products according to the level of technological knowledge of the target costumer, because in developing nations complex household machines that need programming will not work. So, they have to be technologically more and more focused.

6. Global Environment: The international environment consists of all factors that operate at the transnational, cross-cultural level and across the border. The world is a global village today and it is getting closer and closer as far as business is concerned.

For the sake of business, countries are burying their grievances and forging economic relationships. Erstwhile adversaries like America and Russia are today good friends and China and India are coming closer.

India has signed a bilateral treaty with Sri Lanka, it is developing close economic relationship with South Africa and Brazil, and is planning to develop a road network in South East Asia. India is also a close all of ASEAN, and is also a signatory of WTO which has a multilateral trade agreement among more than 100 nations.

India is in a process of laying down a gas pipeline from Iran via Pakistan. All this is just a glimpse of the present international environment. Every new bilateral and multilateral agreement opens new vistas for business and also brings a new threat in the form of global competition.

7. Economic Environment: The economic environment consists of macro level factors related to the means of production and distribution of wealth, which have an impact on the business of an organization.

The economic structure of a country, whether it is socialist, mixed or capitalist, has a drastic impact on the economy. Economic policies such as foreign trade policy, industrial policy, fiscal policy, GDP growth rate, policy of licensing, monetary policy, development of financial institutions, development of money and stock market, and the extent of globalization are some of the aspects of

an economy that reflect on business in an economy. A slight change in monetary policy can release crores of rupees into the economy that may result in a decrease in interest rate, which further increases investment as well as inflation.

Also, banks' lending rates decide the level of investment in any country. The higher the interest rate, the lower the level of investment.

Example: In most industrialised nations like the US, this interest rate is between 4% to 6%. In India in 1991, the PLR (prime lending rate) was 17% to 18%, which was reduced to 8% to 10% by 2000 because of a change in the country's economic policy. The current Prime Lending Rate (PLR) with effect from Jan 1, 2009 is 14.75% p.a.

8. National Competitive Advantage: Despite globalisation, industrialization is clustered in a small and specific number of countries. Most successful computer and biotechnology firms are based in the US, the successful chemical and engineering industry is based in Germany, and the cream of the electronics industry is based in Japan.

Similarly, the successful call centers are clustered in India as are many of the customised software companies. This suggests that the nation and its environment in which a company is based may have an important bearing on the competitive position of that company in the global marketplace.

Importance of Environment

1. **Environment is complex**: The environment consists of several factors, events, conditions and influences arising from different sources. All these interact with each other to create entirely new sets of influences.
2. **Environment is dynamic**: The environment is constantly changing in nature. Due to many and varied influences operating there is dynamism in the environment causing it to change its shape and character continually.
3. **Environment is multi-faceted**: The same environment trend can have different effects on different industries. As the GATS is an opportunity for some companies and threat for some companies.
4. **Environment has a far-reaching impact**: The environment has far reaching impact on the organization. The growth and profitability of an organization depends critically on the environment in which it exists.
5. **The impact of an environmental trend often differs significantly for different firm within Notes the same industry:** Any change in environment may have different impacts on different firms operating in the same industry.
6. **The general environment usually holds both opportunities for, and threat to, expansion**: Development in general environment often provides opportunities for expansion in terms of both products, and markets.
7. **Development in the general environment change competitive battle line:** General environmental changes may alter the boundaries of an industry and change the nature of its competition. This has been the case with deregulation in the telecom sector in India. Where since the deregulation every second-year new competitor emerges old foes become friends, M&A take place with every new regulation.
8. **Many developments in the general environment are difficult to predict with any degree of accuracy, while others are readily predictable:** Macroeconomic development such as interest rate fluctuations, the rate of inflation, and exchange rate variations are extremely difficult to predict on a medium or long-term basis. On the other hand, some trends as on demographic, income level, age can be forecast.

1.1.3 Microenvironment

Micro Environment or the competitive environment refers to the environment, which an organization faces in its specific arena. This arena may be an industry, or it may be what is referred to as a strategic group.

Besides looking at primary demand and supply factors, firms examine the state of competition they face because that determines whether they will remain in the same industry or start a new one. All the business decisions – what business, pricing, distribution channel, promotion strategy, product portfolio, etc., depends on the competitive position of the firm.

Example: A new entrant in the glucose biscuit segment will have to study and consider the marketing mix as well as strategy of existing players like Britannia, Parle, Priyagold, etc., before deciding its marketing mix.

Following are the key Micro Environment factors:

The Five Forces of Competition

Professor Michael Porter of the Harvard Business School has demonstrated the state of competition in an industry as a composite of five competitive forces. Michael Porter provided a framework that models an industry as being influenced by five forces. The strategic business manager seeking to develop an edge over rival firms can use this model to better understand the industry context in which the firm operates.

According to Michael Porter the five forces of competition are:

1. Threat of Competitors: The rivalry among sellers in the industry.
2. Threat of New Entrants: The potential entry of new competitors.
3. Threat of Substitutes: Market attempts of companies in other industries to win customers over to their own substitute products.
4. Bargaining Power of Suppliers: The competitive pressure stemming from the supplier-seller collaboration and resultant bargaining.
5. Bargaining Power of Buyers: The competitive pressure stemming from seller-buyer collaboration and bargaining.

To help make this tool more relevant and useful we've used two different examples after each force: An example based on a mythical childcare charity interested in bidding for a local authority contact to provide respite care for parents of disruptive children.

Children Charity Co. (CCC): CCC is currently a small provider of 'relief' services for parents of children with behavioural difficulties. They have heard that the local authority in the area where they work will be considering whether to continue using the NSC (National Society for Children) to provide residential childcare for children who are in care/looked after. This contact could be worth £5M and could lead to a national series of contracts for CCC. The CEO and senior team are trying to decide what to do.

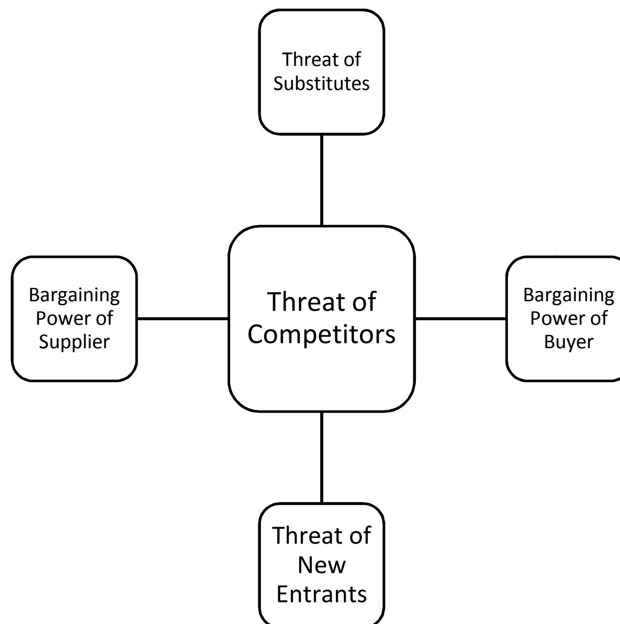


Figure 1.2: Michael Porter's Five Forces Model

1. Threat of Competitors: When rivals compete to win over customers to improve market share or profitability - that is rivalry among competing sellers. The intensity of rivalry among competing sellers is a function of how vigorously they employ tactics such as lower prices, snazzier features, expanded customer service, longer warranties, special promotional offers, and introduction of new product. All these lead to adverse impact on the profits of the firm. Rivalry intensifies as the number of competitors increases and as competitors become equal in size and capability.

Rivalry becomes stronger when the demand for a product grows, and industry conditions tempt competitors to cut prices or use other competitive weapons to boost unit volume. Rivalry is also intensified when one or more competitors are dissatisfied with their market position and launch moves to bolster their standing at the expense of rivals, or when exit barriers are very high and it costs more to get out of business than to stay on. Sometimes, stronger companies outside the industry acquire weak firms in the industry and launch Notes aggressive, well-funded moves to transform their newly acquired competitors into majormarket contenders.

Rivalry is weak when most competitors in the industry are relatively well satisfied with their sales growth and market shares. Such companies rarely make concerted attempts to steal customers away from one another and have comparatively attractive earning and returns on investment.

(a) Is it difficult to compare competitors? In a way it's more difficult if competitors are very different. For example you could agree that trains compete with buses in terms of getting from A to B. But actually they are very different I terms of who uses them and why. Equally for our charity if a competitor came along who said disruptive child behaviour is a medical problem - i.e. that the children should stay at home and be given medicine that would change this from a social care challenge to a medical one. If the competition changes this makes it difficult for the childcare charity to decide what to do. (Back to Ritalin?)

(b) Is there very high 'exit barriers'? 'Exit barriers' mean that it is difficult - economically, emotionally and legally - to leave the market. In a commercial example there may be a contract or the redundancy costs may be high. For our childcare charity these concerns may also exist - but many charities also have a high emotional commitment to their work. This may exist long after that work has ceased to be relevant.

2. *Threat of New Entrants:* A new entrant in an industry represents a competitive threat to established firms, sometimes called the incumbents. The entrant adds new production capacity and brings substantial resources that were not previously required for success in the industry. But there are various barriers to entry that the new player has to face. These barriers are a challenge for the new entrant and a protective shield for the established player and include:

(a) Economies of Scale: Existing large firms enjoy lower costs per unit. They have enough room to reduce prices as they may enjoy higher profits. Also, they could be selling products at such a low price that new player may not able to produce the same output.

(b) Cost Disadvantage Independent of Scale: Besides economies of scale, existing firms have other many cost advantages such as proprietary product knowledge, patents, favorable access to raw material, favourable location, lower borrowing cost and government subsidies.

(c) Learning and Experience Curve: Established companies have the advantage of learning curve. Because of this learning curve established firms are in a better position as they have skilled and trained human resource.

(d) Product Differentiation: Differences in physical or perceived characteristics make an incumbent's product unique in the eyes of the consumer.

(e) Capital Requirement: It is said the offender must have three times the power than that of the defender. Thus, an offender requires capital not only to establish a new business but also to compete with established firms. Even the, cost of capital is higher for a new firm as lenders hesitate to provide capital to new entrant.

(f) Switching Costs: Sometimes, the costs (physical, psychological and financial) incurred in switching from one supplier to another also resists the customer from going for a new vendor.

(g) Access to Distribution: The middlemen are reluctant to deal with a product that is new to the market. This situation becomes more critical in industrial and international markets as there are few middlemen because they usually prefer established products.

Here consider above example of CCC

(a) Is it easy to enter the market or are there economic or legal barriers to entry?

(b) Does it cost a lot to set up in competition? E.g. it's expensive to start a railroad, and you need a license. For a CCC it's expensive to set up a nationwide network of childcare centres - and they would need licenses/LA approval.

(c) Is it difficult to persuade consumers/users to switch from existing providers - because of brand loyalty, cost of switching, or length of contract, E.g. competing against Coca Cola or persuading people to switch from Windows to Macs is a challenge. If the local authority has a 3 year contract with NSC - the existing charity supplier - to provide support for 'difficult' children then CCC getting that contract from that other charity could be very expensive and challenging.

(d) Do existing providers have a 'scale-independent' costs advantage? e.g. in a commercial setting this is a unique advantage like a copyright like for Windows, or a broadcast license like ITV which no n eels can have. In the case of CCC if they or their rivals have an accredited training programme for care workers childcare workers, or the ability to use funds from their general fundraising to support local childcare, then these would be similar advantages.

3. Threat of Substitutes: This refers to the market attempts of companies in other industries to win customers over to their own substitute products.

Strong competitive pressure from substitute products depends upon three factors:

(a) Whether attractively priced substitutes are available?

(b) Whether the buyers view the substitutes as being satisfactory in terms of quality, performance, and other relevant attributes?

(c) Whether buyers can switch to substitutes easily?

The presence of readily available and attractively priced substitutes creates competitive pressure by placing a ceiling on the prices an industry can charge for its product without giving customers a reason to switch to substitute and thus risk sales erosion. How readily available and cost comparable are substitutes? In the mobile phone industry, the big providers are all very similar and the cost of switching very small - except for the contract! For our childcare charity this might be more of a challenge if, for example, the local authority was comparing fostering as an alternative proposition - or even giving out Ritalin to kids in schools.

4. Bargaining Power of Suppliers: Suppliers have little or no bargaining power when there are many suppliers and supply exceed demand. Suppliers compete to grab orders. On the other hand, bargaining power is high when it comes to high technologyand the supplier has an expertise, or if the supplier is working at economies of scale. The supplier has high bargaining power if he has significant cost advantage or constantly improves the product in the interest of the consumer or finances the buyer. what's the 'relationship' of buyers to sellers? this is important if there are relatively few suppliers compared to buyers since it will give them lots of say on cost and form of supply e.g., directory enquiries before deregulation to 118 numbers meant it was more or less a monopoly. Equally if the suppliers don't need to use you as a channel, then this can create problems e.g., when companies like Dell decide to sell direct this causes challenges for computer resellers. For our childcare charity they could consider whether many other organisations are in competition for this contract. If not, they have a better position. Also do they need the authority to provide this service? Could they instead 'sell' direct to parents or could they persuade private donors to pay for this service?

5. Bargaining Power of Buyers: Today we are living in a market-oriented economy, where consumer is king. The buyer enjoys significant bargaining power when there are many sellers, few buyers or when production capacity exceeds the demand.

The buyer can bargain for reduction of prices, quantity discount, better quality at same price, better after sales service, or even credit or finance facility. Boeing, for instance, arranges finances for its buyers. Today the consumer durables industry and the two wheelers and automobile industry arrange finances for customers in collaboration with banks.

Aruvian'sR'searchanalyzes the Indian Steel Industry in Michael Porter's Five Forces Analysis. It uses concepts developed in Industrial Organization (IO) economics to derive five forces that determine the competitive intensity and therefore attractiveness of a market. Porter referred to these forces as the microenvironment, to contrast it with the more general term macro-environment. They consist of those forces close to a company that affect its ability to serve its customers and make a profit. A change in any of the forces normally requires a company to re-assess the marketplace.

Case let:Porters five forces at Tesco PLC

This section considers how Porters five forces might be applied to the problems facing Tesco PLC, including an investigation of the threat of substitutes from other supermarkets, buyer power in relation to grocery purchases, grocery supplier power, and the power of the customer at the till.

Classical economics predicts that rivalry between companies should drive profits to zero. This is partly down to the threat of substitutes. For instance, Tesco has competition from companies like Sainsbury that can provide substitutes for their goods. This drives the price of groceries down for customers of both companies.

Buyer power acts to force prices down. If beans are too expensive in Tesco, buyers will move to Sainsbury. Fortunately for Tesco, there are few other large supermarket companies. This means the market is disciplined; that is, the supermarkets have a disciplined approach to price setting. Discipline stops them destroying each other in a profit war.

Supplier power is an important part of the Porters five forces model. Implications for Tesco are many. Supplier power is wielded by suppliers demanding that retailers pay a certain price for their goods. If retailers don't pay the price, they don't get the goods to sell. But large supermarkets, like Tesco, have an overwhelming advantage over the small shopkeeper-they can dictate the price they pay the supplier. If the supplier does not reduce the price, they will be left with a much smaller market for their produce.

Tesco, Asda, Sainsbury and other supermarket chains put up considerable barriers to entry. Anyone starting up a new supermarket chain has barriers imposed on them, implicitly or explicitly, by the existing supermarkets. For instance, Tesco may have cornered the market for certain goods; the new supermarket will not be able to find cheap, reliable suppliers. Tesco also has the advantage of economies of scale. The amount it pays suppliers, per-item, is a lot less than the corner shop. It achieves this, partly, through buying large volumes of goods. A small supermarket chain can only buy a relatively small volume of goods, at greater expense.

Before developing a Porters five forces model of Tesco consider other industries, from real estate agencies to the bicycle manufacturing industry. This will give you the broadest picture of how Porters five forces can be used. Here we'll consider, briefly, two industries outside the supermarket sector.

The Sixth Force

According to Andrew Grove, the former CEO of Intel: "Porter's five forces model ignores a sixth force: the power, vigor and competence of complementors". Complementary products are those products that add value to some other product. They are consumed with some other product. Because they are used together, the demand of one product depends upon the demand and availability of another product.

Example: Like the demand of personal vehicles in a country depends upon the availability and price of fuel. Demand for personal computers depends upon the availability and affordability of user-friendly software. In fact the business of accessories like car and motorcycle accessories, computer accessories, etc., depends upon the key product.

In fact, both substitutes and complementary products influence the demand for a product. So while studying the environment one should not forget complementary products because at some point in time, they can be the decisive factor for sales and profits.

1. **Marketing Intermediaries**: Marketing intermediaries are an important part of the micro environment. These are firms and persons, who help in distribution, promotion, selling, and provide services like consultancy. Almost every business has to take the help of these intermediaries. Sometimes they play a decisive role. Like in the FMCG business, distribution is of critical importance and there is intense competition to acquire the support of a strong distributor.

Example: The primary reason Coca-Cola acquired Parle was to gain access to the distribution network of Parle, which was wide and penetrated. Besides this there are brokers, agents, logistics companies, private transporters etc., which play an important role.

There are incidences of retailers boycotting the product of particular companies because of low margins. Companies also spend a significant amount on promotion and advertising firms. For

instance, companies like HLL spend as much as ₹800 crores on advertising as part of their marketing strategy.

2. **Financial Institutions (FIs):** For any business, FIs plays a critical role, especially at the micro level. FIs not only make available the finance but also create an environment for investment. They also give expert opinion and consultancy to the corporate. Every corporate is dependent on FIs – whether it is banks or consultancies or NBFCs – for its financial needs. They also facilitate the mode of payment. For the industrial development of any country a well-established financial institutions is a prerequisite. These FIs mobilize the savings of the public to the corporate world. An organization that has a good rapport with FIs usually gets finance easily and at easy terms, which makes a lot of difference in this competitive environment.
3. **Strategic Group:** Strategic groups are conceptually defined as clusters of competitors that share similar strategies and therefore compete more directly with one another than with other firms in the same industry. A strategic group is to identify a more defined set of organizations so that each grouping represents those with similar strategic characteristics. They are not a formal group or an association:, in fact they are conceptual clusters in the sense that they are grouped together for the purpose of improving analysis and understanding of competition within their industry.

Strategic groupings look for these similarities:

(a) Extent of product diversity.

(b) Extent of geographic coverage.

(c) Number of market segment served.

(d) Distribution channel used.

(e) Extent of branding.

(f) Marketing effort.

(g) Extent of vertical integration.

(h) Pricing, etc.

Example: Coca Cola and Pepsi will be considered a strategic group because both have similar products, and both follow similar strategies. P&G, HLL and NIRMA can also be the same strategic group. This sort of grouping to analyse and understand competition is very useful. It also helps in tracing close competitors and in formatting counter strategies.

4. **Critical Success Factors (CSFs):** Many industries have small but extremely important set of factors that are essential for successfully gaining and maintaining a competitive advantage. Critical success factors are those areas in which good results will help ensure an organization's success against competition and where poor results usually lead to declining performance.

CSFs which are relevant to any company are determined by a variety of environmental and firm-specific considerations. During environmental analysis one should find out what are the critical factors for the firm.

5. **Driving Force:** Behind every change in environment there is some driving force, and these driving forces lead to a sequential change in environment. To understand and forecast future trends it essential to understand the driving force behind them. In fact, sometimes changes in segment A can be the result of changes in segment B and on the other hand, to influence B one must influence A.

For instance, if there is a sudden rise in the sale of a certain product of an organization, it may presume this to be a result of the hard work of its sales force, whereas it may actually because its competitor's product is in short supply.

1.2 Recent Developments in Political, Economic and Social Environment

Political Environment

Decade of 1990 saw the rise of many political parties in India at regional level which not only flourished but also become they force to reckon with. The BJP Govt. was a Coalition Govt. By the year 2000 many regional political parties become so strong in their specific regions that they share power at the centre. We can define this era as a Coalition era. The political Mantra of this era was to associate with strong Regional Parties. So the two National Political Parties that is Congress and BJP associate themselves with regional parties. A look at the results of the last five General Elections reveals that there is a decline in the performance of the National Parties taken together both in terms of total number of seats won as well as their vote share. State Parties and Other Registered Parties gained at the cost of National Parties during this period. This is one of the factors that had contributed to federal coalition governments in the recent past. While the National Parties got a total of 470 seats in the 543 member Lok Sabha in 1989 elections with a share of 79.34 percent of total votes polled, in the next elections, two years later, they got 465 seats although the vote share rose to 80.91 per cent. But their vote share declined to 69.08 percent and 67.98 percent in 1996 and 1998 General Elections respectively. Correspondingly during 1996, they got a total of 403 seats which further declined to 387 in 1998 and 369 in 1999.

All the State Parties, put together, could get only 27 seats in 1989 elections. They improved their tally to 51 in 1991 and 129 in 1996. But there was a decline in seat share to 101 in 1998 and subsequently an increase to 158 in 1999. There was a corresponding increase in their vote share also. In 1989 their vote share was 9.28 percent of the total valid votes polled. In 1991 they improved by a clear 3.7 per cent in their vote share taking it to 12.98 percent. In 1996 elections they got 22.43 percent of votes. In 1998 their vote share declined marginally to 18.79 percent but increased again to 26.93 percent in the 1999 polls.

These Regional Parties not only share the Power at Centre, but they also work as a Pressure Group. They try to impose their agenda on the national polices. In 1999 General Election Congress Led Coalition came to power under the leadership of Mrs Sonia Gandhi and Dr. Manmohan Singh became the Prime Minister of India. On the national level CPI supported the Indian National Congress-led United Progressive Alliance government, but without taking part in it. The party is part of a coalition of leftist and communist parties known in the national media as the Left Front. Upon attaining power in May 2004, the United Progressive Alliance formulated a programme of action known as the Common Minimum Programme. The Left bases its support to the UPA on strict adherence to it. Provisions of the CMP mentions to discontinue disinvestment, massive social sector outlays and an Independent Foreign Policy. It is the pressure of CPI that Dr. Manmohan Singh has to apply break on his agenda of Disinvestment and Privatization.

On July 08, 2008, Prakash Karat announced that left front is withdrawing its support over the decision by the government to go ahead on the United States-India Peaceful Atomic Energy Cooperation Act. At this moment Mulayam Singh Yadav led Samajwadi Party of Uttar Pradesh came forward and extending its support to Congress. Thus the Central Govt. was on the mercy of regional political parties having their own agenda and regional interest.

In 2009 people of India voted for stability. The people of India gave clear majority to the Congress led Alliance that is UPA the other constituents of the UPA are

1. Dravida MunnetraKazhagam
2. Nationalist Congress Party
3. Jharkhand Mukti Morcha
4. All India Majlis-e-Ittehadul Muslimeen
5. Republican Party of India (Athvale)
6. Sikkim Democratic Front
7. Indian Union Muslim League
8. Trinamool Congress

In totality this alliance won 262 Seats out of 543 seats. The Communist Party led Third Front could manage only 80 seats. Most of them are of BJD in Orissa.

The 2009 Election clearly indicates that the pressure group politics of regional political parties is over. In current political scenario can be marked by following facts:

1. Strong Presence of Indian National Congress at the National Level
2. Stable Government

3. Unanimity among the Political Parties on Economic Issues

Strong Presence of Indian National Congress at the National Level

In the Election of 2009 INC led Coalition has won the seats in the Pan India. They got significant support from rural India and Middle Class. Congress won seats even in its weak fort that is Uttar Pradesh. This election also saw the emergence new leader Mrs Sonia Gandhi and emerging leader Mr. Rahul Gandhi. It was the Congress who initiated the Liberalization, Privatization and Globalization. With the full majority in the house, it is expected that Congress will follow the same route.

Stable Government

Stability of the Government raises image, brand and ratings of the nation. Stable Govt. attracts investment Foreign Direct Investments and Domestic Investments. All this generates Employment and Demand. In totality a stable Govt. beget congenial environment for the business if it supports the business and the present Government is stable and as well as it supports the business.

Unanimity among the Political Parties on Economic Issues

This is the biggest plus point of Indian Politics. INC, BJP and other political parties are unanimous regarding economic policies. Even the Left Parties are inviting FDI and private investments in their ruled states.

Economic Environment

The face of the Indian economy has changed drastically since 1991. Earlier, pricing in India was governed by administered price mechanisms, but market forces today govern pricing. Supported by wide ranging reforms over the past decade, India's economic growth has been robust. A vibrant middle class with rising spending power has emerged, and a new generation of industrialists and entrepreneurs has begun to compete globally. With Gross Domestic Product (GDP) in nominal terms of US$692 billion in 2004, India is now the world's tenth largest economy.

The country's external position is also significantly stronger. Exports, specifically of services, have grown substantially in 2004/5. Growth in services has largely been fueled by the information technology boom in which India has emerged as a world leader. Some of the key factors of India's new economy are as follows:

1. India is the fourth largest economy of the world in terms of PPP today.
2. It is an attractive destination for global FDI. Almost all the major MNCs of the world, from GM and GE of USA to Sony and Samsung see their future in India.
3. India is emerging as a global manufacturing hub. More and more companies are establishing their manufacturing unit in India. These include Nokia, Samsung, GM, Hyundai, Posco, Ispat, Lafarge, Holcim, Toyota etc.
4. India is today a labelled as the back office of the world. As India is becoming the major outsourcing theater of the world. India commands more than 30% of the world's outsourcing business. Indian companies are working for almost all the major companies of the world like GM, GE, Microsoft, Oracle, etc.
5. India is also regarded as the customised software factory of the world. Almost all the major software companies of the world have their operations in India. The list includes players like Microsoft, Oracle, HP, IBM, etc.
6. India is also emerging as the R&D hub of the world. Companies like GE have six R&D centres outside the USA and the first of them was established in India under the name Jack Welch Centre. Similarly, many MNCs have established their R&D centres in India and many others are following suit.
7. Indian companies are earning laurels in terms of quality, earlier considered a major drawback of Indian companies. But in the last few years India has won a good number of Deeming Prizes for quality.
8. "Over the last seven years one country has been figuring prominently on the list of Deeming Prize winners. It's not Japan, but India. Ever since Sundaram - Clayton became the first Indian company to win the award in 1998, 11 more Indian firms have won it." (Business Today, Jan 29, 2006, P.88)

Financial Environment

The major objectives of the financial sector reforms fall under the three broad categories:

- Measures aimed at removing the external constraints bearing on the profitability of banks,

- Measures aimed at improving the financial health of banks by introducing appropriate prudential norms, and
- Measures aimed at institutional strengthening including improving the competitiveness of the financial system.

However, for convenience these measures can be related to issues of ownership, competition, regulation, and policy stance.

The thrust of reforms in this area relates to privatization and restructuring. Public sector banks have been permitted diversified ownership by law subject to 51 per cent holding of Government/ RBI/SBI. IFCI and IRBI were converted into public limited companies. The Industrial Development Bank of India Act, 1964 was amended to allow IDBI to raise capital up to 49 per cent of its paid-up capital from the public. Legal amendments have been made to induct private participation in the Board of Directors. As a part of restructuring efforts, weak public sector banks were recapitalised through budgetary support.

New private sector banks have been established and Local Area Banks have been licensed to instill a greater element of competition in the financial system. There is a more liberal policy of permitting branches of foreign banks. In the area of interest rate, the administered structures were dismantled, both on the deposit and lending side. The lending rates were rationalized to two categories and on the deposit side, the Reserve Bank of India (RBI) prescribes only one rate in the 30 days to one year category and that too in the form of 'not exceeding 9.0 percent'. Further, credit norms have been liberalized and banks now have more freedom to open new branches/upgrade existing extension counters.

Prudential norms have been introduced based on objective criteria for income recognition, asset classification and provisioning. The Basle Committee framework for capital adequacy has been adopted. A Board for Financial Supervision has been set up for exercising integrated supervision both, on-site and off-site over banks, financial institutions, and finance companies. Besides, several steps have been taken to improve the audit system in general. Non-banking financial companies have been brought under more effective supervision of RBI.

The Indian banking system operated on a high level of reserve requirements for a long time. Progressive reduction has brought down the Statutory Liquidity Ratio from 37.5 per cent to 25 per cent on an incremental basis and the Cash Reserve Ratio, including incremental CRR from 25.0 per cent and 10.0 per cent. As mentioned earlier, there is near full deregulation of both deposit and advances interest rates. The financial sector is now operating in a more open and more market-oriented environment. Government debt is now mostly at market rates. Foreign exchange rate is also market-determined.

The budget of 1997-98 and the monetary policy for the first half of 1997-98 are considered landmarks in the process of economic reform in India. In the budget of 1997-98, there are some elements of great relevance to the financial sector, while the monetary policy announcement that followed has been described as a 'big bang' in financial sector reform.

1.3 Techniques of Environmental Scanning and Monitoring

The process by which organization monitors their relevant environment to identify opportunities and threats affecting their business is known as environmental scanning.

Factors to be Considered for Environmental Scanning

The external environment consists of variety of factors we can explain them as follows:

- **Events** are important and specific occurrences taking place in different environment sector.
- **Trends** are the general tendencies or courses of action along which events takes place.
- **Issues** are the current concerns that arise in responses to events and trends.
- **Expectations** are the demands made by interested groups in the light of their concern for issues.

1.3.1 Environmental Analysis

Collection of Information

Analysis is done by means of a search of verbal and written information, spying, forecasting and formal studies and information system.

At first there is the gathering of verbal information, the sources of verbal information are:

- Media such as radio and television
- The firm's employees such as peers, subordinates, and supervisors.

Other sources of verbal information outside the firm are: Customers of the enterprise, persons in industry channel (such as wholesalers, brokers, distributors, etc.), suppliers doing business with the firm, competitors and their employees, financial executives such as bankers, stockholders, and stock analysts, consultants and the government.

Besides verbal sources, information can be gathered by reading. Information about the environment is readily available in newspapers, trade journals, industry newsletters, journals and publications, government reports, reports of various marketing research agencies such as Gallup, ORG, etc. It is said (is it not true?) that behind every business activity there is one government department and one association. This department or association publishes information related to business on regular intervals.

The second solution to environmental analysis is to design a Management Information System. A formal MIS gives quick relevant information to the decision-makers, which helps a lot in making timely decisions. Beside this, information regarding competitors can be gathered through Corporate Intelligence and Spying.

Corporate Intelligence: Corporate Intelligence (CI) can be described "as a technique of adopting industry/research expertise to analyse the information available on competition from public sources and to draw conclusion based on this data." A typical CI activity involves collection, organization, analysis and utilisation of business-related data of competitors to make informed decisions.

Example: Some of the major companies that use CI include: Microsoft, Motorola, P&G, HP, GE, IBM and Xerox.

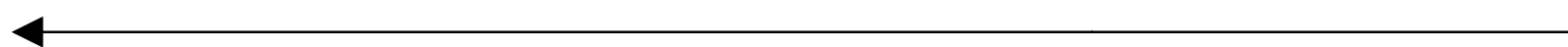
Spying: Corporate espionage can be defined as 'spying' on business competitors to acquire proprietary information such as product design, research projects, marketing plan, trade secret, source code for new software, intellectual property and research information and other business strategies. In 1996 the US government passed the Economic Espionage Act to restrict espionage.

Similarly, in 1943, a P&G employee reportedly bribed an employee of Levers Brothers to steal a bar of soap that was under development.

Deciding Priorities

Various changes take place in the environment and it is difficult, cumbersome and a costly affair to keep a regular eye on every aspect of these changes. So it is essential for a strategist to rate the environmental factors on the basis of criticality and then invest time and resources in environmental analysis. The Nine-cell Matrix is one method of deciding priorities regarding environmental issues.

The issues that are critical need maximum attention of the management and quick action or preparation. On the other hand, issues of low priority need just monitoring at regular intervals. Issues of high priority need attention standby plans in case and need regular observation.



Probability of

Critical	High Priority	Low Priority
High Priority	High Priority	Low Priority
To be worked	Low Priority	Low Priority
High	Medium	Low

Figure 1.3: Identifying High Priority Environmental Sector

Methods Environmental Analysis

Environmental Analysis can be divided into two methods

1. Environmental Evolution: There are three components that are useful to describe changes in the environmental segments:

(a) Type of change

(b) Forces driving change

(c) Type of future evolution.

Changes in the microenvironment may be systematic or discontinuous. Gradual changes, changes in a phased manner, or those that are predictable are systematic changes. As after liberalization, a change in the ratio of youth in population of India, rise in the income of middle class and especially of the youth can be seen as systematic change. Unpredictable or sudden changes are discontinuous, like the twin tower terror attacks in the US and its aftermath.

Sometimes changes in one segment may be the result of driving forces in another segment. The driving force behind the acceptance of packaged food in India could be because of the purchasing power of the middle class, or because more women are working, or it could be more awareness among the youth via the mass media. These driving forces constantly interact with each other.

Environmental evolution can be completely predictable and sometimes it is dependent upon actions of the firm or other entities in the environment.

2. Process of Environmental Analysis: The process of environmental analysis can be divided into four parts:

Scanning: Environmental scanning is aimed at alerting the organization to potentially significant external impingement before it has fully formed or crystallised. Successful environmental scanning draws attention to possible changes and events well before occurrence, giving time for suitable action. Scanning frequently detects environmental change that is already in an advanced stage. Scanning is most ill- structured and ambiguous environmental analysis activity. The data sources are many and varied. Moreover a common feature of scanning is that early signals often show up in unexpected places. Fundamental challenge for the analyst in scanning is to make sense of vague, ambiguous and unconnected data and to infuse meaning into it.

Monitoring: Monitoring involves following the signals or indicators unearthed during environmental scanning. In monitoring the data search is focused and much more systematic than scanning. By focused, it is meant that the analyst is guided by a priori premonition. Systematic refers to the notion that the analyst has the general sense of the pattern and he is looking for and collects data regarding the evolution of the pattern.

As monitoring progresses the data frequently move from the imprecise and unbounded to reasonably specific and focused. The output or monitoring are threefold:

(i) A specific description of environmental patterns to be forecast,

(ii) Identification of trends for further monitoring, and

(iii) Identification of patterns requiring further scanning.

c.*Forecasting:* Forecasting is concerned with the development of plausible projections of directions, scope, speed and intensity of environment change, to lay out the evolutionary path of anticipatory change. There are number of key analytic tasks and outputs involved in forecasting. The first concern untangling of forces that drive the evolution of a trend. The second concern understanding the nature of the evolutionary path; that is whether the change is a fad or of some duration, or cyclical or systematic in character. The third concern clearly delineating the evolutionary path or paths leading to projections and alternatives futures. Forecasting is well focused and is much more deductive and complex activity.

d. *Assessment:* Assessment involves identifying and evaluating how and why current and projected environmental change will affect strategic management of an organization. In assessment, the frame of reference moves from understanding the environment – the focus of scanning, monitoring, and forecasting – to identifying what that understanding of environment means for the

organization. Assessment thus talks about the implication of environment change on the organization.

There is not always a linear relationship between scanning, monitoring, forecasting and assessment. If some trends are disclosed in scanning process an organization can directly jump to find out how it is going to influence the organization. Even after having the assessment of the external environment factor an organization may continuously monitor and forecast the factor about is future development. So sometime assessment monitoring and forecasting go simultaneously. A good strategist always keeps an eye on development in environment.

1.3.2 Environment Technology Opportunities Portal

The full form of ETOP is Environmental Technology Opportunities Portal. It is a Web site. It is designed to present programs that foster development of new cost-effective environmental technologies. It is an education-based organization. It concentrates on workplace skills and job competencies. It is a national joint labor/management program. It improves the relationship between the Union and the Company. It focuses on job security and advances productivity through education and training. ETOP, Inc. is a joint labor/management education and training program. It relays information on existing EPA environmental technologies for air, water, and waste treatment and control. Its mission is to provide worker education and training for IBEW represented employers to enhance individual employability and improve employer productivity. To achieve its mission it applies some core values to all of its corporate activities, which are given as under:

1. **History:** ETOP is a joint labor/management program that was negotiated in 1986 between the International Brotherhood of Electrical Workers (IBEW) and AT&T, now Lucent Technologies, to provide IBEW represented employees with education and training opportunities. To carry out this mission, the ETOP organization was established. It is governed by a Board of Directors and professionally managed by two Co-Executive Directors. In 2000, ETOP revised its by-laws to become a multi-employer organization. The IBEW endorsed ETOP as the training program of choice for IBEW manufacturing members in September 2001.

2. **Its Quality**: ETOP aims to maintain high standards and wants to exert a positive impact on continuing education by holding a strong commitment to quality for the sustenance and advancement of excellence in working atmosphere to make it informative.

3. **Its Services**: ETOP has decided to commit itself to render excellent services to its member organizations by maintaining excellent relationships that are responsive and flexible to industry requirements, needs and interests.

4. **Its Collaboration**: ETOP works simultaneously in tandem with the fellow joint labor management organizations and is committed to the sustenance and advancement of learning at workplace. Besides, ETOP's sister concerns include other organizations, which are also committed to accrual learning, these include professional organisation and institutes of higher education at local, state, regional, national, and international levels, which collaborate for the advancement of learning at workplace.

5. **Its Contribution to Learning**: ETOP's incessant endeavour is to enhance its operations by seeking continuous appraisal. For the purpose it collects information to improve its operation and support teamwork and provides learning opportunities for its staff and collaborating organizations. It works with its members to promote an environment enhancing acquisition of learning and skills.

For the purpose of the enhancement of learning ETOP programs are conducted on-site at enhanced learning centers.

The workers do not need to waste their time in traveling to far off locations, which are rather inconvenient. These learning centers include classroom settings; individual, computer-equipped study carrels; and private areas for career and related counselling. It has established learning centers at its participating employer organization's manufacturing facilities. These centers are generally located adjacent to the production area. Ease of access increases usage of the center. Services provided in the center range from educational advising, career development counseling, and computer skills training to on-site credit courses, test preparation, workplace skills, and preparation for General Education Diplomas (GED). All centers are equipped with modern infrastructure and library facilities etc.

6. Its Local Joint Committees: The ETOP local joint committee is an advisory body that functions as ambassadors for ETOP programs. There is a separate Local Joint Committee established at each location. It consists of equal Union and Management participation. The Local Joint Committee

works closely with the ETOP staff, as well as the National Office to improve outreach and support structure for the ETOP Learning Center. Their tasks are to promote life-long learning and encourage participation in ETOP programs.

1.3.3 PESTLE

In business PESTLE analysis role is very important. PESTLE analysis is a useful tool for understanding the "big picture" of the environment, in which you are operating, and the opportunities and threats that lie within it. Originally it is designed as a business environmental scan; this analysis is an analysis of the external macro environment in which a business operates. By understanding the environment in which you operate (external to your company or department), you can take advantage of the opportunities and minimize the threats. These are factors which are beyond the control or influence of a business, however, are important to be aware of when doing product development, business or strategy planning.

A PESTLE analysis is a business measurement tool, looking at factors external to the organization. It is often used within a strategic SWOT analysis. The PESTLE analysis headings are a framework for reviewing a situation and can also be used to review a strategy or position, direction of a company, a marketing proposition, or idea.

Notes: **PESTLE** is an acronym for Political, Economic, Social, Technological, Legal and Environmental factors, which are used to assess the market for a business or organizational unit strategic plan

It is important to clearly identify the subject of a PESTLE analysis (that is a clear goal or output requirement), because an analysis of this type is multi-faceted in relation to a particular business unit or proposition – if you dilute the focus you will produce an unclear picture – so be clear about the situation and perspective that you use PESTLE to analyze.

PESTLE Analysis on an HR Department or other Internal Function

While the PEST or PESTLE analysis is primarily aimed at looking at the external environment of an organization, many HR courses ask students to use the PEST or PESTLE analysis model to look at their own function. In this context we need to imagine that the department (HR) is an organization in its own right and look outside. Factors to include in your analysis may include the following:

1. Political

(a) What is the culture of the organization?

(b) How is the HR function viewed by other functions?

(c) Who are the political champions of HR (or its adversaries)?

(d) Shareholder views

2. Economic

(a) What is the budgetary position of the department?

(b) Is more money available?

(c) Are our customers likely to spend more or less money on the services we offer?

(d) What is happening to the financial status of the organization?

(e) Interest rates

(f) Inflation

(g) Salary trends in the sector

3. Sociological

(a) Other departmental attitudes to HR

(b) Population shifts (age profile)

(c) Education

(d) Fads

(e) Diversity

(f) Immigration/emigration

(g) Health

(h) Living standards

(i) Housing trends

(j) Fashion & role models

(k) Age profile

(l) Attitudes to career

4. Technological

(a) What changes may be coming our way?

(b) What new technology/systems?

(c) How do we record attendance, performance? how might this change?

(d) Use of and encourage home working?

(e) Communications technologies

(f) Changes of technology that will increase/reduce the need for recruitment

(g) Changes to HR software

5. Legal

(a) What is happening in our sector that will impact what we do?

(b) Minimum wage,

(c) Working time,

(d) Food stuffs,

(e) Under 18 working,

(f) Occupational/ industrial Training etc.

(g) What changes will impact the services of the organization?

6. Environmental

(a) What changes may be coming our way?

(b) What new technology/systems?

(c) How do we record attendance, performance? how might this change?

(d) Use of and encourage home working?

(e) Communications technologies

1.3.4 Social, Legal, Economic, Political and Technological (SLEPT) Analysis

It is important to 'scan' the external environment before creating business plans or when evaluating existing ones. Doing this takes the form of a SLEPT analysis and thus there is a scanning or an investigation of the Social, Legal, Economic, Political, and Technological influences that can be or likely to be on a business. It is important that you should be aware of the actions of your competitors in business.

Social factors relate to the pattern of behaviour, tastes, and lifestyles. A major component of this is a change in consumer behaviour resulting from changes in fashions and styles. The age structure of the population also alters over time (currently we have an ageing population). To give your business a better shape it is better to have a good knowledge of the social factors around you.

The legal factors i.e. laws especially the government policy relating to the businesses often undergoes a change with each budget session and the amendments and laws changed from time to time especially in a country like India. There are consumer protection legislation, environmental legislation, health &safety and employment law, etc., which are continually modified in a wide range of areas.

Economic factors are affected with every change in the social ones. There are multiple fluctuations associated with general booms and slumps in economy. In a boom nearly all businesses benefit and in a slump, most lose out. Other economic changes that affect business include changes in the interest rate, wage rates, and the rate of inflation (i.e. general level of increase in prices). Businesses will be more encouraged to expand and take risks when economic conditions are right, e.g. low interest rates and rising demand.

Political changes relate to changes in government influence. In recent years these changes have been particularly significant because as members of the European Union we have to adopt directives and regulations created by the EU which then become part of UK law. Political changes are closely tied up with legal changes.

Changes in technology have also become particularly significant in the post-millennium world. This is particularly true in terms of modern communication technologies. The creation of databases and electronic communications have enabled vast quantities of information to be shared and quickly distributed in a modern company enabling vast cost reductions, and often improvements in service. Organisations need to be aware of the latest relevant technologies for their business and to surf the wave of change.

1.3.5 Methods of Scanning the Business Environment

There are three ways of scanning the business environment:

1. **Ad-hoc scanning:**Short term, infrequent examinations usually initiated by a crisis
2. **Regular scanning:** Studies done on a regular schedule (say, once a year)
3. **Continuous scanning:** (also called continuous learning) – continuous structured data collection and processing on a broad range of environmental factors

Some management gurus believe that in today's turbulent business environment the best scanning method available is continuous scanning. This allows the firm to act quickly, take advantage of opportunities before competitors do, and respond to environmental threats before significant damage is done.

1.3.6 Scanning the Macro Environment

When we refer to environmental scanning, we usually refer just to the macro environment, but it can also include industry and competitor analysis, consumer analysis, product innovations, and the company's internal environment. Macro environmental scanning involves analyzing:

1. Economy

(a) GDP per capita

(b) Economic growth

(c) Unemployment rate

(d) Inflation rate

(e) Consumer and investor confidence

(f) Inventory levels

(g) Currency exchange rates

(h) Merchandise trade balance

(i) Financial and political health of trading partners

(j) Balance of payments

(k) Future trends

2.Government

(a) Political climate – amount of government activity

(b) Political stability and risk

(c) Government debt

(d) Budget deficit or surplus

(e) Corporate and personal tax rates

(f) Payroll taxes

(g) Import tariffs and quotas

(h) Export restrictions

(i) Restrictions on international financial flows

3.Legal

(a) Minimum wage laws

(b) Environment protection laws

(c) Worker safety laws

(d) Union laws

(e) Copyright and patent laws

(f) Anti-monopoly laws

(g) Sunday closing laws

(h) Municipal licences

(i) Laws that favour business investment

4.Technology

(a) Efficiency of infrastructure, including: roads, ports, airports, etc.

(b) Industrial productivity

(c) New manufacturing processes

(d) New products and services of competitors

(e) New products and services of supply chain partners

(f) Any new technology that could impact the company

(g) Cost and accessibility of electrical power

5.Ecology

(a) Ecological concerns that affect the firms production processes

(b) Ecological concerns that affect customers' buying habits

(c) Ecological concerns that affect customers' perception of the company or product

6.Socio-cultural

Demographic factors such as:

(a) Population size and distribution

(b) Age distribution

(c) Education levels

(d) Income levels

(e) Ethnic origins

(f) Religious affiliations

Attitudes towards:

(a) Materialism, capitalism, free enterprise

(b) Individualism, role of family, role of government, collectivism

(c) Role of church and religion

(d) Consumerism

(e) Environmentalism

(f) Importance of work, pride of accomplishment

Cultural structures including:

(a) Diet and nutrition

(b) Housing conditions

7. Potential Suppliers

Labour Supply

(a) Quantity of labour available

(b) Quality of labour available

(c) Stability of labour supply

(d) Wage expectations

(e) Employee turn-over rate

(f) Strikes and labour relations

(g) Educational facilities

Material Suppliers

(a) Quality, quantity, price, and stability of material inputs

(b) Delivery delays

(c) Proximity of bulky or heavy material inputs

(d) Level of competition among suppliers

Service Providers

(a) Quantity, quality, price, and stability of service facilitators

(b) Special requirements

Stakeholders

(a) Lobbyists

(b) Shareholders

(c) Employees

(d) Partners

While scanning these macro environmental variables for threats and opportunities requires that each issue be rated on two dimensions. It must be rated on its potential impact on the company and rated on its likeliness of occurrence. Multiplying the potential impact parameter by the likeliness of occurrence parameter gives us a good indication of its importance to the organisation.

Task: What could be the five forces as per Porter's model for the automobile manufacturer, Hyundai?

1.4 SWOT Analysis of Indian Economy

SWOT analysis of the Indian economy can be done in following way:

Strengths

1. Diversified nature of the economy
2. It has huge English-speaking population, availability of skilled manpower.
3. Stable economy does not get affected by external changes.
4. Extensive higher education system, third largest reservoir of engineers

5. High growth rate of economy
6. Rapid growth of IT and BPO sector bringing valuable foreign exchange.
7. Abundance of natural resources

Weaknesses

1. Very high percentage of workforce involved in agriculture which contributes only 23% of GDP
2. Around a quarter of a population below the poverty line
3. High unemployment rate
4. Stark inequality in prevailing socio-economic conditions
5. Poor infrastructural facilities
6. Low productivity
7. Huge population leading to scarcity of resources
8. Low level of mechanization
9. Red tapism, bureaucracy
10. Low literacy rates
11. Unequal distribution of wealth
12. Rural-urban divide, leading to inequality in living standards.

Opportunities

1. Scope for entry of private firms in various sectors for business
2. Inflow of Foreign Direct Investment is likely to increase in many sectors.
3. Huge foreign exchange earning prospect in IT and ITES sector
4. Investment in R&D, engineering design
5. Area of biotechnology
6. Huge population of Indian Diaspora in foreign countries (NRIs)
7. Area of Infrastructure
8. Huge domestic market: Opportunity for MNCs for sales
9. Huge natural gas deposits found in India, natural gas as a fuel has tremendous opportunities.
10. Vast forest area and diverse wildlife
11. Huge agricultural resources, fishing, plantation crops, livestock

Threats

1. Global economy recession/slowdown
2. High fiscal deficit
3. Threat of government intervention in some states
4. Volatility in crude oil prices across the world
5. Growing import bill
6. Population explosion, rate of growth of population still high
7. Agriculture excessively dependent on monsoons

1.5 Summary

Environment literally means the surroundings, external objects, influences, or circumstances under which someone or something exists. The environment of any organization is the aggregate of all conditions, events and influences that surround and affect it.

The framework of business environment can be divided into three broad dimensions: Internal Environment, Macro Environment (External Environment), and Microenvironment (Relevant Environment, Competitive Environment).

Internal environment is internal to the organization and it is controllable. The important internal factors are as follows: culture and value system, Human resource, mission and objectives, and nature and structure of management.

External or Macro or General Environment consists of factors external to the industry that may have significant impact on the firm's strategies. It consists of six broad dimensions: Demographic, Socio-cultural, political/legal, technological, economic, and global.

Globalization has also enabled India to become the software superpower of the world. All global organizations now have a new and vast market, as well as cheap manufacturing hub, which has compelled them to change their global marketing and manufacturing strategies.

The environment is constantly changing in nature. Due to many and varied influences operating there is dynamism in the environment causing it to change its shape and character continuously.

Microenvironment or the competitive environment refers to the environment, which an organization faces in its specific arena. This arena may be an industry, or it may be what is referred to as a strategic group.

Professor Michael Porter of the Harvard Business School has demonstrated the state of competition in an industry as a composite of five competitive forces.

According to him, five forces are: threat of competition, threat of new entrants, threat of substitutes, bargaining power of suppliers and bargaining power of buyers.

According to Andrew Grove, the former CEO of Intel: "Porter's five forces model ignores a sixth force: the power, vigor and competence of complementors". Complementary products are those products that add value to some other product.

A strategic group is to identify a more defined set of organizations so that each grouping represents those with similar strategic characteristics. They are not a formal group or an association; in fact, they are conceptual clusters in the sense that they are grouped together for the purpose of improving analysis and understanding of competition within their industry.

The face of the Indian economy has changed drastically since 1991. Earlier, pricing in India was governed by administered price mechanisms, but market forces today govern pricing.

India's external position is also significantly stronger. Exports, specifically of services, have grown substantially in 2004-05. Growth in services has largely been fueled by the information technology boom in which India has emerged as a world leader.

The thrust of reforms in the financial sector relates to privatization and restructuring. Public sector banks have been permitted diversified ownership by law subject to 51 per cent holding of Government/RBI/SBI. IFCI and IRBI were converted into public limited companies.

The process by which organization monitors their relevant environment to identify opportunities and threats affecting their business is known as environmental scanning.

Analysis is done by means of a search of verbal and written information, spying, forecasting and formal studies and information system.

Various changes take place in the environment and it is difficult, cumbersome and a costly affair to keep a regular eye on every aspect of these changes. So, it is essential for a strategist to rate the environmental factors on the basis of criticality and then invest time and resources in environmental analysis.

Changes in the microenvironment may be systematic or discontinuous. Gradual changes, changes in a phased manner, or those that are predictable are systematic changes.

ETOP is designed to present programs that foster development of new cost-effective environmental technologies. It is an education-based organization. It concentrates on workplace skills and job competencies.

It is important to 'scan' the external environment before creating business plans or when evaluating existing ones. Doing this takes the form of a SLEPT analysis and thus there is a scanning or an investigation of the Social, Legal, Economic, Political, and Technological influences that can be or likely to be on a business.

Some management gurus believe that in today's turbulent business environment the best scanning method available is continuous scanning. This allows the firm to act quickly, take advantage of opportunities before competitors do, and respond to environmental threats before significant damage is done.

When we refer to environmental scanning, we usually refer just to the macro environment, but it can also include industry and competitor analysis, consumer analysis, product innovations, and the company's internal environment.

1.6 Keywords

Ad-Hoc Scanning: Short term, infrequent examinations usually initiated by a crisis.

Business Environment: Aggregate of all conditions, events and influences that surround and affect a business.

Complementary Products: Products that add value to some other product.

Continuous Scanning: Continuous structured data collection and processing on a broad range of environmental factors.

Corporate Intelligence: Technique of adopting industry/research expertise to analyse the information available on competition.

Critical Success Factors: Areas in which good results will help ensure an organization's success against competition.

Environment Scanning: Process by which organization monitors their relevant environment to identify opportunities and threats.

External Environment: Factors external to the industry having significant impact on the firm's strategies.

Internal Environment: Internal to the organisation and can be controlled.

Macro Environment: Environment, which an organization faces in its specific arena.

Regular Scanning: Studies done on a regular schedule.

SLEPT Factors: Social, legal, economic, political, and technological factors.

Spying: Corporate espionage.

Strategic Groups: Clusters of competitors that share similar strategies.

Substitute Products: Products that can replace another product.

1.7 Review Questions

1. "The relation between a business and an environment is not a one-way affair". Comment.
2. Analyse how Indian automobile market has changed over these years. What are the critical success factors for some of the major players in this industry?
3. India's industrial outlook changed significantly after 1991. Why and how?
4. Discuss the major changes that have taken place in India's political scenario over the years. Has the situation improved or worsened? Give reasons.
5. How do the demographic variables decide the marketing mix of the organisation? Explain with detailed example of any two companies from different industries.

6. "Environment is dynamic and multi-faceted". Discuss.
7. A company should not only monitor its own performance but competition also. Why is it so important to assess the competition? Take any close competitors from any industry and compare & contrast the two.
8. Suppose you are the CEO of a fast-food restaurant chain. Your company wants to enter India and position itself in the same category as McDonalds, KFC, and Pizza Hut. What factors will you have to keep in mind before entering India?
9. Is there any practical difference between scanning and monitoring? If you were to assess the competition, which one is better for you?
10. "A good strategist always keeps an eye on development in environment." Comment.
11. Do a SWOT analysis of the Indian Tourism industry?
12. Suppose you are going a researcher interested in knowing the actual position of the fashion industry. What will be better for you-SWOT analysis or SLEPT analysis? How will you do analysis?

1.8 Further/ Suggested Readings

Pandey GN, Environment Management, Vikas Publishing, New Delhi

Paul Justin, Business Environment: Text and Cases, Tata McGraw Hill, New Delhi Saleem

Sheikh, Business Environment, Pearson Education, New Delhi

Vivek Mittal, Business Environment, Excel Books, New Delhi

Unit 02: Indian Economy

CONTENT

Objectives
Introduction
2.1 Brief View of Five Year Plans
2.2 Five Year Plans: Target vs. Achievements
2.3 Globalisation
Summary
Keywords
Self-assessment
Review Questions
Further Readings

Objectives

- State the achievements of five year plans in India.
- Explain the concepts of globalisation, its impact.

Introduction

Planning in India dates back to the 1930s. Even before independence, the colonial government had established a planning board that lasted from 1944 to 1946. Private industrialists and economists published three development plans in 1944. Thus, even before independence, planning was not totally new to the economy.

A 'Bombay Plan' was formulated by J.R.D. Tata and some others as a blueprint for rapid industrialisation. Jawaharlal Nehru visualised planning as a means of "avoiding the unnecessary rigours of an industrial transition in so far as it affected the masses resident in India's villages" as well as a "positive instrument for resolving conflict in a large and heterogeneous subcontinent". It was Nehru who persuaded P.C. Mahalanobis to evolve the basic strategy for the Second Five-Year Plan, while Nehru himself was involved in drafting the introduction to its third edition.

India's leaders adopted the principle of formal economic planning soon after independence as an effective way to intervene in the economy to foster growth and social justice. The Planning Commission was established in 1950. Responsible only to the Prime Minister, the commission is independent of the cabinet. The Prime Minister is the chairperson of the commission, and the Minister of State with independent charge for planning and program implementation serves as its Deputy Chairperson.

A staff drafts national plans under the guidance of the commission; draft plans are presented for approval to the National Development Council, which consists of the Planning Commission and the Chief Ministers of the States. The council can make changes to the draft plan. After the council's approval, the draft is presented to the cabinet and subsequently to Parliament, whose approval makes the plan an operating document for Central and State Governments.

2.1 Brief View of Five Year Plans

1. First Five-Year Plan (FY 1951-55) attempted to stimulate balanced economic development while correcting imbalances caused by the World War II and India's partition. Agriculture, including projects that combined irrigation and power generation, received priority.
2. Second Five-Year Plan (FY 1956-60) emphasisedindustrialisation, particularly of basic, heavy industries in the public sector, and improvement of the economic infrastructure. The plan also stressed social goals, such as more equal distribution of income and extension of the benefits of economic development to the large number of disadvantaged people.
3. Third Five-Year Plan (FY 1961-65) aimed at a substantial rise in national and per capita incomewhile expanding the industrial base and rectifying the neglect of agriculture in the previous plan. The third plan called for national income to grow at a rate of more than 5 % a year; self-sufficiency in food grains was anticipated in the mid-1960s.
4. Economic difficulties disrupted the planning process in the mid-1960s. In the 1960s, India faced two wars – one with China in 1962 and then with Pakistan in 1965. This come as a huge set back to the economy as defence expenditure increased sharply and there was negative impact on industrial and agriculture growth. During the 1965 war, foreign aid was also reduced. All this resulted in a hike in prices. Three annual plans guided development between FY 1966 and FY 1968 while plan policies and strategies were re-evaluated.
5. Fourth Five-Year Plan (FY 1969-73) called for a 24 % increase over the third plan in real terms of public development expenditures. The public sector accounted for 60 % of plan expenditures, and foreign aid contributed 13 % of plan financing. Agriculture, including irrigation, received 23 % of public outlays; the rest was mostly spent on electric power, industry, and transportation. Although the plan projected national income growth at 5.7 % a year, the realised rate was only 3.3 %.
6. Fifth Five-Year Plan (FY 1974-78) was drafted in late 1973 when crude oil prices were rising rapidly; and rising prices quickly forced a series of revisions. The plan was subsequently approved in late 1976 but was terminated at the end of FY 1977 because the new government had different priorities and programs. The fifth plan was in effect only one year, although it provided some guidance to investments throughout the five-year period. The economy operated under annual plans in FY 1978 and FY 1979.
7. Sixth Five-Year Plan (FY 1980-84) was intended to be flexible and was based on the principle of annual "rolling" plans. It called for development expenditures of nearly ₹1.9 trillion (in FY 1979 prices), of which 90 % would be financed from domestic sources, 57% of which would come from the public sector. Public sector development spending would be concentrated in energy (29%), agriculture and irrigation (24%), mining (16%), transportation (16 % and social services (14 %). The plan called for a 5.1 % a year growth in GDP, a target that was surpassed by 0.3 %. Only about 10 % of the poor rose above the poverty level.
8. Seventh Five-Year Plan (FY 1985-89) envisioned a greater emphasis on the allocation of resources to energy and social spending at the expense of industry and agriculture. In reality, the main increase was in transportation and communications, which took up 17% of public-sector expenditure during this period. Total spending was targeted at nearly 3.9 trillion, of which 94% would be financed from domestic resources, including 48% from the public sector.
9. Eighth Five-Year Plan was launched in April 1992 and emphasised market-based policy reform rather than quantitative targets. Total spending was planned at ₹8.7 trillion, of which 94 % would be financed from domestic resources, 45 % of which would come from the public sector. Government documents issued in 1992 indicated that GDP growth was expected to increase from around 5 % a year during the seventh plan to 5.6 % a year during the Eighth Plan. However, in 1994 economists expected annual growth to be around 4 % during the period of the Eighth Plan.

10. Ninth Five-Year Plan was launched during the 50th year of India's Independence. The Ninth Five-Year Plan, adopted by the National Development Council, had given priority to agriculture and rural development with a view to generating adequate productive employment and eradication of poverty; accelerating the growth rate of the economy with stable prices; ensuring food and nutritional security for all, particularly the vulnerable sections of society; providing the basic minimum services of safe drinking water, primary health care facilities, universal primary education, shelter, and connectivity to all in a time bound manner; containing the growth rate of population; ensuring environmental sustainability of the development process through social mobilisation and participation of people at all levels; empowerment of women and socially disadvantaged groups such as Scheduled Caste, Scheduled Tribes and Other Backward Classes and Minorities as agents of socio-economic change and development; promoting and developing people's participatory bodies like Panchayat Raj institutions, co-operatives and self-help groups; and strengthening efforts to build self-reliance. These very priorities constitute the objectives of the Ninth Plan.
11. Tenth Five Year Plan was only the first phase of the ten-year road map. It was felt that the Prime Minister's vision could be realised through targeting a growth rate of 8% during the Tenth Plan period and 9.3 % during the Eleventh Plan, and by focusing attention on the growth of employment intensive sectors.
12. Tenth plan aims at an indicative growth of 8% in GDP. For the period of 2002-2007 economic growth is not the only objective of national planning. Over the years, development objectives are being defined not just in terms of increases in GDP or per capita income but more broadly, in terms of enhancement of human well being.
13. Eleventh Five Year Plan (2007-2012) India's centralized planning process is governed by seven cardinal policy objectives: growth; social justice & equity; modernization; self-reliance; food; productivity and employment. These would continue to be the guiding principles for the Eleventh Plan (2007-12) which commences from 1st April, 2007.

A very large part of our planning is concerned with fiscal aspects and physical targets. It must, however, be recognized that it is the human and natural resources, scientific methods and technologies which are the fundamental elements in the creation of wealth for higher productivity, increased efficiency and completely new ways of doing things. The Eleventh Plan, therefore, would place emphasis on these components which have received inadequate attention in the past. Eleventh Plan would be the vehicle that would position the country to be a super power-economically, strategically and scientifically. For the Eleventh Five Year Plan the Government of India is envisaging the economy to grow at an annual growth rate of 8.5%%. This implies that Agricultural Sector will have to grow at a rate of 3.9%, industry at 9.9%, services at 9.4%, and exports at 16.%, while keeping the imports at a level of 12.1%. The implicit growth of manufacturing sector which is a subset of industry is targeted for 12%. The above growth rates interwoven with each other, of course, would depend upon many factors. Some of these factors are internal to the Indian economy and some are influenced by the external environment. The growth in the agricultural productivity can be sustained on a long term basis only through continuous technological progress and this calls for well-structured strategies for research & development. Industrial sector has gained a lot over the past decade or so due to liberalization and is gradually integrating with the world economy. Some of the sub-sectors like automobiles, pharmaceuticals, biotechnology products, speciality chemicals, textiles have acquired unprecedented level of global competitiveness and need to be supported to maintain the present edge. The Eleventh Plan is also placing special emphasis on infrastructure and skill development, the two crucial and critical catalysts for growth.

The services sector is currently the fastest growing sector of economy accounting for about 54% of GDP. It is estimated that this sector has the potential for creating 40 millions jobs and generating additional $ 200 billion annual income by 2020. In the Eleventh Plan, the government is placing

special focus on this sector so that its potential to create employment as growth parameter is fully realised.

Along with high growth rate aiming for improving livelihood support and increasing employment, the Eleventh Plan strategy calls for new emphasis on education, health and other socially relevant issues. The approach to the plan by the Planning Commission has very appropriately reflected in its title "Towards Faster & More Inclusive Growth". The importance of S&T in the development process envisages innovative solutions.

Eleventh Plan is being formulated at a crucial juncture. In a unipolar and truly globalized world where trade barriers are getting dismantled, an organization has to perform and deliver in real time. The global competition is real and severe for every sector including R&D organizations like CSIR. Either we stay relevant by increased and defined focus with well set and articulated delivery protocols or be swamped by competition, primarily from private sector, R&D laboratories both national and international.

2.2 Five Year Plans: Target vs. Achievements

1st Plan (1951-56)

1. The first five year plan was presented by Jawaharlal Nehru in 1951. The First Five Year Plan was initiated at the end of the turmoil of partition of the country. It gave importance to agriculture, irrigation and power projects to decrease the countries reliance on food grain imports, resolve the food crisis and ease the raw material problem especially in jute and cotton. Nearly 45% of the resources were designated for agriculture, while industry got a modest 4.9%. The focus was to maximize the output from agriculture, which would then provide the impetus for industrial growth.
2. Though the first plan was formulated hurriedly, it succeeded in fulfilling the targets. Agriculture production increased dramatically, national income went up by 18%, per capita income by 11% and per capita consumption by 9.

2nd Plan (1956-61)

1. The second five year plan was initiated in a climate of economic prosperity, industry gained in prominence. Agriculture programmes were formulated to meet the raw material needs of industry, besides covering the food needs of the increasing population. The Industrial Policy of 1956 was socialistic in nature. The plan aimed at 25% increase in national income.
2. In comparison to First Five Year plan, the Second Five Year Plan was a moderate success. Unfavorable monsoon in 1957-58 and 1959-60 impacted agricultural production and also the Suez crisis blocked International Trading increasing commodity prices.

3rd Plan (1961-66)

1. While formulating the third plan, it was realized that agriculture production was the destabilizing factor in economic growth. Hence agriculture was given due importance. Also allotment for power sector was increased to 14.6% of the total disbursement.
2. Emphasis was on becoming self reliant in agriculture and industry. The objective of import substitution was seen as sacrosanct. In order to prevent monopolies and to promote economic developments in backward areas, unfeasible manufacturing units were augmented with subsidies. The plan aimed to increase national income by 30% and agriculture production by 30%.

3. The wars with China in 1962 and Pakistan 1965 and bad monsoon in almost all the years, meant the actual performance was way of the target.

4th Plan (1969-74)

1. At the time of initiating the fourth plan it was realized that GDP growth and rapid growth of capital accumulation alone would not help improve standard of living or to become economically self-reliant. Importance was given to providing benefits to the marginalized section of the society through employment and education.
2. Disbursement to agricultural sector was increased to 23.3% .Family planning programme was given a big stimulus.
3. The achievements of the fourth plan were below targets. Agriculture growth was just at 2.8% and green revolution did not perform as expected. Industry too grew at 3.9%.

5th Plan (1974-79)

1. As a result of inflationary pressure faced during the fourth plan, the fifth plan focused on checking inflation. Several new economic and non-economic variables such as nutritional requirements, health, family planning etc. were incorporated in the planning process. Investment mix was also formulated based on demand estimated for final domestic consumption.
2. Industry got the highest allocation of 24.3% and the plan forecasted a growth rate of 5.5% in national income.
3. The fifth plan was discontinued by the new Janata government in the fourth year itself.

6th Plan (1980-85)

1. The Janata government moved away from GNP approach to development, instead sought to achieve higher production targets with an aim to provide employment opportunities to the marginalized section of the society. But the plan lacked the political will.
2. The Congress government on taking office in 1980 formulated a new plan with a strategy to lay equal focus on infrastructure and agriculture.
3. The plan achieved a growth of 6% p. a.

7th Plan (1985-89)

The first three years of the seventh plan saw severe drought conditions, despite which the food grain production rose by 3.2%. Special programmes like Jawahar Rozgar Yojana were introduced. Sectors like welfare, education, health, family planning, employment etc. got a larger disbursement.

8th Plan (1992-97)

1. The eighth plan was initiated just after a severe balance of payment crisis, which was intensified by the Gulf war in 1990. Several structural modification policies were brought in to put the country in a path of high growth rate. They were devaluation of rupees, dismantling of license prerequisite and decrease trade barriers.

2. The plan targeted an annual growth rate of 5.6% in GDP and at the same time keeping Notes inflation under control.

9th Plan (1997-2002)

It was observed in the eighth plan that, even though the economy performed well, the gains did not percolate to the weaker sections of the society. The ninth plans therefore laid greater impetus on increasing agricultural and rural incomes and alleviate the conditions of the marginal farmer and landless laborers.

10th Plan (2002-2007)

1. The aim of the tenth plan was to make the Indian economy the fastest growing economy in the world, with a growth target of 10%. It wanted to bring in investor friendly market reforms and create a friendly environment for growth. It sought active participation by the private sector and increased FDI's in the financial sector.
2. Emphasis was laid on corporate transparency and improving the infrastructure.
3. It sought to reduce poverty ratio by 5 percentage points by 2007 and increase in literacy rates to 75 per cent by the end of the plan.
4. Increase in forest and tree cover to 25 per cent by 2007 and all villages to have sustained access to potable drinking water.

Doordarshan's Problems

After years of falling revenues, in 1999-2000 Doordarshan (DD) had a revenue growth at 50%. In 1999-2000, DD earned revenues of ₹6.1mn compared to 3.99 mn in 1998-99. DD showed signs of revival with the launch of DD World (a channel for NRIs) and had relative success with some of its regional channels.

However, by the end of 2000-01, DD's honeymoon with success seemed to be over. In 2000- 01, DD's revenues were projected to grow at 6-15% while private channels such as Zee TV, Star, Sony had projected 40-50% revenue growth. Analyst's felt that DD's sagging revenues were only tip of the iceberg.

DD was plagued by multiple problems, which found their roots in the mismanagement of affairs. By the late 1990's the private producers, advertisers and audience had deserted DD. Not even one car company advertised on DD and even two-wheeler manufacturers kept a low profile. Ads of Pepsi and Coca-Cola were found only during sports telecasts.

Only FMCG companies stuck to DD because of its terrestrial network to reach the rural and semi-urban audience. In spite of having over 21,000 employees, DD outsourced 50% of its programmes from the private producers. In late 1990's DD faced number of allegations of large-scale scams and irregularities. Under utilized infrastructure, improper investments and poor financial management plagued the performance of DD. In 1992, when the Government opened airwaves to private players, DD faced the heat of competition from private satellite channels.

In the Cable & Satellite (C&S) homes it was found that there were hardly any viewers for the DD programmes. The depleting Television Viewer Ratings (TVRs) of the DDprogrammes was also a cause of concern as advertisers deserted due to its low viewer ratings. Analysts felt that DD would need a budgetary support of ₹5 bn during the fiscal 2000-01 to sustain itself as its revenues would not be enough to meet its expenditure. Analysts questioned the capacity of the Government to own DD and many felt that privatization would be the only solution.

1. Was DD unable to assess the changing business environment?
2. Do a SWOT analysis for DD?

2.3 Globalisation

People around the globe are more connected with each other than ever before. Information and money flow more quickly than ever. Goods and services produced in one part of the world are increasingly available in all parts of the world. International travel is more frequent. International communication is commonplace. This phenomenon has been titled "globalisation."

It refers to the increasing integration of economies around the world, particularly through trade and financial flows. The term sometimes also refers to the movement of people (labour) and knowledge (technology) across international borders.

Globalisation is a modern term used to describe the changes in societies and the world economy that result from dramatically increased international trade and cultural exchange. It describes the increase of trade and investment due to the opening of barriers across borders and the interdependence of countries. In economic contexts, it is often understood to refer almost exclusively to the effects of trade, particularly trade liberalisation or "free trade".

The International Monetary Fund defines globalisation as "the growing economic interdependence of countries worldwide through increasing volume and variety of cross-border transactions in goods and services, freer international capital flows, and more rapid and widespread diffusion of technology." (IMF, World Economic Outlook, May, 1997).

The World Bank defines globalisation as the "Freedom and ability of individuals and firms to initiate voluntary economic transactions with residents of other countries".

Impact of Globalisation

Corporations are today changing their strategies and are reorganizing their functions to cope up with the changed scenario. Whether it is their production process or location, Product strategy, Marketing, Finance, HR policies etc. Organizations have incorporated the following changes:

Designing in Global Environment

If managing product development processes was a challenge before, it is not getting any easier as companies continue to adopt global design strategies. Global designing has cost benefits that are very attractive to today's manufacturer, but it also adds new Product Lifecycle Management (PLM) challenges and intensifies existing problem areas like that of protecting intellectual property.

Production Location Selection

Jeffrey Immelt of GE Medical Systems (GEMS), pushed for acquisitions to build up scale because for leading global competitors, an R&D-to-sales ratio of at least 8 percent represents a significant source of scale economies. But he also implemented a production strategy that was intended to arbitrage cost differences by concentrating manufacturing operations – and, ultimately, other activities – wherever in the world they could be carried out most cost effectively. By 2001, GEMS obtained 15 percent of its direct material purchases from, and had located 40 percent of its own manufacturing activities in, low-cost countries.

Rationalised Production

Companies produce different components or different portions of their product line in different parts of the world to take advantage of low labour costs, capital, and raw materials. This is

rationalised production. In a new, global world, rationalised production is easier. Now organizations can outsource or can establish their own production units in those areas where it is more economical.

Example: GE, for instance, used Mexico as a manufacture base for labour-intensive operations. Today, Japanese are selling their cars made in America to the American consumers, while Americans are selling American cars made in Japan. Not only this, British firms are selling English cricket bats which are made in India. Asia manufactures sports shoes for almost all the major shoe manufacturers.

Much of the production of motherboards for PCs is located in Taiwan. Japanese brands have less than a 50% share of the US market for microwave ovens but over 70% of the manufacturing is done by Japanese companies. After liberalisation in the economies of India and China, a great shift in location is going on as more and more organizations are shifting their labour-intensive operations to these locations.

Thailand, Vietnam, Indonesia, Malaysia, Philippines, Singapore and Brunei Darussalam are small countries by themselves. But as they became members of ASEAN, the whole region became attractive from a business point of view and more and more companies started establishing their manufacturing units there to take the advantage of low cost and vast markets. Today this region is one of the most active business hubs.

Vertical Integration: Vertical Integration is a company's control of the different stages in a value chain of production – from raw material to production to final distribution of the product. As international trade barriers are becoming less relevant organizations can combine resources located in more than one country.

Example: Like Indian petroleum companies who have world class refining capacities import petrol. But under the new system they are allowed to invest abroad and are acquiring oil wells overseas to ensure regular supply of oil in future. Similarly, Shell acquired oil wells the world over and has refineries across the globe.

Companies are vertically integrating themselves. Recently, Videocon acquired the picture tube manufacturing capacities of Thomson and got access to picture tube manufacturing in many countries, including Europe. Asian Paints also has its operations in more than 27 nations. Ranbaxy and Dr. Reddy's Lab are also taking locational advantage with horizontal integration like acquiring generic pharmaceutical organizations in the US, Europe, Israel and other nations.

Product Strategy: It was a Coke's CEO, the late Roberto Goizueta, who declared in 1996: "The labels 'international' and 'domestic'... no longer apply." His globalisation program, often summarised under the tagline "think global, act global," had included an unprecedented amount of standardisation. By the time he passed away in 1997, Coca-Cola derived 67 % of its revenue and 77 % of its profits from outside North America. To cross borders, organizations have to face a very critical question that is Product Standardisation vs. Product Adaptation.

Standardisation provides advantages in the production and distribution of products and services. Cost is the decisive factor for most commodities. Through economies of scale and through standardisation, an organization can fulfil the demand of many nations through one plant.

Even in consumer good economies, standardisation works at least at regional levels. Like in India, Chinese toys took the advantage of reduction of tariff barriers and successful captured the Indian

market. Similarly, in industrial goods like Processors, RAM, Chemicals, etc., standardisation can save millions of Dollars. Globalisation also helps in establishing world- class plants, which is a win-win situation as organisations reduce the cost and the customer gets the product at an economical price. Standardisation is not possible in all the goods, specifically in most of the consumer goods.

In many goods product adaptation is essential to meet the local conditions or preferences. Sometimes adaptation is mandatory because of the government's regulations, Local Standards (as Electrical), Measurement Standards and Product Standards and Systems. Sometimes product modification is done only to make it fit for specific distribution channel.

Example: Like in India Coca Cola is distributed in glass bottles that are reused. On the other hand, they use Tin cans in USA, which are not recollected from the outlet.

Product adaptation increases the cost. Sometimes, when the product is new to the market, the issue of adaptation and standardisation become crucial. Sales volumes do not justify the adaptation and the standard product doesn't suit the local requirement. This happened a few years back when the electric shaver came to the Indian market.

But organizations have to choose a trade-off between standardization and product adaptation. Besides, globalisation has influenced all aspects of organizations: Sales Promotion, Research, Market Research, Distribution Strategies, Product Development Strategies, etc.

After the implementation of GATS (General Agreement on Trade and Tariffs) and the clause of free movement of labour in most of the regional trade agreements, HR policies have seen a significant change. More and more organizations are adopting international HR standards because:

1. Job-hopping may increase after new opportunities will be available.
2. When an MNC follows international standards in a new territory, the local industry also learns and follows international HR standards.
3. Because of free movement of capital and goods, competition increases. Because of FDI and imports in this situation, a business unit can survive only by providing a world-class product. And to provide world-class products, it must have HR practices of international standards and it has to invest in its nourishment.
4. 4. When the cost of HR is a significant cost of production as in case of the software or service industry, the new trend is to shift the location of the unit where HR is available in abundance. This is the reason that more and more software companies are coming to India.

Technology and Innovation at Asian Paints

It would be appropriate to undertake a study of Asian Paints in this unit, for its use of technology through the years to gain a competitive edge in the marketplace. " Today, the company has formulated an entire range of decorative coatings through homegrown technology. It has always given emphasis to R&D and continuously made investments in this development of Information Technology. It has used IT as a tool to bring efficiencies and streamline operations. The use of IT and R&D will continue to be important in the future and Asian Paints will not hesitate in making investments in these areas to gain advantages for the organization."

Continuous reconfiguration of activities in the value chain is a key task of all companies aiming to remain competitive and to achieve the highest value-cost leverages. Given this requirement, what were the key initiatives taken by Asian Paints during the last 5 years?

In last five years, reconfiguration of value chain activities to increase competitiveness has been one of the major focus areas for Asian Paints. In fact, Asian Paints has transformed as an organization. The sales and profit figures will reflect the strong financials of the company. But most have important have been initiatives undertaken in all areas of operations to increase efficiencies. Some of the key initiatives undertaken are:

1. Initiatives in manufacturing to reduce losses at factory
2. Sourcing efficiencies
3. Introduction of new technology to boost efficiencies and increase productivity
4. Implementation of a new supply chain solution
5. Implementation of an ERP solution

Besides the above, it has focused on continuously improving environment management standards at our plants. Today, all Asian Paints manufacturing facilities are accredited with the ISO 14001 certification for environment management standards. These systems have enabled the company to reduce effluence from the manufacturing facilities. The introduction of the new supply chain solution has transformed functions like management of inventory and forecasting demand. A new solution that helps centralise demand forecasting has brought significant benefits for the company through reduction of working capital. It has changed the manner of functioning of the supply chain division.

Critically analyse technological progress at Asian Paints.

Summary

- The face of the Indian economy has changed drastically since 1991. Earlier, pricing in India was governed by administered price mechanisms, but market forces today govern pricing.
- India's external position is also significantly stronger. Exports, specifically of services, have grown substantially in 2004-05. Growth in services has largely been fueled by the information technology boom in which India has emerged as a world leader.
- The thrust of reforms in the financial sector relates to privatization and restructuring. Public sector banks have been permitted diversified ownership by law subject to 51 per cent holding of Government/RBI/SBI. IFCI and IRBI were converted into public limited companies.
- The process by which organization monitors their relevant environment to identify opportunities and threats affecting their business is known as environmental scanning.
- Analysis is done by means of a search of verbal and written information, spying, forecasting and formal studies and information system.
- Various changes take place in the environment and it is difficult, cumbersome and a costly affair to keep a regular eye on every aspect of these changes. So it is essential for a strategist to rate the environmental factors on the basis of criticality and then invest time and resources in environmental analysis.
- Planning in India dates back to the 1930s. Even before independence, the colonial government had established a planning board that lasted from 1944 to 1946. Private industrialists and economists published three development plans in 1944.
- India's centralized planning process is governed by seven cardinal policy objectives: growth; social justice & equity; modernization; self-reliance; food; productivity and employment. These would continue to be the guiding principles for the Eleventh Plan (2007-12) which commences from 1st April, 2007.
- Economic nationalism is a term used to describe policies which are guided by the idea of protecting domestic consumption, labour and capital formation, even if this requires the imposition of tariffs and other restrictions on the movement of labour, goods and capital. It opposes globalisation in many cases, or at least it questions the perceived benefits of

unrestricted free trade. Economic nationalism may include such doctrines as protectionism and import substitution.

Keywords

Vertical Integration: Vertical integration is a strategy whereby a company owns or controls its suppliers, distributors or retail locations to control its value or supply chain.

Horizontal Integration: Horizontal integration is the process of a company increasing production of goods or services at the same part of the supply chain. A company may do this via internal expansion, acquisition or merger.

Standardization: Standardisation is the process of implementing and developing technical standards based on the consensus of different parties that include firms, users, interest groups, standards organizations and governments.

Liberalization: Liberalisation is the precondition for privatization and globalization. Liberalization is a broad term that usually refers to fewer government regulations and restrictions, mainly on economic activities.

Privatization: Privatization describes the process by which a piece of property or business goes from being owned by the government to being privately owned. It generally helps governments save money and increase efficiency, where private companies can move goods quicker and more efficiently.

Product Lifecycle Management: Product lifecycle management (PLM) refers to the handling of a good as it moves through the typical stages of its product life: development and introduction, growth, maturity/stability, and decline.

Self-assessment

Pick up the correct answer:

1. Globalisation has led to improvement in living conditions:
   (a) of all the people
   (b) of people in the developed countries
   (c) of workers in the developing countries
   (d) none of the above.
2. World Trade Organisation (WTO) was started at the initiative of which one of
   thefollowing group of countries?
   (a) Rich countries
   (b) Poor countries
   (c) Developed countries
   (d) Developing countries
3. Amalgamation and rapid unification between countries can be identified as
   (a) Globalisation
   (b) Liberalisation
   (c) Socialisation
   (d) Privatisation
4. Globalisation has improved in the living structure of
   (a) All the people
   (b) Workers in developing countries
   (c) People in developed countries

(d) None of the above.

5. Which Indian industries have been hit by globalisation?
   (a) Cement
   (b) Jute
   (c) Toy making
   (d) Information Technology (IT)
6. Which organisations lay stress on the liberalisation of foreign investment and foreign trade?
   (a) International Monetary Fund
   (b) World Health Organisation
   (c) World Trade Organisation
   (d) International Labour Organisation
7. Tax on imports can be treated as
   (a) Collateral
   (b) Trade Barriers
   (c) Foreign Trade
   (d) Terms of Trade
8. The main reason behind MNCs investments are
   (a) To benefit foreign countries
   (b) To provide financial support to the country's government
   (c) For the welfare of underprivileged people.
   (d) To increase the assets and earn profits.
9. Which institute supports investments and foreign trade in India?
   (a) International Monetary Fund (IMF)
   (b) World Trade Organisation (WTO)
   (c) World Bank
   (d) International Labour Organisation (ILO)
10. When did the government remove the barriers for investment in India?
    (a) 1990
    (b) 1991
    (c) 1992
    (d) 1993
11. Investments made by MNCs are termed as:
    (a) Indigenous investment
    (b) Foreign investment
    (c) Entrepreneur's investment
    (d) None of the above
12. Which of the following is not a feature of a Multi-National Company?
    (a) It owns/controls production in more than one nation.
    (b) It sets up factories where it is close to the markets.

(c) It organises production in complex ways.

(d) It employs labour only from its own country.

13. It refers to the globalisation which creates opportunities for all and ensures that its benefits are better shared.

(a) Privatisation

(b) Special Economic Zones (SEZs)

(c) World Trade Organisation (WTO)

(d) Fair globalisation

14. An MNC is a company that owns or controls production in

(a) one country

(b) more than one country

(c) only developing countries

(d) only developed countries

15. The process of rapid integration or interconnection between countries through free trade, free mobility of capital and labour is called

(a) Foreign trade

(b) Liberalisation

(c) Globalisation

(d) Privatisation

Answers

1.	C	2.	C	3.	A	4.	B	5.	C
6.	C	7.	B	8.	D	9.	B	10.	B
11.	B	12.	D	13.	D	14.	B	15.	C

Review Questions

1. Discuss how volatility in crude oil prices across the world and growing import bill poses a big threat for Indian economy.
2. What is the rationale behind the Five year plans? Do you think five years are enough for a plan to be put up and implemented successfully? Critically analyse the planning process in India till now.
3. Critically evaluate the eleventh five year plans. Do you think they cover all the issues that need to be addressed? What suggestions can you give for improvement in these plans?
4. Liberalisation of the 19th century is often called-The First Era of Globalisation. Why?

Further Readings

Paul Justin, Business Environment: Text and Cases, Tata McGraw Hill, New Delhi Saleem

Sheikh, Business Environment, Pearson Education, New Delhi

Vivek Mittal, Business Environment, Excel Books, New Delhi

Unit 3: National Income

CONTENTS

Objectives
Introduction
3.1 Importance of National Income
3.2 Measurement Problems of National Income:
3.3 Measures of Income:
3.4 Important Methods for Measuring National Income
3.5 Concepts of National Income:
Summary
Keywords
Review Questions
Further Reading

Objectives

- To gain an insight into the concept of national income.
- To understand the importance of national income in Indian economy.
- To analyze the measurement problems of national income.
- To study the measures of national income.

Introduction

National income is a measure of the total value of the goods and services (output) produced by an economy over a period of time (normally a year). It is also a measure of the income flown from production, and/or the sum total of all the spending involved for the production of output.

As per Alfred Marshall, National Income is "The labour and capital of the country acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial, including services of all kinds... This is the net annual income or revenue of the country, or the national dividend."

As per National Income Committee of India, National Income is defined as-"National income estimate measures the volume of commodities and services turned out during a given period counted without duplication."

Measures of national income and output are used in economics to estimate the total value of production in an economy. The standard measures of income and output are Gross National Product (GNP), Gross Domestic Product (GDP), Gross National Income (GNI), Net National Product (NNP), and Net National Income (NNI). In India, the Central Statistical Organisation has been estimating the national income.

National income per person or per capita income is often used as an indicator of people's standard of living or welfare. However, many development economists have criticized that GNP as a measure of welfare has many limitations. They argued that human well-being does not depend on national income alone. As measures of GNP exclude poverty, literacy, public health, gender equity, and many human issues of well-being, they developed other measures of welfare such as the Human Development Index (HDI). Some rich countries in terms of national income are poor in human development. Similarly, poor countries in terms national income have performed well in human development. In the case of India, though the GDP is growing faster, its performance in terms of HDI is far below than that of many countries.

Source: freepik.com

3.1 Importance of National Income

A national income measure serves various purposes regarding economy, production, trade, consumption, policy formulation, etc. The need for estimation of national income, gives the importance of national income:

- To measure the size of the economy and level of country's economic performance.
- To trace the trend or speed of the economic growth in relation to previous year(s) as well as to other countries.
- To know the structure and composition of the national income in terms of various sectors and the periodical variations in them.
- To make projection about the future development trend of the economy.
- To help government formulate suitable development plans and policies to increase growth rates.
- To fix various development targets for different sectors of the economy on the basis of the earlier performance.
- To help business firms in forecasting future demand for their products.
- To make international comparison of people's living standards.

Market value

In order to count a good or service, it is necessary to assign value to it. The value that the measures of national income and output assign to a good or service is its market value – the price it fetches when bought or sold. The actual usefulness of a product (its use-value) is not measured – assuming the use-value to be any different from its market value.

Three strategies have been used to obtain the market values of all the goods and services produced: the product (or output) method, the expenditure method, and the income method. The product method looks at the economy on an industry-by-industry basis. The total output of the economy is the sum of the outputs of every industry. However, since an output of one industry may be used by another industry and become part of the output of that second industry, to avoid counting the item twice we use not the value output by each industry, but the value-added; that is, the difference between the value of what it puts out and what it takes in. The total value produced by the economy is the sum of the values-added by every industry.

The expenditure method is based on the idea that all products are bought by somebody or some organisation. Therefore, we sum up the total amount of money people and organisations spend in buying things. This amount must equal the value of everything produced. Usually, expenditures by private individuals, expenditures by businesses, and expenditures by government are calculated separately and then summed to give the total expenditure. Also, a correction term must be introduced to account for imports and exports outside the boundary.

The income method works by summing the incomes of all producers within the boundary. Since what they are paid is just the market value of their product, their total income must be the total value of the product. Wages, proprietor's incomes, and corporate profits are the major subdivisions of income.

3.2 Measurement Problems of National Income:

Problems arise in aggregation largely because of the difficulty of finding an appropriate unit of measurement. In adding up the total output of a country, there is no single physical unit of measurement that can be used: the millions of different types of goods and services are all measured in different units, for example, steel is measured in tonnes and cloth is measured in metres and it is, of course, impossible to add tonnes to metres!

The problem is partially overcome by using money as the unit of measurement — this greatly simplifies the adding up, but it gives rise to the problem of distinguishing between real and nominal values.

In addition, there are many problems of measuring national income of an economy. These problems may be stated as follows: Firstly, there is the problem of which goods and services should be included. We know that gross domestic product (GDP) is the money value of all goods and services currently produced within an economy involving economic activity which means transforming scarce resources to satisfy human wants.

We normally include those activities which generate goods and services to be sold in the market for money. Thus, we exclude from national income accounting all personal and household services which do not pass through the market. This way of measuring is not correct because this excludes all goods that are not sold in the market. In a developing economy a substantial part of the national income (or output) is not marketed and, hence, these products are not included in the national income account.

The second problem is to exclude transfer payments and capital gains from national income accounts. Receipts from illegal activities should also be excluded from the national income calculation.

The third problem is associated with the valuation of inventories. The general rule is that when a firm increases its inventory of goods, this investment in inventory is counted both as past expenditure and as part of income. Thus, production of inventory increases GDP just as production for final sale does.

There are mainly two methods of valuation of inventories: the market price method and the cost price method. In the market price method imputed profits are included which are unlikely to be realised in the same year. However, the cost price method does not include imputed profit. Another problem of inventory valuation is that the total quantity may remain the same, but this may not mean that each individual item remains unchanged during the year.

Now, if prices are rising, the value of the new items are likely to rise faster than the value of the old items. Similarly, if prices are falling, the value of the new items are likely to fall less than that of the old items. Moreover, even if the size of the inventories remains unchanged its value is likely to change, an adjustment may be necessary to take account of the effect of price change. The adjustment is called the inventory valuation adjustment.

The fourth problem is imputed values of the non-market goods, and services. Although most goods and services are valued at their market prices when computing GDP, some are not sold in the marketplace and, therefore, do not have market prices. If GDP is to include the value of these goods and services, we must use an estimate of their value. Such an estimate is called an imputed value. One in which imputations are important is housing.

A person who rents a house is buying housing services and is providing income for the landlord; the rent is part of GDP, both as expenditure by the renter and as income of the landlord. However, many people live in their own homes. Although they do not pay rent to a landlord, they are enjoying housing services similar to those of renters.

To take account of the housing services enjoyed by homeowners, GDP includes (he rent that these homeowners pay to themselves. Of course, homeowners do not in fact pay themselves this rent but the market rent for a house could be imputed to be included in GDP. This imputed rent is included both in the house-owner's expenditure and in the homeowner's income.

Another area in which imputations arise is in valuing the services provided by the government. For example, law and order, fire fighters, defence, etc. provide services to the public. Measuring the value of these services is difficult because they are not sold in the marketplace and, therefore, do not have a market price. GDP includes these services by valuing them at their cost. Thus, the wages of these public servants are used as a measure of the value of their output.

In many circumstances, an imputation is called for in principle but is not made in practice. Since GDP includes the imputed rent on owner-occupied houses, one might expect it also to include the imputed rent on car, jewellery, and other durable goods owned by households. Yet the value of these services is left out of GDP.

In addition, some of the output of the economy is produced and consumed at home and never enters the marketplace. For example, meals cooked at home arc similar to meals cooked at a restaurant, yet the value- added in meals at home is left out of GDP.

Finally, no imputation is made for the value of goods and services sold in the underground economy. The underground economy is that part of the economy that people hide from the government either because they wish to evade taxation or because the activity is illegal. Since the imputations necessary for computing GDP are only approximations, and since the value of many goods and services is left out altogether, GDP is an imperfect measure of economic activity.

These imperfections arc most problematic when comparing standards of living across countries. The size of underground or black economy varies from country to country. So long as the magnitude of these imperfections remains fairly constant overtime, GDP is useful for comparing economic activity from year to year.

Total Output, National Product, National Income and National Expenditure:

The value of the economy's total output can be measured in three ways which can be seen by examining Fig. 3.1. The figure shows the flows of income and expenditure in this simple model. The two main economic agents are households and firms.

The households are the owners of factors of production, the services of which they sell to firms in exchange for income (such as rent + wages + interest + profit). We assume for simplicity that all profits to be distributed to households and not retained by the firms.

The firms use the factors of production to produce many different goods and services which they sell to households, foreigners, the government and other firms and receive in return the values of goods and services they produced. The figure also shows that the part of household income which is not spent on consumption is either saved, spent on imports or is taken in taxes by the government.

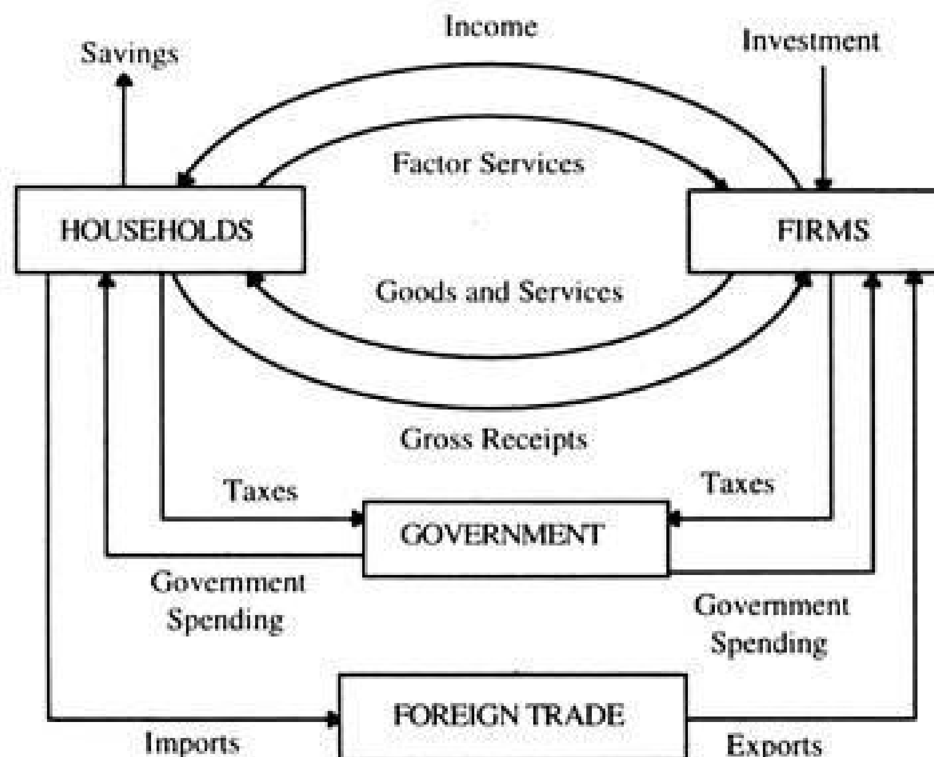


Figure 3.1 Extended Circular Flow

The government itself uses its tax revenue (as well as money from other sources) to finance government spending, including transfer payments (such as pension, unemployment benefit and student grants and loans). Before proceeding further we want to define the terms consumption (C), investment (I) and savings (S).

Definition:

Consumption (C):

It is regarded as total expenditure by households on goods and services which yield utility in the current period.

Savings (S) are that part of the disposable income which is not spent in the current period. It follows that disposable income (Y -T) minus saving equals consumption.

Investment (I) is the production of or expenditure by firms on goods and services which arc not for current consumption: that is, real capital goods, like factors-machines, bridges and motorways, all goods which yield a flow of consumer goods and services in future period.

There are three ways of measuring the annual value of total output in an economy — are by calculating its national product, national expenditure and national income.

National Product:

This is found by adding up the value of all final goods and services produced by firms during the year. It is to be noted that all final goods and services produced must be included, whether they are to be sold to consumers or to the government, whether they are to be sold to foreigners as exports, or whether they are capital goods to be sold to other firms.

It is important to include only final goods and services: all intermediate goods must be excluded so that double-counting is avoided. For example; in production of a woollen coat, only the value of the final cost should be counted. The value of the raw wool and woollen cloth are included in the value of the coat.

If we were to count them as well we should be guilty of double-counting. If all intermediate goods were included in the calculation of the national product, we would seriously overestimate the value of the country's total output.

National Expenditure:

This is found by adding up all the spending on the final goods and services produced by firms. Such an aggregate will only equal the value of total output if those goods which are produced but not sold are also included—this item, which is called 'net changes in stocks and work in progress', is normally counted as part of firms' investment spending.

National expenditure is the sum of consumption of domestically produced goods, investment, government expenditure and exports (C + I + G + X). It must be noted that, in order to avoid double-counting, only spending on final goods and services is included.

National Income:

It is because goods and services are produced by factors of production that income is created in the economy, so another way of calculating the value of total output is to add up all the incomes paid out to the owners of the factors of production. Moreover, it comes to the same thing to add the values- added by all firms at the different stages of production.

This may be illustrated by a simple example in which production of woollen coat involves the following three stages of production:

(a) A sheep farmer produces raw wool and sells it to a mill for £100. This represents an income of £100.00 for the farmer. Value-added = £100.00.

(b) The mill uses the raw wool to produce cloth which it sells to a coat factory for £210. This represents income of £110 for the mill — remember that £100.00 has had to be paid for the raw wool. Value-added = £110.00.

(c) The coat factory produces the coat and sells it for £400. This includes £210 to cover the cost of cloth and £190 to pay incomes including profits. Value-added = £190.

The total value-added in this example (£400.00) is just equal to the value of the final coat; it is also equal to the sum of all incomes paid at each stage of production. The value of a country's total output can be found either by adding the values-added by all firms or by adding up the incomes (that is, wages + rents + interest + profits) of all factors of production, those producing intermediate goods as well as those producing final goods.

In either case, double- counting will be avoided. It is important to exclude all transfer payments as these represent nothing more than a redistribution of income from taxpayers to the transfer recipients, including them would involve double counting.

Assuming:

(a) that all measures are calculated accurately; (b) that only final goods and services are counted in the national expenditure and national product figures; (c) that any change in unsold stocks are included in the national income figures; (d) that all incomes (including profits but excluding transfer payments) are counted in the national income figures, then it must follow that all three measures will provide an identical figure for the value of national income and output. That is

National Income = National Expenditure = National Product In principle, these three aggregates simply represent different ways of measuring the flow of output or income being created in an economy over a period of time.

Components of Expenditure:

Economists and policymakers care not only about the economy's total output of goods and services but also about the allocation of this output among alternative uses. National income accounts allocate GDP among four broad categories: Consumption (C). Investment (I), Government expenditure (G), and Net exports (X – M) or (NX).

Thus, let Y stand for GDP. Y=C + I + G + X- M or Y = C+ I + G + NX. Each pound of GDP is placed in one of these categories. This equation is an identity. It is called the national income accounts identity.

We have already defined almost all of the components of GDP except NX, net exports, that is, trade with other countries in an open economy. Here we will give the definition of NX and explain in detail about open economy later on. Net exports are the value of goods and services exported to other countries minus the value of goods and services imported from other countries. It represents the net expenditure from abroad for our goods and services, which provides income for domestic producers.

3.3 Measures of Income:

The national income accounts include other measures of income that differ slightly from GDP and GNP. It is important to be aware of various measures because economists and the press often refer to them.

We like to see how the alternative measures of income relate to one another by starting with GNP and subtracting various quantities. To get net national product (NNP), we subtract the depreciation of capital — the amount of capital depreciates during the year: NNP = GNP – Depreciation.

Depreciation is called the consumption of fixed capital. It is about 10 per cent of GNP in many economies. Since the depreciation of capital is a cost of producing the output of the economy, subtracting depreciation shows the net result of economic activity. For this reason, some economists believe that NNP is a better measure of economic well-being.

Market Price and Factor Cost:

The next adjustment in the national income accounts is for indirect taxes. Market prices are very often distorted by indirect taxes and subsidies: indirect taxes have the effect of raising the prices of goods above its costs, while subsidies lower such prices. National income and national product are both measured at 'factor costs'.

To ensure that national expenditure is also the same as the national income and national product, it is necessary to convert market prices to factor cost by adding subsidies and subtracting indirect taxes. Thus, we get national expenditure at market price, minus indirect taxes plus subsidies = Net National Expenditure at factor cost.

It is preferable to measure the value of total output at factor cost rather than in Market prices so as to remove the influence of indirect taxes and subsidies

Stock Appreciation:

We know that all three measures of total output include the value of the net change in stocks of unsold goods. If prices are rising, the value of firms' stocks well rise too. To take account of this so-called "stock appreciation'. It is necessary to subtract that amount in computing the national income.

The national income accounts further divide national income into five components, depending on the way income is earned. The five categories of national income are: Compensation of employees — the wages and fringe benefits earned by workers. Proprietors' income — the income of non-corporate business, such as small firms. Rental income — the income that landlords receive, including the imputed rent that homeowners 'pay' to themselves, less expenses, such as depreciation. Corporate profits—the income of corporations after payments to their workers and creditors. Net interest — the interest domestic business pay minus the interest they receive, plus interest earned from foreigners.

A series of adjustments takes us from national income to personal income, the amount that households and non-corporate business receive. Three of these adjustments are important. First, we reduce national income by the amount corporations earn but do not pay out, either because corporations are retaining earnings or because they are paying taxes to the government. This adjustment is made by subtracting corporate profits and adding back dividends.

Second, we increase the national income by the net amount the government pays out in transfer payments. This adjustment equals government transfers to individuals minus social insurance contributions paid to the government.

Third, we adjust national income to include the interest that households earn rather than the interest the businesses pay. This adjustment is made by adding personal interest income and subtracting net interest. Thus, personal income is: Personal Income = National Income – Corporate Profits – Net Interest + Dividends + Government transfers to Individuals + Personal Interest Income – Social Insurance contributions.

If we subtract personal tax payments and certain non-tax payments to the government (such as parking tickets), we obtain disposable personal income.

Personal Disposable Income = Personal Income – Personal Tax and Non-tax payments. Personal disposable income is the amount households and non-corporate business have available to spend after satisfying their tax obligations to the government.

Estimation of National Income in the Presence of Government Activities:

The government is undertaking several economics activities in a mixed economy. The government is engaged in mainly four types of economic activities which should be constituted while calculating the national income of a country. Firstly, the government may be engaged in the production of goods and services which are sold in a market like private firms. For example, transport, utility services, etc.

Secondly, the government provides certain services free of charge to the public which are not sold in the market. For example, law and order, defence, education, etc.

Thirdly, the government imposes taxes and grants subsidies. The taxes may be direct tuxes and indirect taxes. Direct taxes are those taxes which are imposed on personal and corporate incomes. On the other hand, indirect taxes are taxes imposed on commodities.

Fourthly, the government also makes transfer payments to the public and grants subsidies to firms. Transfer payments are those payments against which no services are rendered. For example, pensions, unemployment benefit, child benefit, etc.

Let us now examine how these activities can be incorporated in the national income account. The first type of activity poses no problem because the public sector firms can be treated as a private firm. The ownership of an enterprise is irrelevant when considering its contribution to the national product.

Thus, a public enterprise could be treated in the same way as a private enterprise. Therefore, the final product produced by public enterprises or the values-added by them should be included in the national product. Or, factor incomes generated in public sector undertakings should be included in the national income total.

The second type of activity by the government creates two problems when calculating national income accounting. One problem is the conceptual problem regarding whether or not these services should be treated as final products or as intermediate products. The other problem is the problem of valuation — since these services are not sold 'in the market, they have no market price.

The conceptual problem can be dealt with as follows:

Now the question is whether these services — the maintenance of law and order and defence — are to be regarded as services which satisfy the wants of the consumers directly, or are they to be regarded as facilitating the production of other goods and services? If we accept the first proposition then it becomes a final product and should be included in the national production.

On the other hand, if we accept the second proposition then it becomes an intermediate goods and should not be included in the national product to avoid double counting. Now there are reasons to believe that such services are to be regarded as partly satisfying one and partly the other. It is true that part of the services provided by the government are directed to protect the life and liberty of individuals while part of them are directed towards the protection of the productive process.

However, it is impossible to make a dividing line between these two and, hence, the entire common services are to be treated as final products. Thus, the value of these services should be included in the national product. How can the value of such services be determined? This brings us to the valuation problem. These services are not offered for sale in the market.

Therefore, there is no market price for such services. Hence, such services cannot be valued on the basis of market prices. To solve the valuation problem of such services, we must take into account the cost of providing these services and include items in the national product.

Alternatively, the factor incomes paid to the persons who provide these services should be included in the national income total. The value of the government services can be obtained by subtracting transfer payments from the total government expenditure.

Thus, taking into consideration the government activity we get the following identities:

GDP ≡ Gross value of output of the private sector + Gross value added by private enterprises + value of public sector's common services.

GDE ≡ Consumption expenditure on domestically produced good + investment expenditure + public sector expenditure on common services.

GDI ≡ (wage bill of public and private sectors) + (rents paid by public sector and private sector) + (gross profit of private enterprises and gross profit of public sector enterprises) + (interest received by both sectors).

Let us examine other two items and the problems arise as a result of transfer payments and imposition of taxes. Taxes are of two types: direct taxes and indirect taxes. Direct taxes are imposed on personal and corporate incomes while indirect taxes are imposed on commodities. In the case of transfer payments people receive income from the government without rendering any service.

Again, direct taxes are paid by people to the government without receiving any service in return. Thus, direct taxes and transfer payments are similar in nature and transfer payments can be regarded as negative direct taxes. Both these items do not affect the computation of national income.

However, transfer payments and direct taxes cause personal incomes and personal disposable incomes to differ from national income: Personal income ≡ national income + transfer receipts while personal disposable income ≡ personal income – direct taxes ≡ national income + transfer receipts – direct taxes.

However, indirect taxes and subsidies do pose some problems. Indirect taxes and subsidies given on commodities create distortion on market price and cost price. Thus, we get the following relations: Market price ≡ factor cost + (indirect taxes – subsidies) ≡ factor cost + net indirect taxes.

The government also borrows money from the public by issuing bonds and the government makes interest payments to the bond-holders. Interest on public debt is considered as a transfer payment and, hence, is not included in national income total.

National Income Estimate in an Open Economy:

As in a closed economy, in an open economy also we can look at the national income from three sides — the production side, the income side and the expenditure side. Let us first consider the

expenditure side of the national income account. Gross National Expenditure (GNE) at market prices ≡ Consumption (C) + Gross Investment + government expenditure on goods and services ≡ C + I + G.

Now expenditure on home produced goods and services by foreigners must also be included in gross national expenditure. If X stands for exports, then the value of X must be added to C + I + G. Again, some part of C + I + G is not spent on domestically produced goods and services but on goods and services produced by foreigners. Such expenditure is equal to the value of imports (M).

Hence the value of imports must be deducted from C + I + G. If M stands for the value of imports then we have GNE ≡ C + I + G + X- M or C + I + G + NX where NX means net exports. Now let us consider the output side of the national income. On the output side the value of the national product is equal to the sum total of values added by all the productive units of the economy.

We know that production takes place only in firms. For a single firm, value added = total sales (including exports) minus purchases from other firms (including imports). If we take the sum of the value added by all firms we get total value added by all firms ≡ sales to households + sales to enterprises + sales to government + sales to foreigners – purchase from foreigners. Thus, we get GNP ≡ C + I + G + X-M.

Let us now consider the income side. By income we mean income originated as a result of participation in the production process. Now in an open economy foreigner participate in the domestic production process. Foreign capital is also employed in the domestic production process. Similarly, domestic residents may participate in the production. Process outside the country and domestic capital may be employed in the foreign production process.

In this way a part of the income produced within the economy is earned by foreigners and a part of the income produced outside the country is earned by domestic residents. Taking these two items we get net income from abroad. Thus, net income from abroad ≡ income receipts from abroad ≡ income paid to foreigners. This is a part of the national income, though this part does not arise out of production within the domestic economy.

In an open economy a distinction is made between gross domestic product and gross national product. In a close economy, gross domestic product (GDP) is equal to gross national product (GNP). But in an open economy some adjustments are necessary for conversion of the gross domestic product into gross national product.

In an open economy, gross national product (GNP) is equal to gross domestic product (GDP) plus net income from abroad. Moreover, in an open economy net domestic product is equal to gross domestic product minus depreciation. Net national income in an open economy is equal to net domestic produces plus net income from abroad.

GNP ≡ GNI ≡ GNE. These identity between them is preserved even in an open economy.

3.4 Important Methods for Measuring National Income

The national income of a country can be measured by three alternative methods: (i) Product Method (ii) Income Method, and (iii) Expenditure Method.

1. Product Method:

In this method, national income is measured as a flow of goods and services. We calculate money value of all final goods and services produced in an economy during a year. Final goods here refer to those goods which are directly consumed and not used in further production process.

Goods which are further used in production process are called intermediate goods. In the value of final goods, value of intermediate goods is already included therefore we do not count value of intermediate goods in national income otherwise there will be double counting of value of goods.

To avoid the problem of double counting we can use the value-addition method in which not the whole value of a commodity but value-addition (i.e. value of final good value of intermediate good) at each stage of production is calculated and these are summed up to arrive at GDP.

The money value is calculated at market prices so sum-total is the GDP at market prices. GDP at market price can be converted into by methods discussed earlier.

2. Income Method:

Under this method, national income is measured as a flow of factor incomes. There are generally four factors of production labour, capital, land and entrepreneurship. Labour gets wages and salaries, capital gets interest, land gets rent and entrepreneurship gets profit as their remuneration.

Besides, there are some self-employed persons who employ their own labour and capital such as doctors, advocates, CAs, etc. Their income is called mixed income. The sum-total of all these factor incomes is called NDP at factor costs.

3. Expenditure Method:

In this method, national income is measured as a flow of expenditure. GDP is sum-total of private consumption expenditure. Government consumption expenditure, gross capital formation (Government and private) and net exports (Export-Import).

3.5 Concepts of National Income:

There are a number of concepts pertaining to national income and methods of measurement relating to them.

(A) Gross Domestic Product (GDP):

GDP is the total value of goods and services produced within the country during a year. This is calculated at market prices and is known as GDP at market prices. Dernberg defines GDP at market price as "the market value of the output of final goods and services produced in the domestic territory of a country during an accounting year."

There are three different ways to measure GDP:

Product Method, Income Method and Expenditure Method.

(B) GDP at Factor Cost:

GDP at factor cost is the sum of net value added by all producers within the country. Since the net value added gets distributed as income to the owners of factors of production, GDP is the sum of domestic factor incomes and fixed capital consumption (or depreciation).

Thus GDP at Factor Cost = Net value added + Depreciation.

GDP at factor cost includes:

(i) Compensation of employees i.e., wages, salaries, etc.

(ii) Operating surplus which is the business profit of both incorporated and unincorporated firms. [Operating Surplus = Gross Value Added at Factor Cost—Compensation of Employees—Depreciation]

(iii) Mixed Income of Self- employed.

Conceptually, GDP at factor cost and GDP at market price must be identical/This is because the factor cost (payments to factors) of producing goods must equal the final value of goods and services at market prices. However, the market value of goods and services is different from the earnings of the factors of production.

In GDP at market price are included indirect taxes and are excluded subsidies by the government. Therefore, in order to arrive at GDP at factor cost, indirect taxes are subtracted and subsidies are added to GDP at market price.

Thus, GDP at Factor Cost = GDP at Market Price – Indirect Taxes + Subsidies.

(C) Net Domestic Product (NDP):

NDP is the value of net output of the economy during the year. Some of the country's capital equipment wears out or becomes obsolete each year during the production process. The value of this capital consumption is some percentage of gross investment which is deducted from GDP. Thus Net Domestic Product = GDP at Factor Cost – Depreciation.

(D) Nominal and Real GDP:

When GDP is measured on the basis of current price, it is called GDP at current prices or nominal GDP. On the other hand, when GDP is calculated on the basis of fixed prices in some year, it is called GDP at constant prices or real GDP.

Nominal GDP is the value of goods and services produced in a year and measured in terms of rupees (money) at current (market) prices. In comparing one year with another, we are faced with the problem that the rupee is not a stable measure of purchasing power. GDP may rise a great deal in a year, not because the economy has been growing rapidly but because of rise in prices (or inflation).

On the contrary, GDP may increase as a result of fall in prices in a year but actually it may be less as compared to the last year. In both 5 cases, GDP does not show the real state of the economy. To rectify the underestimation and overestimation of GDP, we need a measure that adjusts for rising and falling prices.

This can be done by measuring GDP at constant prices which is called real GDP. To find out the real GDP, a base year is chosen when the general price level is normal, i.e., it is neither too high nor too low. The prices are set to 100 (or 1) in the base year.

Now the general price level of the year for which real GDP is to be calculated is related to the base year on the basis of the following formula which is called the deflator index:

$$\text{Real } GDP = \text{GDP for the Current Year} \times \frac{\text{Base Year } (=100)}{\text{Current Year Index}}$$

Suppose 1990-91 is the base year and GDP for 1999-2000 is Rs. 6, 00,000 crores and the price index for this year is 300.

Thus, Real GDP for 1999-2000 = Rs. 6, 00,000 x 100/300 = Rs. 2, 00,000 crores

(E) GDP Deflator:

GDP deflator is an index of price changes of goods and services included in GDP. It is a price index which is calculated by dividing the nominal GDP in a given year by the real GDP for the same year and multiplying it by 100. Thus,

$$GDP \text{ Deflator } = \frac{\text{Nominal (or Current Prices) } GDP}{\text{Real (or Constant Prices) } GDP} \times 100$$

$$\text{For example, GDP Deflator in 1997-98} = \frac{\text{1426.7th. crores}}{\text{1049.2th. crores at}} \times 100$$

$$= 135.9$$

It shows that at constant prices (1993-94), GDP in 1997-98 increased by 135.9% due to inflation (or rise in prices) from Rs. 1049.2 thousand crores in 1993-94 to Rs. 1426.7 thousand crores in 1997-98.

(F) Gross National Product (GNP):

GNP is the total measure of the flow of goods and services at market value resulting from current production during a year in a country, including net income from abroad.

GNP includes four types of final goods and services:

(1) Consumers' goods and services to satisfy the immediate wants of the people;

(2) Gross private domestic investment in capital goods consisting of fixed capital formation, residential construction and inventories of finished and unfinished goods;

(3) Goods and services produced by the government; and

(4) Net exports of goods and services, i.e., the difference between value of exports and imports of goods and services, known as net income from abroad.

In this concept of GNP, there are certain factors that have to be taken into consideration: First, GNP is the measure of money, in which all kinds of goods and services produced in a country during one year are measured in terms of money at current prices and then added together.

But in this manner, due to an increase or decrease in the prices, the GNP shows a rise or decline, which may not be real. To guard against erring on this account, a particular year (say for instance 1990-91) when prices be normal, is taken as the base year and the GNP is adjusted in accordance with the index number for that year. This will be known as GNP at 1990-91 prices or at constant prices.

Second, in estimating GNP of the economy, the market price of only the final products should be taken into account. Many of the products pass through a number of stages before they are ultimately purchased by consumers.

If those products were counted at every stage, they would be included many a time in the national product. Consequently, the GNP would increase too much. To avoid double counting, therefore, only the final products and not the intermediary goods should be taken into account.

Third, goods and services rendered free of charge are not included in the GNP, because it is not possible to have a correct estimate of their market price. For example, the bringing up of a child by the mother, imparting instructions to his son by a teacher, recitals to his friends by a musician, etc.

Fourth, the transactions which do not arise from the produce of current year or which do not contribute in any way to production are not included in the GNP. The sale and purchase of old goods, and of shares, bonds and assets of existing companies are not included in GNP because these do not make any addition to the national product, and the goods are simply transferred.

Fifth, the payments received under social security, e.g., unemployment insurance allowance, old age pension, and interest on public loans are also not included in GNP, because the recipients do not provide any service in lieu of them. But the depreciation of machines, plants and other capital goods is not deducted from GNP.

Sixth, the profits earned or losses incurred on account of changes in capital assets as a result of fluctuations in market prices are not included in the GNP if they are not responsible for current production or economic activity.

For example, if the price of a house or a piece of land increases due to inflation, the profit earned by selling it will not be a part of GNP. But if, during the current year, a portion of a house is constructed anew, the increase in the value of the house (after subtracting the cost of the newly constructed portion) will be included in the GNP. Similarly, variations in the value of assets, that can be ascertained beforehand and are insured against flood or fire, are not included in the GNP.

Last, the income earned through illegal activities is not included in the GNP. Although the goods sold in the black market are priced and fulfill the needs of the people, but as they are not useful from the social point of view, the income received from their sale and purchase is always excluded from the GNP.

There are two main reasons for this. One, it is not known whether these things were produced during the current year or the preceding years. Two, many of these goods are foreign made and smuggled and hence not included in the GNP.

(G) GNP at Market Prices:

When we multiply the total output produced in one year by their market prices prevalent during that year in a country, we get the Gross National Product at market prices. Thus GNP at market prices means the gross value of final goods and services produced annually in a country plus net income from abroad. It includes the gross value of output of all items from (1) to (4) mentioned under GNP. GNP at Market Prices = GDP at Market Prices + Net Income from Abroad.

(H) GNP at Factor Cost:

GNP at factor cost is the sum of the money value of the income produced by and accruing to the various factors of production in one year in a country. It includes all items mentioned above under income method to GNP less indirect taxes.

GNP at market prices always includes indirect taxes levied by the government on goods which raise their prices. But GNP at factor cost is the income which the factors of production receive in return for their services alone. It is the cost of production.

Thus GNP at market prices is always higher than GNP at factor cost. Therefore, in order to arrive at GNP at factor cost, we deduct indirect taxes from GNP at market prices. Again, it often happens that the cost of production of a commodity to the producer is higher than a price of a similar commodity in the market.

In order to protect such producers, the government helps them by granting monetary help in the form of a subsidy equal to the difference between the market price and the cost of production of the commodity. As a result, the price of the commodity to the producer is reduced and equals the market price of similar commodity.

For example if the market price of rice is Rs. 3 per kg but it costs the producers in certain areas Rs. 3.50. The government gives a subsidy of 50 paisa per kg to them in order to meet their cost of production. Thus in order to arrive at GNP at factor cost, subsidies are added to GNP at market prices.

GNP at Factor Cost = GNP at Market Prices – Indirect Taxes + Subsidies.

(I) Net National Product (NNP):

NNP includes the value of total output of consumption goods and investment goods. But the process of production uses up a certain amount of fixed capital. Some fixed equipment wears out, its other components are damaged or destroyed, and still others are rendered obsolete through technological changes.

All this process is termed depreciation or capital consumption allowance. In order to arrive at NNP, we deduct depreciation from GNP. The word 'net' refers to the exclusion of that part of total output which represents depreciation. So NNP = GNP—Depreciation.

(J) NNP at Market Prices:

Net National Product at market prices is the net value of final goods and services evaluated at market prices in the course of one year in a country. If we deduct depreciation from GNP at market prices, we get NNP at market prices. So NNP at Market Prices = GNP at Market Prices—Depreciation.

(K) NNP at Factor Cost:

Net National Product at factor cost is the net output evaluated at factor prices. It includes income earned by factors of production through participation in the production process such as wages and salaries, rents, profits, etc. It is also called National Income. This measure differs from NNP at market prices in that indirect taxes are deducted and subsidies are added to NNP at market prices in order to arrive at NNP at factor cost. Thus

NNP at Factor Cost = NNP at Market Prices – Indirect taxes+ Subsidies

= GNP at Market Prices – Depreciation – Indirect taxes + Subsidies.

= National Income.

Normally, NNP at market prices is higher than NNP at factor cost because indirect taxes exceed government subsidies. However, NNP at market prices can be less than NNP at factor cost when government subsidies exceed indirect taxes.

(L) Domestic Income:

Income generated (or earned) by factors of production within the country from its own resources is called domestic income or domestic product.

Domestic income includes:

(i) Wages and salaries, (ii) rents, including imputed house rents, (iii) interest, (iv) dividends, (v) undistributed corporate profits, including surpluses of public undertakings, (vi) mixed incomes consisting of profits of unincorporated firms, self- employed persons, partnerships, etc., and (vii) direct taxes.

Since domestic income does not include income earned from abroad, it can also be shown as: Domestic Income = National Income-Net income earned from abroad. Thus the difference between domestic income f and national income is the net income earned from abroad. If we add net income from abroad to domestic income, we get national income, i.e., National Income = Domestic Income + Net income earned from abroad.

But the net national income earned from abroad may be positive or negative. If exports exceed import, net income earned from abroad is positive. In this case, national income is greater than domestic income. On the other hand, when imports exceed exports, net income earned from abroad is negative and domestic income is greater than national income.

(M) Private Income:

Private income is income obtained by private individuals from any source, productive or otherwise, and the retained income of corporations. It can be arrived at from NNP at Factor Cost by making certain additions and deductions.

The additions include transfer payments such as pensions, unemployment allowances, sickness and other social security benefits, gifts and remittances from abroad, windfall gains from lotteries or from horse racing, and interest on public debt. The deductions include income from government departments as well as surpluses from public undertakings, and employees' contribution to social security schemes like provident funds, life insurance, etc.

Thus Private Income = National Income (or NNP at Factor Cost) + Transfer Payments + Interest on Public Debt — Social Security — Profits and Surpluses of Public Undertakings.

(N) Personal Income:

Personal income is the total income received by the individuals of a country from all sources before payment of direct taxes in one year. Personal income is never equal to the national income, because the former includes the transfer payments whereas they are not included in national income.

Personal income is derived from national income by deducting undistributed corporate profits, profit taxes, and employees' contributions to social security schemes. These three components are excluded from national income because they do reach individuals.

But business and government transfer payments, and transfer payments from abroad in the form of gifts and remittances, windfall gains, and interest on public debt which are a source of income for individuals are added to national income. Thus Personal Income = National Income – Undistributed Corporate Profits – Profit Taxes – Social Security Contribution + Transfer Payments + Interest on Public Debt.

Personal income differs from private income in that it is less than the latter because it excludes undistributed corporate profits.

Thus Personal Income = Private Income – Undistributed Corporate Profits – Profit Taxes.

(O) Disposable Income:

Disposable income or personal disposable income means the actual income which can be spent on consumption by individuals and families. The whole of the personal income cannot be spent on consumption, because it is the income that accrues before direct taxes have actually been paid. Therefore, in order to obtain disposable income, direct taxes are deducted from personal income. Thus Disposable Income=Personal Income – Direct Taxes.

But the whole of disposable income is not spent on consumption and a part of it is saved. Therefore, disposable income is divided into consumption expenditure and savings. Thus Disposable Income = Consumption Expenditure + Savings.

If disposable income is to be deduced from national income, we deduct indirect taxes plus subsidies, direct taxes on personal and on business, social security payments, undistributed corporate profits or business savings from it and add transfer payments and net income from abroad to it.

Thus Disposable Income = National Income – Business Savings – Indirect Taxes + Subsidies – Direct Taxes on Persons – Direct Taxes on Business – Social Security Payments + Transfer Payments + Net Income from abroad.

(P) Real Income:

Real income is national income expressed in terms of a general level of prices of a particular year taken as base. National income is the value of goods and services produced as expressed in terms of money at current prices. But it does not indicate the real state of the economy.

It is possible that the net national product of goods and services this year might have been less than that of the last year, but owing to an increase in prices, NNP might be higher this year. On the contrary, it is also possible that NNP might have increased but the price level might have fallen, as a result national income would appear to be less than that of the last year. In both the situations, the national income does not depict the real state of the country. To rectify such a mistake, the concept of real income has been evolved.

In order to find out the real income of a country, a particular year is taken as the base year when the general price level is neither too high nor too low and the price level for that year is assumed to be 100. Now the general level of prices of the given year for which the national income (real) is to be determined is assessed in accordance with the prices of the base year. For this purpose the following formula is employed.

Real NNP = NNP for the Current Year x Base Year Index (=100) / Current Year Index

Suppose 1990-91 is the base year and the national income for 1999-2000 is Rs. 20,000 crores and the index number for this year is 250. Hence, Real National Income for 1999-2000 will be = 20000 x 100/250 = Rs. 8000 crores. This is also known as national income at constant prices.

(Q) Per Capita Income:

The average income of the people of a country in a particular year is called Per Capita Income for that year. This concept also refers to the measurement of income at current prices and at constant prices. For instance, in order to find out the per capita income for 2001, at current prices, the national income of a country is divided by the population of the country in that year.

$$\text{Per Capita Income for 2001} = \frac{\textit{National income for 2001}}{\textit{Population in 2001}}$$

Similarly, for the purpose of arriving at the Real Per Capita Income, this very formula is used.

$$\text{Real Per Capita Income for 2001} = \frac{\textit{Real national income for 2001}}{\textit{Population in 2001}}$$

This concept enables us to know the average income and the standard of living of the people. But it is not very reliable, because in every country due to unequal distribution of national income, a major portion of it goes to the richer sections of the society and thus income received by the common man is lower than the per capita income.

Summary

- The impact of business is so pervasive that besides judicial and administrative the third important work any government has to perform is to regulate business in the national interest.
- From the late 1940s, many countries started a new beginning towards growth and development, but almost all of them followed different paths to achieve the goal of welfare of their people.
- National income is a measure of the total value of the goods and services (output) produced by an economy over a period of time (normally a year).
- As per National Income Committee of India, National Income is defined as-"National income estimate measures the volume of commodities and services turned out during a given period counted without duplication."
- National income per person or per capita income is often used as an indicator of people's standard of living or welfare. However, many development economists have criticized that GNP as a measure of welfare has many limitations.
- A national income measure serves various purposes regarding economy, production, trade, consumption, policy formulation, etc.

Keywords

National Income: Measure of the total value of the goods and services produced in a year by an economy.

GDP Deflator: Index of the average price for goods and services produced in the economy.

Review Questions

State whether the following statements are true or false:

1. National income also includes the income earned by non-resident Indians.
2. National income can also used by the governments to prepare Human Development Index.
3. What do you think, does national income give a correct picture of developments and growth in an economy? Justify your answer.
4. How can the governments use national income to make international comparison of people's living standards? Is this correct?

Further Reading

Bedi Suresh, Business Environment, Excel Books, 2006

Mishra, Puri, Economic Environment of Business, Himalaya Publications House, 2006

Mittal Vivek, Business Environment, Excel Books, 2007

Starling, Grower, The Changing Environment of Business, Cincinnati, OH, South-Western College Publishing, 1996

Weidenbaum, Marray L., Business and Government in the Global Market Place, Upper Saddle River, NJ Prentice Hall, 1999

Unit 04: Economic Environment of India

CONTENTS

Objectives
Introduction
4.1 Monetary Policy
4.2 Measures of Money Supply in India (Monetary Aggregate)
4.3 Factors affecting Monetary Policy
4.4 Need to Regulate the supply of Money
4.5 Reserve Bank of India
4.6 Fiscal Policy
Summary
Keywords
Self-Assessment
Review Questions
Answers: Self-Assessment
Further Reading

Objectives

After studying this unit, you will be able to:

- Discuss monetary aggregates and new monetary aggregates
- Define liquidity measures
- Discuss factors affecting money supply in India
- Explain need to regulate the supply of money
- Describe money supply and inflation
- Discuss supply of money, interest rate and investment
- Describe monetary management
- Discuss Reserve Bank of India and Functions of Reserve Bank of India
- Explain monetary policy and fiscal policy
- Explain RBI and credit control
- Discuss the monetary policy and fiscal policy of India

Introduction

Monetary policy is all about supply of currency in the country. If we are talking about supply of currency then the term has a wide meaning, since the supply of currency is affected by many means and in turn , affects many other variables many. It is a country's central bank that controls the supply of money. Monetary policy has direct bearing on inflation and commercial bank interest rate. So even the slightest change in the monetary policy affects inflation and bank interest rate. The sphere of state action on a country's budget is vast and all pervading. It includes "maintaining public services, influencing attitudes, shaping economic institutions, influencing the use of resources, influencing the distribution of income, controlling the quantity of money, controlling fluctuations, ensuring full employment, and influencing the level of investment."

W.A. Lewis and Philip V. Taylor give a more comprehensive definition when they say, "A budget is a master financial plan of the government. It brings estimates of anticipated revenues and proposed expenditures, employing schedule of activities to be undertaken towards the direction of national objectives. It is a device for consolidating various interest, objectives, desires and needs of people into a programme whereby they provide for their safety, convenience and comforts."

4.1 Monetary Policy

The central bank designs the monetary policy in keeping with the government's economic policy. Monetary policy is about expansion and contraction of money and the central bank is the implementing body of the monetary policy. Given below is the study of money supply and our central bank, i.e., the Reserve Bank of India (RBI).

4.2 Measures of Money Supply in India (Monetary Aggregate)

There are two basic measures of money globally: narrow and broad. The former usually consists of the currency with the public and demand deposits with banks. The latter includes the time deposits with banks. Till 1998, the RBI calculated four components of money supply in India, now termed as old money measures. These are known as money stock measures of monetary aggregates.

Old Money Aggregates/Measures are as follows:

M_1 = Currency with the public, i.e., coins and currency notes + Demand Deposits with banks + Other deposits with RBI.

M_2 = M_1 + Post Office savings.

M_3 = M_1 + Time deposits of the public with banks; this is also known as broad money.

M_4 = M_3 + Saving and time deposits with the post office.

Out of the four concepts of money supply, RBI emphasises only two concepts, viz., ordinary money or narrow money (M_1) and money supply in the broad sense (M_3), which consists of M_1 plus time deposit of people with the bank. M_3 is also referred to as broad money or aggregate monetary resource of the people.

New Monetary Aggregates

M_0 = Currency in Circulation + Bankers Deposits with the RBI + 'Other' Deposits with the RBI.

M_1 (NM_1) = Currency with the Public + Demand Deposits with the Banking System + 'Other' Deposits with the RBI.

M_2 (NM_2) = M_1 + Time Liabilities Portion of Savings Deposits with the Banking System + Certificates of Deposit issued by Banks + Term Deposits of residents with a contractual maturity of upto and including one year with the Banking System (excluding CDs).

M_3 (NM_3) = M_2 + Term Deposits of residents with a contractual maturity of over one year with the Banking System + Call/Term borrowings from 'Non-depository' Financial Corporations by the Banking System.

There are three major changes in the new and old monetary aggregates. New intermediate monetary aggregate, which is to be referred to as NM_2, comprises of currency and resident's short-term bank deposits that would stand between narrow money (M_1, which includes only the non-interest bearing monetary liabilities of the banking sector) and broad money (M_3).

The new broad money aggregate (referred to as NM_3 for purpose of clarity) in the Monetary Survey would comprise of NM_2, long-term deposits of residents, and call/term borrowings from non-bank sources which have emerged as an important source of resource mobilisation for banks. The critical difference between M_3 and NM_3, essentially, lies in the treatment of non-resident repatriable fixed foreign currency liabilities of the banking system in the money supply compilation.

Post office deposits have been dropped from the new money and thus the old concept of M_2 and M4 concepts have been dropped.

4.3 Factors affecting Monetary Policy

There are five sources which contribute to the aggregate monetary resources in the country (M_3):

Net Bank Credit to the Government: There are two types of bank credit to the government: RBI credit to the Central and State Government and others banks' credit to the Central and State Government. The government provides its securities and IOUs to the RBI against which it receives loans from the RBI. The RBI prints and issues currency notes against govt. securities. This increases money supply in the country and when the government buys back its securities, it reduces the supply. Similarly, when the government borrows from commercial banks, it also increases the supply of money with the public.

Bank Credit to the Commercial Sector: When banks lend to customers it increases the supply of money in the hands of the public. Lending by the commercial sector has a multiplier effect. When banks lend to the customer, they do not hand over currency to him, but instead allow him the facility of withdrawal by cheque. These cheques come back to the banking system as fresh deposits. By giving more such loans, banks multiply their deposits. More bank loans mean more supply of money and more investment.

Foreign Exchange Assets: Foreign exchange assets acquired by the banking system are also a source of money supply. When an exporter receives a payment in foreign exchange (forex) he surrenders it to the bank, which in turn gives him local currency. This increases supply of money in the country. On the other hand, when an importer asks for foreign exchange to import, he gives local currency to the bank and supply of money in the country is reduced.

Government Currency Liabilities to the Public: The Government of India prints/mints one rupee notes, rupee coins and small coins (50 paisa, 25 paisa etc.) which constitute the government's currency liabilities to the public. This leads to increase in the volume of money supply and the government's currency liabilities to the public.

Non-monetary Liabilities of the Banking Sector: Non-monetary liabilities of the RBI and other banks are deducted before we calculate the stock of money. These liabilities of bank include their paid up capital and reserves, pension fund, provident fund and other liabilities like bills payable over other assets of banks, errors and omission, etc. Since they are liabilities of the banking system, they have to be deducted to arrive at the money stock (M3).

4.4 Need to Regulate the supply of Money

The supply of money has a direct impact on inflation, level of investment, employment generation, interest rate, etc. It is clear that supply of money has an effect on every aspect of the economy and has a close relationship with development. Supply of money is a sensitive issue as even a slight imbalance can create havoc in the form of deflation or hyperinflation in the country.

In the initial stages of perestroika in the erstwhile USSR, because of imbalances in supply of money, the value of the Russian trouble decreased to such an extent much that people used to carry bags full of roubles to purchase bread. Every country manages supply of money in the national interest through its central bank.

Money Supply and Inflation

There is a direct relationship between the supply of money and inflation. It is based on the simple fundamental of demand and supply. The value of a currency is defined by its purchasing power. As the supply of money increases its value decreases. Decrease in purchasing power means an increase in inflation.

When the supply of money increases with the people it gives them more purchasing power, which results in an increase in demand. Prices rise if demand increases without a correspondent increment in supply. This doesn't mean that money supply is directly proportional to inflation. Because increment in supply of money not only increases the demand, it also increases investment, i.e., supply. Part of the increased money also goes into savings. This is the reason that with an increase in money supply, the government promotes investment and savings so that it does not have an inflationary impact. There is thus a close relationship between inflation and supply of money, but not a proportional relation.

Supply of Money, Interest Rate and Investment

The supply of money also has an impact on interest rates and level of investment. In fact, economists have propounded the theory that to boost development and to create employment, the government should expand money.

Here too, the fundamentals are the same. As supply of money increases its value goes down. The price of money is its interest rate. So when banks get more money, they provide loans at low rates. This increases the level of investment in the country because more people go for investments with low interest rates. This results in creation of employment, which results in an increase in purchasing power. This in turn, increases demand and results in inflation, which again works as a catalyst for investment.

So it is clear that there is cyclical relation between money supply, inflation, interest and investment. We can put the four things in the following manner:

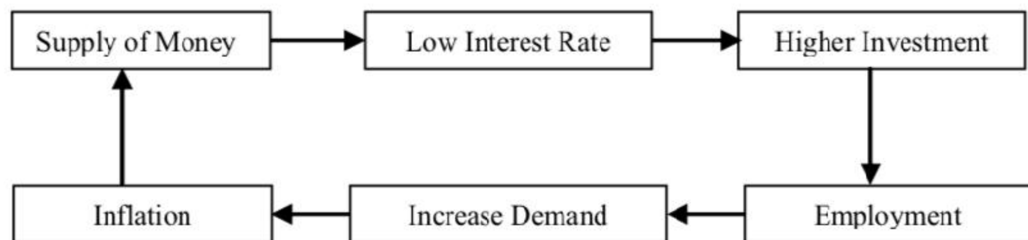


Figure 4.1 Relation between Supply of Money and Inflation

Monetary Management

It is the central bank of a country that is responsible for the regulation of supply of money. In India it is the RBI, which manages the supply of money.

4.5 Reserve Bank of India

In 1921, the Govt. of India established the Imperial Bank as the Central Bank of India. But it was not very successful. Upon the recommendation of the Central Banking Enquiry Committee, on April 1, 1935, the Reserve Bank of India began working. The entire share capital of RBI was initially owned by private shareholders. It was nationalised in 1949. Its head office is in Mumbai and it has branches in New Delhi, Kolkata, Chennai, Bangalore, Kanpur, Ahmedabad, Hyderabad, Patna and Nagpur. The State Bank of India works as its Agent in the cities where the RBI does not have an office.

The Preamble of the RBI Act, 1934 states that, "Whereas it is expedient to constitute a Reserve Bank of India to regulate the issue of bank notes and the keeping of reserves with a view to securing monetary stability in (India) and generally to operate the currency and credit system of the country to its advantage."

A. Functions of the Reserve Bank of India

- **Issue of Currency**: The RBI has the sole right to issue currency notes. To issue notes, it follows a minimum reserve system. According to RBI (Amendment Act) modified in 1957, the bank has to keep a minimum reserve of ₹200 crore, of which ₹15 crore has to be in gold coins and bullion and ₹85 crore in foreign securities. Although one rupee coins and notes as well as coins of smaller denominations are issued by the Government of India, they are put into circulation through the RBI. The Bank also exchanges notes and coins of one denomination into those of other denominations as demanded by the public. The RBI has 15 full-fledged issue offices and 2 sub-offices, along with 4,127 currency chests where the stock of new and re-issuable notes, rupees and coins are stored at the end of March 1997.

- **Banker to Government**: The Reserve Bank of India acts as the banker to the central government as also to the governments of the constituent units of India's federal system.

Banks transact the banking business of the Government of India and accordingly perform the following functions: accept money on account of the government, make payment on its behalf, and carry out exchange remittance and other banking operations, including the management of public debt. The RBI plays an important role in financing government expenditure.

In addition to financial transaction, the Bank acts as the agent of the government in respect of India's membership of the International Monetary Fund and International Bank of Restructuring and Development. It also acts as an adviser to the government on banking and financial matters.

- **Ways and Means Advances**: The Bank can make "Ways and Means Advances", i.e., temporary advances to both the Central and state governments to bridge the temporary gap between receipts and payments. The maximum maturity period of these advances is three months.
- **Banker's Bank**: RBI has extensive powers to control the commercial banking system. All scheduled banks are under a statutory obligation to maintain a certain minimum of cash reserve which is to be decided by the RBI against their demand and time liabilities. With this, the RBI determines the deposits/credit creating ability of the bank. The RBI provides financial assistance to scheduled commercial banks and state co-operative banks in the form of discounting of legible bills, loans and advances against approved securities. The RBI is expected to help banks in their crises. RBI is not only a banker's bank but it also works as a lender of last resort.

- **Controller of Credit:** The RBI functions as the controller of credit. As such, it regulates the quantity of credit and the rate at which it is made available. It does this through the use of general and selective controls.
- **Exchange Management and Control**: The RBI is required to stabilise the external value of the rupee. For this purpose, it functions as the custodian of the nation's foreign exchange reserves. It is obligatory for the RBI to buy and sell currencies of all the members of the IMF. In this field the RBI has following dimensions:

(a) To administer the 'foreign exchange control'.

(b) To choose the exchange rate system and fix or manage the exchange rate between the rupee and other currencies.

(c) To exchange reserve.

(d) To interact or negotiate with the monetary authorities of the Sterling Area, Asian Clearing Union and other countries, and with international financial institutions such as the IMF, World Bank and the Asian Development Bank.

The RBI administers 'exchange control' in terms of the Foreign Exchange Management Act (FEMA). The objective of exchange control is to limit the demand of foreign exchange in keeping with its supply. The RBI manages this through the buying and selling of foreign exchange from and to scheduled banks, which are the authorised dealers in the Indian Foreign Exchange market. The Bank also manages the investment of reserves in gold accounts abroad and the shares and securities issued by foreign government and international banks or financial institutions.

The role of the RBI as a participant in the foreign exchange market, and as a stabiliser of the market and of the rupee exchange rate has become all the more important with the

introduction of the floating exchange rate system and the rupee convertibility on trade, current and capital accounts.

- **Collection and Publication of Data:** The RBI has been entrusted with the task of collection and compilation of statistical information relating to banking and other financial sectors of the economy.
- **Supervisory Function**: The RBI has a wide power of supervision and control over commercial and co-operative banks relating to licensing and establishments, branch expansion, liquidity of their assets, management and methods of working, amalgamation, reconstruction and liquidation. The RBI is authorised to carry out periodical inspection of banks and to call for returns and necessary information from them. It has the following powers in this field:

(a) To issue licences for the establishment of new banks.

(b) To prescribe minimum requirement regarding paid up capital and reserves, transfer to reserve fund and maintenance of cash reserve and other liquid assets.

(c) To inspect the working of banks in India as well as abroad in respect of their organizational set up, branch expansion, mobilisation of deposits, investment and credit portfolio management, credit appraisal, region-wise performance, man power planning and so on.

(d) To conduct ad hoc investigation into complaints, irregularities and frauds in respect of banks, from time to time.

(e) To control methods of operation of banks so that they do not fritter away funds in improper investments and injunctions advances.

(f) To control appointment, reappointment, termination of appointment of the chairman and chief executive officers of private sector banks.

(g) To approve or force amalgamations.

In keeping with the recommendations of the Narshimhan Committee (1991), the RBI's functions of bank supervision was separated from its traditional central banking function by the creation of a separate Department of Supervision (DOS). The Board of Financial Supervision was set upto oversee the IFS.

The RBI performs many development and promotional functions. It has done valuable work in aiding development and in promoting saving and banking habits. The RBI established Deposit Insurance Corporation of India in 1962 to provide securities to depositors against frequent bank failures. The RBI played an important role in the establishment of UTI, IFCI, SFC, IDBI, and Agriculture Refinance Corporation, etc.

- **Promoter of the Financial System:** The RBI delivers various promotional and development services to strengthen the country's banking and financial structure.
- **Money Market**: In order to increase the strength and viability of the banking system, it carried out a programme of amalgamations and mergers of weak banks with the strong ones. When the social control of banks was introduced in 1968, it was the responsibility of the RBI to administer it in the country to achieve the desired objectives. After the nationalisation of banks it was the responsibility of the RBI to develop banking interest in the national interest.
  With the help of a statutory provision for licensing and branch expansion of banks, the RBI has been trying to bring about an appropriate geographical distribution of bank branches. In order to ensure the security of deposits with banks, the RBI in 1962, took the initiative to create the Deposits Insurance Corporations.
- Agriculture Sector: The RBI directs and increases the flow of credit to the agricultural sector. It has appointed a separate deputy governor in charge of rural credit. It has
- conducted many studies and research on the problem of rural credit. It has created a data base on rural credit through various surveys.
  The RBI has been strengthening the co-operative banking structure through the provision of finance, supervision, and inspection to increase the supply of agricultural credit. It provides short-term finance at a concessional rate for seasonal agriculture operations and marketing of crops through co-operative banks. It established the Agricultural Refinance Cooperation (now known as NABARD) in July 1963 for providing medium- term and long-term finance for agriculture. It also helped in establishing an Agriculture Finance Corporation.
- Industrial Finance: The RBI has either created or has advised and helped in creation of many development institutions and financial institution at the centre and state level. These include IDBI, SIDBI, NHB, NCB and UTI. Through these institutions, the RBI has been providing short-term and long-term funds to the agriculture and rural sectors, to small scale industries, to medium and large industries and to the export sector.

B. RBI and Monetary Policy

From its inception, the RBI has followed the policy of controlled expansion, i.e., adequate financing of economic growth while ensuring reasonable price stability. Expansion of money is required in developing country for the purpose of development and investment. But this expansion results in inflation. So the RBI has to be cautious in order to achieve a trade-off between expansion and

inflation. Not only this, the RBI also manages the forex exchange rate through open market operations, as after liberalisation it is the market forces that decide the exchange rate.

The keynote of monetary policy can be said to be controlled expansion of bank credit and money supply, with special attention to seasonal requirement for credit. The RBI regards money supply and the volume of bank credits as the two major intermediate variables, but it seeks to control the former through the latter. It is said that money supply doesn't change on its own; it changes because of certain underlying development with regard to bank credit.

C. RBI and Credit Control

For the sake of credit control, the RBI resorts to bank rate manipulations, open market operations, reserve requirement changes, direct action, and rationing of credit and moral suasion. Apart from employing these traditional methods of credit control, it directly influences commercial banks' lending policy, rate of interest, and form of securities against loans and portfolio distribution.

The instrument of monetary policy (methods of credit control) may be broadly divided into the following parts:

- **Open Market Operations**: Open market operations involve the sale and purchase of government securities by the RBI to influence the volume of cash reserve with commercial banks and thus influence the volume of loans and advances they can make to the industrial and commercial sectors. The environment for open market operations is quite favourable because the government securities market is fairly developed in the country. At present, the RBI is authorised to conduct purchase and sale operations in government securities, treasury bills and other approved securities.
  The RBI is also empowered to buy and sell short-term commercial bills. Through the sale of securities the RBI withdraws a part of the deposit resources of the banking sector, thereby reducing resources available with the banks for lending. This reduces the supply of money, which in turn reduces inflation. The opposite happens when the RBI purchases securities. The stock of securities with the seller banks is reduced and the cash with them expands. This augments the credit-creating capacity of banks, reducing the interest rates

  and increasing the level of investment. Some monetary economists and bankers assert that the bank rate policy and open market operations are complementary measures in the realm of monetary management.
  Open Market Operations have both monetary policy and fiscal policy goals. Their multiple objectives include: (a) To control the amount of and changes in bank credit and monetary supply through controlling the reserve base of banks, (b) To make bank rate policy more effective, (c) To maintain stability in government securities market, (d) To support government borrowing programme, (e) To smoothen the seasonal flow of funds in the bank credit market.
- **Bank Rate:** The bank rate is also known as discount rate. It is the rate at which the central bank discounts, or more accurately rediscounts, eligible bills.
  In a broader sense it refers to the minimum rate at which the central bank provides financial accommodation to commercial banks in the discharge of its function as the lender of the last resort. The bank rate is the basic cost of refinance and rediscounting facilities. Section 49 of the RBI Act, 1934 defines it as the standard rate at which the Bank is prepared to buy or rediscount bills of exchange or other eligible commercial paper. The technique of bank rate and discretionary control of refinance are used to regulate the cost and availability of refinance, and to change the volume of lendable resources of banks and other financial institutions.
  If monetary policy is effective, then change in bank rate affects the prime-lending rate. Any increment in bank rate means that now the RBI will charge higher interest rate from banks against the advances, so it results in the increment in the interest rate charged by commercial banks. This results in low level of investment and low level of inflation. To control inflation, bank rate was increased to 12% from 10% in 1991.
  In 1953, bank rate was 3.5% and rose to 10% in 1981, to 11% in July 1991, and to 12% in October 1991. In India, bank rate policy is not effective because commercial banks in India are not much dependent on the RBI for financial assistance. Also, because of bill market that is not well-organised, they lack adequate quantity of eligible bills which can be rediscounted to the RBI. Proper organisation of the various components of the money market is a prerequisite.
- **Direct Regulation of Interest Rates**: It is expected that change in bank rate will bring a change in all market rates of interest in the same direction. But when the bank rate loses its

significance in regulating market rates, the RBI is compelled to directly regulate interest rates on bank deposits and credit. Since 1964 it has been fixing all deposits rates of commercial banks, and since 1960, their lending rates. Deposit rates of co-operative banks came under regulation in 1974 and their lending rates in 1980. The RBI and some other authorities in India have been directly fixing many other interest rates also.

Deregulation in interest rate began in 1985 after the recommendation of the Chakravarty Committee Report. In the past 14 years important changes in the deregulation of interest rate are:

(a) The Bank Rate has been activated.

(b) Most of the money market rates have been deregulated.

(c) The ceiling on the call rate was withdrawn with effect from May 1, 1989.

(d) The interest rates on treasury bills, certificates of deposits, commercial paper, and inter-bank participations are allowed to be flexible, variable and market determined.

(e) The deposits and lending rates of commercial banks, RRBs, urban co-operative banks, and other co-operative banks have been freed.

(f) Interest on public deposits accepted by all non-banking companies (financial and non-financial) have been deregulated.

(g) The coupon rate on government dated securities has been made market-related.

(h) The interest rates on convertible, non-convertible and other types of debentures have been made free.

(i) The term lending institutions can now charge interest rates unhindered by State intervention.

- **Cash Reserve Ratio**: The CRR refers to the cash which banks have to maintain with the RBI as a certain percentage of their demand and time liabilities.

  According to the RBI Act 1935, every commercial bank has to keep certain minimum cash reserve with the RBI. Initially, it was 5% against demand deposit and 2% against time deposits. Under the RBI (Amendment Act) 1962, the RBI is empowered to determine CRR for the commercial banks in the range of 3% to 15% for the aggregate demand and time liabilities. CRR has been quite often used to control inflation.

  An increase in CRR reduces the cash with commercial bank which results in low supply of currency in the market, higher interest rate and low inflation. In the late 1980s there was a rapid growth of liquidity which resulted in higher inflation and thus the CRR was raised to its maximum limit of 15%, which resulted in higher interest rate and liquidity crunch in early 1990s when Prime Lending Rate was raised to as high as 17%.

CRR for Co-op Banks Raised by 50 BPs

After raising the cash reserve ratio (CRR) of commercial banks, the Reserve Bank of India (RBI) has increased the CRR for scheduled primary (urban) co-operative banks (UCBs) by half a percentage point to 5%.

The increase in the CRR will have no immediate impact on lending rates in the medium- term, said cooperative bankers, as there is ample liquidity in the banking system and credit demand has not picked up.

The rise in the CRR will be implemented in two stages, the first 25 basis point rise on September 18 to 4.75 percent, and the second on October 2 to 5%.

Punjab & Maharashtra Co-operative Bank Ltd. Managing Director Joy Thomas said that the increase in CRR is a move to curb the rising inflation rate in economy since the banking system is flush with funds. The increase is unlikely to have any impact on the lending rates in the medium rates, said Thomas.

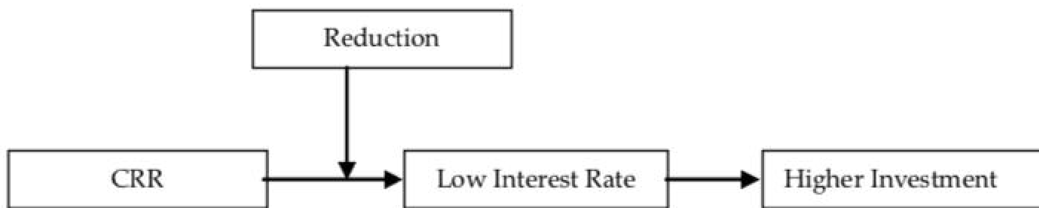
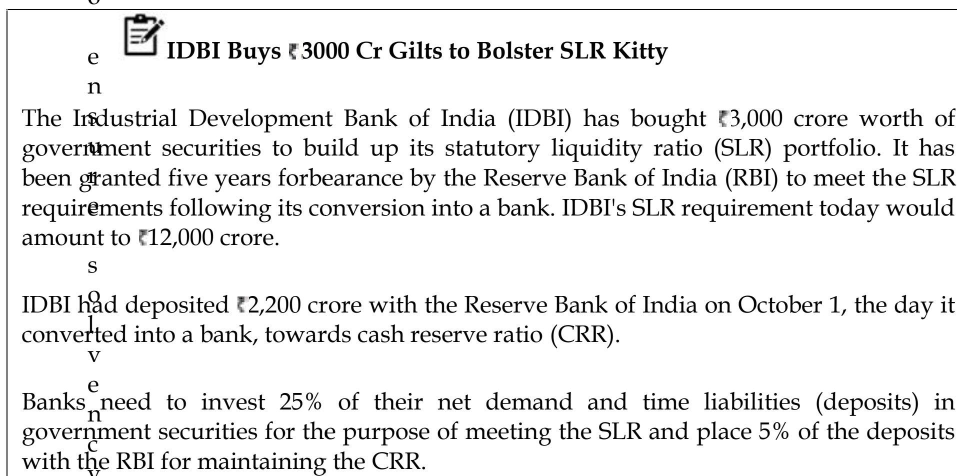


Figure 5.2 Statutory Liquidity Rate

- **Statutory Liquidity Ratio**: Under the Section 24 of the Banking Regulation Act, 1949, commercial banks have to maintain liquid assets in the form of cash, gold and unencumbered approved securities equal to not less than 25% of their total demand and time deposits liabilities. This is known as statutory liquidity reserve requirements. There are three objectives of the SLR:

    - to restrict expansion of bank credit
    - to augment banks' investment in government securities of banks
    - to ensure solvency



IDBI Buys ₹3000 Cr Gilts to Bolster SLR Kitty

The Industrial Development Bank of India (IDBI) has bought ₹3,000 crore worth of government securities to build up its statutory liquidity ratio (SLR) portfolio. It has been granted five years forbearance by the Reserve Bank of India (RBI) to meet the SLR requirements following its conversion into a bank. IDBI's SLR requirement today would amount to ₹12,000 crore.

IDBI had deposited ₹2,200 crore with the Reserve Bank of India on October 1, the day it converted into a bank, towards cash reserve ratio (CRR).

Banks need to invest 25% of their net demand and time liabilities (deposits) in government securities for the purpose of meeting the SLR and place 5% of the deposits with the RBI for maintaining the CRR.

- **Direct Credit Allocation and Credit Rationing**: The RBI directs the distribution and allocation of credit among different sectors, borrowers, and users through the fixation of specific and direct quantitative credit ceilings or credit targets. The objective was to mobilise the money in the priority sector. This technique was first introduced in November 1973 when the RBI stipulated a ceiling of 10% on the increase in non-food credit by the banking system for the busy season of 1973-74 over the outstanding amount, as at the end of September 1973.
  In order to achieve regional or geographical balances in respect of credit disbursal, the RBI has been asking banks to achieve a certain prescribed credit-deposits ratio in respect of their rural and semi-urban branches separately.
- **Selective Credit Control:** Selective and qualitative credit control refers to regulations of credit for specific purposes or branches of economic activity. The aim of selective control is to discourage such forms of activity as are considered to be relatively inessential or less desirable. Selective control has been used in Western countries to prevent the demand for durable consumer goods outrunning the supply and generating inflationary pressure.

They have been used particularly to prevent speculative hoarding of sensitive commodities such as paddy, rice, wheat, pulses, oil-seeds, oils, vanaspati, cotton sugar, gur etc.

- **Credit Authorization Scheme**: This technique was introduced in November 1965 with a view to regulating the volume and terms of credit supplied to large borrowers. As per this scheme, if the fresh working capital limit (inclusive of bill finance) to be sanctioned to any single party by any one bank or the entire banking system exceeded a stipulated level, the bank would require prior authorisation of the RBI for sanctioning such a loan. This

stipulated level or cut-off point was fixed at 1 crore at the beginning. It was subsequently increased to ₹2 crore in November 1975, 4 crore in 1983 and to ₹6 crore thereafter.

In the second half of 1988, the RBI withdrew the scheme, and in its place a Credit Monitory Arrangement was introduced. According to the new scheme, credit proposal for ₹5 crore and above in the case of working capital and ₹2 crore and above in the case of term loans, had to be submitted to the RBI for post-sanction scrutiny.

- **Fixation of Inventory Norm and Credit Norms**: The banks were required to advance credit for working capital to different industries in the light of inventory norms laid down by the Committee of Direction (COD) and its sub-committees. These committees reviewed and revised the norms from time to time in case of different industries and banks had to implement the new norms as and when they were formulated.
- **Moral Suasion:** Besides all these, the RBI also circulates letters to the banks regarding the policies and priorities of the RBI about credit control and money supply. It also regularly discusses its policies with the bank. The objective is that the banks should work in the same direction.
- **Liquidity Adjustment Facility (LAF)**: LAF is a new technique of monitory policy in India. It matches the new requirement which emerges because of newer economic policies. LAF was introduced on June 5, 2000.

LAF introduced variable REPO auctions with same-day settlement. The amount of REPO and reverse REPO are changed on a daily basis to manage liquidity. The maturity of REPOs is between one day to fourteen days. The funds under LAF are expected to be used by the banks for their day-to-day mismatches in liquidity. All transferable Government of India dated securities/TB (except fourteen days TBs) can be traded in REPO and reverse REPO markets.

Interest rates in the REPO market usually emerge out of bids (i.e. auctions are conducted on "uniform price" basis), and the RBI occasionally conducts fixed interest rate (multiple price) auctions to send signals to the market. Under LAF, the RBI, periodically, if necessary even daily, sets/resets its REPO and reverses the REPO rate. It uses 3-day or 4-day REPOs to siphon off liquidity from the market. The REPOs are used for absorbing liquidity at a given rate (floor), and not infusing liquidity through reverse REPOs at a given rate (ceiling).

REPOs: A REPO is purchase of one loan against the sale of another. They involve the sale of securities against cash with a future buy back agreement. Under such an agreement, the seller sells specified securities with an agreement to repurchase the same at a mutually decided future date and price. Similarly, the buyer purchases the securities with an agreement to resell the same to the seller on an agreed date at a predetermined price. The transaction is called a REPO when viewed from the perspective of the seller of the securities, and a reverse REPO when viewed from the perspective of the buyer of the securities.

REPOs are part of open market operations undertaken to influence short-term liquidity.

There are two types of REPO auctions: discretionary price auctions and fixed rate auctions, or uniform price auctions. Under the former, bidders submit multiple price-quantity sealed bids. Under the fixed rate REPOs auction, the rates are pre-announced and the bidders are required to submit bids indicating the volume of REPOs.

(a) Monetary policy in India has been formulated in the context of economic planning, whose main objective has been to accelerate the growth process in the country. In a country like India that has followed an expansionary fiscal policy, which leads to inflationary conditions, to manage a monetary policy under these circumstances is like

tightrope walk. During the planning period prior to liberalisation, the RBI used higher CRR and SLR rates to control inflation.

(b) After 1992, the demand of the day was development and investment and the development sector was expanding and was and in need of money.

(c) Indian corporations had to compete with companies, which were getting money at 4% to 5% interest rates. Then the RBI had to reduce CRR and SLR to reduce interest rates and to make available money for investment purposes.

4.6 Fiscal Policy

It is through fiscal policy that the government tries to correct inequalities of income and wealth, which increase with the development of a country. Such inequalities expand internal market, reduce unessential imports, counteract inflationary pressure, provide incentives for desirable types

of development projects, and increase the total volume of savings and investment. For all this, the government adopts appropriate taxation, budgetary expenditure and public borrowings policies.

Fiscal policy is the projected balance sheet of the country, prepared by the chief finance officer of the country i.e. the finance minister of the State. Public finance is the study of generating resources for the development of the country and about the allocation of those resources. Fiscal policy is implemented through the budget, which is a statement of the State's revenue and expenditure.

There are three major functions of a fiscal policy: The first is the function of allocation in the budget policy to make provisions for social goods. It is a process by which the total resources are divided between private and social goods and by which the mix of social goods is chosen.

The second is the distribution function of budget policy. This includes distribution of income and wealth in accordance with what the society considers a 'fair' or 'just' distribution. The third is the stabilisation function of a budget policy, that is marinating high employment, a reasonable degree of price stability, an appropriate rate of economic growth, with due considerations of its effects on trade and the balance of payment.

The budget includes revenue and expenditure. The two are divided into capital and revenue accounts. Thus, receipts are broken into revenue receipts and capital receipts, and disbursements are broken up into revenue expenditure and capital expenditure.

Revenue Budget

Revenue Receipts: This includes tax revenue and other revenues:

(a) Tax revenue: These comprise of taxes and other duties levied by the Union government.

(b) Other revenue: These receipts of the government mainly consist of interest and dividends on investment made by the government, fees and receipts for other services rendered by the government.

Revenue Expenditure: This includes expenditure for normal running of government departments and various services interest charges on debt incurred by the government, subsidies, etc. Expenditure which does not result in the creation of assets is treated as revenue expenditure.

Capital Budgets

Capital Receipts: This includes loans raised by the government from the public called market loans, borrowings by the government from RBI and other parties through sale of treasury bills, loans received from foreign bodies and governments, and recoveries of loans granted by the union government to states and union territory governments and other parties.

Capital Payments: These payments consist of capital expenditure on acquisition of assets like land, buildings, machinery, equipment, infrastructure, as also investment in shares, etc. and loans and advances granted by the union government to state and union territory government companies, corporations and other parties.

Expenditures of Central Government

All public expenditure is classified into:

Non-planned Expenditure: Non-plan expenditure of the central government is divided into revenue expenditure and capital expenditure. Revenue expenditure includes: interest payment, defence revenue expenditure, major subsidies (export, food and fertilizer), interest and other subsidies, debt relief to farmers, postal deficit, police, pension and other general services, social service, economic service (agriculture, industry, power, transport, communications, science and technology, etc.) and grants to states and union territories, and to foreign governments. Capital non-plan expenditure includes such items such as defence capital expenditure, loans to public enterprises, loans to states and union territories and loans to foreign governments.

Planned Expenditure: Plan expenditure is meant to finance central plans drawn up for agriculture, rural development, irrigation and flood control, and industries like energy, minerals, transport, communications, science and technology, environment, social services and others. Plan expenditure also includes central assistance for plans of states and union territories.

Budgets of State Government

In India, each State Government prepares its own budget of income and expenditure every year. State Governments collect revenue from different sources to meet their expenditure.

The important sources of revenue for states are VAT (earlier sales tax), grants, aid and other contributions from the centre, the states own non-tax revenue consisting of interest receipts, dividends, profits, general services (of which state lotteries are the most important), social services and economic services.

Besides this, the state also collects taxes on income and commodities and imposes income tax on agriculture and other professions. It also receives income from taxes on property and capital transactions. The main sources are land revenue, stamps, and registration, and tax on urban and immovable property.

States also charge commodity taxes like motor vehicle tax, electricity duties, etc. The state is also empowered to impose taxes on alcoholic liquor, opium, Indian hemp, and other narcotics.

Financial Power of Central and State Governments

The constitution of India divides the functions and financial powers of the government between the Central and the State together with the concurrent areas. It also provides for sharing of taxes in various forms and the system of grants- in-aids. The Seventh Schedule of the Constitution of India divides the functions and financial resources between the Centre and States. It contains three lists namely, List I or Union List, List II or State List, and List III or Concurrent List.

List I: Union List. This comprises the following items:

Tax Revenue

The Union List contains of 97 items contains the following sources of tax revenues for the Central Government:

1. Taxes on income other than agricultural income.
2. Duties on customs including exports duties.
3. Duties of excise on tobacco and other goods manufactured or produced in India except (a) alcoholic liquors for human consumption and (b) opium, Indian hemp and other narcotic drugs and narcotics, but including medicinal and toilet preparations containing alcohol or any substance included this paragraph (entry 84).
4. Corporation Tax.
5. Taxes on the capital value of assets exclusively of agricultural land of individuals and companies, and taxes on the capital of companies.
6. Estate duty in respect of succession to property other than agricultural land.
7. Duties in respect of succession to property other than agricultural land.
8. Terminal taxes on goods or passengers carried by railways, sea, or air taxes on railways fares and freights.
9. Taxes on the sale stamp duties on transactions in stock exchanges and future markets.
10. Rates on stamp duty in respect of bills of exchange, cheque, promissory notes, bills of lading, letters of credit, policies of insurance, transfer of shares, debentures, proxies and receipts.
11. Taxes on sale or purchase of newspapers and on advertisements published therein.
12. Taxes on sale or purchase of goods other than newspaper where such sale or purchase takes place in the course of inter-state trade or commerce.
13. Taxes on inter-state consignments of goods for trade or commerce.
14. Fees in respect of any of the matters in the list but not including fees taken in any court.
15. Fees taken in the Supreme Court.

Non-tax Revenue

Non-tax revenue includes borrowings (both internal and external), income from various government undertakings and monopolies, income from government property, etc.

List

II: State List. Some of the financial resources as mentioned in constitution are:

Tax Revenue

1. Land Revenue.
2. Taxes on agricultural income.
3. Taxes on land and buildings.
4. Duties of excise on the following goods manufactured or produced in the state and countervailing duties at the same or lower rates on similar goods manufactured or produced elsewhere in India: (a) alcoholic liquors for human consumption (b) opium, Indian hemp and other narcotic drugs and narcotics, but not including medicinal and toilet preparations containing alcohol or any substances included in this sub-paragraph (entry 51).
5. Taxes on the entry of goods into all local areas of consumption.
6. Taxes on electricity.
7. Taxes on sale and purchase of goods other than newspapers, excluding inter-state sale.
8. Taxes on advertisements other than those published in newspapers.
9. Taxes on vehicles for use on roads.
10. Tolls
11. Taxes on professions, trades, callings and employment.
12. Capitation Taxes.
13. Taxes on luxuries including taxes on entertainment, amusements, betting and gambling.
14. Fees in respect of any the matters in the State List but excluding court fees.
15. Share in some specified Union Taxes.

Non-tax Revenue

1. The State Government can borrow on the security of their respective consolidated funds, but only within the country, including loans from the Government of India.
2. Income from government undertakings owned fully or partly by State Governments.
3. Income from public property owned by the State Government.
4. Grants-in-aid from the Central Government.
5. Other grants for the Central Government.

Fiscal Policy and Economic Growth

Fiscal policy is a potent tool in the hands of the government for regulating economic growth. Deficit financing is an effective tool in the hands of the government to increase effective demand in recession. To fill the deficit the government borrows from the RBI, the market and even creates additional currency to increase the disposable income of people. This results in a conducive environment for investment.

The market mechanism of an underdeveloped economy is not likely to be able to generate enough savings and investment needed for rapid economic growth. Fiscal policy plays a leading role in affecting savings for the economy. The budget plays a direct role in capital accumulation and economic growth in an underdeveloped country. Saving potential in an underdeveloped economy is limited partly because of shortage of several specific resources, lack of adequate demand and high cost of production. This vicious circle can be broken by the government with the help of saving-oriented budgets.

Through its fiscal policy, the government can also encourage growth of certain particular industries in particular areas.

For this, industries are provided with specific tax concessions and subsidies such as tax holidays, higher depreciation allowances, etc., designed and incorporated in the budgetary policy.

Further, the role of fiscal policy in economic growth can be understood through the impact of Public Debt, Deficit Financing, and Taxes.

Role of Taxes in Economic Growth

Taxation is an effective budgetary tool to influence the level of savings and investment in the country. Abolition and reduction of various taxes pushes the profits up and reduces the cost of production and prices. Lower prices are expected to increase demand production and employment, which in turn add to effective demand, and so on. Similar steps can be taken in the case of custom

duties. Raising import duties diverts the domestic demand from imports to domestically produced goods. Reducing or abolishing export duties or providing export subsidies increases the demand for export and contributes towards recovery from depression.

It is more helpful to lower tax rates on those goods which have a higher elastic demand. Demand will be high if persons with a higher marginal propensity to consume are provided a relief in direct taxation. In he same manner, investment may be encouraged by specific tax concessions like tax holidays and greater depreciation allowance.

Taxes are also considered effective to control inflation. This happens in two ways: the first as in-built stabilizers and the second relates to the common belief that taxes can be used to curb prices and demand.

Public Debt in India

Public debt in the Indian context refers to the borrowings of the Central and State Governments. Gross public debt is the gross financial liability of the government. Net public debt is the gross debt minus the value of capital assets of the government and loans and advances given by the government to other sectors. Debt obligation can be of many types:

- Short term debts are those where maturity is less than one year at the time of issue and consists of items like the treasury bills.
- Some obligations may not have specific maturity but may be repayable subject to various terms and conditions. They are called Floating Debt like provident funds, small savings, reserve funds and deposits.
- Permanent funded debts are loans having a maturity of more than one year at the time of issue. Usually, their maturity is between three and thirty years. Some of them may even be non-terminable so that the government is only to pay the interest on such debt without ever repaying the principle amount.
- Obligations owed to foreigners – government institutions, firms and individuals are called external loans.

Debt obligations of the Central Government are broadly divided into two categories:

- **Internal debt:** This includes loans raised within the country, like: (a) Current market loans, (b) others, comprising balance of expired loans, compensation and other bonds such as National Rural Development Bonds and Capital Investment Bonds (c) Special Bearer

  Bonds (d) Treasury Bills (e) Special floating and other loans (f) Special securities issued to the RBI (g) Small savings (h) Provident funds (i) other accounts (j) reserve funds and deposits.
- **External Debt:** External debt is raised in foreign currency and a substantial part of it is also repayable in foreign currency. External debt represents loans raised by a country from outside sources and includes debt raised by the government and by non-government sources such as NRI deposits, commercial borrowings from abroad, suppliers' credit and short-term borrowings, etc.

Public debt plays an important role in the economy. Public debt contributes to the saving efforts in the economy. LDCs are usually short of capital resources. As the saving capacity of the masses is very low, appropriate measures have to be taken to step up rates of saving and investment in the economy. The net effect of the borrowings also depends upon the sources from which they come:

- If the government reduces it's the borrowings from the market, and the public reduces its own consumption and lends its savings to the government, the result will be a net increase in the rate of savings. But if loans are given to the government by diverting savings from private investment, then there will be no net increase in savings and investment activity. But even after that, public loans can help economic growth by reallocation of resources.
- If money is borrowed from the central bank it results in an addition to aggregate money supply in the country. This results in increment in demand and an upward pressure on prices.

Deficit Financing

Deficit Financing can be defined as "the financing of deliberately created gap between public revenue and public expenditure or a budgetary deficit, the method of financing resorted to being borrowing of a type that results in a net addition to national outlay or aggregate expenditure." Therefore, we can say it is deliberate unbalancing of the budget in such a way that government

expenditure exceeds government revenue. In India, great reliance has been placed on deficit financing for mobilising resources for the plans. Deficit financing has been explained in different ways:

Revenue Deficit: Revenue Deficit = Revenue Expenditure – Revenue Receipts. Budget Deficit: **Budget Deficit** = Total Expenditure – Total Receipts.

Total expenditure includes revenue expenditure and capital expenditure and total receipts include revenue receipts and capital receipts. This excess of total expenditure over total revenue is called budget deficit. It is also defined as the fiscal deficit minus government borrowing and other liabilities (public debt receipts). This is somewhat close to the concept of monetised deficit, which means the printing of new money by the Reserve Bank of India to part-finance the deficit.

But this conventional definition of deficit has lost relevance as it does not meet international practice. So this concept of Budget Deficit has been given up by the government in 1997-98. Now we follow the concept of Fiscal Deficit.

Fiscal Deficit: In simple terms, fiscal deficit is budgetary deficit plus market borrowings and other liabilities of the Government of India. It also refers to difference between the total expenditure and the government's total non-debt receipts.

Fiscal Deficit = Revenue Receipts (Net tax revenue + Non-tax Revenue)
+ Capital Receipts (only recoveries of loans and other receipts)
– Total Expenditure (Plan and non-plan) OR
= Budget Deficit + Government's market borrowing and liabilities.

Primary Deficit: Primary deficit is obtained by subtracting interest payment (a component of non Plan expenditure) from fiscal deficit. Therefore, the primary deficit is the deficit of the current year and it is accordingly triggered by an expansionary fiscal policy during the year.

The Government of India adopted deficit financing to obtain necessary resources for development but this may beget many problems as it increases the public debt, which increases the interest burden of the government.

The most serious disadvantage of deficit financing is inflationary rise of prices. Deficit financing increases the total supply of money in the country and raises the aggregate demand of goods and services. In the absence of corresponding increase in supply of goods and services, deficit financing leads to a rise in the level of prices. Inflation works as a forced saving or indirect taxation on people. Because of increased prices they have to pay extra to maintain the same standard of living.

One way for a government to finance a budget deficit is simply to print money – a policy that leads to higher inflation. Some economists have suggested that a high level of debt might also encourage the government to create inflation. Because most government debt is specified in nominal terms, the real value of debt falls when the price level rises.

This is the usual redistribution between creditors and debtors caused by unexpected inflation. Here, the debtor is the government and the creditor is the private sector. But this debtor, unlike others, has access to the monetary printing press. A high level of debt might encourage the government to print money, thereby raising the price level and reducing the real value of its debts.

Impact of Fiscal Policy on Business

If there is any single document that has maximum impact on business, it is the Budget. Each year's Budget brings opportunities and threats for business. Every budget improves the bottom line of some businesses, while some businesses go into the red. The recent budget, for instance, compelled organisations to work on their Compensation plan because of the Fringe Benefit Tax (FBT). Similarly, the budget of year 2005 gave a big impetus to mutual funds, and in turn to the stock market, by allowing tax rebate on investment in mutual funds. The introduction of VAT also has a big impact on the business.

In early 1990s, the electronic industry was in great pressure as market growth rate was very low. Understanding this, the then Finance Minister Dr. Manmohan Singh reduced the excise on electronics, especially CTVs, which resulted in decrease in prices and rise in sales.

Not only this, over the years, the government has reduced taxes which has increased the disposable household income. This increased demand and gave birth to the great Indian Middle Class, resulting in a spurt in the sale of white goods and readymade garments.

Taxes on intermediary goods, corporate tax and dividend tax have an obvious impact on business. One of the reasons that gave rise to the Indian consumer industry is the relaxation in fiscal policy.

The last few budgets have reduced savings rate and have given a free hand to banks to distribute consumer loans to consumers.

A smart business person always keeps an eye on the fiscal policy to reap the maximum advantage from opportunities and to minimize the prospective losses because of threats in the budget. Like the budget of 2005-06 allows one to invest in mutual funds to avoid tax; it is now up to mutual funds to reap the maximum benefit from this. The budget creates an atmosphere for investment.

India at the Time of Global Crisis

his morning, I had a meeting with the chiefs of major banks where we announced the monetary policy of the Reserve Bank for the remaining period of 2009-10 in the light of the macroeconomic developments so far. The meeting also provided a valuable opportunity for the Reserve Bank and the commercial banks to understand and appreciate each other's perspectives.

Bankers generally welcomed the Reserve Bank's policy stance. They felt that the status quo on policy rates would anchor interest rate expectations that could spur investment demand. They indicated that they are seeing signs of revival in the domestic economy and expect credit demand to pick up in the second half of the year. In this context, I emphasised the need to increase the flow of credit, particularly to agriculture and micro, small and medium enterprises. Banks were concerned that their liability structure is getting shorter with the reduction in the term structure of deposits, while the asset structure is getting elongated on account of the increasing share of long-term loans, particularly infrastructure. Several banks also indicated that the share of current and savings (CASA) deposits has been declining, which would put pressure on their Net Interest Margins (NIM). As regards credit quality, banks were of the view that Non-performing Assets (NPAs) are expected to increase, particularly, in the unsecured segments, although they will remain manageable. Going forward, public sector banks emphasised the need for raising capital as risk-weighted assets expand in their asset portfolio.

Global Economy

The global economy is showing incipient signs of stabilisation, albeit not recovery. The pace of decline in economic activity in several major advanced economies has slowed, frozen credit markets have thawed and equity markets have begun to recover. Recent months have also witnessed industrial activity reviving in a number of emerging market economies. Notwithstanding some positive signs, the path and the time horizon for global recovery remain uncertain in the light of subdued consumption demand, increased unemployment levels and in anticipation of further contraction in global trade and private

capital flows. Business and consumer confidence are yet to show definitive signs of revival but the financial sector appears to be stabilising in response to concerted actions taken by governments and central banks across the world, economic recession in the real sector persists. According to the latest assessment by the International Monetary Fund (IMF), the global economy is projected to shrink by 1.4 per cent in 2009 before recovering and expanding by 2.5 per cent in 2010. The IMF, however, upgraded the growth outlook for developing Asia citing improved prospects in China and India.

The Crisis and India

The Indian economy experienced a significant slowdown in 2008-09, in comparison with the robust growth performance in the preceding five years, largely due to the knock-on effect of the global financial crisis. India's exports contracted during eight straight months which, in turn, impacted the industrial sector and the services sector. The financial sector, however, remained relatively unaffected despite the severe stress created by the global deleveraging process, which triggered capital outflows in the second half of 2008-09.

Quick and aggressive policy responses both by the Government and the Reserve Bank mitigated the impact of the global financial crisis. The large domestic demand bolstered by the government consumption, provision of forex and rupee liquidity coupled with sharp cuts in policy rates, a sound banking sector and well-functioning financial markets helped cushion the economy from the worst impact of the crisis. There are now progressive signs of recovery in India: food stocks have increased; industrial production has turned positive; corporate performance has improved; business confidence surveys are optimistic; leading indicators show an upturn; interest rates have declined; credit off-take has picked up after May 2009; stock prices have rebounded; the primary capital market has witnessed some activity; and external financing conditions have improved. On the other hand, there are

some negative signs: delayed and deficient monsoon; food price inflation; rebound in global commodity prices; continuing weak external demand; and high fiscal deficit.

Questions

Comment on India's performance in the time of slowdown.

Compare the present performance with the performance of past few years.

Summary

- Monetary policy is about supply of the currency in the country, regulated by the RBI. Though the RBI does it in the light of the fiscal policy and macro objectives of the government, it is in this sense that fiscal policy and monetary policy are complementary.
- There are various factors affecting money supply in India. Some of them are as follows: net bank credit to the bank, bank credit to the commercial sector, net foreign exchange assets

  of the banking sector, government currency liabilities to the public, non-monetary liabilities of the banking sector.
- There is a direct relationship between supply of money and inflation. As the supply of money increases, it value goes down and inflation increases. Supply of money has also an impact on the interest rate and level of investment.
- It is the RBI, which regulates the supply of money in India. It performs various functions as Issue of Currency, Banker to Government role, Banker's Bank, Controller of Credit Exchange , Management and Control, Supervisory Function and Promoter of the Financial System.
- The RBI has various tools, which can be used to control the supply of the money in the economy. Some of them are Open Market Operations, The Bank Rate, Direct Regulation of Interest Rates, Cash Reserve Ratio, Statutory Liquidity Ratio, Direct Credit Allocation and Credit Rationing. Besides these, there are some other such as Cash Authorisation Scheme, Fixation of Inventory Norm and Credit Norms, Liquidity Adjustment Facility (LAF), Moral Suasion and REPOs.
- According to the RBI Act, 1935, every commercial bank has to keep certain minimum cash reserve with the RBI. Initially, it was 5% against demand deposit and 2% against time deposits.
- It is through fiscal policy that the government tries to correct inequalities of income and wealth, which increase with the development of a country.
- Fiscal policy is the projected balance sheet of the country, prepared by the Chief Finance Officer of the country i.e. the Finance Minister of the State. Public finance is the study of generating resources for the development of the country and about the allocation of those resources.
- The budget includes revenue and expenditure. The two are divided into capital and revenue accounts. Thus, receipts are broken into revenue receipts and capital receipts, and disbursements are broken up into revenue expenditure and capital expenditure.
- In India, each State Government prepares its own budget of income and expenditure every year. State Governments collect revenue from different sources to meet their expenditure.
- The Constitution of India divides the functions and financial powers of the government between the Central and the State together with the concurrent areas. It also provides for sharing of taxes in various forms and the system of grants-in-aids.
- Deficit financing is an effective tool in the hands of the government to increase effective demand in recession. To fill the deficit the government borrows from the RBI, the market and even creates additional currency to increase the disposable income of people.
- Indian economy was affected by scarcity. To safeguard the domestic industry and to restrict the export of essential goods, international trade was regulated.

Keywords

- Bank Rate: The bank rate, which is also known as discount rate, is the rate at which the central bank discounts advances to the commercial banks.
- Cash Reserve Ratio: The CRR refers to the cash that banks have to maintain with the RBI as a certain percentage of their demand and time liabilities.

- Liquidity Adjustment Facility (LAF): In LAF the amount of REPO and reverse REPO are changed on a daily basis to manage liquidity.
- Monetary Aggregates: These are two basic measures of money globally.
- Open Market Operations: The open market operation involves the sale and purchase of government securities by the RBI.
- REPOs: A REPO is purchase of one loan against the sale of another.
- Selective Credit Control: Selective and qualitative credit control refers to regulations of credit for specific purposes or branches of economic activity.
- BOP: Balance of Payments
- Budget Deficit: Total Expenditure - Total Receipts
- Capital Payments: Loans raised by the government from the public, RBI and other bodies
- Capital Receipts: Payments for, acquisition of assets and loans and advances
- Deficit Financing: Financing of deliberately created gap between public revenue and public expenditure
- Fiscal Deficit: Budgetary deficit plus market borrowings and other liabilities of the Government of India
- Indirect Taxes: Tax that is levied on goods or services rather than on persons or organizations Internal Debt: Loans raised within the country
  Primary Deficit: Fiscal Deficit – Interest Payments
  REPO: Purchase of one loan against the sale of another
- Revenue Deficit: Revenue Expenditure – Revenue Receipts Revenue Expenditure: Does not result in the creation of assets.

Self-Assessment

1. .... is about expansion and contraction of money and the central bank is the implementing body of the monetary policy
2. .... equals to M2 + Term Deposits of residents with a contractual maturity of over one year with the Banking System + Call/Term borrowings from 'Non-depository' Financial Corporations by the Banking System.
3. .... of the RBI and other banks are deducted before we calculate the stock of money
4. .... of money is a sensitive issue as even a slight imbalance can create havoc in the form of deflation or hyperinflation in the country.
5. There is a .... relationship between the supply of money and inflation.
6. .... acts as the banker to the central government as also to the governments of the constituent units of India's federal system.
7. The keynote of .... can be said to be controlled expansion of bank credit and money supply, with special attention to seasonal requirement for credit.
8. The bank rate is also known as ....
9. The .... refers to the cash which banks have to maintain with the RBI as a certain percentage of their demand and time liabilities.
10. A .... liquidity ratio diverts banks from loans and advances to investment in government and other approved securities.
11. Economics and politics are closely related in the sense that economic theories are based on politics of the economy.
12. The inflation rate will escalate even with a slight change in the monetary policy of the government.
13. New aggregate NM3 is also known as narrow aggregate of money.
14. Supply of money in the economy can be regulated by any nationalized bank.
15. Bank rate is the rate at which RBI lends money to other banks.

Review Questions

1. What is Monetary Policy? Discuss the factors which influence the supply of money in the country.
2. Discuss how Monetary Policy influences inflation.

3. Discuss the relation between inflation and interest rates.
4. "Monetary Policy and Fiscal Policy are complementary." Discuss the statement.
5. Describe, in brief, the function of Reserve Bank of India.
6. Discuss how the RBI regulates the supply of money in the country.
7. Analyse open market operations and selective credit control as measures to control money supply in the economy.
8. "Supply of money is a sensitive issue as even a slight imbalance can create havoc". Elaborate.
9. "It is through fiscal policy that the government tries to correct inequalities of income and wealth". Discuss.
10. How does the budget of Central Governments differ from the budgets of the State Governments?
11. "Taxes are considered effective to control inflation". Justify the statement.
12. What is the difference between public debt and deficit? Explain giving examples.
13. "A smart business person always keeps an eye on the fiscal policy". Substantiate.
14. Suppose RBI over does the expansionary drive to achieve fast economic development. What will happen in such a situation?

Answers: Self-Assessment

1.	Monetary Policy	2.	$M_3(NM_3)$	3.	Non-monetary liabilities	4.	Supply	5.	Direct
6.	The Reserve Bank of India	7.	Monetary Policy	8.	Discount Rate	9.	CRR	10.	Higher
11.	False	12.	True	13.	False	14.	False	15.	True

Further Reading

Pandey GN, Environment Management,
Paul Justin, Business Environment: Text and Cases, Tata McGraw Hill, NewDelhi
Saleem Sheikh, Business Environment, Pearson Education, New Delhi
Vivek Mittal, Business Environment, Excel Books, New Delhi
Bedi Suresh, Business Environment, Excel Books, 2006
Mishra, Puri, Economic Environment of Business, Himalaya Publications House
Mittal Vivek, Business Environment, Excel Books, 2007

exim.indiamart.com/foreign-trade-policy

finance.indiamart.com/...in_india/monetary_policy.html

indiabudget.nic.in/ub200506/frbm/frbm3

rbi.org.in

repositories.cdlib.org/ucscecon/555
www.infodriveindia.com/Exim/DGFT/...Policy/.../Default.aspx

www.nipfp.org.in/nipfp-dea.../PDF/PS2007_sl_03_monetary

Unit 05: Socio-Cultural Environment

CONTENTS

Objectives
Introduction
5.1 Layers of Culture
5.2 Description of Culture
5.3 How Culture Affects Business - A Cultural Discussion about Successful Business Behavior
5.4 Components of Culture
5.5 Human Development Index
5.6 Rural Development
Summary
Keywords
Self-Assessment
Review Questions
Answers: Self-Assessment
Further Readings

Objectives

After studying this unit, you will be able to:

- Discuss the culture and its impact on business
- Analyse the components of culture and their relevance
- Assess the need for Human Development and Rural Development

Introduction

Culture refers to the cumulative deposit of knowledge, experience, beliefs, values, attitudes, meanings, hierarchies, religion, notions of time, roles, spatial relations, concepts of the universe, and material objects and possessions acquired by a group of people in the course of generations through individual and group striving.

5.1 Layers of Culture

People even within the same culture carry several layers of mental programming within themselves. Different layers of culture exist at the following levels:

- The national level: Associated with the nation as a whole.
- The regional level: Associated with ethnic, linguistic, or religious differences that exist within a nation.
- The gender level: Associated with gender differences (female vs. male)
- The generation level: Associated with the differences between grandparents and parents, parents and children.
- The social class level: Associated with educational opportunities and differences in occupation.

- The corporate level: Associated with the particular culture of an organization. Applicable to those who are employed.

Cultureis an umbrella term which encompasses the social behavior and norms found in human societies, as well as the knowledge, beliefs, arts, laws, customs, capabilities, and habits of the individuals in these groups.

Humans acquire culture through the learning processes of enculturation and socialization, which is shown by the diversity of cultures across societies.

A cultural norm codifies acceptable conduct in society; it serves as a guideline for behavior, dress, language, and demeanor in a situation, which serves as a template for expectations in a social group. Accepting only a monoculture in a social group can bear risks, just as a single species can wither in the face of environmental change, for lack of functional responses to the change.Thus in military culture, valor is counted a typical behavior for an individual and duty, honor, and loyalty to the social group are counted as virtues or functional responses in the continuum of conflict. In the practice of religion, analogous attributes can be identified in a social group.

5.2 Description of Culture

Culture is considered a central concept in anthropology, encompassing the range of phenomena that are transmitted through social learning in human societies. Cultural universals are found in all human societies. These include expressive forms like art, music, dance, ritual, religion, and technologies like tool usage, cooking, shelter, and clothing. The concept of material culture covers the physical expressions of culture, such as technology, architecture and art, whereas the immaterial aspects of culture such as principles of social organization (including practices of political organization and social institutions), mythology, philosophy, literature (both written and oral), and science comprise the intangible cultural heritage of a society.

In the humanities, one sense of culture as an attribute of the individual has been the degree to which they have cultivated a particular level of sophistication in the arts, sciences, education, or manners. The level of cultural sophistication has also sometimes been used to distinguish civilizations from less complex societies. Such hierarchical perspectives on culture are also found in class-based distinctions between a high culture of the social elite and a low culture, popular culture, or folk culture of the lower classes, distinguished by the stratified access to cultural capital. In common parlance, culture is often used to refer specifically to the symbolic markers used by ethnic groups to distinguish themselves visibly from each other such as body modification, clothing or jewelry. Mass culture refers to the mass-produced and mass mediated forms of consumer culture that emerged in the 20th century. Some schools of philosophy, such as Marxism and critical theory, have argued that culture is often used politically as a tool of the elites to manipulate the proletariat and create a false consciousness. Such perspectives are common in the discipline of cultural studies. In the wider social sciences, the theoretical perspective of cultural materialism holds that human symbolic culture arises from the material conditions of human life, as humans create the conditions for physical survival, and that the basis of culture is found in evolved biological dispositions.

When used as a count noun, a "culture" is the set of customs, traditions, and values of a society or community, such as an ethnic group or nation. Culture is the set of knowledge acquired over time. In this sense, multiculturalism values the peaceful coexistence and mutual respect between different cultures inhabiting the same planet. Sometimes "culture" is also used to describe specific practices within a subgroup of a society, a subculture (e.g. "bro culture"), or a counterculture. Within cultural anthropology, the ideology and analytical stance of cultural relativism hold that cultures cannot easily be objectively ranked or evaluated because any evaluation is necessarily situated within the value system of a given culture.

5.3 How Culture Affects Business - A Cultural Discussion about Successful Business Behavior

No one can dispute that culture affects how we think and how we act as individuals. It affects our relationships. So, understanding the importance of culture, one can see that it definitely has implications for business.

Culture affects how we think and how we act as individuals on our job.

Culture affects our relationships with any of our business associates.

And with the globalization of business through the ease of communication and travel, understanding culture is increasingly important in today's world. You probably have heard the expression that "… when in Rome, do like the Romans do."

We need to minimize the possibility of cross-cultural misunderstandings so we can benefit from our differences. This will result in happier work environments and better business relationships. Who knows, it may even lead to more tangible goals for the company like higher sales or increased profits.

So how do you go about understanding other cultures?

This may sound quite basic but you need to look at your own culture first. There are many areas that may affect how you relate to others. You may not have considered some of these aspects before. But if you step back a little and think, you will see that each area is impacted by your own culture. Let's look at some significant areas:

- Age/Gender/Ethnicity and Religion
- Body language and communication style
- Personal appearance/dress
- Eating and drinking traditions/etiquette
- Entertaining and socializing/gift giving
- Holidays
- Language
- Cultural assumptions/ethics/political correctness
- Business organization/management style and leadership/business relationships
- Work expectations/time management

When you work in an environment that involves others from various cultures, you need to be aware of your own culture in terms of each of these areas. This will help you to realize that other cultures may have distinct differences in one or more of these areas. When you work with individuals from another culture, you need to be aware of their culture(s). This will allow you to be more sensitive to other cultures. This mindset will help you to appreciate other cultures and to view things (i.e. the situation or problem, etc.) from a broader perspective and not just from your viewpoint.

Age/Gender/Ethnicity and Religion

Age

For example, in some cultures people who are older are treated with extreme reverence. In business, they may be asked their opinion first. They will be served first during business luncheons. They may be the leader and everyone else may need to follow their command or wishes. They may be placed on a Board of Directors or have a position in the company even though they may have formally retired. They might be given a specific place to sit at meetings. You might need to address them a certain way. However, in other countries, this is not the case. Age might seem more like a handicap to progress. Older people may not be valued for their former contributions or for their wisdom. They might be asked to step down from a position or company and be replaced with someone who is younger, and even less experienced. If they are looking for a new job, their age might be a deterrent to getting hired. They may not be included in decision-making.

Gender

In some countries, women are given equal status as men and there is no "glass ceiling" so to speak. Women are seen to be able to accomplish anything equally as men. In other countries, women are still fighting for their rights in the workplace and for equal opportunities in education and other areas of society.

Race and Religion

In some countries, there are laws that state a company can't "…discriminate against any race or religion". Alternatively, this might not be the case throughout the world. You need to be sensitive

about how other countries relate to people of other races and religions. It is not that you tolerate discrimination but that you understand the reasons behind different viewpoints and that you don't push your viewpoint on others so they feel alienated and uncomfortable.

Understanding the specific differences among the cultures you work with will help you better relate to those individuals representing those businesses. Likewise, all of the other categories listed above will also play a role in how you relate to others of different cultures. Somehow, you need to allow differences to exist in the working relationship so you validate everyone. This is no small task, but one that is very rewarding.

Body language and communication style

Some research estimates that up to 90% of a message comes from body language. Your facial expressions and gestures help convey the message. They reveal what your feelings and moods are toward the situation.

There are some gestures that are similar across cultures like a smile to mean happiness or an expression of anger to mean that you are upset.

But there are cultural differences regarding eye contact. For example, if you don't look an American businessman in the eye when you speak, it might mean that you are trying to hide something and that you are being dishonest. However, if you look at someone in public too long so your glance becomes a stare - whether on a bus, walking on the street, in a restaurant, etc. - then this is not acceptable behavior either.

Physical contact like "touching" is viewed differently in other countries, as well. In much of the Middle East, Africa, and Latin America it is common to have a conversation between members of the same gender and have frequent contact. There might be a pat on the back, an arm around the shoulder, or touch on the upper arm. However, individuals who are from cultures that are more reserved might find this situation uncomfortable.

The important lesson to learn from this is that we should not interpret what we see through our own cultural view and standards. A suggestion would be that when you are visiting, working or living in a country that you spend some time observing people. Watch how they meet and greet each other. Look at their faces and see how expressive they are when they speak. Observe their gestures. Learn to listen. Sharpen your listening skills.

There are also some global business standards when it comes to communication. Small topics about the weather, sports, art and cultural history are usually appropriate to discuss. However, if a country has a particular sports defeat or if the historical discussion becomes political, be sensitive to the conversation. It is generally advised that you not swear in your own language or any other language. It may be hard to use humor in your conversation as others may not laugh at the same things as you. So again be sensitive to this. Don't comment negatively about anything from someone else's culture. This includes such topics as religion, politics, or sexual matters.

Another form of communication that differs greatly among cultures is the use of business cards. Usually business cards include the company name and website address, your name with appropriate gender title – Mr. Mrs. Ms. Dr., job title, address and e-mail, and phone and fax numbers with area codes. If you have business cards in dual languages, you should pass them out with the appropriate language on top. It is also an appropriate gesture to look at the card before putting it away. You should not write on the card, bend it, or leave it behind. You would not want to hurt someone's feelings. You should remember that in some cultures, that a person's title is just important as the person's name. It is important to know how to address them.

Other aspect of communication is "meeting and greeting". These situations are very different in other countries. But nearly in all countries are a special set of phrases with the exchange of names and some sort of symbolic physical gesture like the handshake or a bow. Again, it would be helpful to observe how others are greeted when meeting for the first time. Americans are used to introducing themselves first, asking a few questions, and generating a conversation. This may seem quite different for your culture, but it is perfectly acceptable.

Personal appearance/dress

Clothing choice is influenced by a lot of forces besides fashion. What we wear is also influenced by the wiser world of big business, politics and religion. Today, more than ever, it is difficult to distinguish between formal and leisure clothes. Whereas, three-piece suits and dresses with nylon hose was the norm for several decades in the American business society, corporate casual is gaining

more acceptance. It would be helpful to you to observe how others dress and to also look at a company handbook that outlines the appropriate clothing for their employees. However, you should also be aware that in many cultures, the working population may prefer to keep their work attire separate from their leisure/home attire. Even though in most cultures, people have an understanding to "…not judge someone by their physical appearance", it would be wise for you to be knowledgeable about local standards. Select your clothing carefully when meeting someone for the first time in a different country. Try to be practical, respectable, and in good taste.

In addition to a sensible choice in dress, your clothing should be neat and clean. You should be well-groomed. Global standards recognize a suit and button-down shirt for men with an optional tie. For women, dress pants, a skirt or dress are acceptable. Knee-length or longer skirt/dress and a modest blouse are a good choice. However, be aware that dress pants for women may not be the acceptable dress everywhere. Shorts and jeans are probably not acceptable. Again, observe how others dress to give you a better idea of what is the status quo.

Eating and drinking traditions/etiquette

How and what you eat and drink with your family and friends may be different from what is acceptable while eating and drinking as a business person. Again, the best advice is to observe others. For example, at a dinner in South Korea or Japan, you would fill other's glasses, but not your own. And in England, you would eat your scone after your sandwich but before your cake. Even the gesture of ordering and serving fast food over a sit down dinner may be viewed by some cultures as not taking the time to value a relationship. Furthermore, you might not like some of the dishes offered. There may be religious taboos. There may be many other reasons. However, if you are going to sample the food and you think it just might not appeal to your taste buds, then you might consider cutting it up into a small piece and at least tasting it.

Table manners also differ. Again, watch the natives and try to imitate what they do. If you just don't understand something, ask politely (i.e. which hand should I cut the meat with, or how to I eat such and such, etc.)

In the case of social drinking with business associates, and if a drink is offered, then it is probably acceptable to have a drink. Be aware that probably no one likes individuals who are loud, aggressive, and offensive. In some cultures, women may be judged differently if they have more to drink. It may also be inappropriate for women to offer a toast. Be sensitive to various religions that forbid alcohol.

You should also ensure that you have "good manners" at all times. Some mannerisms don't really matter to foreigners and it is the effort that counts. However, it is always best to be considerate. Watch the volume of your voice. Watch what you say. Don't criticize someone's culture or country. Also it is important that you try to learn something about the person's culture, country, and business. You should not appear to be ignorant about some basics concerning these areas. Also, it is important not to be self-centered and arrogant. It is never a good reflection on you if you insist your country, culture, or business is superior to others.

It is also important that you either explain or apologize if you "break a rule". Genuinely thank people for their hospitality. It might be helpful and considerate of you to learn a little of the language. It is also important to reciprocate if you can with compliments, favors, hospitality, etc. Be gracious. Say "thank you" as if you mean it even though something might not be in your taste.

5.4 Components of Culture

Components of Cultureare simply parts (ingredients, items, pieces, features) that make up a culture. These components look different in each culture.

There are different ways to break down the components of culture - below is one way.

1. Survival

a. food - edible source of energy

b. clothing - protective covering for the body

c. defense - tools and strategies used to protect people from threats

d. shelter - structure used to protect people and their belonging

2. Education - the way people in a culture learn what they need to know in order to be successful in their culture

3. Transportation - the way a culture gets people and goods from one place to another

4. Communication - the way a culture shares ideas and messages

5. Economy - the way people in a culture get what they need and want

6. Technology- ***manmade tools that make life easie***

7. Social Structure - who is considered important in a culture and who isn'

8. Beliefs and Traditions - the ideas a culture believes in and the way they celebrate those beliefs

9. Rules and Regulations- the rules that maintain order in a culture and the structure that maintains those rules

10. Arts & Recreation - the way a culture spends its spare time and expresses itself creatively.

Technology:

Knowledge and tools people use for practical purposes.

Symbols:

Anything that stands for something else and has shared meaning attached to it.

Language:

Organisation of written and spoken symbols into as standardized system.

Values:

Shared beliefs about what is good or bad, right or wrong, desirable or undesirable.

Norms:

Shared rules of conduct that tell people how to act in specific issues.

5.5 Human Development Index

The HDI was created to emphasize that people and their capabilities should be the ultimate criteria for assessing the development of a country, not economic growth alone. The HDI can also be used to question national policy choices, asking how two countries with the same level of GNI per capita can end up with different human development outcomes. These contrasts can stimulate debate about government policy priorities.

The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions.

The health dimension is assessed by life expectancy at birth, the education dimension is measured by mean of years of schooling for adults aged 25 years and more and expected years of schooling for children of school entering age. The standard of living dimension is measured by gross national income per capita. The HDI uses the logarithm of income, to reflect the diminishing importance of income with increasing GNI. The scores for the three HDI dimension indices are then aggregated into a composite index using geometric mean.

The HDI simplifies and captures only part of what human development entails. It does not reflect on inequalities, poverty, human security, empowerment, etc. The HDRO offers the other composite indices as broader proxy on some of the key issues of human development, inequality, gender disparity and poverty.

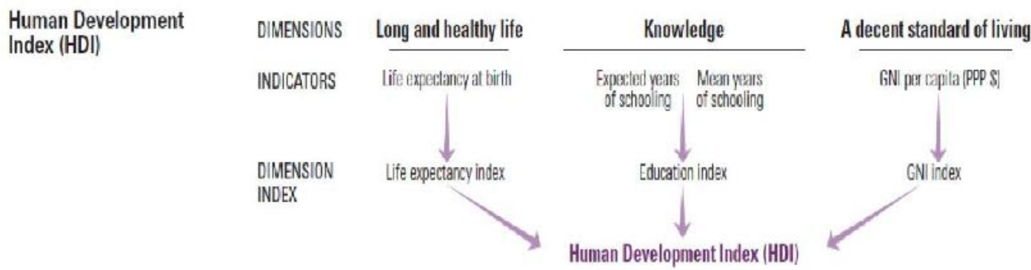


Figure: 1 Human Development Index (HDI) Ranking (Year 2020)

-	Rank	Country	HDI value (2019)	Life expectancy at birth (years) SDG3	Expected years of schooling (years) SDG 4.3	Mean years of schooling (years) SDG 4.6	Gross national income (GNI) per capita (PPP $) SDG 8.5
	1	Norway	0.957	82.4	18.1	12.9	66,494
	2	Ireland	0.955	82.3	18.7	12.7	68,371
	2	Switzerland	0.955	83.8	16.3	13.4	69,394
	4	Hong Kong, China (SAR)	0.949	84.9	16.9	12.3	62,985
	4	Iceland	0.949	83.0	19.1	12.8	54,682
	6	Germany	0.947	81.3	17.0	14.2	55,314
	7	Sweden	0.945	82.8	19.5	12.5	54,508
	8	Australia	0.944	83.4	22.0	12.7	48,085
	8	Netherlands	0.944	82.3	18.5	12.4	57,707
	10	Denmark	0.940	80.9	18.9	12.6	58,662

Figure: 2Human Development Index over time

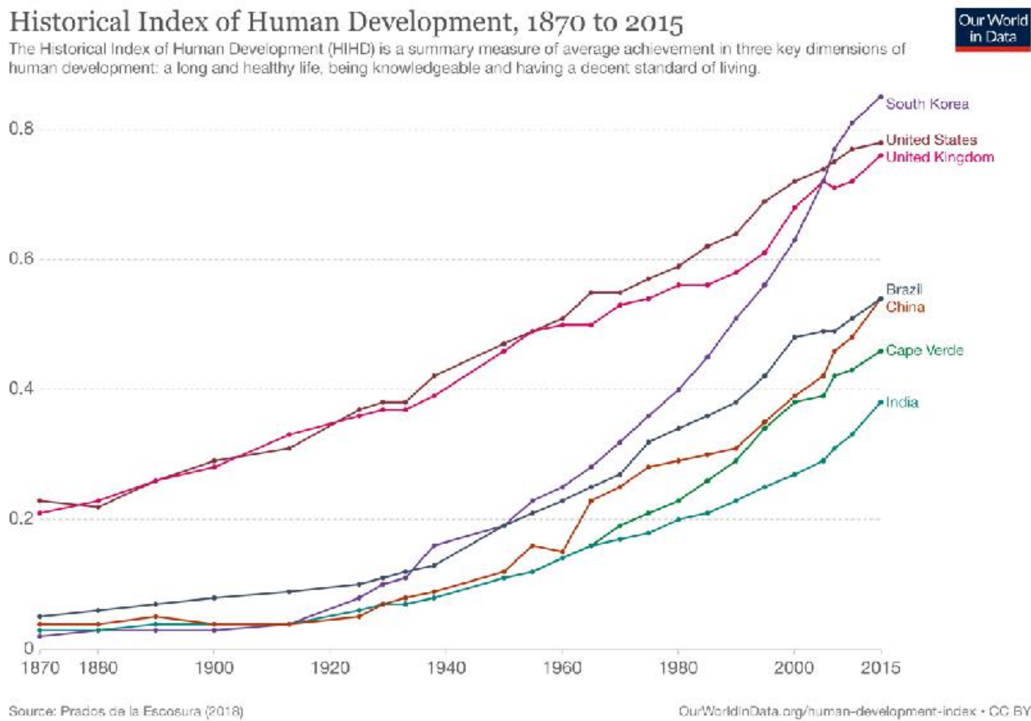


Figure: 3 Historical Index of Human Development, 1870 to 2015

- The term 'human development' may be defined as an expansion of human capabilities, a widening of choices, 'an enhancement of freedom, and a fulfilment of human rights.

- At the beginning, the notion of human development incorporates the need for income expansion. However, income growth should consider expansion of human capabilities. Hence development cannot be equated solely to income expansion.

Income is not the sum-total of human life

- As income growth is essential, so are health, education, physical environment, and freedom. Human development should embrace human rights, socio-politico freedoms.
- Based on the notion of human development, Human Development Index (HDI) is constructed.
- It serves as a more humane measure of development than a strictly income-based benchmark of per capita GNP.

United Nations Development Programme (UNDP)

- The United Nations Development Programme is the United Nations' global development network.
- It promotes technical and investment cooperation among nations and advocates for change and connects countries to knowledge, experience and resources to help people build a better life for themselves.
- The first UNDP Human Development Report (annually) published in 1990 stated that: "The basic objective of development is to create an enabling environment for people to enjoy long, healthy and creative lives."
- It also defined human development as "a process of enlarging people's choices", "and strengthen human capabilities" in a way which enables them to lead longer, healthier and fuller lives.

Three Critical Issues

- To lead a long and healthy life,
- To be educated, and
- To enjoy a decent standard of living.

Dimensions of Human Development

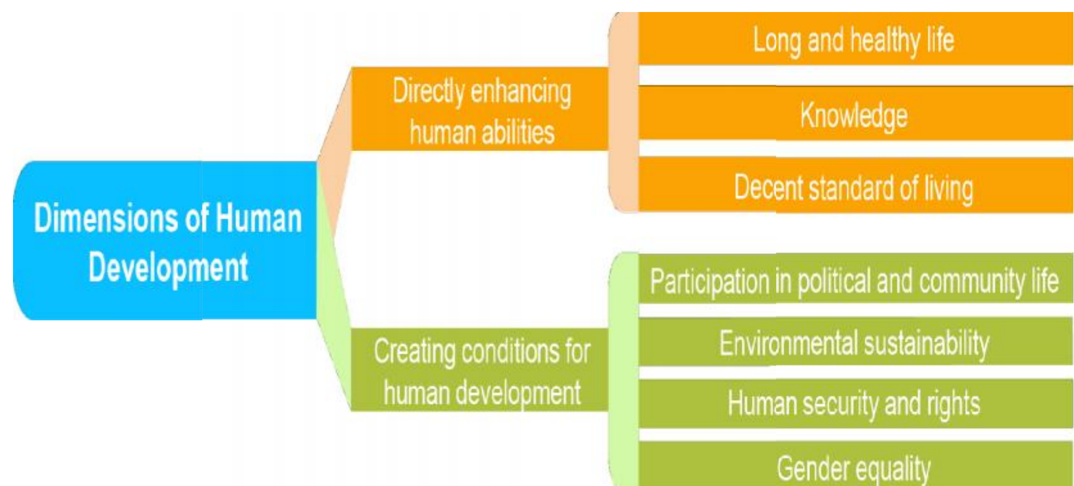


Figure: 4 Dimensions of Human Development

Components of Human Development

The noted Pakistani economist Mahbubul Haq considered four essential pillars of human development.

- Equality
- Sustainability
- Productivity

- Empowerment

Recent Trends of HDI

- In recently released rankings of the Human Development Index(HDI), by the United Nations Development Programme (UNDP) for the year 2019, India was ranked 129th.
- Although the country's rank is up from 2018's (130), it's still disappointing, considering that 189 countries are taken into account.
- The HDI is considered one of the most accurate measurements of the socio-economic development of a country, and while European countries such as Norway and Switzerland have often been top rankers, India has struggled to stay above 150.
- Major reasons for Low HDI of India:

✓ Inequality

✓ Inadequate medical services

✓ Inadequate education services

✓ Population explosion

✓ Unemployment

5.6 Rural Development

Rural Development is the process of improving the quality of life and economic well-being of people living in rural areas, often relatively isolated and sparsely populated areas.

Rural Development has traditionally centered on the exploitation of land-intensive natural resources such as agriculture and forestry. However, changes in global production networks and increased urbanization have changed the character of rural areas. Increasingly tourism, niche manufacturers, and recreation have replaced resource extraction and agriculture as dominant economic drivers. The need for rural communities to approach development from a wider perspective has created more focus on a broad range of development goals rather than merely creating incentive for agricultural or resource-based businesses. Education, entrepreneurship, physical infrastructure, and social infrastructure all play an important role in developing rural regions. Rural development is also characterized by its emphasis on locally produced economic development strategies. In contrast to urban regions, which have many similarities, rural areas are highly distinctive from one another. For this reason, there are a large variety of rural development approaches used globally.

- Rural development is a comprehensive term. It essentially focuses on action for the development of areas outside the mainstream urban economic system.
- Rural development usually relates to the method of enhancing the quality of life and financial well-being of an individual specifically living in remote areas.
- Traditionally rural development is centred on the misuse of land-intensive natural resources such as forestry and agriculture. But today, increasing urbanisation and change in global production, networks have transformed the nature of rural areas.
- It has become more than 2/3rd of the country's people is dependent on agriculture for their livelihood and 1/3rd of rural India is still below the poverty line.
- Therefore, it is important for the government to be productive and provide enough facility to upgrade their standard of living.

However, few areas that demand more focused attention and new initiatives are.

- Education
- Public Health and Sanitation
- Women Empowerment
- Infrastructure Development (e.g. electricity, irrigation, etc.)

- Facilities for agriculture extension and research
- Availability of Credit
- Employment opportunity

Approaches to development

Rural development actions are intended to further the social and economic development of rural communities.

Rural development programs were historically top-down approaches from local or regional authorities, regional development agencies, NGOs, national governments or international development organizations. However, a critical 'organization gap' identified during the late 1960s, reflecting on the disjunction between national organizations and rural communities led to a great focus on community participation in rural development agendas.Oftentimes this was achieved through political decentralization policies in developing countries, particularly popular among African countries, or policies that shift the power of socio-politico-economic decision-making and the election of representatives and leadership from centralized governments to local governments.As a result, local populations can also bring about endogenous initiatives for development. The term rural development is not limited to issues of developing countries. In fact many developed countries have very active rural development programs.

Rural development aims at finding ways to improve rural lives with participation of rural people themselves, so as to meet the required needs of rural communities. The outsider may not understand the setting, culture, language and other things prevalent in the local area. As such, rural people themselves have to participate in their sustainable rural development. In developing countries like Nepal, Pakistan, India, Bangladesh, China, integrated development approaches are being followed up. In this context, many approaches and ideas have been developed and implemented, for instance, bottom-up approaches, PRA- Participatory Rural Appraisal, RRA- Rapid Rural Appraisal, Working With People (WWP), etc. The New Rural Reconstruction Movement in China has been actively promoting rural development through their ecological farming projects.

The role of NGOs/non-profits in developing countries

Because decentralization policies made development problems the responsibility of local governments, it also opened the door for non-governmental organizations (NGOs), nonprofits, and other foreign actors to become more involved in the approach to these issues. For example, the elimination of statist approaches to development caused an exponential increase in the number of NGOs active in Africa, and additionally caused them to take on increasingly important roles. Consequently, nonprofits and NGOs are also greatly involved in the provisioning of needs in developing countries and they play an increasingly large role in supporting rural development.

These organizations are often criticized for taking over responsibilities that are traditionally carried out by the state, causing governments to become ineffective in handling these responsibilities over time. Within Africa, NGOs carry out the majority of sustainable building and construction through donor-funded, low-income housing projects. Furthermore, they are often faulted for being easily controlled by donor money and oriented to serve the needs of local elites above the rest of the population. As a result of this critique, many NGOs have started to include strategies in their projects that promote community participation.

Many scholars argue that NGOs are an insufficient solution to a lack of development leadership as a result of decentralization policies. Human rights expert Susan Dicklitch points to the historical context of colonialism, organization-specific limitations, and regime restraints as hindrances to the promises of NGOs. She notes that “NGOs are increasingly relegated to service provision and gap-filling activities by the retreating state, but those supportive functions are not matched with increased political efficacy”.

Importance of Rural Development

Large Proportion Of Population Living In Rural Areas:

- Rural people account for about 3/4th (75%) of the total population.
- In 2016, 68.84% of people accounted for the rural population.
- However, they have always lagged much behind the overall progress of the economy.

Agriculture-Major Source Of Livelihood:

- Agriculture is still the major source of livelihood in rural areas.
- More than two-thirds of India's population depends on it.
- So, the development of agriculture will contribute to the betterment of rural areas and rural people.

Lack of Basic Necessities:

- Majority of the poor people lives in rural areas.
- They do not have access to necessities of life like a proper meal, health facilities, sanitation, etc.

Objectives

- To improve productivity and the wages of rural people.
- To guarantee increased and quick employment possibilities.
- To demolish unemployment and a notable decline in underemployment.
- To guarantee to increase the standard of living of the underprivileged population.
- To provide the basic needs – e.g. elementary education, health care, clean drinking water, and, rural roads, etc.

Components of Rural Development

- Employment Generation
- Better Planning
- Better Roads
- Modern Techniques and Technologies
- Basic Amenities
- Law and Order
- Medical and Healthcare
- Education

Strategies of Rural Development

Maximisation of Economic Growth

- Initially, in the 1950s, policy-makers stressed maximisation of economic growth by stepping up investment assuming that the benefits arising out of it would 'trickle down' and diffuse among all sectors of the rural society.
- But in the 1970s, it was realised that the benefits of agricultural growth did not percolate to the rural poor.

Structural School

- Previous strategy gave birth to the second approach led by structural school which suggested distribution of assets through land reforms, community development programmes and cooperative farming.
- But this also did not work.

Different Programs

- Then came the idea in the 1980s that suggested attack on poverty through rural development programmes, such as IRDP, TRYSEM, NREP, and RLEGP which later merged in JRY programme.
- IRDP - Integrated Rural Development Programme
- TRYSEM - Training of Rural Youth for Self Employment

- NREP - National Rural Employment Programme
- RLEGP - Rural Landless Employment Guarantee Programme
- JRY - Jawahar Rozgar Yojana

Areas for Rural Development

- Public health and sanitation
- Literacy
- Female empowerment
- Enforcement of law and order
- Land Reforms
- Infrastructure development like irrigation, electricity, etc.
- Availability of credit
- Eradication of poverty

Schemes/Programmes of Ministry of Rural Development

Ministry of Rural Development has two departments namely, Department of Rural Development and Department of Land Resource.

Being the nodal Ministry for most of the development and welfare activities in the rural areas, the Ministry of Rural Development plays a pivotal role in the overall development strategy of the country. The vision and mission of the Ministry is sustainable and inclusive growth of rural India through a multipronged strategy for eradication of poverty by increasing livelihoods opportunities, providing social safety net and developing infrastructure for growth. This is expected to improve quality of life in rural India and to correct the developmental imbalances, aiming in the process, to reach out to most disadvantaged sections of the society.

The Ministry of Rural Development consists of two Departments, viz.,

- Department of Rural Development,
- Department of Land Resources.

Broadly, the aims of the Ministry of Rural Development are:

- Providing livelihood opportunities to those in need including women and other vulnerable sections with focus on Below Poverty Line (BPL) households.
- Providing for the enhancement of livelihood security of households in rural areas by providing at least 100 days of guaranteed wage employment in every financial year to every household demanding it.
- Provision of all-weather rural connectivity to unconnected rural habitations and upgradation of existing roads to provide market access.
- Providing basic housing and homestead to BPL household in rural areas.
- Providing social assistance to the elderly, widow and disabled persons.
- Providing urban amenities in rural areas for improvement of quality of rural life.
- Capacity development and training of rural development functionaries.
- Promoting involvement of voluntary agencies and individuals for rural development.
- Restoring lost or depleted productivity of the land. This is done through watershed development programmes and initiating effective land reform measures for providing land to the landless rural poor.

Path Behind

Rural development implies both the economic betterment of people as well as greater social transformation. Increased participation of people in the rural development programmes,

decentralization of planning, better enforcement of land reforms and greater access to credit are envisaged for providing the rural people with better prospects.

Initially, main thrust for development was laid on agriculture, industry, communication, education, health and allied sectors. Later on, realizing that accelerated development can be provided only if governmental efforts are adequately supplemented by direct and indirect involvement of people at the grass root level, the thrust shifted.

Accordingly, on 31st March 1952, an organization known as Community Projects Administration was set up under the Planning Commission to administer the programmes relating to community development. The community development programme, inaugurated on October 2, 1952, was an important landmark in the history of the rural development. This programme underwent many changes and was handled by different Ministries.

In October 1974, the Department of Rural Development came into existence as a part of Ministry of Food and Agriculture. On 18th August 1979, the Department of Rural Development was elevated to the status of a new Ministry of Rural Reconstruction. It was renamed as Ministry of Rural Development on 23rd January 1982. In January 1985, the Ministry of Rural Development was again converted into a Department under the Ministry of Agriculture and Rural Development which was later rechristened as Ministry of Agriculture in September 1985. On July 5, 1991 the Department was upgraded as Ministry of Rural Development. Another Department viz. Department of Wasteland Development was created under this Ministry on 2nd July 1992. In March 1995, the Ministry was renamed as the Ministry of Rural Areas and Employment with three departments namely Department of Rural Employment and Poverty Alleviation, Rural Development and Wasteland Development.

Again, in 1999 Ministry of Rural Areas and Employment was renamed as Ministry of Rural Development. This Ministry has been acting as a catalyst effecting the change in rural areas through the implementation of wide spectrum of programmes which are aimed at poverty alleviation, employment generation, infrastructure development and social security. Over the years, with the experience gained, in the implementation of the programmes and in response to the felt needs of the poor, several programmes have been modified and new programmes have been introduced. The Ministry's main objective is to alleviate rural poverty and ensure improved quality of life for the rural population especially those below the poverty line. These objectives are achieved through formulation, development and implementation of programmes relating to various spheres of rural life and activities, from income generation to environmental replenishment.

In order to ensure that the fruits of economic reform are shared by all sections of societies five elements of social and economic infrastructure, critical to the quality of life in rural areas, were identified. These are health, education, drinking water, housing and roads. To impart greater momentum to the efforts in these sectors the Government launched the Pradhan Mantri Gramdoya Yojana (PMGY) and the Ministry of Rural Development was entrusted with the responsibility of implementing drinking water, housing and rural roads component of PMGY.

During the Ninth Plan period, several anti-poverty Programmes have been restructured to enhance the efficiency of the Programmes for providing increased benefits to the rural poor. Self-EmploymentProgrammes were revamped by merging the Integrated Rural Development Programme (IRDP), the Development of Women and Children in Rural Areas (DWCRA), the Supply of Improved Tool-Kits to Rural Artisans (SITRA), the Training of Rural Youth for Self Employment (TRYSEM), the Ganga Kalyan Yojana (GKY) and the Million Wells Scheme (MWS) into a holistic self-employment scheme called Swarnjayanti Gram Swarozgar Yojana (SGSY).

Keeping in view the needs and aspirations of the local people, Panchayati Raj Institutions(PRIs) have been involved in the programme implementation and these institutions constitute the core of decentralized development of planning and its implementation. The Ministry vigorously pursue with the State Governments for expeditious devolution of requisite administrative and financial powers to PRIs as envisaged under 73rd Amendment Act of the Constitution of India. On 25th December 2002, under Drinking Water Sector, a new initiative 'Swajal Dhara' empowering the Panchayats to formulate, implement, operate and maintain drinking water Projects was launched. In order to further involve PRIs in the development process, a new initiative 'Hariyali' was launched by Hon'ble Prime Minister on 27th January, 2003. Hariyali was launched to strengthen and involve Panchayati Raj Institutions in the implementation of watershed development programmes namely IWDP, DPAP and DDP.

Realising that empowerment of rural women is crucial for the development of rural India, a women's component is introduced in the programmes for poverty alleviation to ensure flow of

adequate funds to this section. The Constitutional Amendment (73rd), Act 1992 provides for reservation of selective posts for women. The Constitution has placed enormous responsibility on the Panchayats to formulate and execute various programmes of economic development and social justice, and a number of Centrally Sponsored Schemes are being implemented through Panchayats. Thus, women Members and Chairpersons of Panchayats, who are basically new entrants in Panchayats, have to acquire the required skill and be given appropriate orientation to assume their rightful roles as leaders and decision makers. Imparting training to elected representatives of PRIs is primarily the responsibility of the State Governments/Union territory Administrations. Ministry of Rural Development also extends some financial assistance to the States/UTs with a view to improve the quality of training programmes and to catalyze capacity building initiatives for the elected members and functionaries of PRIs.

The Eleventh Plan saw injection of huge resources from the Union Budget to the rural and farm sector. This thrust formed the substance of the Bharat Nirman Programme. The Mahatma Gandhi National Rural Employment Guarantee Act has provided a major foundational support.

Department of Drinking Water and Sanitation has been separated from the Ministry of Rural Development from 13th July, 2011 and renamed as Ministry of Drinking Water and Sanitation.

The following major programmes are being operated by the Ministry of Rural Development in rural areas,

- Amrit Mahotsav
- National Level Monitoring
- Area Officer
- MGNREGA
- PMAY-G
- Water Conservation Stories
- Sabki Yojana Sabka Vikas
- DISHA
- Mission Antyodaya
- DDUGKY
- PMGSY
- DAY-NRLM
- NSAP
- SPMRM (RURBAN)
- SAGY
- DIKSHA (Training Portal)
- SwachhGram
- Gram Swaraj Abhiyan

Budget

Budget outlay of **Rs. 86000 crore** has been provided under the Plan head to the Department of Rural Development for the Financial Year **2016-17**. An additional amount of **Rs. 9000 crores** has been allocated at the RE stage to the department thereby augmenting the provision to **Rs. 95000 crores**.

Budget outlay of **Rs. 105447.88 crores** has been allocated to the department of Rural Development for the Financial Year **2017-18** and

Budget outlay of **Rs. 112403.92 crores** has been allocated to the department of Rural Development for the Financial Year **2018-19** and

Budget outlay of **Rs. 117647.19 crores** has been allocated to the department of Rural Development for the Financial Year **2019-20**.

Summary

- Society and culture primarily govern the lifestyle of an individual.
- Poverty is one of the main issues, attracting the attention of sociologists and economists. It indicates a condition in which a person fails to maintain a living standard adequate for a comfortable lifestyle.
- Out of India's total population of more than 1 billion, 350 to 400 million people are living below the poverty line. Nearly 75% of the poor people are in rural areas, most of them are daily wagers, landless laborers and self employed house holders.
- The phenomenal increase in the city populations is the main reason for poverty in the urban areas of India. A major portion of this additional population is due to the migration of the rural families from villages to cities.
- India as a nation is facing a massive problem of unemployment. Unemployment can be defined as a state of no work for a man fit and willing to work. It is a condition of involuntary and not voluntary idleness.
- The problem of unemployment has becoming a colossal. Various problems have caused this problem. There are individual factors like age, vocational unfitness and physical disabilities which restrict the people.
- The remedial measures for reducing unemployment may lay greater emphasis on creation of opportunities for self -employment, augmentation of productivity and income levels.
- Human development is a multifaceted and complex process. There are many dimensions along which development occurs and there are complex interdependencies and linkages between these dimensions.
- The Indian rural market with its vast size and demand base offers great opportunities to marketers. Two-third of the country's consumers live in rural areas and almost half of the national income is generated here.
- Business ethics refers to the measurement of business behaviour on standards of right and wrong, rather than relying entirely on principles of accounting and management. Ethics is not merely desirable but is also essential for the smooth functioning of a business.
- Ethical decisions are voluntary human actions. A person cannot escape his personal liability by saying he committed an act because of a senior's pressure.
- People prefer doing business with an honest person. This means ethical companies attract more suppliers and business contracts.

Keywords

Human Development: Human development is defined as the process of enlarging people's freedoms and opportunities and improving their well-being.

Rural Development: Rural Development is the process of improving the quality of life and economic well-being of people living in rural areas, often relatively isolated and sparsely populated areas.

United Nations Development Programme: The United Nations Development Programme is the global development network of the United Nations. It promotes technical and investment cooperation among nations and advocates for change and connects countries to knowledge, experience and resources to help people build a better life for themselves.

Self-Assessment

State whether the following statements are true or false:

1. Poverty is a state when a person is considered to be following a low standard of living.
2. According to a survey, more members in a family means more income and thereby less poverty.
3. A person who is not working because he is not in a physical state to work is also considered voluntarily unemployed.
4. According to a report, giving credit to the people could eliminate poverty.
5. Rural markets serves as the biggest market for FMCG products.
6. Project Shakti works on a direct selling basis in the rural areas.
7. For making huge profits, firms have to forego their business ethics.
8. It is in the social responsibility framework of the companies to ensure quality goods to the consumers.

Fill in the blanks:

9. In order to ensure availability of food grains to the poor people, government had introduced......................
10. ....sector sees more people involuntarily unemployed than other sectors.
11. Many people lost jobs during the current economic downturn that hit the globe. This was a case of .... unemployment.
12. Products like washing machines are considered as .... products in rural areas.
13. Some companies have a code of conduct that every customer should be treated equally irrespective of their status and purchase. This type of code is known as .... code.
14. ....deals with the issue of senior subordinate and company-shareholders relationship.
15. According to Mahatma Gandhi, the business leader is the .... of the business and its employees.
16. ....company had launched a child care initiative wherein which one rupee went for the education of children when we purchased their cards.

Review Questions

1. "Society and culture primarily govern the lifestyle of an individual". Comment.
2. "Most organizations try to position their products around social needs" Substantiate.
3. Compare the poverty situation of India, today and a decade back. What significant changes do you notice?
4. Examine the role of Indian Government in eradicating poverty.
5. "India as a nation is facing a massive problem of unemployment". Discuss.
6. Do you believe that there can be concept like voluntary unemployment? What is difference between cyclical and seasonal unemployment?
7. "Unemployment can be defined as a state of no work for a man fit and willing to work." Do you find this definition correct? Justify.
8. "The computerization and automation has led to technological unemployment". What do you mean by this statement?
9. "Rural markets are critical for every marketer". Justify the statement.
10. Critically examine the role of E Choupal and Project Shakti in rural development.
11. "Ethics is not merely desirable but is also essential for the smooth functioning of a business." Discuss.
12. Suppose you are the advertising manager of a firm producing skin whitening creams. You know that kind of ads that are made are unethical but very essential for sales. How will you handle the conflict situation?
13. "Corporate governance is the method by which a corporation is directed, administered or controlled". Discuss.

14. Do you believe that Corporate Governance has matured in India? Justify your answer.
15. Towards whom does a business have its most important social obligation-employees, customers, community or shareholders? Explain the rationale behind your answer.

Answers: Self-Assessment

1	2	3	4
FALSE	FALSE	FALSE	TRUE
5	6	7	8
TRUE	TRUE	FALSE	TRUE
9	10	11	12
Public Distribution System	Agriculture	Cyclical	Lifestyle
13	14	15	16
Company	Corporate Governance	Trustee	ITC

Further Readings

- Bedi Suresh, Business Environment, Excel Books, 2006
- Mittal Vivek, Business Environment, Excel Books, 2007
- Starling, Grower, The Changing Environment of Business, Cincinnati, OH, South-Western College Publishing, 1996

Unit 06: Political and Legal Environment

CONTENTS

Objectives

Introduction

6.1 The Competition Act 2002

6.2 Foreign Exchange Management Act, 1999

6.3 Enforcement and Penalties

6.4 Right to Information

6.5 Information Commissions

6.6 The Indian Political System

6.7 IntellectualProperty Rights(IPR)

6.8 Corporate Social Responsibility

Summary

Keywords

Self – Assessment Questions

Answers for Self Assessment

Review Questions

Further Readings

Objectives

After studying this unit, you will be able to:

- Discuss role of Government in business
- Explain Regulatory and Legal Role
- Discuss Infrastructure Development and Human Resource Development
- Describe Entrepreneurial
- Role and Planning Role

Introduction

Does politics drive economics or does economics influence politics? This is a critical question. But if we analyse world history we will realise that it is a two-way traffic, wherein they influence each other. During medieval ages we find that foreigners invaded India for the sake of her wealth but these invasions changed the whole political system of India. The World War II was fought for the sake of colonies (money which colonies used to yields). Because of prevailing economic conditions, the famous revolts of France, Russia, USA and China took place and all these revolts not only changed the political system of the respective countries, but also their economic systems.

6.1 The Competition Act 2002

The Competition Act, 2002 was enacted by the Parliament of India and governs Indian competition law. It replaced the archaic The Monopolies and Restrictive Trade Practices Act, 1969. Under this legislation, the Competition Commission of India was established to prevent the activities that have an adverse effect on competition in India. This act extends to whole of India except Jammu and Kashmir.

It is a tool to implement and enforce competition policy and to prevent and punish anti-competitive business practices by firms and unnecessary Government interference in the market. Competition

laws is equally applicable on written as well as oral agreement, arrangements between the enterprises or persons.

The Competition Act, 2002 was amended by the Competition (Amendment) Act, 2007 and again by the Competition (Amendment) Act, 2009.

The Act establishes a Commission which is duty bound to protect the interests of free and fair competition (including the process of competition), and as a consequence, protect the interests of consumers. Broadly, the Commission's duty is: -

- To prohibit the agreements or practices that have or are likely to have an appreciable adverse effect on competition in a market in India, (horizontal and vertical agreements / conduct);
- To prohibit the abuse of dominance in a market;
- To prohibit acquisitions, mergers, amalgamations etc. between enterprises which have or are likely to have an appreciable adverse effect on competition in market(s) in India.
- In addition to this, the Competition Act envisages its enforcement with the aid of mutual international support and enforcement network across the world.

History

The Government of India in April 1964 appointed the Monopolies Inquiry Commission under the Chairmanship of Justice K. C Das Gupta, a judge of the Supreme Court, to inquire into the extent and effect of concentration of economic power in private hands and prevalence of monopolistic and restrictive trade practices in important sectors of economic activity other than agriculture.

To regulate advertising, in 1984, Parliament inserted a chapter on unfair trade practices in the Monopolies and Restrictive Trade Practices Act, 1969.

The Monopolies and Restrictive Trade Practices Commission was constituted in the year 1970.

The Monopolies and Restrictive Trade Practices Act, 1969 had its genesis in the Directive Principles of State Policy embodied in the Constitution of India. It received the assent of the President of India on 27 December, 1969.The Monopolies and Restrictive Trade Practices Act was intended to curb the rise of concentration of wealth in a few hands and of monopolistic practices.It was repealed on September 2009. The Act has been succeeded by The Competition Act, 2002.

The Competition Bill, 2001 was introduced in Lok Sabha by Finance Minister Arun Jaitley on 6 August 2001.

Definitions

- Acquisition: Acquisition means, directly or indirectly, acquiring or agreeing to acquire shares, voting rights or assets of any enterprise or control over management or assets of any enterprise.
- Cartel: Cartel includes an association of producers, sellers, distributors, traders or service providers who, by agreement among themselves, limit control or attempt to control the production, distribution, sale or price of goods or provision of services.
- Dominant position: It means a position of strength, enjoyed by an enterprise, in the relevant market which enables it to operate independently of competitive forces prevailing in the market or affect its competitors or consumers in its favour.
- Predatory pricing: Predatory pricing means the sale of goods or provision of services, at a price which is below the cost of production of the goods or provision of services, with a view to reduce competition or eliminate the competitors.
- Rule of reason: It is the analysis of any activity under the challenge on the basis of business justification, competitive intent, market impact, impact on competition and on consumer. It is the logic behind the conclusion for any order.

Salient Features

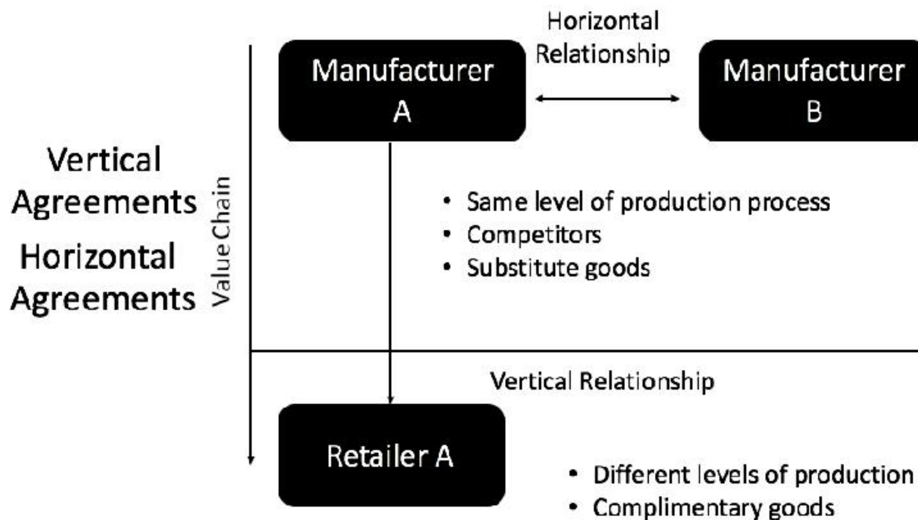
Anti-Competitive Agreements

Enterprises, persons or associations of enterprises or persons, including cartels, shall not enter into agreements in respect of production, supply, distribution, storage, acquisition or control of goods or provision of services, which cause or are likely to cause an "appreciable adverse impact" on competition in India. Such agreements would consequently be considered void. Agreements which would be considered to have an appreciable adverse impact would be those agreements which-

- Directly or indirectly determine sale or purchase prices,
- Limit or control production, supply, markets, technical development, investment or provision of services,
- Share the market or source of production or provision of services by allocation of inter alia geographical area of market, nature of goods or number of customers or any other similar way,
- Directly or indirectly result in bid rigging or collusive bidding.

Types of agreement

A 'horizontal agreement' is an agreement for co-operation between two or more competing businesses operating at the same level in the market. A vertical agreement is an agreement between firms at different levels of the supply chain. For instance, a manufacturer of consumer electronics might have a vertical agreement with a retailer according to which the latter would promote their products in return for lower prices.



Abuse of dominant position

There shall be an abuse of dominant position if an enterprise imposes directly or indirectly unfair or discriminatory conditions in purchase or sale of goods or services or restricts production or technical development or create hindrance in entry of new operators to the prejudice of consumers. The provisions relating to abuse of dominant position require determination of dominance in the relevant market. Dominant position enables an enterprise to operate independently or effect competitors by action.

Combinations

The Act is designed to regulate the operation and activities of combinations, a term, which contemplates acquisition, mergers or amalgamations. Combination that exceeds the threshold limits specified in the Act in terms of assets or turnover, which causes or is likely to cause adverse impact on competition within the relevant market in India, can be scrutinized by the Commission.

Competition Commission of India

Competition Commission of India is a body corporate and independent entity possessing a common seal with the power to enter into contracts and to sue in its name. It is to consist of a chairperson, who is to be assisted by a minimum of two, and a maximum of six, other members.It is the duty of the Commission to eliminate practices having adverse effect on competition, promote and sustain competition, protect the interests of consumers and ensure freedom of trade in the markets of India. The Commission is also required to give opinion on competition issues on a reference received from a statutory authority established under any law and to undertake competition advocacy, create public awareness and impart training on competition issues.

Commission has the power to inquire into unfair agreements or abuse of dominant position or combinations taking place outside India but having adverse effect on competition in India, if any of the circumstances exists:

- An agreement has been executed outside India

- Any contracting party resides outside India
- Any enterprise abusing dominant position is outside India
- A combination has been established outside India
- A party to a combination is located abroad.
- Any other matter or practice or action arising out of such agreement or dominant position or combination is outside India.

To deal with cross border issues, Commission is empowered to enter into any Memorandum of Understanding or arrangement with any foreign agency of any foreign country with the prior approval of Central Government.

Review of orders of Commission

Any person aggrieved by an order of the Commission can apply to the Commission for review of its order within thirty days from the date of the order. Commission may entertain a review application after the expiry of thirty days, if it is satisfied that the applicant was prevented by sufficient cause from preferring the application in time. No order shall be modified or set aside without giving an opportunity of being heard to the person in whose favour the order is given and the Director General where he was a party to the proceedings.

Appeal

Any person aggrieved by any decision or order of the Commission may file an appeal to the Supreme Court within sixty days from the date of communication of the decision or order of the Commission. No appeal shall lie against any decision or order of the Commission made with the consent of the parties.

Penalty

If any person fails to comply with the orders or directions of the Commission shall be punishable with fine which may extend to 1 lakh for each day during which such non compliance occurs, subject to a maximum of 10 crore.

If any person does not comply with the orders or directions issued, or fails to pay the fine imposed under this section, he shall be punishable with imprisonment for a term which will extend to three years, or with fine which may extend to 25 crores or with both.

Section 44 provides that if any person, being a party to a combination makes a statement which is false in any material particular or knowing it to be false or omits to state any material particular knowing it to be material, such person shall be liable to a penalty which shall not be less than 50 lakhs but which may extend to 1 crore.

Objectives of the Competitive Act

The Act seeks to provide the legal framework and tools to ensure competition policies are met, to prevent anti-competition practices and provide for the penalisation of such acts. The Act protects free and fair competition which protects the freedom of trade.

The Act seeks to prevent monopolies and also to prevent unnecessary intervention by the government. The main objectives of the Competition Act, 2002 are:

- to provide the framework for the establishment of the Competition Commission.
- to prevent monopolies and to promote competition in the market.
- to protect the freedom of trade for the participating individuals and entities in the market.
- to protect the interest of the consumer.

6.2 Foreign Exchange Management Act, 1999

The Foreign Exchange Management Act (FEMA), 1999, has been enacted as part of the ongoing liberalisation process. The Act was implemented w.e.f. June 1, 2000.

Foreign exchange control was first introduced in September, 1939 under the Defense of India Rules. The Foreign Exchange Regulation Act was introduced in 1947, which was replaced with the Foreign Exchange Regulation Act in 1973 and in 2000 by FEMA.

Differences between FERA and FEMA

The object of the FEMA Bill is to consolidate and amend the law relating to foreign exchange, with the objective of facilitating external trade and payment and for promoting the orderly development and maintenance of the foreign exchange market in India. The primary differences between FERA and FEMA are:

- The object of FERA was to conserve foreign exchange and to prevent its misuse. The object of FEMA is to facilitate external trade and payments and maintenance of foreign exchange market in India.
- Violation of FERA was a criminal offence whereas violation of FEMA is a civil offence.
- Offences under FERA were not compoundable, while offences under FEMA are compoundable.
- Citizenship was a criteria to determine the residential status of a person under FERA, while stay of more than 182 days in India is the criteria to decide residential status under FEMA.
- Provision in respect of Basic Travel Quota (BTQ) business travel export commission, gifts, donation, etc., have been considerably enhanced in FEMA.
- Almost all current account transactions are free, except a few.

Scope of FEMA

- Free transactions on current account subject to reasonable restrictions that may be imposed.
- RBI controls over capital account transactions.
- Control over realization of export proceeds.
- Dealing in foreign exchange through authorized persons like authorized dealer/money changer/off shore banking unit.
- Adjudication of Offences.
- Appeal provision including Special Director (Appeals) and Appellate Tribunal.

Export of Goods and Services

Regulations relating to the export of goods and services from India are contained in the Foreign Exchange Management (Export of Goods and Services) Regulations 2000.

Every exporter of goods or software in physical form or through any other form, either directly or indirectly, to any place outside India, other than Nepal and Bhutan, shall furnish to the specified authority, a declaration in one of the forms set out in the Schedule. The declaration should be submitted with in 21 days from exports.

Such a declaration should be supported by evidence specified, containing true and correct particulars of the material:

- the full export value of the goods or software; or
- if the full export value is not ascertainable at the time of export, the value which the exporter, having regard to the prevailing market conditions, expects to receive from the sale of the goods or the software in the overseas market, and affirms in the said declaration that the full export value of goods or the software has been or will within the specified period, be paid in the specific manner.

Every exporter of services shall furnish to the RBI or to such other authorities, a declaration in such form and in such a manner as may be specified containing the true and correct particulars of material in relation to payment for such services.

Possession and Retention of Foreign Currency

Under FEMA, restrictions prevail only for physical possessions and retention of foreign currency and not in respect of the foreign currency kept in permissible account with authorized dealers (banks).

- Limits for possessions and retention of foreign currency or foreign Coins:
- An authorized person can retain and possess foreign currency and coins within the scope of his authority without any limit;
- Any person can possess foreign coins without limit;
- A person residing in India can retain foreign currency notes, bank notes and foreign currency travellers'cheques up to a certain limit as prescribed by RBI;
- A person residing in India but not permanently resident therein may possess without limit, foreign currency in the form of currency notes, bank notes and travelerscheques if such foreign currency was acquired, held or owned by him when he was resident outside India and has been brought into India in accordance with the regulation made under the Act i.e. after making the declaration when required.

Realization and Repatriation of Foreign Exchange

A person residing in India to whom any account of foreign exchange is due or has accrued, shall take all reasonable steps to realize and repatriate to India such foreign exchange within such period and in such manner as may be specified by the RBI.

Exemption from Realization and Repatriation in Certain Cases

The provisions are not applied to the following situations:

- Possession of foreign currency or foreign coins by any person up to such limit as the Reserve Bank may specify;
- Foreign currency account held or operated by such person or class of persons and up to the limit which the Reserve Bank may specify;
- Foreign exchange acquired or received before July 8, 1947 or any income arising or accruing there on, which is held outside India by any person in pursuance of a general or special permission granted by the Reserve Bank;
- Foreign exchange held by a person resident in India up to such limit as the RBI may specify, if such foreign exchange was acquired by way of gift or inheritance from a person referred to in Clause(c) including any income arising there from;
- Foreign exchange acquired from employment, business, trade, vocation, services, honorarium, gifts, inheritance or any other legitimate means up to such limit as the RBI may specify;
- Such other receipts in foreign exchange as the RBI may specify.

Some Terms Used in FEMA

Convertible Currency/Hard Currency

Some currencies are freely convertible, i.e., one can exchange these currencies with any other currency without any restriction. The major ones are: Dollars (USA), Pound Sterling, Euro, DM, Yen, Franc, Lira, etc. This are often referred to as hard currency

Rupee Trade

India has rupee trade with Nepal and Bhutan, i.e., payments in respect of trade with Nepal and Bhutan are made in Indian Rupees.

Currency

Currency includes all currency notes, postal notes, postal orders, money orders, cheques, drafts , traveller's cheques, letter of credit, Bill of Exchange and Promissory notes, credit cards or such other similar instruments as may be notified by the RBI. The RBI has notified 'debit cards', ATM cards or any other instruments by whatever name known that can be used to create a financial liability' as 'currency'.

Foreign Exchange

Foreign exchange means foreign currency and includes (i) deposits, credits, and balances payable in any foreign currency (ii) drafts, traveller's cheques, letter of credit or bill of exchange expressed or drawn in Indian currency but payable in foreign currency (iii) drafts, traveller's cheques letter of credit or bill of exchange expressed drawn by banks, institutions or persons outside India, but payable in Indian currency.

Overseas Corporate Bodies

OCB means any overseas company, partnership, firm, society, and other corporate body predominantly owned directly or indirectly to the extent of at least 60% by NRIs. It also includes overseas trusts in which at least 60% beneficial interest is irrevocably held by NRIs.

6.3 Enforcement and Penalties

Directorate of Enforcement

The Directorate of Enforcement has been formed to ensure that the provisions of the Act are adhered to. In the Directorate of Enforcement, an Additional Director, a special Director and Assistant Directors of Enforcement are appointed by the Central Govt. under section 36.

These officers can investigate contraventions of FEMA. They have powers similar to those conferred on Income Tax authorities under the Income Tax Act. These powers can be exercised subject to limitations laid down under Income Tax Act. (Section 37).

The following powers are available under the Income Tax Act - powers to requisition books of accounts etc., power to call for information, power to inspect registers of companies [Sections 131 to 136 of Income Tax Act].

Penalties under the Act

An Adjudicating Authority appointed by the Central Government under FEMA can impose penalties for violating any provision of the Act or contravention of any rule, regulation, direction or order issued under the power conferred by the Act.

Departmental Adjudication

The Central Government can authorise certain officers as 'Adjudicating Authority' under Section 16(1). Their jurisdiction will be prescribed by the Central Government [Section16 (2)]. They can adjudicate cases in respect of violation of FEMA. These officers are quasi- judicial and have to follow the principle of natural justice by giving the opportunity of making representation. The Adjudicating Authority can hold an enquiry only upon receiving a complaint from an authorised officer [Section 16 (3)].

Powers of Adjudicating and Appellate Authorities

The adjudicating authority, Special Director (Appeals) and Appellate Tribunal have the following powers of the civil court:

- Summoning witnesses and enforcing attendance of any person and examining them on oath.
- Requiring discovery and production of any document.
- Receiving evidence on affidavits.

- Requisition of any public record or document or copy of such record/document from any office (subject to sections 123 and 124 of the Indian Evidence Act).
- Reviewing its decisions.
- Dismissing a representation of default or deciding it ex parte.
- Setting aside any order of any representation for default or any order passed by it ex parte.
- Any other matter as may be prescribed by the Central Government.

Penalties

If any person contravenes any provision of the Act, he shall be liable for a penalty upto thrice the sum involved in such contravention where such amount is quantifiable, or up to two lakhs rupees where the amount is not quantifiable, and where such contravention is a continuing one. Further penalty may extend to five thousand rupees for every day after the first day during which the contravention continues.

Any Adjudicating Authority adjudging any contravention under sub-section (1) may, if he thinks fit, in addition to any penalty that he may impose for such contravention, direct that any currency, security or any other money or property in respect of which the contravention has taken place, shall be confiscated to the Central Government and further direct that the foreign exchange holdings, if any, of the persons committing the contraventions or any part thereof, shall be brought back into India or shall be retained outside India in accordance with the directions made in this behalf.

6.4 Right to Information

The Right to Information Act (RTI) comes into force on the 12th October, 2005 (120th day of its enactment on 15th June, 2005). Some provisions have come into force with immediate effect viz. obligations of public authorities [S.4(1)], designation of Public Information Officers and Assistant Public Information Officers [Ss.5(1) and 5(2)], constitution of Central Information Commission (Ss.12 and 13), Constitution of State Information Commission (Ss.15 and 16), non-applicability of the Act to Intelligence and Security Organizations (S.24) and power to make rules to carry out the provisions of the Act (Ss.27 and 28).

The Act extends to the whole of India except the State of Jammu and Kashmir. [S. (12)]

According to RTI, information means any material in any form including records, documents, memos, e-mails, opinions, advices, press releases, circulars, orders, logbooks, contracts, reports, papers, samples, models, data material held in any electronic form and information relating to any private body which can be accessed by a public authority under any other law for the time being in force but does not include "file notings" [S.2(f)].

Right to Information means the right to:

inspect works, documents, records.

take notes, extracts or certified copies of documents or records.

take certified samples of material.

obtain information in form of printouts, diskettes, floppies, tapes, video cassettes or in any other electronic mode or through printouts [S.2(j)].

What is not Open to Disclosure?

The following is exempt from disclosure [S.8)]:-

1. Information, disclosure of which would prejudicially affect the sovereignty and integrity of India, the security, strategic, scientific or economic interests of the State, relation with foreign State or lead to incitement of an offence;
2. Information which has been expressly forbidden to be published by any court of law or tribunal or the disclosure of which may constitute contempt of court;
3. Information, the disclosure of which would cause a breach of privilege of Parliament or the State Legislature;
4. Information including commercial confidence, trade secrets or intellectual property, the disclosure of which would harm the competitive position of a third party, unless the

competent authority is satisfied that larger public interest warrants the disclosure of such information;

5. Information available to a person in his fiduciary relationship, unless the competent authority is satisfied that the larger public interest warrants the disclosure of such information;
6. Information received in confidence from foreign Government;
7. Information, the disclosure of which would endanger the life or physical safety of any person or identify the source of information or assistance given in confidence for law enforcement or security purposes;
8. Information which would impede the process of investigation or apprehension or prosecution of offenders;
9. Cabinet papers including records of deliberations of the Council of Ministers, Secretaries and other officers;
10. Information which relates to personal information the disclosure of which has no relationship to any public activity or interest, or which would cause unwarranted invasion of the privacy of the individual;
11. Notwithstanding any of the exemptions listed above, a public authority may allow access to information, if public interest in disclosure outweighs the harm to the protected interests.

Can there be permission for partial disclosure? Only that part of the record which does not contain any information which is exempt from disclosure and which can reasonably be severed from any part that contains exempt information, may be provided. [S.10]

The List of those who are Excluded?:

Central Intelligence and Security agencies specified in the Second Schedule like IB, R&AW, Directorate of Revenue Intelligence, Central Economic Intelligence Bureau, Directorate of Enforcement, Narcotics Control Bureau, Aviation Research Centre, Special Frontier Force, BSF, CRPF, ITBP, CISF, NSG, Assam Rifles, Special Service Bureau, Special Branch (CID), Andaman and Nicobar, The Crime Branch-CID-CB, Dadra and Nagar Haveli and Special Branch, Lakshadweep Police. Agencies specified by the State Governments through a Notification will also be excluded. The exclusion, however, is not absolute and these organizations have an obligation to provide information pertaining to allegations of corruption and human rights violations. Further, information relating to allegations of human rights valuations could be given but only with the approval of the Central or State Information Commission, as the case may be [S.24)].

Procedure for Request of Information

The application procedure for requesting information is such that one can apply in writing or through electronic means in English or Hindi or in the official language of the area, to the PIO, specifying the particulars of the information sought for. While applying one should mention the reason for seeking information are not required to be given. One should also submit the fees as may be prescribed (if not belonging to the below poverty line category).

Time Limit to Get the Information

- 30 days from the date of application.
- 48 hours for information concerning the life and liberty of a person.
- 5 days shall be added to the above response time, in case the application for information is given to Assistant Public Information Officer.
- If the interests of a third party are involved then time limit will be 40 days (maximum period + time given to the party to make representation).
- Failure to provide information within the specified period is a deemed refusal.

Fee Applicable

- Application fees to be prescribed which must be reasonable;
- If further fees are required, then the same must be intimated in writing with calculation details of how the figure was arrived at;
- Applicant can seek review of the decision on fees charged by the PIO by applying to the appropriate Appellate Authority;

- No fees will be charged from people living below the poverty line;
- Applicant must be provided information free of cost if the PIO fails to comply with the prescribed time limit.

Grounds for Rejection

- If it is covered by exemption from disclosure. (S.8)
- If it infringes copyright of any person other than the State. (S.9)

6.5 Information Commissions

Central Information Commission

- Central Information Commission to be constituted by the Central Government through a Gazette Notification.
- Commission includes 1 Chief Information Commissioner (CIC) and not more than 10 Information Commissioners (IC) who will be appointed by the President of India.
- Oath of Office will be administered by the President of India according to the form set out in the First Schedule.
- Commission shall have its Headquarters in Delhi. Other offices may be established in other parts of the country with the approval of the Central Government.
- Commission will exercise its powers without being subjected to directions by any other authority (S.12).

Eligibility Conditions for the Appointment of CIC/IC

- Candidates for CIC/IC must be persons of eminence in public life with wide knowledge and experience in law, science and technology, social service, management, journalism, mass media or administration and governance.
- CIC/IC shall not be a Member of Parliament or Member of the Legislature of any State or Union Territory. He shall not hold any other office of profit or connected with any political party or carrying on any business or pursuing any profession (S.12).
- Appointment Committee includes Prime Minister (Chair), Leader of the Opposition in the Lok Sabha and one Union Cabinet Minister to be nominated by the Prime Minister.

Term of Office and Other Service Conditions of CIC

- CIC shall be appointed for a term of 5 years from date on which he enters upon his office or till he attains the age of 65 years, whichever is earlier.
- CIC is not eligible for reappointment.
- Salary will be the same as that of the Chief Election Commissioner. This will not be varied to the disadvantage of the CIC during service (S.13).

Term of Office and Other Service Conditions of IC

- IC shall hold office for a term of five years from the date on which he enters upon his office or till he attains the age of sixty-five years, whichever is earlier and shall not be eligible for reappointment as IC.
- Salary will be the same as that of the Election Commissioner. This will not be varied to the disadvantage of the IC during service.
- IC is eligible for appointment as CIC but will not hold office for more than a total of five years including his/her term as IC (S.13).

State Information Commission

- The State Information Commission will be constituted by the State Government through a Gazette notification. It will have one State Chief Information Commissioner (SCIC) and not more than 10 State Information Commissioners (SIC) to be appointed by the Governor.
- Oath of office will be administered by the Governor according to the form set out in the First Schedule.
- The headquarters of the State Information Commission shall be at such place as the State Government may specify. Other offices may be established in other parts of the State with the approval of the State Government.
- The Commission will exercise its powers without being subjected to any other authority.

The Term of Office and Other Service Conditions of SCIC/SIC

- The Appointments Committee will be headed by the Chief Minister. Other members include the Leader of the Opposition in the Legislative Assembly and one Cabinet Minister nominated by the Chief Minister. The qualifications for appointment as SCIC/SIC shall be the same as that for Central Commissioners.
- The salary of the State Chief Information Commissioner will be the same as that of an Election Commissioner. The salary of the State Information Commissioner will be the same as that of the Chief Secretary of the State Government (S.15).

6.6 The Indian Political System

India is a federal state with its Central Government in New Delhi which is the capital of the country. India comprises 29 State Governments and 6 Union Territories.

The Constitution provides for trifurcation of responsibilities between the Executive, the Legislature and the Judiciary. The executive comprises the President, the Vice-President and the Council of Ministers headed by the Prime Minister. All executive powers are vested in the President, who acts on the advice of the Council of Ministers. The Prime Minister is the leader of the majority party in the Parliament and heads the Council of Ministers.

Political and Government Environment

In India, the British came for business and did everything here for money; but all this changed the whole political system of India. Not only this, the Indian freedom movement acquired strength to fight against Britishers when the common man, including farmers and artisans joined the movement. Gandhiji's first organized campaign in India was in Champaran for the economic rights of the peasants of Champaran. Similarly, the second big campaign which earned the title 'Sardar' for Sardar Vallabh Bhai Patel was 'Bardoli Satyagraha.' The results of political movements like Swadeshi and Dandi March too, lay in economics.

After the Second World War many countries were devastated and had to begin their journey towards development and growth afresh. Simultaneously, a few countries like India which won freedom too, had to begin start their journey towards development. But these countries chose different routes to reach their destination. While some chose the capitalist path, others followed the communist way, and certain other countries choose a mixed economy. But selection of the economic system was not on the basis of economic merits alone. It was the prevailing political system and the political beliefs in the respective country which governed its fate.

So it is clear that economics and politics are closely related. It is the beliefs of political leaders that decides the fate of economic policies and it is the economic condition of a country and masses which influences the political fate of the country.

This unit throws light on this topic with the objective of demonstrating how a government can influence business. It is the government that influences business and in some countries it even decides the following things:

- What to produce?
- Where to produce?
- When to produce?

- How much to produce?
- How to produce? (manufacturing process)
- To whom to sell?
- How to distribute?
- What should be the price?

Answers to these questions lies with the government to a great extent. It is true that in India, before liberalisation, license and permit raj was so deeply ingrained that before starting any venture, an entrepreneur or industrial house needed not only to get registered with the government authority, but also to obtain various licenses from the government.

Not only this, in India prior to 1991 it was the government that decided what the private sector would produce, and where and how much it would produce. In fact, it was not the market forces but the government that used to decide the interest rate and forex rate. Business was at the mercy of the government. And to do business one didn't have to be an expert in strategy but had to be good at liaisoning with the government.

In 1991 after the failure of socialism the govt. was forced to ushere in a policy of liberalisation which brought innumerable opportunities but also many threat so. While some companies expanded manifold after liberalisation, quite a few had to close or sell their operations. Various Mergers and Acquisitions have taken place in the last 15 years in India.

Political Institutions

The Union Legislature (Parliament) comprises two houses–the Lok Sabha (lower house, elected directly by the people of India) and the Rajya Sabha (upper house, elected by the state legislatures which in turn, are elected directly by the people). The Parliament is responsible for enacting laws in India.

A similar structure exists in the states, where the head of the Executive is the Governor, who is appointed by the President of India. The Council of Ministers is headed by the Chief Minister and is responsible to the State Legislature (Legislative Assembly). The people of each state elect the Legislative Assembly, which performs functions similar to those performed by the Parliament.

The Constitution of India has clearly demarcated the powers of the Centre and the States in the form of three lists–the Union, State and Concurrent lists. The Union and State Governments pass legislation on subjects under the Union and State lists, respectively. However, for subjects on the Concurrent list where both Centre and the States can enforce laws, the decision-making powers of the Centre supersede those of the states.

India is a secular country with no official religion. The Constitution guarantees fundamental rights to the people, including freedom of speech, occupation and religion. India has a well- developed independent judicial system. The Supreme Court is the apex judicial authority. Apart from the Supreme Court, the Indian judicial system has High Courts in every state, and lower courts at the town levels.

6.7 IntellectualPropertyRights(IPR)

In India, Intellectual Property Rights (IPR) fall under item 49 of list - the union list of the 7th Schedule to the Constitution. The items read - patents, inventions and designs; copyright; trademark; and merchandise marks. Patent are thus is a Union subject. Patent protection was first introduced in 18th century. Formal patent protection in Indian was introduced by Patent Act, 1911.

A patent is a grant of property rights by the government to an inventor. Patents are exclusive property rights that can be sold, transferred, willed, licensed or used as collateral, much like other valuable assets. In fact, most independent inventors do not commercialize their inventions or create new products from their ideas. Instead, they sell or license their patents to others who have the resources to develop products and commercial markets.

Patent law stipulate broad categories of what can and cannot be patented and in the words of the statute, any person who "invents or discovers any new and useful process, machine, manufacture, composition or matter or any new and useful improvement thereof, may obtain a patent."

Intellectual property protection plays an important role in gaining advantageous position in the competitive game for economic growth. Scientists and policy makers need information and

facilities for protecting the products of intellectual power of Indian scientists. Hence, a Biotechnology Patent Facilitation Cell was established by the Department of Biotechnology (DBT) in 1999.

Historical Perspective of IPRs/Patents Law in India:

1856: The Act on Protection of Invention based on the British Patent Act of 1852.

1859: The Act modified as Act XV; patent monopolies called exclusive privileges (making, selling and using invention in India and authorising others to do so for 14 years from date of filing specification).

1872: The Patents and Designs Protection Act.

1883: The Protection of Inventions Act.

1888: Consolidated as the Inventions and Designs Act.

1911: The Indian Patents and Designs Act (under the management of the Controller of Patents and Designs). This came into force from August 15, 1947.

1914: Copy of the British Copyright Act of 1911 with suitable modifications for British India

1940: Legislation for Protection of the Trade Mark Act, brought into force from June 1, 1942.

1957: Adopted many principles of the British Copyright Act of 1956. This came into force to cope with new problems in law of copyright created by technological advances in the fields of communication, broadcasting, microfilming, photolithography, movies, cinemas and talkies.

1959: On November 25, 1959 the Act, Trade Mark of 1940 amended as the Indian Trade & Merchandise Marks Act, 1958. (Replaced by new Act in 1999.)

1967: The Patent Bill introduced in Parliament.

1970: The Indian Patents Act, 1970. The Design Act of 1911 retained without changes.

1972: The Patents Act (Act 39 of 1970) came into force on April 20, 1972.

1983: Amendments to availing the benefits arising from the revision of the Berne Convention and the Universal Copyright Convention to which India adheres.

1984: Amendments to discourage and prevent piracy prevailing in the video film and records.

1992: Amendment to increase protection time to author's lifetime + 60 years.

1992: Amendment proposed for a "New Act" in line with internationally accepted norms. Debate continuing.

1994: Amendment to give effect to the obligation arising from the General Agreement on Trade and Tariff (GATT). Copyright protection extended to new areas of creative work, including the computer industry. Special rights introduced to cover the performing arts.

1999: The Trade Marks Act replaces the four-decade-old Trade and Merchandise Act. It seeks to make trade mark offences cognisable and incorporate provisions in tune with developments around the world.

It provides for registration of trade marks for services too, registration of collective marks owned by associations and setting up of an appellate board and appointment of a registrar of trademarks who shall be known as the Controller-General of Patents, Designs and Trade Marks to meet the requirement of postulates of the World Trade Organisation and the emerging globalisation of Indian economy.

1999: The Copyright (Amendment) Act amends the Copyright Act, 1957. It seeks to extend the protection of performers' rights from 25 to 50 years and to provide for powers to the government to extend the provisions of the Act to broadcasts and performances made in India.

This is intended to benefit Indian broadcasting organisations and performers to get reciprocal protection for their lights in other countries which are signatories to the agreement on Trade Related Aspect: for Intellectual Property Rights (TRIPS).

1999: The Geographical Indication of Goods (Registration and Protection) Act seeks to appoint the Controller- General of Patents, Designs and Trademarks to function as the Registrar of Geographical Indications.

1999: First Amendment Under the exclusive marketing right (EMR) system, it is possible to make a patent to application for a substance that is intended for use or is capable of being used as a

medicine or drug if certain conditions are fulfilled. India had a-10-year transition period (starting from the end of 1994) before the application for product claims would be processed.

2000: Second Amendment 1 This amendment to the 1970 Patents Act sought to bring India's patent laws in line with WTO obligations. 1 New definition of 'invention' as a new product or process involving an inventive step and capable of industrial application. 1 Method or process of testing during the process of manufacture made patentable.

1 Software patents excluded specifically

1 Provided for patenting of micro-organisms and microbiological processes, thus enabling patent protection for biotechnological inventions both in the agricultural sector and for pharmaceuticals produced through biotechnology.

2005: Third Patents (Amendment) Bill, 2005 to replace the December 2004 Ordinance promulgated to meet the January 1, 2005 WTO deadline to move to new patents regime.

With passage of the 2005 Amendment Act, a product patent regime has been brought in.

The salient features of the 2005 Amendment Act are:

i. Extension of product patent protection to all fields of technology, by extending it to drugs, food and chemicals.

ii. Deletion of the provision relating to exclusive marketing rights (EMRs), which would now become redundant, and introduction of a transition provision for safeguarding EMRs already granted.

iii. Addition of a new provision to circumscribe rights in respect of mailbox applications so that patent rights in respect of the mailbox shall be available only from the date of grant of patent, and not retrospectively from the date of publication.

iv. To prevent frivolous claims it clarifies that the 'mere discovery of a new form of a known substance which does not result in the, enhancement of a known efficacy' is not patentable. But there is an ambiguity on what qualifies as 'enhancement of a known efficacy'.

Thus frivolous innovations resulting in what is called 'ever greening' of patents have been taken care of. It is a common practice among Pharma majors to make incremental modified drags (IMD) by making trivial changes—a new formulation, a new combination of active ingredients, or new salts and esters of approved compounds—just to claim patent and keep their monopoly after the expiry of the original patent.

i. Saks, esters, ethers, polymorphs, meta-bolites, particle size, isomers, mixtures of isomers, complexes, combinations and other derivatives of known substances cannot be patented, unless they 'differ significantly in properties with regard to efficacy'.

ii. The applicant has to comply with an 'inventive step', which means that the invention has to involve technical advances as compared to existing knowledge or having economic significance or both. This requirement for technical advance has been diluted as a patent can now be granted on economic significance alone.

iii. Patenting of micro-organisms has been referred to an expert committee.

iv. Rationalisation of provisions relating to time-lines with a view to introducing flexibility and reducing the processing time for patent applications, and simplifying and rationalising procedures.

Exemptions: India at present does not allow the patenting of the following:

i. Frivolous claims contrary to well-established natural laws.

ii. Anything contrary to law or morality or injurious to public health.

iii. Mere arrangement or rearrangement or duplication of known devices, each functioning independently of on another in a known way.

iv. A method or process of testing applicable during the process of manufacture of rendering the machine, apparatus or other equipment more efficient or for the improvement or restoration of the existing machine, apparatus or other equipment or for the improvement of control or manufacture.

v. A method of agriculture or horticulture.

vi. Inventions related to atomic energy.

vii. Computer software.

viii. Aesthetic creations.

ix. Discoveries, scientific theories, mathematical methods.

x. Schemes, rules or methods for performing mental acts playing games or doing business.

xi. Presentation of information.

xii. Methods of treating humans or animals through surgery or therapeutical diagnostics.

xiii. Animals and plants, and biological methods of rearing/growing them (however, micro-organisms are patentable in India).

xiv. Products made by chemical synthesis—foods, medicines.

Rights

Intellectual property rights include patents, copyright, industrial design rights, trademarks, plant variety rights, trade dress, geographical indications, and in some jurisdictions trade secrets. There are also more specialized or derived varieties of sui generis exclusive rights, such as circuit design rights (called mask work rights in the US), supplementary protection certificates for pharmaceutical products (after expiry of a patent protecting them), and database rights (in European law). The term "industrial property" is sometimes used to refer to a large subset of intellectual property rights including patents, trademarks, industrial designs, utility models, service marks, trade names, and geographical indications.

Patents

A patent is a form of right granted by the government to an inventor or their successor-in-title, giving the owner the right to exclude others from making, using, selling, offering to sell, and importing an invention for a limited period of time, in exchange for the public disclosure of the invention. An invention is a solution to a specific technological problem, which may be a product or a process and generally has to fulfill three main requirements: it has to be new, not obvious and there needs to be an industrial applicability. To enrich the body of knowledge and stimulate innovation, it is an obligation for patent owners to disclose valuable information about their inventions to the public.

Copyright

A copyright gives the creator of an original work exclusive rights to it, usually for a limited time. Copyright may apply to a wide range of creative, intellectual, or artistic forms, or "works".[Copyright does not cover ideas and information themselves, only the form or manner in which they are expressed.[35]

Industrial design rights

An industrial design right (sometimes called "design right" or design patent) protects the visual design of objects that are not purely utilitarian. An industrial design consists of the creation of a shape, configuration or composition of pattern or color, or combination of pattern and color in three-dimensional form containing aesthetic value. An industrial design can be a two- or three-dimensional pattern used to produce a product, industrial commodity or handicraft. Generally speaking, it is what makes a product look appealing, and as such, it increases the commercial value of goods.

Plant varieties

Plant breeders' rights or plant variety rights are the rights to commercially use a new variety of a plant. The variety must amongst others be novel and distinct and for registration the evaluation of propagating material of the variety is considered.

Trademarks

A trademark is a recognizable sign, design or expression which distinguishes products or services of a particular trader from similar products or services of other traders.

Trade dress

Trade dress is a legal term of art that generally refers to characteristics of the visual and aesthetic appearance of a product or its packaging (or even the design of a building) that signify the source of the product to consumers.

Trade secrets

A trade secret is a formula, practice, process, design, instrument, pattern, or compilation of information which is not generally known or reasonably ascertainable, by which a business can obtain an economic advantage over competitors and customers. There is no formal government protection granted; each business must take measures to guard its own trade secrets (e.g., Formula of its soft drinks is a trade secret for Coca-Cola.)

6.8 Corporate Social Responsibility

What Is Corporate Social Responsibility (CSR)?

Corporate social responsibility (CSR) is a self-regulating business model that helps a company be socially accountable—to itself, its stakeholders, and the public. By practicing corporate social responsibility, also called corporate citizenship, companies can be conscious of the kind of impact they are having on all aspects of society, including economic, social, and environmental.

To engage in CSR means that, in the ordinary course of business, a company is operating in ways that enhance society and the environment, instead of contributing negatively to them.

Understanding Corporate Social Responsibility (CSR)

Corporate social responsibility is a broad concept that can take many forms depending on the company and industry. Through CSR programs, philanthropy, and volunteer efforts, businesses can benefit society while boosting their brands.

As important as CSR is for the community, it is equally valuable for a company. CSR activities can help forge a stronger bond between employees and corporations, boost morale and help both employees and employers feel more connected with the world around them.

For a company to be socially responsible, it first needs to be accountable to itself and its shareholders. Often, companies that adopt CSR programs have grown their business to the point where they can give back to society. Thus, CSR is primarily a strategy of large corporations. Also, the more visible and successful a corporation is, the more responsibility it has to set standards of ethical behavior for its peers, competition, and industry.

Basic Constituents of CSR

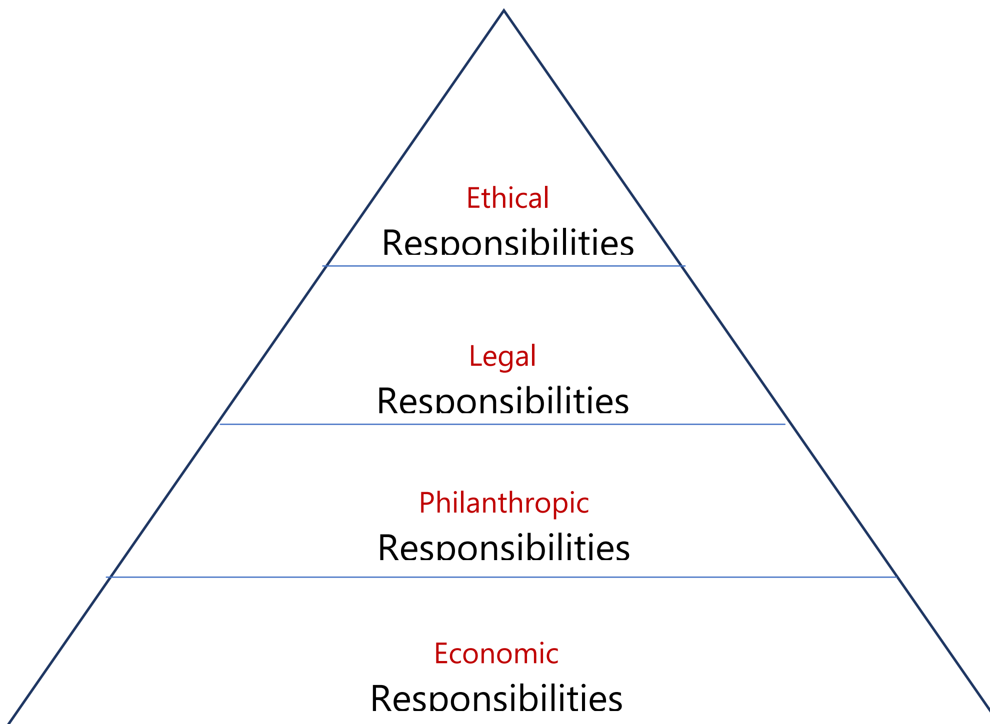
Contribute towards a sustainable economic development

Make desirable social changes

Improvement of social environment

Towards business and society

Carroll's Pyramid Of CSR-The Four Responsibilities



Need of CSR

- To reduce the social cost.
- To enhance the performance of employees.
- It a type of investment.
- It leads to industrial peace.
- It improves the public image.
- Can generate more profit.
- To provide moral justification.
- It satisfies the stakeholders.

Examples of CSR Activities

- IBM UK - Reinventing Education Partnership programme Interactions and sharing of knowledge through a web-based technology - the "Learning Village" software. Culture of openness and sharing of good practice
- AVON - a partnership with Breakthrough Breast Cancer, and its Breast Cancer Crusade has raised over 10 million pounds since its launch 12 years ago
- TOI's Lead India campaign, campaign for contribution towards educating the poor

Summary

There exists a close relationship between the political and economic environment of a country. The governing body of the State regulates and influences every aspect of the business. It is true not only in socialist economies but also of capitalist economies. The government performs various functions, which directly influence the business as it is the government which is a regulatory authority in the state. As a regulator of the economy it decides the policy by which it limits the spheres of investment by the industry for small scale, public and co-operative sector. It decides the licensing and expansion policy through which it restricts entry and exit in business. Through its Foreign Direct Investment policy the govt. decides the extent an the avenues where the FDI can be invested.

Through its Import and Export Policy it can increase or lower the trade barrier. Through the taxation and monetary policy the government can influence the disposable income of people, interest rate and availability of funds for the industry, thus influencing both the supply and demand. Not only this, it is the government which influences business by investing in infrastructure projects, thus creating a conducive environment for business. It also invests in the development of HRD that provides trained and skilled HR to the industry. It is the government that makes laws for the smooth functioning of business. So we see that the government influences every aspect of business.

Before the 1991 amendment, the MRTP law sought to control the concentration of economic power by requiring undertakings that had assets over ₹100 crores and/or were 'dominant undertakings' to register themselves with the Monopolies and Restrictive Trade Practices Commission.

The Commission can enquire into any restrictive, unfair or monopolistic trade practice (a) upon receiving a complaint from any consumer or a consumers' association, (b) on reference made by Central or state government, (c) on an application made by DGIR, (d) on its own.

The MRTP Act was implemented in keeping with India's adopted political ideology of socialism. Its basic objective was to restrict the concentration of economic power by restricting and controlling the big companies, but in reality it only restricted and controlled the growth of Indian economy.

In India, Intellectual Property Rights (IPR) fall under item 49 of list - the union list of the 7th Schedule to the Constitution.

India has allowed its pharmaceuticals makers to copy drugs patented abroad since the early 1970s as long as they use different manufacturing processes.

Incrementally Modified Drugs (IMDs) include new formulations, new combinations of active ingredients or new salts or esters of approved compound.

The new patent bill is a sea of opportunities. It brought numerous business opportunities for the Indian pharmaceutical industry and the industry reaping benefits from it.

The Right to Information Act (RTI) comes into force on the 12th October, 2005 (120th day of its enactment on 15th June, 2005). The Act extends to the whole of India except the State of Jammu and Kashmir.

Only that part of the record which does not contain any information which is exempt from disclosure and which can reasonably be severed from any part that contains exempt information, may be provided., under RTI

The application procedure for requesting information is such that one can apply in writing or through electronic means in English or Hindi or in the official language of the area, to the PIO, specifying the particulars of the information sought for.

Order of the Commission shall be pronounced in open proceedings and be in writing duly authenticated by the Registrar or any other officer authorized by the Commission for the purpose of deciding appeals.

Keywords

Foreign Direct Investment: It is the government that decides whether MNCs can invest in a country or not. Because of these government policies there are very few MNCs in India.

Incentives: The government also regulates the industry by providing incentives in the key thrust areas. For instance, it gives tax beaks if an industrial unit is established in a backward area. It also grants subsidies under various schemes to the small scale sector.

Legal Role: The Parliament is the law making authority and it is the council of ministers that presents the proposed law on the table of parliament.

Licensing: Licensing is an effective tool in the hands of the government to regulate business. Earlier, for almost every new venture a licence was required from the government, which used to keep a tight control on production in the private sector. But now only investment in a few industries requires licences.

SEZ: To support export, it establishes special zones like SEZs, it grants subsidies and tax relaxations on exports, import licenses and less import duty for exporters, and easy financing through banks.

Supply of Foreign Exchange (FOREX): The government not only regulates import and export through its policy decisions, but also controls it through control of the supply of foreign exchange.

Taxes: Through taxes too the government regulates industry. The Government usually imposes a high rate of tax on the industry which it doesn't want to encourage.

Appellant: A person who appeals for information

Capital Account Transactions: Transactions that tracks the movement of funds for investments and loans into and out of a country

CIC: Central Information Commission

Collective Bidding: Agreement among the contenders for bid to be offered at auction or not to be bid at auction.

IMD: Incrementally Modified Drugs

MRTP: Monopolies and Restrictive Trade Practice

Patents: Grant of property rights by the government to an inventor

Restrictive Trade Practice: One which has, or may have, the effect of preventing, distorting or restricting competition in any manner

SIC: State Chief Information Commissioner

Self – Assessment Questions

1. In the year 2002, the Competition Act was enacted replacing

A. Trade Marks Act
B. Copyright Act
C. Contract Act
D. MRTP Act

2. Which of the following is not regulated by Competition act 2002?

A. Anti-Competitive agreements
B. Predatory Pricing
C. Medical Negligence
D. Abuse of Dominant Position

3. What is the full form of FEMA?

A. Foreign Exchange Management Act
B. Foreign Exchange Management Agency
C. Foreign Exchange Management Agent
D. Foreign Exchange Managing Act

4. FEMA was introduced in which of the following year?

A. 1980
B. 1990
C. 1989
D. 1999

5. In a _________ transaction the quoting bank parts with foreign currency and acquires home currency

A. Sale
B. purchase
C. spot
D. none of the above

6. The Central Information Commission falls under which ministry?

A. Ministry of Home Affairs
B. Ministry of Personnel
C. Ministry of Human Resource Development
D. None of the above

7. What is the tenure of Chief Information Commissioner?

A. 5 years
B. 3 years
C. 6 years
D. Not fixed

8. How could a Public Information Officer receive applications?

A. Those submitted by a requester in hand
B. Those sent by an applicant by E-Mail
C. Transferred by another Public Authority
D. All of them

9. How many TYPES of `Public Authorities` are there?

A. Central Public Authorities
B. State Public Authorities
C. Both Central and State
D. None of these

10. Union Budget is always presented first in ________

A. The Lok Sabha

B. The Rajya Sabha
C. Joint session of the Parliament
D. Meeting of the Union Cabinet

11. Which one of the following statements is false?

A. The legislative function is primarily responsible for making, unmaking, and amending the law.
B. The legislative function is subject to the judicial function of government.
C. The executive function gives effect to and enforces the law.
D. The primary judicial function is to interpret and apply the law, resolve disputes, provide remedies, and determine punishments when the law is breached.

12. The term "WIPO" stands for:

A. World Investment policy organization
B. World intellectual property organization
C. Wildlife Investigation and Policing organization
D. World institute for Prevention of organized crime

13. Which of the following is an "intellectual property" as per IPR Laws in India.

A. Original literary work
B. Industrial Design of Maruti800 car
C. Trademark of Tata company
D. All the above

14. A company wishes to ensure that no one else can use their logo.

A. Copy rights
B. Trade mark
C. Patent
D. Industrial designs

15. A new way to process milk so that there is no fat in any cheese made from it is covered under:

A. Copy rights
B. Trade mark
C. Patent
D. Industrial designs

16. Which of the following would most effectively act as the primary objective of a business organization?

A. To communicate with shareholders.
B. To make a profit.

C. To mediate between the organization and the environment.

D. All of the above

17. Which of the following does the term Corporate Social Responsibility relate to?

A. Environmental practice.

B. Ethical conduct.

C. Human rights and employee relations.

D. All of the above.

18. Who are organisational stakeholders?

A. Employees

B. Government

C. Customers

D. All of the above.

19. Which of the following statements about CSR is untrue?

A. It has a strong impact on corporate reporting practices,investment strategies, SCM & public relations.

B. It is about striking balance between economic performance , meeting stakeholders expectations & responsibility towards society.

C. It is about recognizing that no organisation is an island & must operate in partnership with the outside world.

D. Its main concern is about maintaining a competitive edge in global market

Answers for Self Assessment

1.	D	2.	C	3.	A	4.	D	5.	B
6.	B	7.	A	8.	D	9.	C	10.	A
11.	B	12.	B	13.	D	14.	B	15.	C
16.	B	17.	D	18.	D	19.	D		

Review Questions

1. "The Indian judiciary is known for its independence and extensive powers". Comment.
2. What would have happened if there was no MRTP Act? Would it affect you as a consumer?
3. Analyse the governing procedure and rules for MRTP Act.
4. "The MRTP Act was implemented in keeping with India's adopted political ideology of socialism." Discuss the validity of the statement.

5. Critically analyse the Foreign Exchange Regulation Act.
6. What do you think, which one holds good in Indian environment – FERA or FEMA? Justify.
7. Contrast between the transactions in the capital and current account. Which is most likely to involve you as a common man?
8. Discuss the relevance of the penalty system under FEMA. "Patents are just as good as valuable assets for any firm". Discuss.
9. How important it is for a pharmaceutical firm to get patents? Discuss the need for patents in other industries also.
10. Earlier 'new use for a known substance' could not be patented. Why? What would happen if word 'mere' is added to it, (i.e. mere new use)?
11. Critically analyse the concept of IMD. "Compulsory licenses in the new patent bill are not very effective". Comment.
12. As a citizen of India, what kind of information you can seek and what can you do if you are not getting the required information?
13. Analyse the role of government in RTI Act. How can a good citizen be an ambassador of RTI Act?

Further Readings

Pandey GN, Environment Management,Vikas Publishing

Paul Justin, Business Environment: Text and Cases, Tata McGraw Hill, New Delhi

Saleem Sheikh, Business Environment, Pearson Education, New Delhi

Vivek Mittal, Business Environment, Excel Books, New Delhi

exim.indiamart.com/act-regulations/fera-1993.html

rti.gov.in

www.businessgyan.com/content/view/216/427

www.ias.ac.in/currsci/jun102000/editorial.pdf

www.icrpc.org/icrpc.org.mrtp.htm
www.valuenotes.com/misc/pressfera.asp?ArtCd=18084

https://en.wikipedia.org/wiki/The_Competition_Act,_2002

https://cleartax.in/s/competition-act-2002

https://www.yourarticlelibrary.com/intellectual-property/the-intellectual-property-protection-in-india/11247

Unit 07: Industrial and Investment Policy

CONTENTS

Objectives

Introduction

7.1 Industrial Policy

7.2 Industrial Licensing

7.3 Stock Exchanges

7.4 Foreign Direct Investment

Summary

Keywords

Self Assessment

Answers for Self Assessment

Review Questions

Further Readings

Objectives

After studying this unit, you will be able to:

- State the objectives of industrial policy
- Assess the industrial policies of India
- Know about stock exchanges and Securities and Exchange Board of India (SEBI)
- Explain the concepts of Liberalisation, Privatisation and Globalisation

Introduction

This unit deals with two major topics – industrial policy and regulatory structure. Industrial policy is one of the important government documents, which has a lasting impact on a country's industry. It is a policy document prepared by the government which states how the industrial environment of the country will take shape in the future.

The role of industrial policy is more important in a planned economy like India. Till liberalisation came about, the industry was totally regulated by the government. In a planned economy, industrial policy demarcates the areas in which the government will spend and the role it is going to play in regulating the private industry. The past 55 years have seen many changes in India's industrial policy.

Before independence, the industrial policy of British India was formulated with the sole purpose of exploiting the resources of the country for Britain's advantage. This was because before independence the India's balance of trade with Britain was positive but the balance of payment was adverse.

Soon after independence, in 1948, India's first industrial policy was unveiled, and in 1956 a second and more comprehensive industrial policy was announced. This policy remained broad guideline for almost all the industrial policies which were followed upto 1980. To understand industrial policy, it is essential to understand the policy makers and the situation in which the policy was framed.

Almost all the leaders of India's freedom movement were ardent believers in a socialist philosophy, regardless of their political differences. Both Jawahar Lal Nehru and Netaji Subhash Chandra Bose wanted to build a socialist system in India. Even Shaheed-e-Azam Bhagat Singh was a socialist by heart.

These ideas were reflected in the economic decisions made by the government of free India. The objective of the Industrial Policy of India at the time was to achieve equality in society. But in the coming years, India turned from an agriculturally rich nation to one of the poorest nations. Nehru's model had failed and India had to resort to the characteristics of a capitalist economy.

The Union Government enacted the Securities Contract (Regulation) Act in 1956 (SCR Act) for the regulation of stock exchanges and contracts in securities traded on the stock exchanges and contracts in securities traded. The SCR Act and the Securities Contracts (Regulation) Rules (1957) constitute the legal framework for the regulation of stock exchanges and protection of the interest of investors.

The Securities and Exchange Board of India Act, 1992 provides for the establishment of the Securities and Exchange Board of India (SEBI) to protect the interest of securities and to promote the development of securities and to regulate the securities market.

7.1 Industrial Policy

Objectives of Industrial Policy

- It strives for a balanced regional development, i.e., it tries to ensure that industries are not clustered in specific areas but develop in all parts of the country.
- It tries to ensure that the scarce resources of the nation are utilised in the interest of the nation and not in the interest of profit.
- It tries to create employment opportunities.
- It provides enough power to the government to regulate the industry.
- It checks the concentration of economic power in a few hands. This happened in South Korea where a major portion of GDP came only from five major companies.
- It promotes entrepreneurship in the nation.
- It clearly demarcates the areas where the government will invest and where the private sector will invest, and specifies how the government will regulate the industry.
- It ensures that there is no flight of capital.
- It aims at providing the juvenile Indian industry enough protection from multinationals.
- It provides direction to financial institutions as to which industry they have to lend to liberally, and where they have to restrict the availability of finance.

Industrial Policy 1948

The first industrial policy itself paved the path for mixed economy in the nation. It accepted the existence of both public and private sectors in the economy. It assigned a progressive role for the State, for investment in industrialisation, and in regulating the private sector. It also accepted the importance of small and cottage industries in the development of local resources such as capital, labour, raw material, etc. It recognised the role of foreign capital in industrial development but stated that there should be strict regulation of foreign capital. The 1948 policy divided the industry into four categories:

- Industries where the State had a Monopoly: Three industries were put under this category: Arms and Ammunition, Atomic Energy, and Rail Transport.
- New Investment by State: Six industries were specified under this: coal, iron and steel, aircraft manufacturing, ship building, manufacture of telephone, telegraph, and wireless apparatus (excluding radio sets) and mineral oil. However, existing private sectors were allowed to continue for ten years after which the government could review the situation and acquire any undertaking.
- The Field of Government Control: These industries were to be regulated and directed by the government. Some of these industries were automobiles, heavy chemicals, heavy machinery, machine tools, fertilisers, electrical engineering, sugar, paper, cement, cotton, and woolen textiles.
- Industries open to Private Sector: The remainder of the industrial field was open to the private sector.

Industrial Policy 1956

The draft of the 1956 industrial policy was very comprehensive. This laid emphasis on the establishment of a socialist pattern of society. This policy also emphasised that industrial development of the country should be guided by the Directive Principles of the Constitution.

Objectives of the 1956 Industrial Policy

To accelerate the rate of growth and speed up industrialisation.

To expand public sector.

To develop heavy and machine industry.

To check the concentration of economic power in a few hands.

To reduce the disequilibrium in the distribution of income and wealth.

To build a cooperative sector.

To expand cottage, village and small-scale industry.

To achieve balanced regional development and other socio-economic objective.

Features of the Policy

The 1956 resolution divided industries into three categories:

Monopoly of the State

Mixed Sector (Public and Private both allowed)

Industries left for private sector

Monopoly of State

In this list (Schedule A) industries whose future development would be the exclusive responsibility of the state were included. The 17 industries listed in this categories were: arms and ammunition, atomic energy, iron and steel, heavy castings, heavy machinery, heavy electrical industries, coal, mineral oils, iron ore and other important minerals like copper, lead and zinc, aircrafts, air transport, railway transport, shipbuilding, telephone, telegraph and wireless equipment generation and distribution of electric energy.

Mixed Sector of Public and Private Enterprise

In this section 12 industries (listed in Schedule B) were included. These will be progressively state owned and where the State will generally take the initiative in establishing new undertakings. But in these private enterprises will also be expected to supplement the efforts of the State. Minerals (except minor minerals), road transport, sea transport, machine tools, ferro-alloys and tool steels, basic and intermediate products required by chemical industries such as manufacture of drugs, dyestuffs and plastics, antibiotics and other essential drugs, fertilizers, synthetic rubber, chemical pulp, carbonization of coal, and aluminium and other non-ferrous metals are included here. In these industries, the State would increasingly establish new units and increase its participation but would not deny the private sector opportunities to set up units or expand existing units.

Industries Left for the Private Sector

All remaining industries and their development were left to the private sector. The division of industries was not very strict. That is, there can be overlapping, for instance, licenses were later given to the private sector to invest in mining and oil. The government also invested in areas that were left for the private sector. The 1956 policy increased the area of operation for the State. Thereafter, the State began taking keen interest in the development of heavy industry and invested a good amount of money and resources. Not only this, it also promoted the private sector to work together as a manufacturer and supplier and also as a user of by-products.

The State accepted the role of the private sector and established and encouraged financial institutions to provide assistance to the private sector.

The 1956 Policy provided for rapid growth of villages and small industries. To remove regional disparities, this policy emphasised balanced regional growth. For this, it encouraged the establishment of industries in backward areas. This policy intended to improve the working conditions for labourers and expected industry to take care of the working conditions of labour and to ensure industrial peace for its rapid development. Like the 1948, Policy this one also accepted the importance of foreign capital in national development but maintained that the major interest and effective control should always be with Indians.

The 1956 industrial policy has been severely criticised on the basis that it laid too much emphasis on the public sector and restricted the development of the private sector. Also, the public sector performance was below par as there was no individual accountability. In the name of alleviating regional disparities, projects were established in locations that were not economically viable and only increased the cost of production.

The private sector did not take interest in long-term and big projects as the apprehension was that the public sector would play a dominant role in the economy and private sector would be further be squeezed. This feeling gained momentum as the State declared it could undertake any industry as and when it found suitable to do so. This restricted the growth of private sector.

It is also true that in 1956 the private sector was not in a position to invest in an industry with a higher gestation period. With the state investing heavily in this sector, it not only benefited the nation, but also the private sector, in the form of ancillary units, raw materials and machines, and in the overall growth of industry in the country.

The private sector was permitted to invest in certain areas reserved for the public sector-coal, oil, fertilisers, chemical engineering, etc. In the case of machine tools, nine licenses were given to HMT, whereas 226 licenses were given to the private sector in fertilisers. The public sector obtained 12 licenses and the private sector was given 42 licenses.

This shows that the Industrial Policy Resolution 1956 provided enough support and encouragement to the private sector.

Industrial Policy 1977

In March 1977 the first non-Congress government was at the centre. The Janata Party assumed power and Morarji Desai, a die-hard Gandhian, became the Prime Minister. The new government declared a new industrial policy.

The Janata govt. was of the views that during the past 20 years the excessive emphasis on heavy industry had to be corrected; emphasis has been given to heavy industry, and to curb unemployment and poverty small scale industry should be promoted. As a result, the number of items reserved for the small scale were increased significantly. The main elements of the Industrial Policy of 1977 were:

Development of the Small Scale Sector

The policy of Janata government was that anything which could be produced in small scale industry should be produced by them alone. As a result, items reserved for small scale industry went up from 180 to 807 in 1978. The small scale sector was classified into three categories:

- Cottage and household industries that provide self-employment on a wide scale;
- Tiny sector including investment in industrial units, in machinery and equipment upto 1 lakh, and situated in towns with a population of less than 50,000;
- Small-scale industries comprising industrial units with an investment upto 10 lakh and in case of ancillaries, with an investment in fixed capital upto 15 lakh.

The government established District Industries Centres (DIC) in each district for the development of small scale and cottage industries. The objective was to provide clearance to small scale industry projects under a single roof. A separate wing of IDBI was established to fulfil credit requirements of small scale industry. Khadi and village industries were revamped.

Large Scale Industry

The industrial policy prescribed the following areas for the large scale sector:

- Basic industries, essential for providing infrastructure as well as development of small scale and village industries, such as steel, non-ferrous metals, cement, oil refineries;
- Capital goods industries for meeting the machinery requirement of basic industries as well as small scale industries;
- High technology industries which required large scale production and which were related to agriculture and small scale development such as fertilizers, pesticides, petrochemicals, etc.; and

- Other industries that were outside the list of reserved items for the small scale sector and which were considered essential for the development of the economy such as machine tools, organic and inorganic chemicals.

Large Business Houses

The industrial policy of 1977 stated that funds of the public sector financial institutions and banks should be devoted to the growth of the small scale and medium scale units. Thus large business houses have to rely on their internally generated resources for financing new projects or expansion of existing ones.

Public Sector

The Janata government was not satisfied with the then role of the public sector. It felt that the public sector should not confine its role to strategic and heavy goods, but was rather of the view that the public sector should foray into consumer goods. It should encourage development of a wide range of ancillary industries, and contribute to the growth of decentralised production by making available its expertise in technology and management to small scale and cottage industries. This is the reason that government launched a soft drink named "Double Seven".

Approached towards Sick Units

The industrial policy 1977 declared support for Sick Units and efforts to revamp them. But it clearly mentioned that this was not blanket support. The process of continuously financing sick units would not continue indefinitely.

Assessment of Industrial Policy 1977

The 1977 Industrial Policy failed to achieve its objectives. On the one hand, as intended, it failed to restrict the growth of big business houses and multinationals. This is despite the fact that expansion was restricted for big business houses because they were denied any help from public financial institutions. The government forayed into consumer goods but without much success. The government reserved 807 items for the small scale industry but it increased its cost of production.

Industrial Policy 1991

The New Industrial Policy was announced on July 24, 1991 by the government, headed by Prime Minister P.V. Narasimha Rao. The New Industrial Policy (NIP) was a big departure from the erstwhile industrial policy. When all the earlier industrial policies talked about how to regulate the private sector in a so-called national interest, NIP talked about deregulation and delicensing. When with every next industrial policy, the role of the public sector increased in the economy and newer restrictions were introduced on the private sector, this NIP not only limited the role of PSUs but also talked about disinvestment and enough room to the private sector and foreign capital to develop and invest.

Objectives of New Industrial Policy

- The key objective was rapid industrialisation of the country.
- To increase employment opportunities in private sector.
- To improve balance of payments by promoting export-oriented industries.
- Ensure profitability in the public sector.
- Encourage entrepreneurship.
- To deregulate and delicense the industry to achieve rapid industrialisation.
- To invite foreign capital for industrialisation and to boost exports.
- To encourage R&D and to bring new technology to produce world class products and services.
- To link Indian economy with the global economy.
- To encourage big business houses and projects to achieve economies of scale.
- Increase competitiveness of the industry to benefit the common man and the nation.
- Rapid development of infrastructure, specially roads and electricity, with active participation of the private sector and FDI.

Appraisal of the Industrial Policy

- The New Industrial Policy was a new experience for India. On the one hand it provided a conducive environment to the industry, allowing it to spread it wings and on the other hand, it opened the doors for MNCs and sent a clear message to Indian firms to either perform or perish.
- In this way it opened many avenues for the industry and which, the industry took advantage of. Indian companies began expanding and firms like Ranbaxy, Asian Paints, Aditya Vikram Birla Group and many others became global players.

Industrial Policy Related To Large, Small, Micro Industries

Manufacturing Sector	
Enterprises	**Investment in plant machinery**
Micro Enterprises	Does not exceed 25 lakh rupees
Small Enterprises	More than 25 lakh rupees but does not exceed 5 crore rupees
Medium Enterprises	More than 5 crore rupees but does not exceed 10 crore rupees
Service Sector	
Enterprises	**Investment in equipment**
Micro Enterprises	Does not exceed 10 lakh rupees:
Small Enterprises	More than10 lakh rupees but does not exceed 2 crore rupees
Medium Enterprises	More than 2 crore rupees but does not exceed 5 core rupees

7.2 Industrial Licensing

The Indian Government Established A Licensing System in Order To Maintain Control Over Industries According To The Industries Development And Regulation Act 1951.

A License Is A Written Permission Granted to An Enterprise By The Government According To Which The Products Mentioned Therein Can Be Manufactured By The Enterprise.

The license also includes many particulars such as:

- Name of the product to be produced
- The place where the factory to be established.
- Expansion of the enterprise.
- The limit of the production capacity.
- De-Reserved Mining of copper and zinc

Maharatna, Navratna and Miniratna CPSEs

The government grants the status of Navratna, Miniratna and Maharatna to Central Public Sector Enterprises (CPSEs) based upon the profit made by these CPSEs.

Maharatna PSU

- The company already holds Navratna status.
- It is listed on the Indian stock exchange fulfilling the minimum prescribed public shareholding according to the SEBI regulations.
- The Average annual turnover of company during the last 3 years is more than Rs. 25,000 crore.
- The Average annual net worth during the last 3 years is more than Rs. 15,000 crore.
- The Average annual net profit after tax during the last 3 years is more than Rs. 5,000 crore.
- The company should have a significant global presence or international operations.

Navratna PSU

- The company must have 'Miniratna Category – I' status along with a Schedule 'A' listing.
- It should have at least 3 'Excellent' or 'Very Good' Memorandum of Understanding (MoU) during the last five years.
- Along with the above, it should also have a composite score of 60 or above out of possible 100 marks in the 6 selected performance parameters:-
    - Net Profit to Net Worth (Maximum: 25)
    - Manpower cost to cost of production or services (Maximum: 15)
    - Gross margin as capital employed (Maximum: 15)
    - Gross profit as Turnover (Maximum: 15)
    - Earnings per Share (Maximum: 10)
    - Inter-Sectoral comparison based on Net profit to net worth (Maximum: 20)

Miniratna PSU

- The concept of Miniratna was introduced by government of India in 2002 and this status was given to total 41 public sector companies.
- Miniratnas are allowed to enter into joint ventures, they can set subsidiary companies and can also open offices overseas but with certain limitations.
- Currently there are more than 70 companies having status of Miniratna(CategoryI& II).

Category - I

- These have made profits for the last three years continuously or earned a net profit of Rs. 30 crores or more in one of these three years.
- There are 62 such companies.

Category – II

- These companies have made profits continuously for the last three years and must have a positive net worth.
- There are 12 such companies in this category.

Names of Different Maharatna's

1. Bharat Heavy Electricals Limited

2. Bharat Petroleum Corporation Limited
3. Coal India Limited
4. GAIL (India) Limited
5. Hindustan Petroleum Corporation Limited
6. Indian Oil Corporation Limited
7. NTPC Limited
8. Oil & Natural Gas Corporation Limited
9. Power Grid Corporation of India Limited
10. Steel Authority of India Limited

Names of Different Maharatna's

1. Bharat Electronics Limited
2. Container Corporation of India Limited
3. Engineers India Limited
4. Hindustan Aeronautics Limited
5. Mahanagar Telephone Nigam Limited
6. National Aluminium Company Limited
7. NBCC (India) Limited
8. NMDC Limited
9. NLC India Limited
10. Oil India Limited 1
11. Power Finance Corporation Limited
12. RashtriyaIspat Nigam Limited
13. Rural Electrification Corporation Limited
14. Shipping Corporation of India Limited

Objectives of Licensing

- Encouraging small scale industries.
- Encouraging new entrepreneurs.
- Regulating the location of the enterprise.
- Ensuring balanced regional development.
- Promoting technological advancement.
- Checking the concentration of economic power.
- Development and control of industrial investment and production.

Compulsory Licensing

- According to the New Industrial Policy,1991,it is necessary to obtain a license only in case of 15 industries which are engaged in the field of defence-equipments, luxury goods and hazardous commodities.
- In wake of liberalization this number has been reduced to 5.
- The five industries for which licensing is compulsory are:
  - ✓ Alcoholic products.
  - ✓ Industrial explosives
  - ✓ Hazardous explosives
  - ✓ Aerospace and defence-equipments
  - ✓ Tobacco products

7.3 Stock Exchanges

The emergence of Capital Markets can be traced back to the second half of the eighteenth century when the transactions were limited to loan stock transactions of the East India Company. By 1830, some corporate stocks had emerged due to the economic boom and establishment of textile mills. A Stock Exchange means any body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities.

The Bombay Stock Exchange was formalized in 1875 with the establishment of 'Native Share and Share Brokers Association'. The stock exchanges of Calcutta and Chennai were established in 1908 and the Delhi Stock Exchange in 1947. There are 23 stock exchanges in India and their organization varies. Some are public limited companies (15), while others are limited by guarantees (5) or are voluntary non-profit making organizations.

In the period of 1994-1995, the number of stock exchanges went up from 7 to 22. In March 2000, the number of stock exchanges increased to 23 with the formation of Inter Connected Stock Exchanges of India Ltd. (ICSEL), the number of listed companies from 1125 to 9477, the market value of listed companies from 971 crore to 6,39,575 crore.

Types of Market

- Capital Market: A capital market is a financial market in which long-term debt or equity-backed securities are bought and sold, in contrast to a money market where short-term debt is bought and sold.

  ✓ Primary Market: The primary market is the part of the capital market that deals with the issuance and sale of equity-backed securities to investors directly by the issuer. Investors buy securities that were never traded before.

  ✓ Secondary Market: The secondary market, also called the aftermarket and follow on public offering, is the financial market in which previously issued financial instruments such as stock, bonds, options, and futures are bought and sold.
- Money Market: The money market is a component of the economy which provides short-term funds. The money market deals in short-term loans, generally for a period of a year or less.

Understanding Stock Exchange

The Securities Regulation Act of 1956 defined stock exchange as- "an association, organization , or an individual which is established for the purpose of assisting , regulating , and controlling business in buying ,selling and dealing in securities."Stock exchange is an organized market place where trading of shares/ securities is done in terms of sale and purchase. That sale & purchase is done by the customers, DII's, FII's etc.

Features of Stock Exchange

- Organized market
- Securities market
- An important constituent of capital market i.e., market for long-term finance
- Voluntary association of persons desirous of dealing in securities
- The members may act either as agents for their customers, or as principals for their own accounts.
- The dealings in a stock exchange are under certain accepted code of conduct i.e., rules and regulations.
- To safeguard the interests of customers/ investors.
- To bring transparency and promote honor in all the transactions.
- To promote, regulate and maintain the secondary capital market.
- To mobilize the investments in order to promote industrial development.

Important Functions of Stock Exchange

- Provide central and convenient meeting places for sellers and buyer of securities
- Increase the marketability and liquidity of securities
- Contribute to stability of prices of securities
- Equalization of price of securities
- Smoothen price movement
- Help the investors to know the worth of their holdings
- Promote the habit of saving and investment
- Help capital formation
- Help companies and government to raise funds from the investors
- Provide forecasting service

Bombay Stock Exchange

- There are 23 stock exchanges in the India.
- Bombay Stock Exchange is the largest, with over 7,000 stocks listed.
- The BSE accounts for over two thirds of the total trading volume in the country.
- Established in 1875, the exchange is also the oldest in Asia.
- Among the 23, recognized by the Government of India under the Securities Contracts (Regulation) Act, 1956, it was the first one to be recognized and it is the only one that had the privilege of getting permanent recognition .

National Stock Exchange

- The National Stock Exchange (NSE), located in Bombay, was set up in 1993 to encourage stock exchange reform through system modernization and competition.
- It opened for trading in mid-1994.
- After a few years it was accorded recognition as a stock exchange by the Department of Company Affairs.

List of Stock Exchanges

- Bombay Stock Exchange
- National Stock Exchange
- Ahmedabad Stock Exchange
- Bangalore Stock Exchange
- Bhubaneshwar Stock Exchange
- Calcutta Stock Exchange
- Cochin Stock Exchange
- Coimbatore Stock Exchange
- Delhi Stock Exchange
- Guwahati Stock Exchange
- Hyderabad Stock Exchange
- Jaipur Stock Exchange
- Ludhiana Stock Exchange
- Madhya Pradesh Stock Exchange
- Madras Stock Exchange
- Magadh Stock Exchange
- Mangalore Stock Exchange
- Meerut Stock Exchange
- OTC Exchange Of India
- Pune Stock Exchange
- Saurashtra Kutch Stock Exchange
- Uttar Pradesh Stock Exchange
- Vadodara Stock Exchange

Speculation

- It is the transaction of members to buy or sell securities on stock exchange with a view to make profits to anticipated raise or fall in price of securities.

Kinds of speculation

- Bull Market (Tejiwala): In case of that they purchase the shares at current prices to sell at a higher price in the near future and makes a profit if his expectations come true. He is also called a long buyer.
- Bear Market (Mandiwala) :He sells security in the hope that he will be able to buy them back at lesser price. It is also called "short selling".
- Stag (Deer): He applies large number of shares in the issue market only by paying application money and allotment money. He is not a genuine investor because, he sells the allotted securities at the premium and makes profit.
- Lame Duck: He is speculator when the bear operator finds it difficult to deliver the securities to the consumer on a particular day as agreed upon, he struggles as a lame duck in fulfilling his commitment. This happens when the prices do not fall as expected by the bear and the other party is not willing to postpone the settlement to the next period.

Securities & Exchange Board of India

- The SEBI was constituted on 12th April,1988 under a resolution of the Government of India.
- On 31st January,1992,it was made a statutory body by the Securities and Exchange Board of India Act,1992.

- The Companies (Amendment) Act,2000 has given certain powers to SEBI as regards the issues and transfer of securities and non-payment of dividend.

Objectives of SEBI

- Registering and regulating the working of stock brokers, sub-brokers, share transfer agents who may be associated securities market in any manner.
- Registering and regulating the working of collective investment scheme including mutual funds.
- Prohibiting insider trading in securities.
- Regulating substantial acquisition of shares and takeovers of companies.

Functions

- Regulating the business in stock exchange and any other securities markets.
- Promoting and regulating self-regulatory organization.
- Registering and regulating the work of collective investment scheme, including mutual funds.
- Prohibiting fraudulent and unfair trade practices relating to securities market.
- Promoting education, and training of intermediaries of securities market

Different Stock Exchanges Around the World

- New York Stock Exchange
- NASDAQ
- Tokyo Stock Exchange
- Shanghai Stock Exchange
- Hong Kong Stock Exchange
- European New Exchange Technology
- Shenzen Stock Exchange
- London Stock Exchange
- Toronto Stock Exchange

7.4 Foreign Direct Investment

What are Foreign Investors looking for?

- Good projects
- Demand Potential
- Revenue Potential
- Stable Policy Environment/Political Commitment
- Optimal Risk Allocation

Factors affecting foreign investment

- Rate of interest
- Speculation
- Profitability
- Costs of production
- Economic conditions
- Government policies
- Political factors

What Is FDI?

Foreign direct investment (FDI) occurs when a firm invests directly in new facilities to produce and/or market in a foreign country

- The firm becomes a multinational enterprise

The flow of FDI refers to the amount of FDI undertaken over a given time period

- Outflows of FDI are the flows of FDI out of a country
- Inflows of FDI are the flows of FDI into a country

The stock of FDI refers to the total accumulated value of foreign-owned assets at a given time.

Two Forms of FDI

- Greenfield investments - the establishment of a wholly new operation in a foreign country, acquisitions or mergers with existing firms in the foreign country.
- Brownfield Investments - When a company or government entity purchases or leases existing production facilities to launch a new production activity.

How Does FDI Benefit The Host Country?

- Resource transfer effects - FDI brings capital, technology, and management resources
- Employment effects - FDI can bring jobs
- Balance of payments effects - FDI can help a country to achieve a current account surplus
- Effects on competition and economic growth - greenfield investments increase the level of competition in a market, driving down prices and improving the welfare of consumers can lead to increased productivity growth, product and process innovation, and greater economic growth
- Helps in the transition to privatization (when state owned firms are sold to foreign investors)
- Improves the countries' infrastructures
- Brings foreign executives into the country with sufficient knowledge of macroeconomic global and local situations

What Are The Costs Of FDI(inward) To The Host Country?

Inward FDI has three main costs:

- Adverse effects of FDI on competition within the host nation
  - subsidiaries of foreign MNEs may have greater economic power than indigenous competitors because they may be part of a larger international organization
- Adverse effects on the balance of payments
  - when a foreign subsidiary imports a substantial number of its inputs from abroad, there is a debit on the current account of the host country's balance of payments
- Perceived loss of national sovereignty and autonomy
  - decisions that affect the host country will be made by a foreign parent that has no real commitment to the host country, and over which the host country's government has no real control

How Does Government Influence FDI?

- Governments can encourage outward FDI
  - government-backed insurance programs to cover major types of foreign investment risk
- Governments can restrict outward FDI
  - limit capital outflows, manipulate tax rules, or outright prohibit FDI

- Governments can encourage inward FDI
  - offer incentives to foreign firms to invest in their countries
  - gain from the resource-transfer and employment effects of FDI, and capture FDI away from other potential host countries
- Governments can restrict inward FDI
  - use ownership restraints and performance requirements

How Do International Institutions Influence FDI?

- Until the 1990s, there was no consistent involvement by multinational institutions in the governing of FDI.
- Today, the World Trade Organization is changing this by trying to establish a universal set of rules designed to promote the liberalization of FDI.

FDI Policies and Limits in India

- Foreign Direct Investment (FDI) in India is subject to certain Rules and Regulations and is subject to predefined limits ('Limits') in various sectors which range from 20% to 100%.
- There are also some sectors in which FDI is prohibited.
- The FDI Limits are reviewed by the Government from time to time.
- FDI is allowed in new sectors where the limits of investment in the existing sectors are modified accordingly.

FDI not allowed in:

- Rail Transport.
- Arms and Ammunition.
- Atomic Energy.
- Coal and lignite.
- Mining of metals like iron, chrome, gypsum, diamonds etc

Factors Affecting FDI In India

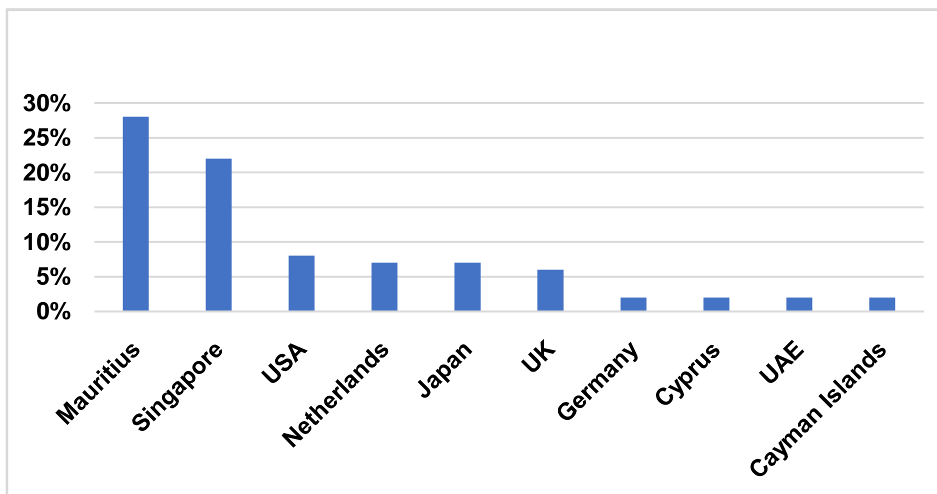
Favorable	Unfavorable
Large size of economy	Bureaucratic Culture.
Rich resource base.	High Tax Rate
Cheap Labor.	Poor governance
Removal of barrier to foreign trade.	High degree of corruption
Abundant technical supply of manpower.	

Total FDI Inflows (from April, 2000 to December, 2020):

1	CUMULATIVE AMOUNT OF FDI INFLOWS (Equity inflows + 'Re-invested earning' + 'Other capital')	-	US$ 749,397 Million
2	CUMULATIVE AMOUNT OF FDI EQUITY INFLOWS (excluding, amount remitted through RBI's NRI schemes)	Rs. 3,114,966 Crore	US$ 26,164 Million

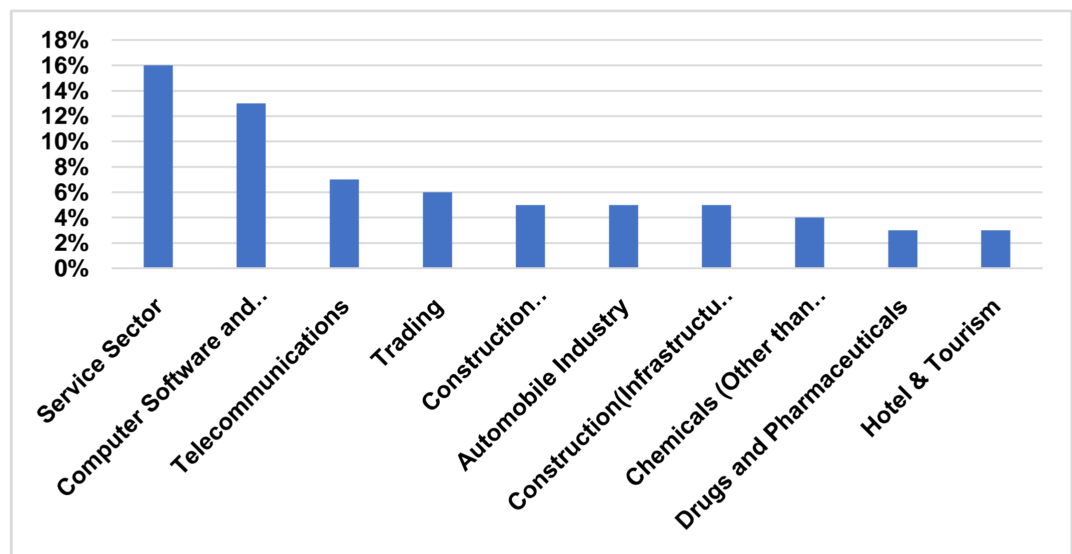
Share of Top Investing Countries FDI Equity Inflows (Financial Years)(%age to total Inflows (in terms of US $)):

Mauritius	28%
Singapore	22%
USA	8%
Netherlands	7%
Japan	7%
UK	6%
Germany	2%
Cyprus	2%
UAE	2%
Cayman Islands	2%



Sectors Attracting Highest FDI Equity Inflows:

Service Sector	16%
Computer Software and Hardware	13%
Telecommunications	7%
Trading	6%
Construction Development(Townships, housing and other projects)	5%
Automobile Industry	5%
Construction(Infrastructure) Activities	5%
Chemicals (Other than fertilisers)	4%
Drugs and Pharmaceuticals	3%
Hotel & Tourism	3%



States/UTs Attracting Highest FDI Equity Inflows

Gujarat	32%
Maharashtra	28%
Karnataka	14%
Delhi	11%
Tamil Nadu	4%
Jharkhand	3%
Haryana	2%

Telangana	2%
West Bengal	1%
Uttar Pradesh	1%

What is FPI?

- FPI denotes all those investors or investment companies that are not located within the territory of the country in which they are investing.
- In economics foreign portfolio investment is the entry of funds into a country where foreigners make purchases in the country's stock and bond markets, sometimes for speculation
- Foreign Portfolio Investment (FPI): passive holdings of securities and other financial assets, which do NOT entail active management or control of the securities's issuer.
- FPI is positively influenced by high rates of return and reduction of risk through geographic diversification. The return on FPI is normally in the form of interest payments or non-voting dividends.
- "SEBI's definition of FPIs presently includes foreign pension funds, mutual funds, charitable/endowment/university funds etc. as well as asset management companies and other money managers operating on their behalf."

Advantages of FPI

- Enhanced flows of equity capital
- FIIs have a greater appetite for equity than debt. It improve capital structures.
- Managing uncertainty and controlling risks.
- FPI inflows help in financial innovation and development of hedging instruments.
- Improving capital markets.
- FPIs as professional bodies of asset managers and financial analysts enhance competition and efficiency of financial markets.
- Equitymarketdevelopmentaidseconomicdevelopment.
- FPIscanhelpintheprocessofeconomicdevelopment.
- Improvedcorporategovernance.
- FPIsconstituteprofessionalbodies,improvecorporategovernance.

Disadvantages of FPI

- Problems of inflation
- HotMoney
- PoliticalRiskrepresentedbythepossibilityofchangeinthepoliticalenvironmentresultingincha ngeininvestmentnormsandrepatriationregulations.
- EmergingmarketswhicharethebeneficiariesofmostFPItraditionallysufferfromlowretailparti cipationwhichresultsininadequateliquiditywhichresultsinpricevolatility.
- Due to the unpredictable nature of such funds there is a tendency to shift from one market to another at short intervals. Volatility arising out of FPI inflows and outflows has adverse effects on the host country economy.
- Emerging economics tend to have depreciation prone currencies. This exposes the foreign investor to exchange rate risk on both principal and returns.

FDI Vs FPI

FDI	FPI
Active Investment	Passive Investment
Direct Investment	Indirect investment
Long term capital	Short Term capital
Invests in financial & non-financial assets	Invests only in financial assets
Ownership and managerial control	Only ownership
Stable	Volatile
Entry & exit barriers exist	Entry & exit very easy

Summary

- Industrial policy is one of the important government documents, which has a lasting impact on a country's industry. It is a policy document prepared by the government which states how the industrial environment of the country will take shape in the future.
- Before independence, the industrial policy of British India was formulated with the sole purpose of exploiting the resources of the country for Britain's advantage. Soon after independence, in 1948, India's first industrial policy was unveiled, and in 1956 a second and more comprehensive industrial policy was announced.
- Industrial policy strives for a balanced regional development, i.e., it tries to ensure that industries are not clustered in specific areas but develop in all parts of the country and to ensure that the scarce resources of the nation are utilised in the interest of the nation and not in the interest of profit.
- The first industrial policy in 1948, itself paved the path for mixed economy in the nation. It accepted the existence of both "public and private sectors in the economy. It assigned a progressive role for the State, for investment in industrialisation, and in regulating the private sector.
- The draft of the 1956 industrial policy was very comprehensive. This laid emphasis on the establishment of a socialist pattern of society. This policy also emphasized that industrial development of the country should be guided by the Directive Principles of the Constitution.
- In March 1977 the first non-Congress government was at the centre. The Janata Party assumed power and Morarji Desai, a die-hard Gandhian, became the Prime Minister. The new government declared a new industrial policy.
- The industrial policy of 1977 stated that funds of the public sector financial institutions and banks should be devoted to the growth of the small scale and medium scale units.

- The New Industrial Policy (NIP) was a big departure from the erstwhile industrial policy. When all the earlier industrial policies talked about how to regulate the private sector in a so-called national interest, NIP talked about deregulation and delicensing.
- Industrial licensing is governed by Industries (Development and Regulation) Act, 1951. It is a very effective tool used by the government to regulate the private sector. Over the years it has become a tool for exploitation. The NIP did away with licensing in a big manner.
- The New Industrial Policy was a new experience for India. On the one hand it provided a conducive environment to the industry, allowing it to spread it wings and on the other hand, it opened the doors for MNCs and sent a clear message to Indian firms to either perform or perish.
- The emergence of Capital Markets can be traced back to the second half of the eighteenth century when the transactions were limited to loan stock transactions of the East India Company.
- Under the SCR Act, an exchange is defined as any body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities.
- The Bombay Stock Exchange is one of the oldest stock exchanges of India and Asia and it is also one of the biggest stock exchanges of the world. It is said to be the nerve of the Indian economy which reveals the health of economy.
- The NSE was incorporated in November 1992 with an equity capital of 25 crores. It is sponsored by IDBI and co-sponsored by other term-lending institutions, LIC, GIC, other insurance companies, banks and financial institutions.

Keywords

Bear: A seller of securities

BIFR: Board of Industrial and Financial Reconstruction

Bull: A buyer in the stock market

District Industries Centres: Centres for the development of small scale and cottage industries

GDP: Gross Domestic Product of an economy; indicator of economic growth

IDBI: Industrial Development Bank of India

Industrial Licensing: Tool to regulate private sector industries

Monopoly: Where single seller dominates the market

MRTP Act: Monopolies and Restrictive Trade Practices Act

OCTEI: Exchange for small sized companies and small investors

Planned Economy: Where proper planning takes place and expenditures are planned

Sick Units: Business units which are generating no profits or less revenue

Stock Brokers: Members of recognised stock exchanges who deal in securities

Stock Exchange: Any body of individuals, whether incorporated or not, constituted for the regulating the capital market

Sub Brokers: Acts as an agent of a stock broker; assists him

Self Assessment

1. One of the purposes of the industrial policy is to increase the number of entrepreneurs India.
2. The Industrial policy of 1948 propagated that foreign capital inflow should be minimised.

3. Under the Industrial Policy of 1956, machine tools and tools steel industry was left only for private sector.
4. New Industrial Policy allowed a 51% FDI in the hospitality sector also.
5. A stock exchange acts a regulator of the capital market.
6. SEBI is an autonomous body that controls the monetary policy of the government.
7. All the companies listed under a stock exchange have to compulsorily offer their securities to public.
8. Privatisation may refer to full or even part purchase of any business by private players.
9. ....regulates the Securities Exchange Board of India.
10. The problem of unequal distribution of income and wealth was first dealt in Industry Policy of...................
11. Under Industrial Policy of................., a separate wing of IDBI was established to feed the credit requirements of small scale industries.
12. Stocks of all the blue-chip companies are listed and traded in....................
13. ....was created as a company in 1990 under the Companies Act.
14. When the share market goes up, it is represented by the...............
15. Indian stock market is called the....................
16. When government leases its assets to a private company, it transfers it the..................ownership.

Answers for Self Assessment

1	True	9	Securities and Exchange Board of India Act, 1992
2	False	10	1956
3	False	11	1977
4	True	12	Bombay Stock Exchange
5	True	13	Over the counter Exchange of India
6	False	14	Bull
7	True	15	Sensex
8	True	16	Tenure

Review Questions

1. "The role of industrial policy is more important in a planned economy like India." Discuss.
2. Critically analyse the Industrial Policy of 1948. Do you think soon after independence, government did a good job by framing an industrial policy like that?
3. Was the Industrial Policy of 1956, an extension of Policy of 1948 or it was completely different? Bring out the main points as regards to the division of industries in the policy.
4. What was the political scenario in India in 1977? Bring out the connections between political environment then existing in India and the Industrial Policy of 1977.
5. "The policy of Janata Government was that anything which could be produced in small-scale industry should be produced by them alone". Why did they adopt such a policy?

6. What should be done with the sick industries, they should be locked out or revamped? Give reasons for your answer.
7. "Industrial Licensing is a very effective tool used by the government to regulate the private sector". Comment.
8. Did the Industrial Policy of 1991, do any wrong by allowing FDI in India as it was a danger to domestic industries? Justify your answer.
9. Critically analyse the MRTP Act.
10. "Liberalisation has proved to be a big boon for the service sector". Discuss.
11. "Stock Exchange is the barometer of general economic progress in a country". Substantiate.
12. Critically analyse the role of SEBI in regulating proceedings of stock exchanges.
13. Comment on the role of underwriters in a public issue. Give examples of some big names that have underwritten public issues in the past.
14. Did India benefit from the Privatisation that happened in 1991? Justify your answer.
15. Liberalisation of the 19th century is often called-The First Era of Globalisation. Why?

Further Readings

Paul Justin, Business Environment: Text and Cases, Tata McGraw Hill, New Delhi

Saleem Sheikh, Business Environment, Pearson Education, New Delhi

Vivek Mittal, Business Environment, Excel Books, New Delhi

info.worldbank.org/etools/library/latestversion.asp?143895

siadipp.nic.in/publicat/nip0791.htm

www.bseindia.com

www.expressindia.com/fullstory.php?newsid=86252

www.indianembassy.nl/pg144000.doc

www.nseindia.com

www.surfindia.com/finance/stock-exchanges-india

Unit 08: Taxation System in India

CONTENTS

Objectives

Introduction

8.1 The Nature of Taxation

8.2 Introduction to Direct Tax

8.3 Introduction to Indirect Tax

8.4 Direct Vs. Indirect Taxes:

Keywords

Summary

Self Assessment

Answers for Self Assessment

Review Questions

Further Readings

Objectives

After studying this unit, you will be able to:

- gain an insight into the meaning of tax.
- understand direct tax and its types.
- analyze the merits and demerits of direct tax.
- gain an insight into the meaning of indirect tax.
- Understand the different types of indirect tax.
- analyze the merits and demerits of indirect tax.

Introduction

Government Budget Constraint:

The Government has to finance its expenditure including interest payments on accumulated public debt by using taxation, borrowing from the market (i.e. sale of new bonds) and use of printed money.

Government's budget constraint equation can be written as:

$G = T + \Delta B + \Delta M$ *…(i)*

Where G stands for Government expenditure, T for tax revenue, AB for new borrowing (i.e. issue of new bonds) and AM for new money created.

Rearranging government budget constraint (i) we have

$G - T = \Delta B + \Delta M$ *…(ii)*

When G exceeds T, we have a budget deficit. Budget constraint equation (ii) says, that budget deficit must be financed either by new borrowing by the Government (ΔB) pr by using printed money (AM).

What is Tax?

A tax is a compulsory payment levied on the persons or companies to meet the expenditure incurred on conferring common benefits upon the people of a country.

Two aspects of taxes follow from this definition:

(1) A tax is a compulsory payment and no one can refuse to-pay it.

(2) Proceeds from taxes are used for common benefits or general purposes of the State. In other words, there is no direct quid pro quo involved in the payment of a tax.

This implies that an individual cannot expect or demand that the Government should render him a specific service in return for the tax paid by him. However, this does not imply that Government does nothing for the people from whom it receives taxes.

In fact Government spends the tax money for the general or common benefits of all the people rather than conferring any special benefit on a particular tax payer. To quote Taussig, "The essence of a tax, as distinguished from the other charges by Government is the absence of any direct quid pro quo between the tax payer and the public authority."

Tax should be carefully distinguished from a fee. Fee is also compulsory payment made by a person who receives in return a particular benefit or service from the Government. For paying fee on a television or radio, a person gets the benefits of programmes relayed by the Government on television or radio. Likewise, students who pay the education fee in schools and colleges, obtain the benefits of teaching arranged by the Government.

The amount of fee is always less than the cost of service rendered by the Government in return and therefore covers only a part of the cost of service rendered. Thus, even in case of fee, there is a general public interest or common benefit of the service rendered by the Government. In this case, the Government undertakes a service for the common benefits of the citizens and obtains a fee from those who avail of that service to cover a part of the cost of service rendered.

Aims of Taxation:

Most people think that taxes are used to raise revenue for government expenditure. This is, indeed, a key aim of taxation but there are other aims as well, including:

i. Redistribution of income from the rich to the poor. Higher income groups pay more in tax than the poor and some of the revenue raised is used to pay benefits to the poor.

ii. Discouraging the consumption of what are called demerit goods. These are products that the government considers more harmful to consumers than they realize, for example, cigarettes and alcohol.

iii. Raise the costs of firms that impose costs on others by, for instance, causing pollution.

iv. Discouraging the consumption of imports and hence protect domestic industries. By placing tariffs on rival imported products, the country's inhabitants may buy less foreign and more domestic products.

v. Influence economic activity. The fiscal policy can be used to change aggregate demand. If an economy is experiencing rising unemployment, its government may cut taxes to stimulate an increase in consumption and investment.

What Is Taxation?

Taxation is a term for when a taxing authority, usually a government, levies or imposes a financial obligation on its citizens or residents. Paying taxes to governments or officials has been a mainstay of civilization since ancient times.

The term "taxation" applies to all types of involuntary levies, from income to capital gains to estate taxes. Though taxation can be a noun or verb, it is usually referred to as an act; the resulting revenue is usually called "taxes."

- Taxation occurs when a government or other authority requires that a fee be paid by citizens and corporations, to that authority.
- The fee is involuntary, and as opposed to other payments, not linked to any specific services that have been or will be provided.
- Tax occurs on physical assets, including property and transactions, such as a sale of stock, or a home.
- Types of taxes include income, corporate, capital gains, property, inheritance, and sales.

Understanding Taxation

Taxation is differentiated from other forms of payment, such as market exchanges, in that taxation does not require consent and is not directly tied to any services rendered. The government compels taxation through an implicit or explicit threat of force. Taxation is legally different than extortion or a protection racket because the imposing institution is a government, not private actors.

Tax systems have varied considerably across jurisdictions and time. In most modern systems, taxation occurs on both physical assets, such as property and specific events, such as a sales transaction. The formulation of tax policies is one of the most critical and contentious issues in modern politics.

Taxation is the means by which a government or the taxing authority imposes or levies a tax on its citizens and business entities. From income tax to goods and services tax (GST), taxation applies to all levels.

The Central and State government plays a significant role in determining the taxes in India. To streamline the process of taxation and ensure transparency in the country, the state and central governments have undertaken various policy reforms over the last few years. One such change was the Goods and Services Tax (GST) which eased the tax regime on the sale and deliverance of goods and services in the country.

8.1 The Nature of Taxation

Taxes are progressive, proportional or regressive. A progressive tax is one which takes a higher percentage of the income or wealth of the rich. As taxable income or wealth rises, so does the rate of taxation. In the case of a proportional tax, the percentage paid in tax stays the same as income or wealth change. With a regressive tax, the percentage paid in tax falls as income or wealth rises. So in this case, people with higher incomes pay a smaller percentage of their income in tax than the poor do.

In the case of all three types of tax, the total amount of tax paid usually rises with income or wealth but what differs is the percentage paid (this is shown in table 1). For example, a rich and a poor person pay the same excise duty per liter of petrol bought. The rich person is likely to buy more petrol and so will pay more tax in total. The amount paid, however, is likely to form a smaller percentage of his or her income – making this a regressive tax.

Progressive tax		
Income ($)	*Taxed paid ($)*	*Tax rate (%)*
100	10	10
500	100	20
1,000	400	40
Proportional tax		
Income ($)	*Taxed paid ($)*	*Tax rate (%)*
100	25	25
500	125	25
1,000	250	25
Regressive tax		
Income ($)	*Taxed paid ($)*	*Tax rate (%)*
100	40	40
500	150	30
1,000	200	20

Direct and Indirect Taxes:

Taxes are either direct or indirect. Direct taxes are taxes levied on a person's or a firm's income or wealth. They are called direct taxes because the people or firms responsible for paying the tax have to bear the burden of the tax. Indirect taxes, which can also be called expenditure or outlay taxes, differ from direct taxes in two key ways. One is that they are levied on spending.

The other is that the firms that actually make the tax payment to the government may pass on, at least some of the burden of the tax, to other people. For instance, most of the tax that governments impose on petrol is passed on by petrol companies to the customers in the form of higher prices.

The Main Types of Taxes:

The type of taxes imposed varies from country to country. There are some taxes, however, which are levied in most countries.

8.2 Introduction to Direct Tax

- The definition of direct tax is hidden in its name which implies that this tax is paid directly to the government by the taxpayer.
- The general examples of this type of tax in India are Income Tax and Wealth Tax.
- From the government's perspective, estimating tax earnings from direct taxes is relatively easy as it bears a direct correlation to the income or wealth of the registered taxpayers.

Direct taxes are one type of taxes an individual pay that are paid straight or directly to the government, such as income tax, poll tax, land tax, and personal property tax. Such direct taxes are computed based on the ability of the taxpayer to pay, which means that the higher their capability of paying is, the higher their taxes are.For example, in the case of income taxation, an individual who earns more pays higher taxes. It is computed as a percentage of the total income. Additionally, direct taxes are the responsibility of the individual and should be fulfilled by no one else but him.

For Example: As mentioned above, one good example of direct taxes is a person's income tax. Usually, income tax is filed annually, although deductions from one's salary can be done on a monthly basis. If, for example, an individual incurs tax amounting to $30,000 a year for his annual salary of $120,000, the $30,000 is his direct tax.

Direct Taxes at Central Level

INCOME TAX

- Introduced by Sir. James Wilson.
- Income tax Act was passed in1886, which was amended in 1922, 1939, and1947.
- Income tax in India is levied and collected on the basis of finance Act passed every year under central budget and the Income tax act1961, aided by the income tax rules,1962.
- Payable by individuals, HUF, AOP, BOI, AJP, co-operative societies, partnership firms, companies etc.
- It is based on one's income. A certain percentage is taken from a worker's salary, depending on how much he or she earns. The good thing is that the government is also keen on listing credits and deductions that help lower one's tax liabilities.

CORPORATION TAX

- Income tax paid by limited companies is called corporation tax.
- It is levied on the profit made by companies as per the rates given in the finance act passed by parliament annually.
- All profit companies are required to make advance payment annually.
- Corporation tax forms the major chunk of income tax in India.

DIVIDEND TAX

- Limited companies in India are required to pay dividend tax at 10% on the dividend paid by them to their shareholders.
- This tax is in addition to the corporation income tax.

CAPITAL GAIN TAX

- Capital gain tax was introduced in 1947 by finance minister Liquat Ali Khan.
- It was abolished in1950 and reintroduced again in1956.

- This tax is applicable to individual as well as companies.
- It is payable on gain realised from capital assets.6

WEALTH TAX

- It was introduced by Prof.Kaldor in1957.
- Wealth tax is imposed on the wealth or assets held by individuals.
- It is levied every year on the total value of a person's property or wealth or capital.
- It is payable at 1%on the net wealth exceeding rupees 15 lakhs.

GIFT TAX

- It was introduced in 1956.
- With effect from 1 November 1998 gift tax was abolished due to its low yield to the union government.
- To complement estate duty and also to prevent large scale avoidance of estate duty.

ESTATE DUTY OR INHERITANCE TAX OR DEATH DUTY

- Estate duty was introduced in India from October 1953.
- Death taxes assume two major forms.
- One is called Estate Duty which is levied upon the entire estate left by a decreased person.
- The other form is Inheritance tax which is levied on the separate shares of the estate transferred to the beneficiaries.
- It was abolished from 16th march 1985.

ENTITLEMENT TAX

- This type of direct tax is the reason why people enjoy social programs like Medicare, Medicaid, and Social Security.
- The entitlement tax is collected through payroll deductions and is collectively grouped as the Federal Insurance Contributions Act.

Direct Taxes at State Level

LAND REVENUE

- Land Revenue was the most important source of revenue to the government.
- Land Revenue is purported to be the state's share in the output from land.
- Land Revenue is abolished in some states and others the rate varies from state to state.

AGRICULTURAL INCOME TAX

- Agricultural Income Tax is defined as a tax on income earned from Agriculture or other related activities.
- Indian constitution specifically provide for levy of Agricultural Income Tax by the state government
- No, state government has actually passed legislation to tax Agricultural Incomes.

PROFESSIONAL TAX

- This is a tax on Professionals, payable annually.
- State government fixes a specified amount to be paid by each category of Professionals.
- It may be paid in two instalments.
- In case of Professionals working as salaried employees, the employer deducts the amount of tax in two instalments from the salary of the employees.

Advantages of Direct Taxes:

(i) Equitable:

The burden of direct taxes cannot be shifted. Hence equality of sacrifice can be attained through progression. Of course, the very low incomes can be exempted. This cannot be achieved- by taxes on commodities which fall with equal force on the rich and the poor. The tax raises the price of the commodity, and the price of a commodity is the same for every person, rich or poor.

(ii) Economical:

The cost of collection of direct taxes is low. They are mostly collected "at the source". For instance,- the income tax is deducted from an officer's pay every month. This saves expense. The employer acts as an honorary tax collector. This means great economy.

(iii) Certain:

In the case of a direct tax, the payers know how much is due from them and when. The authorities also know the amount of revenue they can expect. There is certainty on both sides. This minimises corruption on the part of collecting officials.

(iv) Elastic:

If the State suddenly stands in need of more funds in an emergency, direct taxes can well serve the purpose. The yield from income tax or death duties can be easily increased by raising their rate. People cannot stop dying for fear of paying death duties.

(v) Productive:

Another virtue of direct taxes is that they are very productive. As a community grows in numbers and prosperity, the return from direct taxes expands automatically. The direct taxes yield a large revenue to the State.

(vi) A means of developing civic sense.

In the case of a direct tax, a person knows that he is paying a tax, he feels conscious of his rights. He claims the right to know how the Government uses his money and approves or criticizes it. Civic sense is thus developed. He behaves as a responsible citizen.

(vii) Saves time and money

The government does not need to spend on the collection of taxes because they are already taken right at the source of the income. Some companies use automatic payroll deduction systems, which help save time and money.

Disadvantages of Direct Taxes:

(i) Inconvenient:

The great disadvantage of a direct tax is that it pinches the payer. He 'squeaks' when a lump sum is taken out of his pocket. The direct- taxes are thus very inconvenient to pay. Nobody can help feeling the pinch.

(ii) Evadable:

The assessee can submit a false return of income and thus evade the tax. That is why a direct-tax is "a tax on honesty." There is a lot of evasion. Many of those who should be paying taxes go scot-free by concealing their incomes.

(iii) Arbitrary:

If taxes are progressive, the late of progression has to be fixed arbitrarily; and if proportional, they fall more heavily on the poor. Thus, both are bad. The rate of taxes depends upon the whim of the Finance Minister. This is arbitrary.

(iv) Disincentive:

If the taxes are too heavy, they discourage saving-sand investment. In that case the country will suffer economically. A high level of taxation discourages investment and enterprise in the country. It inflicts a lot of damage, on business and industry.

8.3 Introduction to Indirect Tax

An indirect tax (such as sales tax, per unit tax, value added tax (VAT), or goods and services tax (GST), excise, consumption tax, tariff) is a tax that is levied upon goods and services before they reach the customer who ultimately pays the indirect tax as a part of market price of the good or service purchased. Alternatively, if the entity who pays taxes to the tax collecting authority does not suffer a corresponding reduction in income, i.e., impact and tax incidence are not on the same entity meaning that tax can be shifted or passed on, then the tax is indirect.

An indirect tax is collected by an intermediary (such as a retail store) from the person (such as the consumer) who pays the tax included in the price of a purchased good. The intermediary later files a tax return and forwards the tax proceeds to government with the return. In this sense, the term indirect tax is contrasted with a direct tax, which is collected directly by government from the persons (legal or natural) on whom it is imposed. Some commentators have argued that "a direct tax is one that cannot be charged by the taxpayer to someone else, whereas an indirect tax can be."

Indirect taxes constitute a significant proportion of total tax revenue raised by the government. Data published by OECD show that the average indirect tax share of total tax revenue for all member countries in 2018 was 32.7% with standard deviation 7.9%. The member country with the highest share was Chile with 53.2% and at the other end was USA with 17.6%.The general trend in direct vs indirect tax ratio in total tax revenue over past decades in developed countries shows an increase in direct tax share of total tax revenue. Although this trend is also observed in developing countries, the trend is less pronounced there than in developed countries.

An indirect tax is collected by one entity in the supply chain (usually a producer or retailer) and paid to the government, but it is passed on to the consumer as part of the purchase price of a good or service. The consumer is ultimately paying the tax by paying more for the product.

Understanding an Indirect Tax

Indirect taxes are defined by contrasting them with direct taxes. Indirect taxes can be defined as taxation on an individual or entity, which is ultimately paid for by another person. The body that collects the tax will then remit it to the government. But in the case of direct taxes, the person immediately paying the tax is the person that the government is seeking to tax.

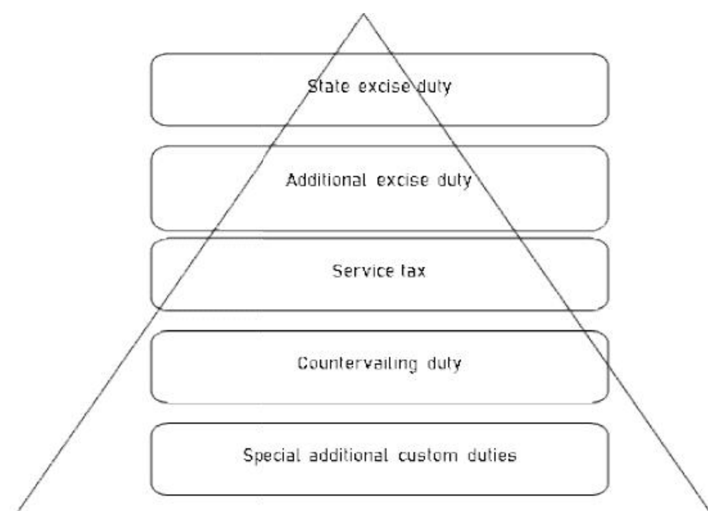
Excise duties on fuel, liquor, and cigarettes are all considered examples of indirect taxes. By contrast, income tax is the clearest example of a direct tax, since the person earning the income is the one immediately paying the tax. Admission fees to a national park are another clear example of direct taxation. Indirect taxes are basically taxes that can be passed on to another entity or individual. They are usually imposed on a manufacturer or supplier who then passes on the tax to the consumer.

Types of Indirect Taxes

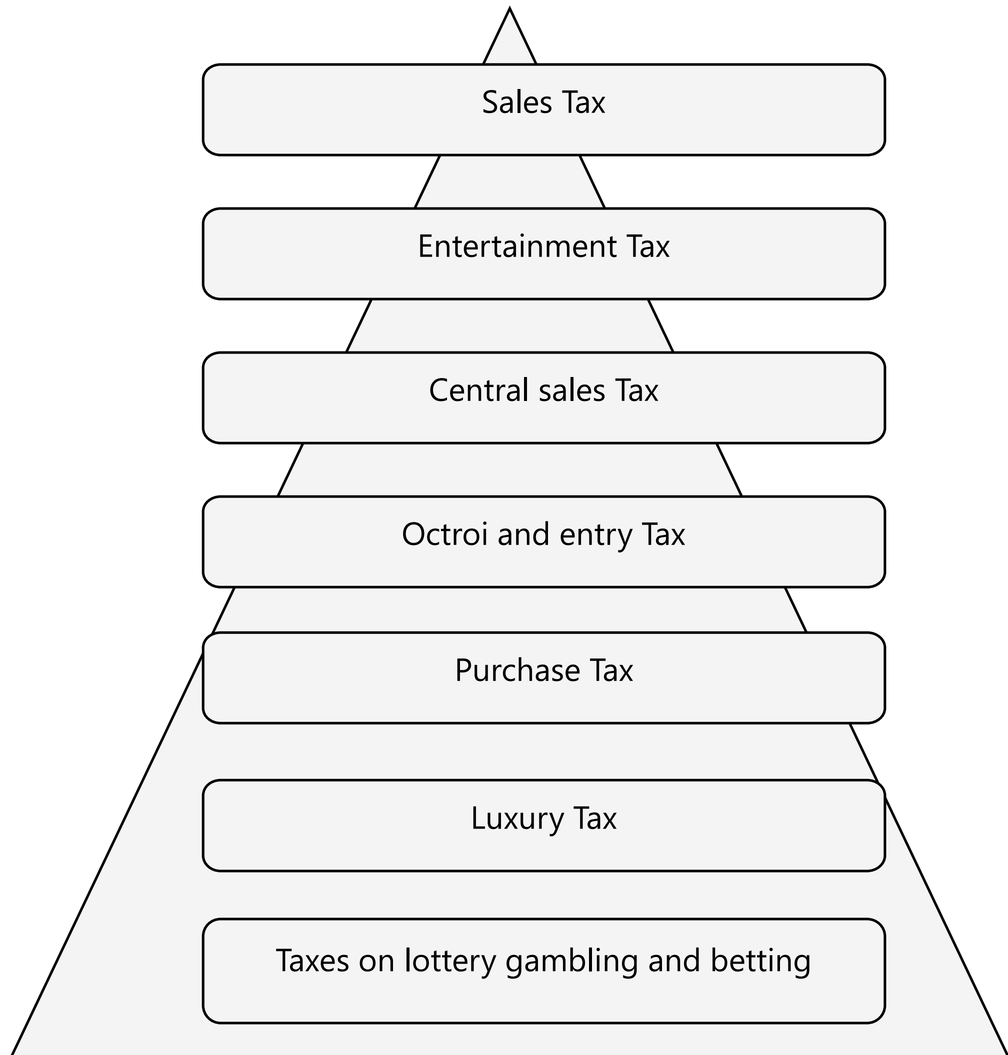
Goods and Services Tax:

- The law on GST was brought to action in July 2017, with 17 indirect taxes under its purview. All major services and service tax has been subsumed under the GST.

At the state level:



At the central level:



SALES TAX

- The tax levied on the sales of goods. The Union Government imposes this sales tax on the Inter-State sale, while the sale tax on Intra-state sale is levied by the State Government.
- This tax has a three-segment bifurcation along

✓ Inter-State Sale

✓ Sale during import/export

✓ Intra-State Sale

SERVICE TAX

- Service tax are indirect indices which taxpayers pay on various paid services.
- These paid services include-
    - ✓ Telephone
    - ✓ Tour operator
    - ✓ Architect
    - ✓ Interior decorator
    - ✓ Advertising
    - ✓ Health centre
    - ✓ Banking and financial service

- ✓ Event management
- ✓ Maintenance service
- ✓ Consultancy service
- ✓ Service tax interest is 15%

VALUE ADDED TAX

- The state governments collect this category of taxes.
- For instance, when a person buys a product that it is important, we pay an additional tax known as Value Added Tax.
- Paid to the government, the VAT has a rate that is composed along nature of item and respective state of sale.

CUSTOM DUTY AND OCTROI TAX

- Levied upon goods imported into the country from abroad.
- The tax of custom duty is paid at the entry port of a country such as the airport.
- The rate of taxation is variable as per product's nature.
- Octroi is charged upon the goods entering a municipal zone.

EXCISE DUTY

- Excise duty is an indirect tax form that is charged on the goods produced inside a country.
- This duty is different from the custom duty.
- This is also known as CVAT, or Central Value Added Tax.

ANTI-DUMPING DUTY

- This is levied upon goods that are exported at a rate less than the standard rate by the nation to some other nation.
- This tax is levied upon by the Central government.

NEWLY IMPLEMENTED INDIRECT TAX (GST)

- GST is a highly regarded tax system for the country.
- It is amongst the latest indirect tax systems operating under the constitution of India.
- The importance of this taxation regime lies in the fact that it covers under itself various other indirect taxes operating inside the country.
- This tax regime has been brought in mark a change in the economy of the country and to lessen the cascading effects from tax duties that deliver overall market inflation.

Features of Indirect Taxes

- Payment and Tax Load - The service provider makes payment of indirect taxes and this is transferred to a final consumer.
- Liability of Tax – Here the seller or service provider makes payment on indirect taxes which are transferred to final consumer.
- Nature – Initially, indirect taxes used to have a regressive nature. Yet, now with the coming of GST, they have become quite progressive.
- Evasion - Indirect taxes are hard to evade due to direct implementation through goods and services.
- Investment and Saving - Most indirect taxes are largely growth-oriented since they de-motivate the consumer and encourage savings.
- Social Coverage - The indirect tax has a much larger coverage since their charge falls upon each individual buying products or services.

Advantages of Indirect Taxes:

- Convenience: Indirect taxes do not burden the taxpayer and are convenient as they are paid only at the time of making a purchase. Moreover, state authorities find it convenient to levy indirect taxes because they are collected directly at the stores/factories which helps in saving a lot of time and effort.
- Ease of collection: Indirect taxes are only collected at the time of making purchases, the authorities need not worry about their collection.
- Collection from the poor: Those who earn less than Rs.2.5 lakh p.a. are exempt from income tax, which means that they do not contribute to the government. Since indirect taxes are charged at the point of sale, all individuals contribute towards the growth of the economy.
- Equitable contributions: Indirect taxes are directly related to the costs of products and services. What this essentially means that the basic necessities attract lower rates of tax while luxury items are charged at higher tax rates, thereby ensuring that contributions are equitable.
- They aren't very obvious. Indirect taxes, as they are incorporated in the sale price of an item, are not very obvious. People don't feel they are being taxed simply because the tax comes in small values. Plus, add the fact that they are not indicated in the price tag, but can only be seen on the purchase receipt. Also, they can be avoided by not buying the goods.
- Discourages consumption of harmful productsAlcohol and cigarettes are heavily taxed. By taxing such products, people are discouraged by their price, thereby saving them from consuming harmful items.
- Non-evadable:They cannot be evaded, as they are a part of the price. They can be evaded only when the taxed article is not consumed, and 'his may not always be possible'
- Elastic:They are very elastic in yield, imposed on necessaries of life which have an inelastic demand. Indirect taxes on necessaries yield a large revenue, because people must buy these things.
- Equitable:When imposed on luxury or goods consumed by the rich, they are equitable. In such cases, only the .Veil-to-do will pay the tax.

Disadvantages of Indirect Taxes:

- Indirect Tax charged sometimes are cumulative. This means that in a point-based transaction system, middlemen involved are likely to charge their own service tax which may result in the overall price of the product increasing.
- Indirect Tax can be regressive in nature. For example, salt tax remains the same for both poor and rich, However, if a rich person defaults the payment, then the penalties imposed will be higher as well.
- Indirect Tax are not industry friendly. Taxes are levied on raw materials and goods which in turn increases the cost of production, thus not allowing industries to expand as their competitive capacity is restricted.
- Unless indirect taxes are imposed on necessaries, we cannot be sure of the revenue yield. In the case of goods, with an elastic demand, the tax might not bring in much revenue. The tax will raise the price and contract the demand. When the thing is not purchased, the question of the tax payment does not arise.

- They cause the price of an article to rise b; more than the tax. A fraction of the money unit cannot be calculated, so ever middleman tends to charge more than the tax. This process is cumulative.
- The cost of collection is quite heavy. Every source o production has to be guarded. Large administrative staff is required to administer such taxes. This turns out to be a costly affair.
- These taxes do not develop civic consciousness, because many times the tax-payer does not even know that he is paying tax. The tax is concealed in the price.
- They discourage industries if raw materials are taxed. This will raise the cost of production and impair their competitive capacity.
-

8.4 Direct Vs. Indirect Taxes:

In answer to the question whether direct or indirect taxes are better, much can be said on both sides. But it is safe to conclude that no country can do with one type only. Both types have to be mixed in a good system of taxation.

The rich can be taxed best directly, but pockets of the poor have also to be tapped through indirect taxes. Nowadays, when the state functions are multiplying, substantial amounts are required for the discharge of its multifarious activities. Neither the direct nor the indirect taxes alone can raise adequate revenue. Both are necessary.

Their relative importance depends on a number of factors, such as distribution of income, nature of the economic system, the stage of economic development, etc. Thus, the discussion of the relative merits and demerits of direct and indirect taxes is only academic. It has no practical importance.

Indirect taxes and direct taxes differ in many ways, but the most common is how they are paid.

From the name itself, direct tax is paid directly to the government while the indirect tax is paid indirectly. It means that though it is imposed on a particular company or supplier that can pass the tax on to consumers, ultimately transferring the burden to the latter.

Direct taxes, on the one hand, are taken from an individual's earnings, while indirect taxes are imposed on goods that consumers buy. Furthermore, direct taxes are calculated based on the paying capacity of the individual. Indirect taxes, on the other hand, do not look at the consumer's ability to pay but are the same for everyone who buys the goods or services.

Examples of indirect taxes are excise tax, VAT, and service tax. Examples of direct taxes are income tax, personal property tax, real property tax, and corporate tax.

BASIS FOR COMPARISON	DIRECT TAX	INDIRECT TAX
Meaning	Direct tax refers to financial charge, levied directly on the taxpayer, and paid outrightly to the authority which imposes it, by the taxpayer.	Indirect tax is when the taxpayer is just the hands that deposit the amount of tax to the authority imposing it, while the burden of tax falls on the final consumer.
Governed by	Central Board of Direct Taxes (CBDT)	Central Board of Indirect Taxes and Customs (CBIC)
Who pays the tax?	Individuals, HUF, and Companies	Final Consumer
Nature	Progressive	Regressive
Incidence and Impact	It falls on the same person.	It falls on different persons.

Liability	A person on whom the tax is imposed is liable for its payment.	The person receiving the benefits is liable for its payment and not the person on whom it is imposed.
Evasion	Tax evasion is possible.	Tax evasion is hardly possible because it is included in the price of the goods and services.
Inflation	Direct tax helps in reducing inflation.	Indirect taxes promotes inflation.
Imposition and collection	Imposed on and collected from assessees, i.e. Individual, HUF (Hindu Undivided Family), Company, Firm, etc.	Imposed on and collected from consumers of goods and services but paid and deposited by the assessee.
Burden	Cannot be shifted to another person.	Can be shifted to another person.
Taxable Event	When the income or wealth of the assessee reaches the maximum limit.	Purchase, sale or manufacture of goods and provision of services.
Collection of Tax	Difficult	Easy

Keywords

Direct Taxes: Kind of charge, which is imposed directly on the taxpayer

Indirect Taxes: Tax that is levied on goods or services rather than on persons or organizations

HUF: Hindu Undivided Family

Summary

- A direct tax is paid by an individual or organization to the entity that levied the tax.
- Direct taxes include income taxes, property taxes, and taxes on assets.
- There are also indirect taxes, such as sales taxes, where a tax is levied on the seller but paid by the buyer.
- A Direct tax is a kind of charge, which is imposed directly on the taxpayer. One of the main forms of Direct Tax is the Taxes on Corporate Income, under which the companies residing in this country pays a tax on their global income arising from all sources.
- Indirect Tax or the tax that is levied on goods or services rather than on persons or organizations are of different types in India like Excise Duty, Customs Duty, Service Tax, and Securities Transaction Tax.

Self Assessment

1. Income tax is a………………….

(a) Professional tax

(b) Direct tax

(c) Indirect tax

(d) Service tax

2. Gifts not exceeding ______ in value in a financial year by an employer to an employee shall not be treated as supply of goods or services or both.

(a) 50,000
(b) 1,00,000
(c) 2,00,000
(d) 2,50,000

3. Income tax was introduced by ________.

(a) J.M. Keynes
(b) Harry D. White
(c) Sir. James Wilson
(d) Harry Wislon

4. Capital gain tax was introduced by ________.

(a) Liquat Ali Khan
(b) J.M. Keynes
(c) Harry D. White
(d) Sir. James Wilson

5. Income tax was introduced by ________.

(a) Prof. Kaldor
(b) Liquat Ali Khan
(c) Sir. James Wilson
(d) None of the above

6. Which of the following are direct taxes at state level

1) Gift tax
2) Land Revenue
3) Professional tax

(a) 1,2
(b) 1,3
(c) 2,3
(d) None of the above

7. Which of the following are direct taxes at state level

1) Gift tax
2) Corporation tax
3) Estate duty

(a) 1,2
(b) 1,3
(c) 2,3
(d) All of the above

8. Which of the following commodities is not kept outside the perview of GST?

(a) High speed Diesel
(b) Natural Gas
(c) Supply of liquor for human consumption

(d) Aviation turbine fuel

9. Which of the following taxes have been subsumed in GST?
(a) Central Sales Tax
(b) Central Excise Duty and Service Tax
(c) Value Added Tax
(d) All of Above

10. GST is levied on supply of all goods and services except?
(a) Alcoholic liquor for human consumption
(b) Tobacco
(c) Legal services
(d) All of the above

11. Who shall be empowered to levy and collect GST on supplies in the course of Interstate Transactions of trade or commerce?
(a) Central Government
(b) State Governments
(c) Union Territories
(d) All of the above

12. Any job work carried out by a labour contractor on another person‘s goods shall be treated as
(a) supply of goods
(b) supply of services
(c) supply of services provided job work is carried out without any material
(d) supply of services whether the job work is carried out with or without any material

13. GST was implemented in India from
(a) 1st January 2017
(b) 1st April 2017
(c) 1st March 2017
(d) 1st July 2017

14. In India, the GST is a dual model of
(a) UK
(b) Canada
(c) USA
(d) Japan

15. GST is a consumption of goods and service tax based on
(a) Development
(b) Dividend
(c) Destiny
(d) Destination

16. India's GST structure are based on how many structures?

(a) 6

(b) 4

(c) 3

(d) 5

Answers for Self Assessment

1.	B	2.	A	3.	C	4.	A	5.	A
6.	C	7.	D	8.	C	9.	D	10.	A
11.	A	12.	D	13.	D	14.	B	15.	D
16.	B								

Review Questions

1. How does the budget of Central Governments differ from the budgets of the State Governments?
2. "Taxes are considered effective to control inflation". Justify the statement.
3. Compare and contrast between direct and indirect taxes. Give examples to support your answer.
4. Which is more painful, direct or an indirect tax? Why? What are the advantages that both hold?
5. What are the major state taxes in India?
6. What is the Goods and Services Tax?
7. Which are the major Central Taxes in India?
8. What is the difference between Direct and Indirect Tax?

Further Readings

Pandey GN, Environment Management,Vikas Publishing, New Delhi

Paul Justin, Business Environment: Text and Cases, Tata McGraw Hill, New Delhi

Saleem Sheikh, Business Environment, Pearson Education, New Delhi

Vivek Mittal, Business Environment, Excel Books, New Delhi

https://cleartax.in/g/terms/taxation

https://www.investopedia.com/terms/t/taxation.asp

https://www.yourarticlelibrary.com/economics/taxation

https://www.yourarticlelibrary.com/economics/taxation-process-in-different-countries-aims-types-and-nature

https://www.economicsdiscussion.net/taxes/advantages-and-disadvantages-of-direct-taxes-discussed/1950

https://corporatefinanceinstitute.com/resources/knowledge/other/direct-taxes/

https://www.investopedia.com/terms/i/indirecttax.asp

https://www.economicsdiscussion.net/taxes/advantages-and-disadvantages-of-indirect-taxes/1944

Unit 09: Goods and Service Tax

CONTENTS

Objectives
Introduction
9.1 GST Introduction
9.2 Evolution of GST in India
9.3 Salient Features of GST in India
9.4 Proposed Benefits of GST
9.5 GST Registration ad Return
Keywords
Summary
Self Assessment
Answers for Self Assessment
Review Questions
Further Readings

Objectives

After this Lecture, you will be able to

- gain an insight into introduction, formation and implementation of GST.
- know the taxes subsumed under GST atcentre and state level.
- analyze the levy of GST, and rate revision in 39th GST council meeting and revenue distribution.
- understand about the GST council and GST Network
- gain an insight into GST registration, process, documents required, fees and penalty.
- analyze GST returns along with its types.

Introduction

GST is considered as an indirect tax for the whole nation that would make India one unified common market. It is a tax which is imposed on the sale, manufacturing and the usage of the goods and services. It is a single tax that is imposed on the supply of the goods and services, right from the manufacturer to the customer. The credits of the input taxes that are paid at each stage will be available in the subsequent stage of value addition which makes GST essentially a tax only on the value addition on each stage. The final consumers will bear only the tax charged by the last dealer in the supply chain with the set of benefits that are at all the previous stages.

It is charged at the national and state level at similar rates for the same products and it also replaces almost all the current indirect taxes that are imposed separately by the Centre and the States. Goods & Services Tax is a destination based tax which means that the tax is paid at the place of supply.

Goods and Services Tax (GST) is an indirect tax (or consumption tax) used in India on the supply of goods and services. It is a comprehensive, multistage, destination-based tax: comprehensive because it has subsumed almost all the indirect taxes except a few state taxes. Multi-staged as it is, the GST is imposed at every step in the production process, but is meant to be refunded to all parties in the various stages of production other than the final consumer and as a destination-based tax, it is collected from point of consumption and not point of origin like previous taxes.

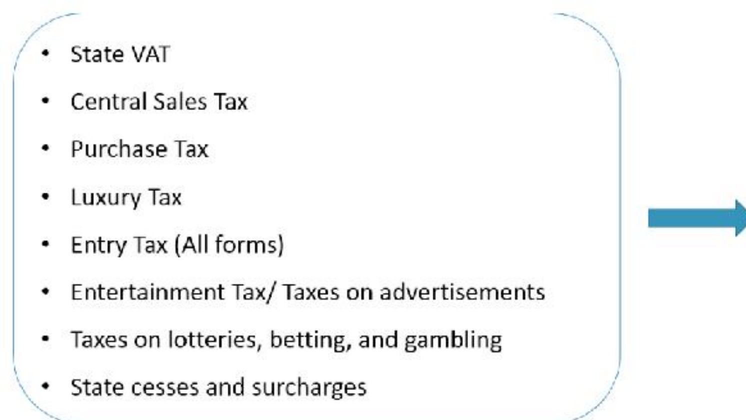
Goods and services are divided into five different tax slabs for collection of tax: 0%, 5%, 12%, 18% and 28%. However, petroleum products, alcoholic drinks, and electricity are not taxed under GST

and instead are taxed separately by the individual state governments, as per the previous tax system. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. In addition a cess of 22% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products. Pre-GST, the statutory tax rate for most goods was about 26.5%, Post-GST, most goods are expected to be in the 18% tax range.

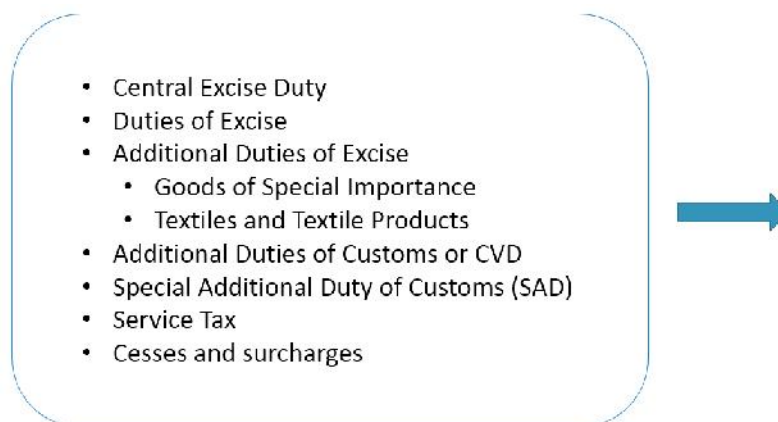
The tax came into effect from 1 July 2017 through the implementation of the One Hundred and First Amendment of the Constitution of India by the Indian government. The GST replaced existing multiple taxes levied by the central and state governments.

The tax rates, rules and regulations are governed by the GST Council which consists of the finance ministers of the central government and all the states. The GST is meant to replace a slew of indirect taxes with a federated tax and is therefore expected to reshape the country's 2.4 trillion-dollar economy, but its implementation has received criticism. Positive outcomes of the GST includes the travel time in interstate movement, which dropped by 20%, because of disbanding of interstate check posts.

Some of the State taxes that will be subsumed under GST are –



Some of the Central taxes that would be subsumed under GST are –



9.1 GST Introduction

GST is the most ambitious and remarkable indirect tax reform in India's post-Independence history. Its objective is to levy a single national uniform tax across India on all goods and services. GST has replaced a number of Central and State taxes, made India more of a national integrated market, and brought more producers into the tax net. By improving efficiency, it can add substantially to growth as well as government finances. Implementing a new tax, encompassing both goods and services, by the Centre and the States in a large and complex federal system, is perhaps unprecedented in modern global tax history. GST is a tax on goods and services with comprehensive and continuous chain of set-off benefits up to the retailer level. It is essentially a tax only on value addition at each stage, and a supplier at each stage is permitted to set-off, through a tax credit mechanism, the GST paid on the purchase of goods and services. Ultimately, the burden

of GST is borne by the end-user (i.e. final consumer) of the commodity/service. With the introduction of GST, a continuous chain of set-off from the original producer's point and service provider's point up to the retailer's level has been established, eliminating the burden of all cascading or pyramiding effects of an indirect tax system. This is the essence of GST. GST taxes only the final consumer. Hence the cascading of taxes (tax-on-tax) is avoided and production costs are cut down. As already noted, prior to the introduction of GST, the indirect tax system of India suffered from various limitations. There was a burden of tax-on-tax in the pre-GST system of Central excise duty and the sales tax system of the States. GST has taken under its wings a profusion of indirect taxes of the Centre and the States. It has integrated taxes on goods and services for set-off relief. Further, it has also captured certain value additions in the distributive trade. There is now a continuous chain of set-offs which would eliminate the burden of all cascading effects. Presently, services sector in India constitutes a tax base with vast potential which has not been exploited as yet. It is in this context that GST is justified as it has subsumed under it almost all the services for the purpose of taxation. Since major Central and State indirect taxes have got subsumed under GST, the multiplicity of taxes has been substantially reduced which, in turn, would decrease the operating costs of the country's tax system. The uniformity in tax rates and procedures across the country will go a long way in reducing compliance costs. In a nutshell, GST is a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. GST is an indirect tax for the whole of India to make it one unified common market. GST is designed to give India a world class tax system and improve tax collections. It would end the long-standing distortions of differential treatment of manufacturing sector and services sector. GST will facilitate seamless credit across the entire supply chain and across all States under a common tax base.

9.2 Evolution of GST in India

In 2000, the Vajpayee Government started discussion on GST by setting up an Empowered Committee, headed by Asim Dasgupta (West Bengal Finance Minister) to design the GST model. Thereafter, the Task Force on Implementation of the Fiscal Responsibility and Budget Management Act, 2003 (Chairman: Vijay Kelkar) recommended the removal of all inefficient and distortionary taxes so that India obtains the efficiencies of a single national tax, and suggested a comprehensive GST based on VAT principle. The idea of moving towards a GST was proposed in 2005 by the then Union Finance Minister, P. Chidambaram in his budget speech for the year 2005-06 where he observed that the entire production-distribution chain should be covered by a goods and services tax that encompasses both the Centre and the States. He reiterated his idea in 2006-07 budget speech and proposed April 1, 2010 as the date for introducing GST. Towards this objective, an Empowered Committee (EC) of State Finance Ministers was to work with the Central Government to prepare a roadmap for introduction of GST. The final version of the report of EC was presented in the form of 'A Model and Roadmap for Goods and Services Tax in India' on April 30, 2008. After receiving comments on the report from Government of India and concerned officials of the State Governments and taking into account their recommendations, the EC released the First Discussion paper on Goods and Services Tax in India on November 10, 2009 to obtain the inputs of industry, trade bodies, and people at large. On 22nd March 2011, the Constitution (115th Amendment) Bill was introduced in the Lok Sabha to operationalize the GST and enable Centre and States to make laws for levying of GST. However, the Bill lapsed with the dissolution of the 15th Lok Sabha. Thereafter, on 19th December, 2014 the Constitution (122nd Amendment) Bill, 2014 was introduced in the Lok Sabha to address various issues related to GST. It is noteworthy that the introduction of GST required a Constitutional amendment as the Constitution did not vest express power either in the Central Government or State Government to levy tax on the 'supply of goods and services'. While the Centre was empowered to tax services and goods up to the production stage, the States had the power to tax sale of goods. Since the GST regime requires goods and services to be simultaneously taxed by both the Central and State Governments, a Constitutional amendment was needed. The Constitution (122nd Amendment) Bill, 2014 was passed by the Lok Sabha on 6th May, 2015 after which the Rajya Sabha passed the Bill with 9 amendments on 3rd August, 2016. The Lok Sabha then passed the modified Bill on 8th August, 2016. After getting approval of half of the States, it was sent to the President for his assent which was given on 8th September, 2016. Thus the road to GST rollout was cleared and the process of enactment was completed.

9.3 Salient Features of GST in India

- Supply as the base: GST would be applicable on "supply" of goods or services as against the erstwhile concept of tax on the manufacture of goods or on sale of goods or on provision of services.
- Destination-based tax: As opposed to the previous principle of origin-based taxation, GST would be based on the principle of destination-based consumption taxation.
- Dual GST: The Centre and the States would simultaneously levy tax on a common base. The GST to be levied by the Centre would be called Central GST (CGST) and the GST to be levied by the States (including Union territories with legislature) would be called State GST (SGST). Union territories without legislature would levy Union territory GST (UTGST).
- Inter-State supply: An integrated GST (IGST) would be levied on inter-State supply of goods or services. This would be collected by the Centre so that the credit chain is not disrupted. Imports of goods and services would be treated as inter-State supplies and would be subject to IGST. (This would be in addition to applicable customs duties).
- Central taxes subsumed: GST would subsume the following taxes that were levied and collected by the Centre: Central excise duty; Additional duties of excise; Additional duties of customs (commonly known as countervailing duty); special additional duty of customs (SAD); service tax; and cesses and surcharges insofar as they relate to supply of goods or services.
- State taxes subsumed: GST would subsume the following taxes that were levied and collected by the State: State VAT; Central Sales Tax; purchase tax; luxury tax; entry tax; entertainment tax (except those levied by the local bodies); taxes on advertisements; taxes on lotteries, betting and gambling; and State cesses and surcharges insofar as they relate to supply of goods or services.
- Applicability: GST would apply to all goods and services except alcohol for human consumption. GST on five specified petroleum products (crude, petrol, diesel, aviation turbine fuel, natural gas) would be applicable from a date to be recommended by the GST Council.
- Threshold for GST: A common threshold exemption would apply to both CGST and SGST. Taxpayers with an annual turnover of ` 20 lakh (` 10 lakh for special category States (except J&K) as specified in article 279A of the Constitution) would be exempt from GST. A compounding option (i.e. to pay tax at a flat rate without credits) would be available to small taxpayers (including to manufacturers other than specified category of manufacturers and service providers) having an annual turnover of up to ` 1 crore (` 75 lakh for special category States (except J&K and Uttarakhand) enumerated in article 279A of the Constitution). The threshold exemption and compounding scheme is optional. 9.
- Exports: All exports and supplies to Special Economic Zones (SEZs) and SEZ units would be zero-rated.
- Input tax credit: Credit of CGST paid on inputs may be used only for paying CGST on the output and the credit of SGST/UTGST paid on inputs may be used only for paying SGST/ UTGST. In other words, the two streams of input tax credit (ITC) cannot be cross utilized, except in specified circumstances of inter-State supplies for payment of IGST. (For details, see the Chapter on Input Tax Credit).
- Electronic filing of returns: There will be electronic filing of returns by different class of persons at different cut-off dates. Various modes of payment of tax available to the

taxpayer including internet banking, debit/credit card and National Electronic Funds Transfer (NEFT)/Real Time Gross Settlement (RTGS).

- Tax deduction on payment made: While the provision for TDS has not been notified yet, it is obligatory on certain persons including government departments, local authorities and government agencies, who are recipients of supply, to deduct tax at the rate of 1% from the payment made or credited to the supplier where total value of supply, under a contract, exceeds ` 2,50,000.
- Tax collection at source by E-commerce operators: While the provision for TCS has not been notified yet,it is obligatory for electronic commerce operators to collect 'tax at source', at such rate not exceeding 2% of net value of taxable supplies, out of payments to suppliers supplying goods or services through their portals.
- Refund: Refund of tax can be sought by taxpayer or by any other person who has borne the incidence of tax within two years from the relevant date. Refund is to be granted within 60 days from the date of receipt of complete application and interest is payable if refund is not sanctioned within 60 days.
- Anti-profiteering clause: An anti-profiteering clause has been provided in order to ensure that business passes on the benefit of reduced tax incidence on goods or services or both to the consumers.

9.4 Proposed Benefits of GST

The implementation of GST is expected to bring in various benefits as discussed below:

- Dynamic common market: GST would make India a dynamic common market and result in generation of positive externalities. By ensuring uniformity of indirect tax rates across the country, it will substantially improve the ease of doing business.
- Elimination of cascading effect: Under GST, provision of seamless input tax credit across transactions will avoid tax cascading, eliminate double taxation and improve resource allocation.
- Efficiency: Subsuming of all major indirect taxes will result in the removal of inefficient taxes. With as single tax to be paid, manufacturers will become more competitive and this could lead to growth in exports.
- Reduced compliance costs: Harmonisation of tax rates and laws along with seamless input tax credits and a sound IT infrastructure is expected to lead to reduced compliance costs. As all the taxpayer services like registrations, payments, returns etc. will be available online, the compliance process would become simpler.
- Reduction in tax evasion: Uniform rates of taxation would reduce the incentive for tax evasion by eliminating rate arbitrage opportunities between neighbouring states and that between intra-State and inter-State sales.
- Improved collection efficiency: GST is also desirable from the point of view of tax policy and collection. Even if the taxes are lowered, the revenue of the Union and the states is expected to be buoyant due to less evasion. A single rate across all goods and services will eliminate classification disputes and make tax assessment more predictable. Harmonisation of tax assessment, levy and collection procedures across states will reduce compliance costs, limit evasion, enhance transparency and improve collection efficiency.
- Revenue generation: By controlling tax leakage from the system and having a wider base, GST would generate more tax revenues for both the Central and State Governments.

- Encourages savings and investment: As GST is a tax on consumption and not on income, so the tax system inherently encourages savings and investments instead of consumption. Further, input tax credit would lead to a decrease in the cost of capital goods and provide boost to investments.
- Improved efficiency of logistics : Due to GST implementation, the restriction on inter-State movement of goods is likely to be lessened and the logistics sector is anticipated to start consolidating warehouses across the country. In the erstwhile indirect tax structure, decisions related to logistics and distribution centres were based on tax considerations as opposed to operational efficiency. With GST in place, these decisions will now be based on operational efficiency and warehouses would be set up at locations that would help in reaching customers faster and reduce costs.
- Regulation of the unorganized sector : For a large unorganized sector that exists in business, GST has provisions for online compliances and payments, and availing of input credit only when the supplier has accepted the amount, thereby bringing accountability and regulation to these businesses.
- Export competitiveness : With GST in place, the export industry in India would be able to have internationally competitive prices due to the smooth process of claiming input tax credit and the availability of input tax credit on services. The exports of goods or services would be a zero rated supply under GST implying that GST would not be levied on export of goods or services. All this, in turn, would provide a push to government's 'Make in India' campaign
- Higher threshold for registration: As per the current VAT structure, any business with a turnover of more than ` 5 lakh (in most states) is liable to pay VAT (different rates in different states). Similarly, for service tax, service providers with turnover less than ` 10 lakhs are exempted. Under GST this threshold has been increased to ` 20 lakhs thus exempting many small traders and service providers.
- Composition scheme for small businesses: The composition scheme under the GST regime is a method of levy of tax designed for small taxpayers whose turnover is up to ` 1 crore (` 75 lakhs in case of 9 Special Category States). Those who opt for this scheme can file returns on a quarterly basis unlike the others who have to file returns on a monthly basis. Under the scheme, small businesses, manufacturers and restaurants will be subject to a GST rate of 0.5%, 1% and 2.5% respectively on turnover. The Composition scheme has been designed to simplify and reduce the burden of compliance for smaller taxpayers.
- Benefits to consumers: The final price of goods is expected to be lower due to seamless flow of input tax credit between the manufacturer, retailer and supplier of services. Average tax burden on companies is likely to come down which is expected to reduce prices and hence benefit the consumer.
-

9.5 GST Registration ad Return

In the GST Regime, businesses whose turnover exceeds Rs. 40 lakhs* (Rs 10 lakhs for NE and hill states) is required to register as a normal taxable person. This process of registration is called GST registration.

For certain businesses, registration under GST is mandatory. If the organization carries on business without registering under GST, it will be an offence under GST and heavy penalties will apply.

GST registration usually takes between 2-6 working days. We'll help you to register for GST in 3 easy steps.

*CBIC has notified the increase in threshold turnover from Rs 20 lakhs to Rs 40 lakhs. The notification will come into effect from 1st April 2019.

Who Should Register for GST?

- Individuals registered under the Pre-GST law (i.e., Excise, VAT, Service Tax etc.)
- Businesses with turnover above the threshold limit of Rs. 40 Lakhs* (Rs. 10 Lakhs for North-Eastern States, J&K, Himachal Pradesh and Uttarakhand)
- Casual taxable person / Non-Resident taxable person
- Agents of a supplier & Input service distributor
- Those paying tax under the reverse charge mechanism
- Person who supplies via e-commerce aggregator
- Every e-commerce aggregator
- Person supplying online information and database access or retrieval services from a place outside India to a person in India, other than a registered taxable person

*CBIC has notified the increase in threshold turnover from Rs 20 lakhs to Rs 40 lakhs. The notification will come into effect from 1st April 2019.

Important Facts About GST Registration

Here are some essential factors that you must understand about GST registration. Read on:

- There is no payable fee upon registering for GST.
- Every business with an annual aggregate turnover of over Rs. 20 Lakhs must register for GST.
- There are 11 states in India that are configured with the special status. These states include Arunachal Pradesh, Jammu and Kashmir, Manipur, Mizoram, Nagaland, Sikkim, Tripura, Uttarakhand, Himachal Pradesh, Assam, and Meghalaya. A business must register in these given states if the annual turnover is Rs. 10 Lakhs.
- In case of supply in more than one state, it must be registered in each of the states.
- In case of multiple branches across states, one of the branches must be registered as the main branch and the rest as additional. However, this does not apply to businesses that have separate verticals as listed in Section 2(18) of the GST Act, 2017.
- A minimum penalty of Rs. 10,000, or 10% of the due amount, is levied on those businesses that fail to register for GST. If the authorities flag intentional tax evasion, a penalty of 100% is levied on the total taxes owed.

These facts are extremely important and must be followed to ensure a hassle-free GST experience.

How to Apply for GST Registration Process in India

The procedure to apply for GST Registration is mentioned below:

Step 1: Visit the GST portal online at (https://www.gst.gov.in/).

Step 2: Click on 'Register Now' link which can be found under the 'Taxpayers' tab

Taxpayers (Normal/TDS/TCS)

Register Now　　Find a GST Practitioner

GST Practitioners

Register Now　　Find a Taxpayer

Step 3: Select 'New Registration' and fill the below-mentioned details and click on 'Proceed'.

New Registration

* indicates mandatory fields

New Registration　　Temporary Reference Number (TRN)

I am a*

Select

State / UT*

Select

District

Select

Legal Name of the Business (As mentioned in PAN) *

Enter Legal Name of Business

Permanent Account Number (PAN)*

Enter Permanent Account Number (PAN)

Step 4: Now enter the OTP that was sent to the email ID and mobile number in the respective boxes.

Step 5: You will be shown the Temporary Reference Number (TRN) on the screen. Make a note of the TRN.

Step 6: Revisit the GST portal and click on 'Register' under the 'Taxpayers' menu.

Step 7: Select 'Temporary Reference Number (TRN)'. Enter the TRN and the captcha details and Click on 'Proceed'.

* indicates mandatory fields

New Registration Temporary Reference Number (TRN)

Temporary Reference Number (TRN)*

Enter Temporary Reference Number (TRN)

Type the characters you see in the image below*

Enter characters as displayed in the CAPTCHA image

PROCEED

Step 8: You will receive an OTP registered mobile number and email id. Enter the OTP and click on 'Proceed'.

Step 9: The status of your application will be available on the next page. On the right side, click on the Edit icon.

Step 10: Once completed, a message will be displayed on the screen, and the Application Reference Number (ARN) will be sent to you on your registered mobile number and email ID.

GST Registration Fees

The government does not charge any GST registration fees for GST registration online through the government portal. Once the relevant documents have been uploaded, you will receive the Application Reference Number (ARN) via SMS and email to confirm the registration. However, if you seek professional help from any CA, you have to pay their fees.

GST Return

A GST return is a document containing details of all income/sales and/or expense/purchase which a taxpayer (every GSTIN) is required to file with the tax administrative authorities. This is used by tax authorities to calculate net tax liability.

Under GST, a registered dealer has to file GST returns that broadly include:

- Purchases
- Sales
- Output GST (On sales)
- Input tax credit (GST paid on purchases)

To file GST returns or for GST filing, check out gst.cleartax.in website that allows import of data from various ERP systems such as Tally, Busy, custom excel, to name a few. Moreover, there is option to use desktop app for Tally users to directly upload data and filing.

In the GST regime, any regular business having more than Rs.5 crore as annual aggregate turnover has to file two monthly returns and one annual return. This amounts to 26 returns in a year.The number of GSTR filings vary for quarterly GSTR-1 filers under QRMP scheme. The number of GSTR filings online for them is 9 in a year, including the GSTR-3B and annual return.There are separate returns required to be filed by special cases such as composition dealers whose number of GSTR filings is 5 in a year.

Different Types of GST Return

Here is a list of all the returns to be filed as prescribed under the GST Law along with the due dates.

GST filings as per the CGST Act subject to changes by CBIC Notifications

Return	Description	Frequency	Due Date

Form			
GSTR-1	Details of outward supplies of taxable goods and/or services affected.	Monthly	11th* of the next month with effect from October 2018 until September 2020. *Previously, the due date was 10th of the next month.
		Quarterly (If opted under the QRMP scheme)	13th of the month succeeding the quarter. Was end of the month succeeding the quarter until December 2020)
GSTR-2 **Suspended from September 2017 onwards**	Details of inward supplies of taxable goods and/or services effected claiming the input tax credit.	Monthly	15th of the next month.
GSTR-3 **Suspended from September 2017 onwards**	Monthly return on the basis of finalisation of details of outward supplies and inward supplies along with the payment of tax.	Monthly	20th of the next month.
GSTR-3B	Simple return in which summary of outward supplies along with input tax credit is declared and payment of tax is affected by the taxpayer.	Monthly	20th of the next month from the month of January 2021 onwards^ Staggered^^ from the month of January 2020 onwards upto December 2020.* *Previously 20th of the next month for all taxpayers.
		Quarterly	22nd or 24th of the month next to the quarter***
	^20th of next month for taxpayers with an aggregate turnover in the previous financial year more than Rs 5 crore or otherwise eligible but still opting out of the QRMP scheme. ^^ 1. 20th of next month for taxpayers with an aggregate turnover in the previous		

	financial year more than Rs 5 crore. 2. For the taxpayers with aggregate turnover equal to or below Rs 5 crore, 22nd of next month for taxpayers in category X states/UTs and 24th of next month for taxpayers in category Y states/UTs ***For the taxpayers with aggregate turnover equal to or below Rs 5 crore, eligible and remain opted into the QRMP scheme, 22nd of month next to the quarter for taxpayers in category X states/UTs and 24th of month next to the quarter for taxpayers in category Y states/UTs • **Category X:** Chhattisgarh, Madhya Pradesh, Gujarat, Maharashtra, Karnataka, Goa, Kerala, Tamil Nadu, Telangana or Andhra Pradesh or the Union territories of Daman and Diu and Dadra and Nagar Haveli, Puducherry, Andaman and Nicobar Islands and Lakshadweep. • **Category Y:** Himachal Pradesh, Punjab, Uttarakhand, Haryana, Rajasthan, Uttar Pradesh, Bihar, Sikkim, Arunachal Pradesh, Nagaland, Manipur, Mizoram, Tripura, Meghalaya, Assam, West Bengal, Jharkhand or Odisha or the Union Territories of Jammu and Kashmir, Ladakh, Chandigarh and New Delhi.		
CMP-08	Statement-cum-challan to make a tax payment by a taxpayer registered under the composition scheme under section 10 of the CGST Act (supplier of goods) and CGST (Rate) notification no. 02/2019 dated 7th March 2020 (Supplier of services)	Quarterly	18th of the month succeeding the quarter.
GSTR-4	Return for a taxpayer registered under the composition scheme under section 10 of the CGST Act (supplier of goods) and CGST (Rate) notification no. 02/2019 dated 7th March 2020 (Supplier of services).	Annually	30th of the month succeeding a financial year.
GSTR-5	Return for a non-resident foreign taxable person.	Monthly	20th of the next month.
GSTR-6	Return for an input service distributor to distribute the eligible input tax credit to its	Monthly	13th of the next month.

	branches.		
GSTR-7	Return for government authorities deducting tax at source (TDS).	Monthly	10th of the next month.
GSTR-8	Details of supplies effected through e-commerce operators and the amount of tax collected at source by them.	Monthly	10th of the next month.
GSTR-9	Annual return for a normal taxpayer.	Annually	31st December of next financial year.
GSTR-9A (Suspended)	Annual return optional for filing by a taxpayer registered under the composition levy anytime during the year.	Annually until FY 2017-18 and FY 2018-19	31st December of next financial year, only up to FY 2018-19.
GSTR-9C	Certified reconciliation statement	Annually	31st December of next financial year.
GSTR-10	Final return to be filed by a taxpayer whose GST registration is cancelled.	Once, when GST registration is cancelled or surrendered.	Within three months of the date of cancellation or date of cancellation order, whichever is later.
GSTR-11	Details of inward supplies to be furnished by a person having UIN and claiming a refund	Monthly	28th of the month following the month for which statement is filed.

* Subject to changes by Notifications/ Orders

** Statement of self-assessed tax by composition dealers – same as the erstwhile form GSTR-4, which is now made an annual return with effect from FY 2019-2020 onwards.

Late Fees for not Filing Return on Time

- If GST Returns are not filed within time, you will be liable to pay interest and a late fee.
- Interest is 18% per annum. It has to be calculated by the taxpayer on the amount of outstanding tax to be paid. The time period will be from the next day of filing to the date of payment.

- Late fees isRs. 100 per day per Act.
- So it is 100 under CGST & 100 under SGST. Total will be Rs. 200/day. Maximum is Rs. 5,000. There is no late fee on IGST. However, currently, a reduced late fees of Rs 50 per day of delay(Rs 20 for NIL return) is applicable for those who file GSTR-1 and GSTR-3B.

Keywords

1. **Actionable claim** will have the significance assigned to it in section 3 of the Transfer of Property Act, 1882 (4 of 1882), which refers to a claim on any unsecured debt or any beneficial interest in movable property of the claimant.
2. **Address of delivery** refers to the address of the recipient of goods and/or services indicated on the tax invoice issued by a taxable person for delivery of such goods and/or services.
3. **Address on record** means the address of the recipient as noted in the files of the supplier. This may or may not be the same as the address of delivery.
4. **Adjudicating authority** means any authority competent to pass any order or decision relating to the GST Act, but does not include the Central Board of Excise and Customs, the Revisional authority, authority for the advance ruling, appellate authority for an advance ruling, appellate authority, or the appellate tribunal.
5. **Aggregate turnover** means the total value of all taxable supplies, exempt supplies, exports of goods and/or services, and interstate supplies of a person having the same PAN, computed on the pan-India basis and excluding taxes. However, the value of inward supplies on which taxation is based on reverse-charge mechanism shall not be admitted.
6. **Appellate tribunal** means the Goods and Services Tax Appellate Tribunal set up under section 109.
7. **Application Service Providers (ASPs)** are like GST Suvidha Providers (GSPs) but are more wholesome than GSPs. The support provided by ASPs will address most taxpayer compliance difficulties as they work as a liaison between the taxpayers and the GSPs.
8. **Appropriate government** refers to the Central Government for IGST, UTGST and CGST, and the State Government for SGST.
9. **Assessment** means the determination of tax liability inclusive of self-assessment, re-assessment, provisional assessment, summary assessment, and best judgment assessment.
10. **Capital goods** are goods that are capitalized in the books of accounts of the person claiming the credit and are intended to be used during business.
11. **Casual taxable person** is a person occasionally undertaking transactions involving the supply of goods and/or services during business, whether as principal, agent or in any other capacity, in a taxable territory where he has no fixed place of business.
12. **CGST** is the tax levied under the Central Goods and Services Tax Act, 2016.
13. **Common portal** refers to the online GST portal approved by the Central and State Governments, on the recommendation of the council.
14. **Composite supply** means a supply consisting of two or more goods and/or services, which are naturally bundled and provided together, one being a principal supply.
15. **Consideration** relates to the supply of goods or services involving:
    - Any payment made or to be made, whether in money or kind
    - Monetary value of any act or forbearance, whether or not voluntary

However, the subsidy given by the Central and/or State Governments are not included.

1. **Council** refers to the Goods and Services Tax Council set up under Article 279A of the Constitution.
2. **Credit note** means a document issued by a taxable person in relation to the tax invoice exceeding the taxable value and/or tax payable in respect of supply, or where the goods

supplied are returned by the recipient, or where the services supplied are found to be deficient.

3. **Debit note** means a document issued by a taxable person relating to the taxable value and/or tax charged as per the tax invoice when found to be less than the taxable value and/or tax payable in respect of such supply.
4. **Digital signature certificate** (DSC) refers to a secure digital key that certifies the identity of the holder, issued by a Certifying Authority (CA). It typically holds information about the identity of the holder. It is the digital equivalent of a handwritten signature.
5. **Electronic commerce** means the supply of goods and/or services including digital products over a digital or electronic network.
6. **Exempt supply** means supply of any goods and/or services that are not taxable and includes such supply of goods and/or services that attract zero rate of tax or that may be exempt from tax per section 11.
7. **Fixed establishment** is a place, other than the place of business, that has a sufficient degree of permanence and suitable structure regarding human and technical resources as to supply/receive/use services for its own
8. **Forward charge** means the tax liability of the supplier of goods and/or services to levy the tax on the recipient of the goods and/or services and to remit the same to the credit of the government.
9. **Fund** means the Consumer Welfare Fund set up under section 57 by the Central Government.
10. **Goods** refers to all types of movable property, including actionable claim, growing crops, grass, and things attached to the land that are agreed to be severed before supply or under a contract of supply. Excludes securities and money.
11. **Goods and Services Tax Network (GSTN)** is a non-profit, public-private partnership company. Its main purpose is to provide IT infrastructure and services to Central and State Governments, taxpayers, and other stakeholders to facilitate the implementation of GST.
12. **GST Suvidha Provider (GSP)** refers to third-party applications that assist the taxable person in accessing the GST portal in an enriched manner by being more user-friendly and customer-centred.
13. **Harmonized System Nomenclature (HSN) Code** is a numeral used to classify goods for taxation purposes provided by the World Customs Organization.
14. **IGST** means Integrated Goods and Services Tax Act, 2017. Integrated tax means the IGST levied under IGST Act, 2017.
15. **Input service distributor** means an office of the supplier of goods and/or services that receives tax invoices issued under section 31 toward the receipt of input services and issues a prescribed document for distributing the credit of CGST, SGST, UTGST and/or IGST paid for the said services.
16. **Input tax** in relation to a regisfixedtered person, means the central tax, state tax, integrated tax or Union territory tax charged on any supply of goods or services or both made to him and includes:
    - IGST charged on the import of goods.
    - Tax payable under subsections (3) and (4) of section 9.
    - Tax payable under subsections (3) and (4) of section 5 of the IGST Act.
    - Tax payable under subsections (3) and (4) of section 9 of the respective SGST Act; or
    - Tax payable under subsections (3) and (4) of section 7 of the UTGST Act.

However, it does not include the tax paid under the composition levy.

1. **Input tax credit** means the credit of input tax.

2. **Intrastate supply of goods** means the supply of goods during intrastate trade or commerce regarding subsection (1) of section 8 of IGST Act, 2017.
3. **Intrastate supply of services** means the supply of services during intrastate trade or commerce regarding subsection (2) of section 8 of IGST Act, 2017.
4. **Invoice** shall have the meaning as assigned to "Tax Invoice" as under section 31.
5. **Inward supply** refers to the receipt of goods and/or services, whether by purchase, acquisition, or any other means, and with or without any consideration.
6. **Job work** means undertaking any treatment or process by a person on goods belonging to another registered taxable person.
7. **Local authority** means:
    - Panchayat as defined in clause (d) of Article 243 of the Constitution
    - Municipality as specified in clause (e) of Article 243P of the Constitution
    - A municipal committee, a zillaparishad, a district board, and any other authority legally entitled to or entrusted by the Central or any State Government with the control or management of a municipal or local fund
    - Cantonment board as defined in section 3 of the Cantonments Act, 2006 (41 of 2006)
    - Regional council or a district council formed under the Sixth Schedule to the Constitution
    - Development board formed under Article 371 of the Constitution
    - Regional council formed under Article 371A of the Constitution
8. **Market value** refers to the full amount that a recipient of supply would pay to obtain the goods and/or services of like kind and quality at or about the same time and at the same commercial level, where the recipient and supplier are not related.
9. **Mixed supply** means two or more individual supplies of goods and/or services made together by a taxable person for a single price where such supply does not form a composite supply.
10. **Non-resident taxable person** is someone who occasionally undertakes transactions involving the supply of goods and/or services, whether as principal or agent, or in any other capacity, but with no fixed place of business in India.
11. **Output tax** means the CGST/SGST on taxable supply of goods and/or services made by a taxable person or by his agent. Excludes tax payable on a reverse-charge basis.
12. **Outward supply** refers to the supply of goods and/or services, whether by sale, transfer, barter, exchange, licence, rental, lease, or disposal, or any other means made or agreed to be made during business.
13. **Person** includes:
    - An individual
    - A Hindu undivided family
    - A company
    - A firm
    - A Limited Liability Partnership
    - An association of persons or a body of individuals, whether incorporated or not, in India or outside India
    - Any corporation set up by or under any Central, State, or Provincial Act or a government company as defined in section 2(45) of the Companies Act, 2013 (18 of 2013)
    - A body corporate incorporated by or under the laws of a country outside India

- A cooperative society registered under any law relating to cooperative societies
- A local authority
- Central government or a State government.
- Society as defined under the Societies Registration Act, 1860 (21 of 1860)
- A trust
- Every artificial juridical person, not falling within any of the preceding sub-clauses

14. **Place of business** includes:
    - A place from where the business is ordinarily carried on, including a warehouse, a godown, or any other place where a taxable person stores his goods, or provides or receives goods and/or services
    - A place where a taxable person keeps his books of account
    - A place where a taxable person is engaged in business through an agent
15. **Principal** means a person on whose behalf an agent carries on the business of supply or receipt of goods and/or services.
16. **Principal place of business** means the location of business specified as the principal place of business in the certificate of registration.
17. **Principal supply** means the supply of goods and/or services that form the significant element of a composite supply and any other related supply being ancillary.
18. **Recipient** of supply of goods and/or services means:
    - Where the consideration is payable, the person liable to pay that consideration.
    - Where no consideration is payable, the person to whom the goods and/or services are delivered/rendered or made available.

Includes an agent working on behalf of the recipient in relation to the goods and/or services provided.

1. **Registered importer** refers to the importer registered per the provisions of Central Excise Rules, 2002.
2. **Related persons** include:
    - Officers or directors of one another's business
    - Legally recognised partners in business
    - The employer and the employee
    - Someone who directly or indirectly owns, controls, or holds 25 percent or more of the outstanding voting stock or shares of both
    - One of them directly or indirectly controls the other
    - A third person directly or indirectly controls both
    - Together they directly or indirectly control a third person
    - They are members of the same family
3. **Removal** in relation to goods means:
    - Dispatch of the goods for delivery by the supplier or by any other person acting on behalf of such supplier
    - Collection of the goods by the recipient or by any other person acting on behalf of such recipient
4. **Return** refers to any return prescribed or required to be furnished.
5. **Reverse charge** means the tax liability on the recipient of the supply of goods and/or services instead of the supplier of such goods and/or services.

6. **Securities** shall mean as per subsection (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956).
7. **Services** means anything other than goods, money and securities but includes activities relating to the use of money or its conversion by cash or by any other mode, from one form, currency or denomination, to another form, currency or denomination for which a separate consideration is charged.
8. **SGST** means the State Goods and Services Tax Act, 2017. State tax means the tax imposed under SGST Act, 2017.
9. **Supplier** signifies the person providing the said goods and/or services and shall include an agent acting as such on behalf of such supplier about the goods and/or services provided.
10. **Supply** includes all forms of supply of goods and/or services such as sale, transfer, barter, exchange, license, rental, lease, or disposal made or agreed to be made for a consideration by a person in the course of business and also includes import of services for a consideration whether or not in the course of business.
11. **Taxable person** is an individual who carries on any business at any place in any state of India and who is registered or required to be registered under GST.
12. **Turnover in a state** or in Union Territory means the aggregate value of all taxable supplies, exempt supplies, exports of goods and/or services made within a state or Union Territory by a taxable person and interstate supplies of goods and/or services made from the state or Union Territory excluding taxes. Like aggregate turnover, the value of inward supplies on which taxation is based on reverse-charge mechanism shall not be admitted.
13. **Usual place of residence** means:
    - In the case of an individual, the place where he ordinarily resides
    - In other cases, the place where the person is incorporated or otherwise legally constituted
14. **Zero-rated supply,** as per section 16 of IGST Act, 2017, means supply of any goods and/or services including:
    - export of goods or services or both; or
    - supply of goods or services or both to a Special Economic Zone developer or a Special Economic Zone unit.

Summary

It is a destination based tax on consumption of goods and services. It is proposed to be levied at all stages right from manufacture up to final consumption with credit of taxes paid at previous stages available as set off. In a nutshell, only value addition will be taxed and burden of tax is to be borne by the final consumer.

The tax would accrue to the taxing authority which has jurisdiction over the place of consumption which is also termed as place of supply.

The various Central, State and Local levies were examined to identify their possibility of being subsumed under GST. While identifying, the following principles were kept in mind:

Taxes or levies to be subsumed should be primarily in the nature of indirect taxes, either on the supply of goods or on the supply of services.

Taxes or levies to be subsumed should be part of the transaction chain which commences with import/ manufacture/ production of goods or provision of services at one end and the consumption of goods and services at the other.

The subsumation should result in free flow of tax credit in intra and inter-State levels. The taxes, levies and fees that are not specifically related to supply of goods & services should not be subsumed under GST.

Revenue fairness for both the Union and the States individually would need to be attempted.

Article 366(12A) of the Constitution as amended by 101 st Constitutional Amendment Act, 2016 defines the Goods and Services tax (GST) as a tax on supply of goods or services or both, except supply of alcoholic liquor for human consumption. So alcohol for human consumption is kept out of GST by way of definition of GST in constitution. Five petroleum products viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel have temporarily been kept out and GST Council shall decide the date from which they shall be included in GST. Furthermore, electricity has been kept out of GST .The existing taxation system (VAT & Central Excise) will continue in respect of the above commodities.Tobacco and tobacco products would be subject to GST. In addition, the Centre would have the power to levy Central Excise duty on these products.It would be a dual GST with the Centre and States simultaneously levying it on a common tax base. The GST to be levied by the Centre on intra-State supply of goods and / or services would be called the Central GST (CGST) and that to be levied by the States would be called the State GST (SGST). Similarly Integrated GST (IGST) will be levied and administered by Centre on every inter-state supply of goods and services.

India is a federal country where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation. Both the levels of Government have distinct responsibilities to perform according to the division of powers prescribed in the Constitution for which they need to raise resources. A dual GST will, therefore, be in keeping with the Constitutional requirement of fiscal federalism.

Centre will levy and administer CGST & IGST while respective states / UTs will levy and administer SGST / UTST.

Currently, the fiscal powers between the Centre and the States are clearly demarcated in the Constitution with almost no overlap between the respective domains. The Centre has the powers to levy tax on the manufacture of goods (except alcoholic liquor for human consumption, opium, narcotics etc.) while the States have the powers to levy tax on the sale of goods. In the case of inter-State sales, the Centre has the power to levy a tax (the Central Sales Tax) but, the tax is collected and retained entirely by the States. As for services, it is the Centre alone that is empowered to levy service tax.

Introduction of the GST required amendments in the Constitution so as to simultaneously empower the Centre and the States to levy and collect this tax. The Constitution of India has been amended by the Constitution (one hundred and first amendment) Act, 2016 recently for this purpose. Article 246A of the Constitution empowers the Centre and the States to levy and collect the GST.

Introduction of GST would be a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax and allowing set-off of prior-stage taxes, it would mitigate the ill effects of cascading and pave the way for a common national market. For the consumers, the biggest gain would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25%-30%. Introduction of GST would also make our products competitive in the domestic and international markets. Studies show that this would instantly spur economic growth. There may also be revenue gain for the Centre and the States due to widening of the tax base, increase in trade volumes and improved 10 11 tax compliance. Last but not the least, this tax, because of its transparent character, would be easier to administer.

Self Assessment

1. What is the full form of GST?

A. Goods and Supply Tax
B. Goods and Services Tax
C. General Sales Tax
D. Government Sales Tax

2. GST was implemented in India from

A. 1st January 2017
B. 1st April 2017

C. 1st March 2017

D. 1st July 2017

3. In India, the GST is based on the dual model GST adopted in:

A. UK

B. Canada

C. USA

D. Japan

4. GST is a consumption of goods and service tax based on

A. Development

B. Dividend

C. Destiny

D. Destination

5. The number of structures in India's GST model is?

A. 6

B. 4

C. 3

D. 5

6. The maximum rate for CGST is?

A. 28

B. 12

C. 18

D. 20

7. The maximum rate applicable for SGST/UTGST is?

A. 28

B. 14

C. 20

D. 30

8. GST rates applicable on goods and services are:

A. 0% 5% 12% 18% 26%

B. 0% 6% 12% 18% 28%

C. 0% 5% 12% 18% 28%

D. 0% 5% 12% 16% 28%

9. Taxes that are levied on any Intra-State purchase are?

A. IGST

B. CGST and SGST

C. SGST

D. SGST

E.

10. What does "I" in IGST stands stand for?
A. Internal
B. Integrated
C. Internal
D. Intra

11. GST registration is mandatory if the aggregate turnover in a financial year exceeds
A. INR 20 lakh
B. INR 50 lakh
C. INR 75 lakh
D. INR 1 crore

12. GSTR 8 files ________________
A. Return for authorities deducing tax at source
B. Return for ecommerce operator/ Tax collector
C. Return for non-resident taxable person
D. Return for input service distributor

13. A person who is liable to be registered shall apply for registration within --- from the date on which he becomes liable to registration.
A. 10 days
B. 20 days
C. 30 days
D. 90 days

14. GST registration is not compulsory in the case of __________?
A. Casual taxable persons making taxable supply
B. Persons under reverse charge
C. Non-resident making taxable supply
D. Person dealing in exempt goods alone

15. Returns to be filed by Non-Resident Taxpayer is
A. GSTR-3
B. GSTR-4
C. GSTR-4A
D. GSTR-5

Answers for Self Assessment

1.	B	2.	D	3.	B	4.	D	5.	B
6.	D	7.	C	8.	C	9.	B	10.	B
11.	A	12.	A	13.	C	14.	D	15.	D

Review Questions

1. What is GST? How does it work?
2. What are the benefits of GST?
3. Which taxes at the Centre and State level are being subsumed into GST?
4. What are the major chronological events that have led to the introduction of GST?
5. How would GST be administered in India?
6. How would a particular transaction of goods and services be taxed simultaneously under Central GST (CGST) and State GST (SGST)?
7. Will cross utilization of credits between goods and services be allowed under GST regime?
8. How will be Inter-State transactions of Goods and Services be taxed under GST in terms of IGST method?
9. How will IT be used for the implementation of GST?
10. How will imports be taxed under GST?
11. What are the major features of the Constitution (122nd Amendment) Bill, 2014?
12. What are the major features of the proposed registration procedures under GST?
13. What are the major features of the proposed returns filing procedures under GST?
14. What are the major features of the proposed payment procedures under GST?
15. Which of the existing taxes are proposed to be subsumed under GST?

Further Readings

Pandey GN, Environment Management, Vikas Publishing, New Delhi

Paul Justin, Business Environment: Text and Cases, Tata McGraw Hill, New Delhi

Saleem Sheikh, Business Environment, Pearson Education, New Delhi

Vivek Mittal, Business Environment, Excel Books, New Delhi

https://en.wikipedia.org/wiki/Goods_and_Services_Tax_(India)

https://cleartax.in/s/gst-rates

https://cleartax.in/s/gst-registration

https://www.bankbazaar.com/tax/gst-registration.html

https://cleartax.in/s/gst-returns

https://cleartax.in/s/new-gst-returns

https://cleartax.in/s/returns-under-the-gst-law#:~:text=GSTR%2D9%20is%20the%20annual,of%20taxes%20payable%20and%20paid.

https://www.avalara.com/in/en/resources/whitepapers/gst-glossary-defining-important-terms.html

https://www.taxmann.com/bookstore/bookshop/bookfiles/nitibhasinchapter2.pdf

https://www.legalraasta.com/gst/gst-introduction/

https://www.bajajfinservmarkets.in/gst/gst-registration.html

Jaskiran Kaur, Lovely Professional University

Unit 10: International Organizations and Monetary System

CONTENTS

Objectives

Introduction

10.1 Bretton Woods System

10.2 Exchange Rate

10.3 International Monetary Fund

10.4 World Bank

Keywords

Summary

Self-Assessment

Answers for Self Assessment

Review Questions

Further Readings

Objectives

After studying this unit, you will be able to:

- gain an insight into the transition from bartering to currency.
- analyse the historical events preceding bretton woods conference.
- know a little about the three pillars of bretton woods system.
- gain an insight into the introduction of exchange rate.
- analyse the different types of foreign exchange rate.
- analyse the three factors affecting exchange rates.
- understand the effect of exchange rate for an individual and the latest exchange rates.
- gain an insight into IMF and its objectives, organization, facts and lending facts.
- analyse the history of IMF.
- know about the executive board, functions and changing role of IMF.
- understand the resources and challenges for the IMF.
- analyze brief history of world bank
- gain an insight into introduction and Top Officials
- understand the roles & objectives of World Bank
- know the functions and criticism of World Bank

Introduction

Growing Importance of International Business Environment: In the recent past, many meanings of the word 'globalisation' have accumulated. The word 'globalise' was first attested by the Merriam Webster Dictionary in 1944. To consider the history of globalisation, some authors focus on events since 1492, but most scholars and theorists concentrate on a much more recent past.

Long before 1492, people began to link together disparate locations on the globe into extensive systems of communication, migration, and interconnections. This formation of systems of interaction between the global and the local has been a central driving force in world history.

In 325 BC Chandragupta Maurya becomes a Buddhist and combines the expansive powers of a world religion, trade, economy, and imperial armies for the first time. Greeks (Selukas) sue for peace with Chandragupta in 325 BC at Gerosia, marking the eastward link among overland routes between the Mediterranean, Persia, India, and Central Asia.

By 1350, networks of trade which involved frequent movement of people, animals, goods, money, and micro-organisms ran from England to China, through France and Italy, across the Mediterranean to the Levant and Egypt, and then across Central Asia (the Silk Road) and along sea lanes down the Red Sea, across the Indian Ocean, and through the Straits of Malacca to the China coast.

Between 1492 and 1498: Columbus and Vasco da Gama travel west and east to the Indies, inaugurating an age of European sea-borne empires.

In South Asia, it should be noted, the Delhi Sultanate and Deccan states provided a system of power that connected the inland trading routes of Central Asia with the coastal towns of Bengal and the peninsula and thus to Indian Ocean trade for the first time.

The commodities trade continued well into the seventeenth century, concentrating on local products from each region of the Eurasian system – Chinese silk and porcelain, Sumatra spices, Malabar cinnamon and pepper, etc. – but by the 1600s, long - distance trade was more deeply entrenched in the production process. An expansion of commercial production and commodities trade was supported by the arrival into Asia of precious metals from the New World, which came both from the East and West (the Atlantic and Pacific routes – via Palestine and Iran, and also the Philippines and China).

Liberalisation of the 19th century is often called "The First Era of Globalisation". The "First Era of Globalisation" is said to have broken down in stages, beginning with the First World War, and then collapsing with the crisis of gold standard in the late 1920s and early 1930s. Countries that engaged in that era of globalisation, including the European core, some of the European periphery and various European offshoots in the Americas and Oceania, prospered. Inequality between those states fell, as goods, capital and labour flowed remarkably freely between nations.

10.1 Bretton Woods System

The Bretton Woods system of monetary management established the rules for commercial and financial relations among the United States, Canada, Western European countries, Australia, and Japan after the 1944 Bretton Woods Agreement. The Bretton Woods system was the first example of a fully negotiated monetary order intended to govern monetary relations among independent states. The chief features of the Bretton Woods system were an obligation for each country to adopt a monetary policy that maintained its external exchange rates within 1 percent by tying its currency to gold and the ability of the International Monetary Fund (IMF) to bridge temporary imbalances of payments. Also, there was a need to address the lack of cooperation among other countries and to prevent competitive devaluation of the currencies as well.

Preparing to rebuild the international economic system while World War II was still being fought, 730 delegates from all 44 Allied nations gathered at the Mount Washington Hotel in Bretton Woods, New Hampshire, United States, for the United Nations Monetary and Financial Conference, also known as the Bretton Woods Conference. The delegates deliberated during 1–22 July 1944, and signed the Bretton Woods agreement on its final day. Setting up a system of rules, institutions, and procedures to regulate the international monetary system, these accords established the IMF and the International Bank for Reconstruction and Development (IBRD), which today is part of the World Bank Group. The United States, which controlled two-thirds of the world's gold, insisted that the Bretton Woods system rest on both gold and the US dollar. Soviet representatives attended the conference but later declined to ratify the final agreements, charging that the institutions they had created were "branches of Wall Street". These organizations became operational in 1945 after a sufficient number of countries had ratified the agreement.

On 15 August 1971, the United States unilaterally terminated convertibility of the US dollar to gold, effectively bringing the Bretton Woods system to an end and rendering the dollar a fiat currency. At the same time, many fixed currencies (such as the pound sterling) also became free-floating.

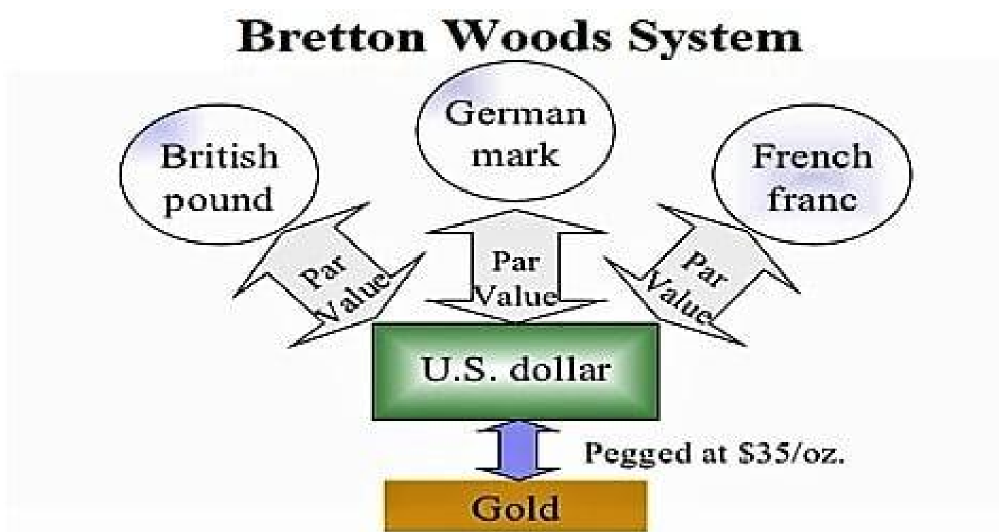
Replacing the Gold Standard:

- Before Bretton Woods, most countries followed the gold standard.

- That meant each country guaranteed that it would redeem its currency for its value in gold.
- After Bretton Woods, each member agreed to redeem its currency for U.S. dollars, not gold.

Historical Events Preceding the Bretton Woods System

- **1930s: Shared experiences of the Great Depression**
    - Deflation and competitive devaluations
    - Trade and exchange rate controls
- **Early 1940s: Developing a new monetary system**
    - Acknowledged need for a stable international monetary system
    - Two major powers: Great Britain and the U.S.A.
    - Leadership role of the U.S.



Key actors: Harry D. White (U.S.) and J.M Keynes (G.B.).

In July 1944, delegates from 45 nations gathered at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire.

<u>**Goal:**</u>

- To establish a postwar international monetary system of convertible currencies, fixed exchange rates and free trade.

Thought Process of White and Keynes

- Saw the opportunity for a new international system after World War II.
- Sought to create a system of international monetary systems.
- Address the lack of cooperation among the countries on those systems.

Three Pillars of the Bretton Woods System

- Exchange rate stability and the IMF (27 December 1945),
- Recovery and development (International Bank for Reconstruction and Development, now known as the World Bank),
- Liberalization of trade via the General Agreement on Tariffs and Trade (GATT) in 1947.

Bretton Woods Conference

- The Bretton Woods Conference, formally known as the United Nations Monetary and Financial Conference, was the gathering of 730 delegates from all 44 Allied nations at the Mount Washington Hotel, situated in Bretton Woods, New Hampshire, United States.

- Main Objective: To regulate the international monetary and financial order after the conclusion of World War II.
- The conference was held from July 1 to 22, 1944.
- Agreements were signed that, after legislative ratification by member governments, established the International Bank for Reconstruction and Development (IBRD, later part of the World Bank group) and the International Monetary Fund (IMF).
- This led to what was called the Bretton Woods system for international commercial and financial relations.

The agreements

- Articles of Agreement to create the IMF, whose purpose was to promote stability of exchange rates and financial flows.
- Articles of Agreement to create the IBRD, whose purpose was to speed reconstruction after the Second World War and to foster economic development, especially through lending to build infrastructure.
- Other recommendations for international economic cooperation.

Encouraging open markets: Seminal Idea

- The seminal idea behind the Bretton Woods Conference was the notion of open markets.
- In his closing remarks at the conference, its president, U.S. Treasury Secretary Henry Morgenthau, stated that the establishment of the IMF and the IBRD marked the end of economic nationalism.
- This meant countries would maintain their national interest, but trade blocs and economic spheres of influence would no longer be their means.
- The second idea behind the Bretton Woods Conference was joint management of the Western political-economic order, meaning that the foremost industrial democratic nations must lower barriers to trade and the movement of capital, in addition to their responsibility to govern the system.

The Bretton Woods Agreement

- Under the agreement, countries promised that their central banks would maintain fixed exchange rates between their currencies and the dollar.
- If a country's currency value became too weak relative to the dollar, the bank would buy up its currency in foreign exchange markets.
- Members of the Bretton Woods system agreed to avoid trade wars.
- For example, they wouldn't lower their currencies strictly to increase trade. But they could regulate their currencies under certain conditions.
- For example, they could take action if foreign direct investment began to destabilize their economies. They could also adjust their currency values to rebuild after a war.

10.2 Exchange Rate

An exchange rate is the value of one nation's currency versus the currency of another nation or economic zone.

For example, how many U.S. dollars does it take to buy one euro?In finance, an exchange rate is the rate at which one national currency will be exchanged for another. It is also regarded as the value of one country's currency in relation to another currency.Each country determines the exchange rate regime that will apply to its currency.For example, a currency may be floating, pegged (fixed), or a hybrid. Governments can impose certain limits and controls on exchange rates.The actual amount received in conversion or the effective exchange rate, usually differs from the stated rate because it considers all taxes, commissions and other costs that the public must pay to complete the transaction and actually receive the foreign funds.

Types of Foreign Exchange Rate

Fixed

Forward

Spot

Floating

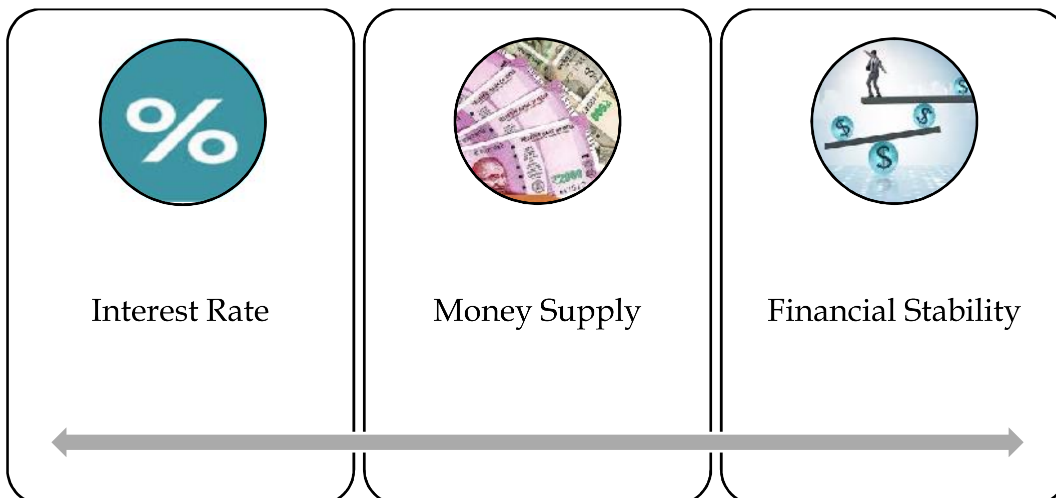
Fixed Exchange Rate: When Government of a country fixes the rate of exchange for its own currency, it is termed as 'Fixed Exchange Rate'. This is also known as official rate of exchange.Fixed exchange rates are fixed by the respective Governments from time to time for the betterment of their economy. In contrast exchange rates move, as in any other market place, depending on the demand and supply pressure and are further influenced by the market forces and economic conditions of the respective countries.

Floating Exchange Rate:A currency is freely floating if there does not exist a system of fixed exchange rates and if the Central Bank of the country in question does not attempt to influence the value of the currency. However, in reality this kind of situation does not exist.In most of the countries Governments attempt to influence movements of exchange rate either through direct intervention in the exchange market or through a mix of fiscal and monetary policies.

Spot Exchange Rate: Spot rates refer to those rates which are applicable on the day of transaction in which physical delivery is made within two working days after the date of transaction the spot exchange between two currencies should be the same across the various banks engaged in rendering foreign exchange services.

Forward Exchange Rate: In Forward rates, exchange rates are fixed in advance for a transaction which matures at some specified future date. The exchange at the date in future will be at the price agreed upon now. Foreign exchange rates are function of forward demand and forward supply of various currencies.A foreign currency is said to be at a forward premium if its future value exceeds its present value in terms of domestic currency and it is said to be at discount if the reverse is true. For example spot rate between rupees and dollar is S (Rs/$) = Rs. 45.50 and three months forward is F3 (Rs. /$) = Rs. 46.70/$; these rates signify that dollar is at a premium and rupee is at discount in the forward.

Three Factors Affecting Exchange Rates



Interest Rate:

- The interest rate paid by a country's central bank is a big factor.
- The higher interest rate makes that currency more valuable.
- Investors will exchange their currency for the higher-paying one.
- They then save it in that country's bank to receive the higher interest rate.

Money Supply

- The money supply that's created by the country's central bank.
- If the government prints too much currency, then there's too much of it chasing too few goods.

- Currency holders will bid up the prices of goods and services.
- That creates inflation. If way too much money is printed, it causes hyperinflation.

Financial Stability

- A country's economic growth and financial stability impact its currency exchange rates.
- If the country has a strong, growing economy, then investors will buy its goods and services. They'll need more of its currency to do so.
- If the financial stability looks bad, they will be less willing to invest in that country.

How Exchange Rates Affect You?

- If you're traveling overseas to another country that uses a different currency, you must plan for exchange rate values.
- When the U.S. dollar is strong, you can buy more foreign currency and enjoy a more affordable trip. If the U.S. dollar is weak, your trip will cost more because you can't buy as much foreign currency.
- Since the exchange rate varies, you might find the cost of your trip has changed since you started planning it. This is just one of the ways exchange rates affect your personal finances.

10.3 International Monetary Fund

The International Monetary Fund was established by an international treaty in 1945 to help promote the health of the world economy. Headquartered in Washington, D.C., it is governed by its almost global membership of 184 countries.

The IMF is the central institution of the international monetary system – the system of international payments and exchange rates among national currencies that enable business to take place between countries.

The Origins of the IMF

The IMF was conceived in July 1944 at an international conference held at Bretton Woods, New Hampshire, U.S.A., when delegates from 44 governments agreed on a framework for economic cooperation partly designed to avoid a repetition of the disastrous economic policies that had contributed to the Great Depression of the 1930s.

During that decade, as economic activity in major industrial countries weakened, countries attempted to defend their economies by increasing restrictions on imports; but this just worsened the downward spiral in world trade, output, and employment. To conserve dwindling reserves of gold and foreign exchange, some countries curtailed their citizens' freedom to buy abroad, some devalued their currencies, and some introduced complicated restrictions on their citizens' freedom to hold foreign exchange.

These fixes, however, also proved self-defeating, and no country was able to maintain its competitive edge for long. Such "beggar-thy-neighbour" policies devastated the international economy; world trade declined sharply, as did employment and living standards in many countries.

As World War II came to a close, the leading allied countries considered various plans to restore order to international monetary relations, and at the Bretton Woods conference the IMF emerged. The country representatives drew up the charter (or Articles of Agreement) of an international institution to oversee the international monetary system and to promote both the elimination of exchange restrictions relating to trade in goods and services, and the stability of exchange rates.

The IMF came into existence in December 1945, when the first 29 countries signed its Articles of Agreement.

Purpose of IMF

The purposes of the International Monetary Fund are:

1. To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.
2. To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
3. To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
4. To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions, which hamper the growth of world trade.
5. To provide confidence to members by making general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with an opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

Organization of IMF

The IMF is accountable to its member countries, and this accountability is essential to its effectiveness.

The day-to-day work of the IMF is carried out by an Executive Board, representing the IMF's 184 members, and an internationally recruited staff under the leadership of a Managing Director and three Deputy Managing Directors – each member of this management team being drawn from a different region of the world.

The powers of the Executive Board to conduct the business of the IMF are delegated to it by the Board of Governors, which is where ultimate oversight rests.

Board of Governors

The Board of Governors are represented by all member countries and it is the highest authority governing the IMF. It usually meets once a year, at the Annual Meetings of the IMF and the World Bank. Each member country appoints a Governor – usually the country's minister of finance or the governor of its central bank – and an Alternate Governor. The Board of Governors decides on major policy issues but has delegated day-to-day decision-making to the Executive Board.

Executive Board

It consists of 24 Executive Directors, with the Managing Director as Chairman. The Executive Board usually meets three times a week, in full-day sessions, and more often if needed, at the organization's headquarters in Washington, D.C. The IMF's five largest shareholders – the United States, Japan, Germany, France, and the United Kingdom – along with China, Russia, and Saudi Arabia, have their own seats on the Board. The other 16 Executive Directors are elected for two-year terms by groups of countries, known as constituencies.

Key policy issues relating to the international monetary system are considered twice-yearly in a committee of Governors called the International Monetary and Financial Committee, (IMFC) (until September 1999 known as the Interim Committee). A joint committee of the Boards of Governors of the IMF and World Bank called the Development Committee advises and reports to the Governors on development policy and other matters of concern to developing countries.

Managing Director

The Executive Board selects the Managing Director, who besides serving as the chairman of the Board, is the chief of the IMF staff and conducts the business of the IMF under the direction of the Executive Board. Appointed for a renewable five-year term, the Managing Director is assisted by a First Deputy Managing Director and two other Deputy Managing Directors.

IMF employees are international civil servants whose responsibility is to the IMF, not to national authorities. The organization has about 2,800 employees recruited from 141 countries. About two-thirds of their professional staff are economists. The IMF's 26 departments and offices are headed by directors, who report to the Managing Director. Most staff work in Washington, although about 90 resident representatives are posted in member countries to help advise on economic policy. The IMF maintains offices in Paris and Tokyo for liaison with other international and regional

institutions, and with organizations of civil society. It also has offices in New York and Geneva, mainly for liaison with other institutions in the UN system.

Financing The IMF

The IMF's resources come mainly from the quota (or capital) subscriptions that countries pay when they join the IMF, or following periodic reviews in which quotas are increased. Countries pay 25 % of their quota subscriptions in Special Drawing Rights (SDRs) or major currencies, such as U.S. dollars or Japanese yen; the IMF can call on the remainder, payable in the member's own currency, to be made available for lending as needed. Quotas determine not only a country's subscription payments, but also the amount of financing that it can receive from the IMF, and its share in SDR allocations. Quotas also are the main determinant of countries' voting power in the IMF.

Quotas are intended broadly to reflect members' relative size in the world economy: the larger a country's economy in terms of output, and the larger and more variable its trade, the higher its quota tends to be.

Determination of Member Country's Quota

A member quota is broadly determined by its economic position relative to other members. When a country joins the IMF, it is assigned an initial quota in the same range as the quotas of existing members considered by the IMF to be broadly comparable in economic size and characteristics. Quotas are denominated in Special Drawing Rights (SDRs).

Functions of Quotas

A member's quota delineates basic aspects of its financial and organizational relationship with the IMF, including:

- Subscriptions: A member's quota subscription determines the maximum amount of financial resources the member is obliged to provide to the IMF. A member must pay its subscription in full upon joining the Fund: up to 25 % must be paid in SDRs or widely accepted currencies (such as the US dollar, the euro, the yen, or the pound sterling), while the rest is paid in the member's own currency.
- Voting power: The quota largely determines a member's voting power in IMF decisions. Each IMF member has 250 basic votes plus one additional vote for each SDR 100,000 of quota.
- Access to financing: The amount of financing a member can obtain from the IMF (its access limit) is based on its quota.
- SDR allocations: A members' share of general SDR allocations is established in proportion to its quota.

Criticism of IMF

It is said that IMF policy makers support capitalist dictatorship and is friendly to American and European corporations. Critics claim that financial aid from the IMF is always come bound with conditionalities, throwing the IMF's stated goals to the winds.

The IMF frequently advocates currency devaluations, criticised by proponents of supply-side economics as inflationary. Secondly, they link higher taxes under "austerity programmes" with economic contraction.

It is believed that IMF interventions aggravate poverty and the debts of developing nations. Argentina, which had been considered by the IMF to be a model country in its compliance to policy proposals by the Bretton Woods institutions, experienced a catastrophic economic crisis in 2001, generally believed to have been caused by IMF-induced budget restrictions – which undercut the government's ability to sustain national infrastructure even in crucial areas such as health, education, and security – and privatisations of strategically vital national resources. The crisis added to widespread hatred of this institution in Argentina and other South American countries, with many blaming the IMF for the region's economic problem.

India's Relations with the International Monetary Fund

India and the IMF have a positive relationship. The IMF has provided financial assistance to India, which has helped in boosting the country's economy. The IMF praised the country for it was able to avoid the Asian Financial Crisis in 1999 and was also able to maintain the average rate of growth of its economy. The Managing Director of International Monetary Fund Rodrigo De Rato visited India in May 2005. In 2005, the IMF said that the budget of India is very positive for it points that the economy of the country will grow at the rate of 6.7%.

International Monetary Fund said that the reasons behind the economy growth of India are that the RBI has been able to control inflation and has also handled its monetary policies very skillfully. The IMF has suggested that India can become a financial superpower by bringing in more reforms in its economic policies that will increase its growth rate to 8%.

10.4 World Bank

The World Bank is one of the world's largest sources of finance and knowledge to its member countries to improve the condition of health centres, provide water and electricity, fight disease, and protect the environment. The World Bank is not a "bank" in the common sense. The World Bank is an international organization owned by the 184 countries both developed and developing that are its members. Since inception in 1944, the World Bank has expanded from a single institution to a closely associated group of five development institutions.

In June 1944, 17 countries met in Atlantic City, USA to prepare the agenda for the Bretton Woods conference, and 44 countries which signed the final agreement established the Bank. India was one of the 17 countries and one of the 44 countries which signed the agreement. It was India which suggested the name "International Bank for Reconstruction and Development" (IBRD) to

the drafting committee. The Indian delegation was led by Sir Jeremy Raisman, Finance Member
Notes of the Government of India and included Sir C. D. Deshmukh (Governor of the Reserve Bank of
India, later to become India's Finance Minister), Sir Theodore Gregory (the first Economic Advisor to the Government of India), Sir R.K. Shanmugan Chetty (later independent India's first

Finance Minister), Mr. A.D. Shroff (one of the architects of the Bombay Plan) and Mr B.K. Madan (later India's Executive Director in IMF).

IBRD is made up of two unique development institutions owned by 184 member countries – the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). Each institution plays a different but supportive role in our mission of global poverty reduction and the improvement of living standards. Besides, it also has three affiliates named:

- The International Finance Corporation (IFC),
- The International Centre for Settlement of Investment Disputes (ICSID),
- The Multilateral Investment Guarantee Agency (MIGA).

All five of these institutions together make up the World Bank Group.

Purpose of Organisation

The purposes of the Bank as described in its articles:

- The main purpose of the bank is to assist economies in the reconstruction and development by facilitating the investment of capital for productive purposes, it also helps in reconstruction of economies destroyed or disrupted by war, and it encourages the development of productive facilities and resources in less developed countries.
- To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.
- To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the

development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labour in their territories.

- To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with the first.
- To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate post-war years, to assist in bringing about a smooth transition from a wartime to a peacetime economy.

Activities

The World Bank's two closely affiliated entities-the International Bank for Reconstruction and Development (IBRD) and The International Development Association (IDA) - provide low or no interest loans and grants to countries that have unfavorable or no access to international credit markets.

Fund Generation

IBRD finance is lending by selling AAA-rated bonds in the world's financial markets. While IBRD earns a small margin on this lending, the greater proportion of its income comes from lending out its own capital. This capital consists of reserves built up over the years and money paid in from the bank's 184-member country shareholders. IBRD's income also pays for World Bank operating expenses and has contributed to IDA and debt relief.

IDA, the world's largest source of interest-free loans and grant assistance to the poorest countries, is replenished every three years by 40 donor countries. Additional funds are regenerated through repayments of loan principal on 35-to-40-year, no-interest loans, which are then available for re-lending. IDA accounts for nearly 40% of our lending.

Loans

IBRD offers two basic types of loans and credits.

Investment loans are made to countries for goods, works and services in support of economic and social development projects in a broad range of economic and social sectors.

Development policy loans (formerly known as adjustment loans) provide quick-disbursing financing to support countries' policy and institutional reforms.

The Bank may guarantee, participate in, or make loans to any member or any political sub- division thereof and any business, industrial, and agricultural enterprise in the territories of a member.

Each borrower's project proposal is assessed to ensure that the project is economically, financially, socially and environmentally sound. During loan negotiations, the bank and borrower agree on the development objectives, outputs, performance indicators and implementation plan, as well as a loan disbursement schedule. The Bank ensures that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations.

Grants

Grants are given for development projects by encouraging innovation, co-operation between organizations and local stakeholders' participation in projects. In recent years, grants have been used for numerous purposes. Some of them are:

- Relieve the debt burden of heavily indebted poor countries
- Improve sanitation and water supplies
- Support vaccination and immunisation programs to reduce the incidence of communicable diseases like malaria
- Combat the HIV/AIDS pandemic
- Support civil society organizations
- Create initiatives to cut the emission of greenhouse gasses

Analytic and Advisory Services

IBRD also provides analysis, advice and information to member countries. IBRD does this in several ways – through economic research on broad issues such as the environment, poverty, trade and globalisation and through country-specific economic and sector work, where it evaluates a country's economic prospects by examining its banking systems and financial markets, as well as trade, infrastructure, poverty and social safety net issues.

IBRD has a big knowledge bank which contains wealth of contacts, knowledge, information and experience that it has acquired over the years, country by country and project by project. Through its knowledge bank it educates clients so that they can solve their development problems and promote economic growth.

Following are some more ways through which it provides analyses, advice and knowledge to members:

- Poverty Assessment
- Social and Structural Reviews
- Public Expenditure Reviews
- Sector Reports
- Country Economic Memoranda
- Knowledge Sharing

Basic Facts about World Bank

- Established on: July1, 1944, Bretton Woods, New Hampshire
- Headquarters: Washington DC
- President: Paul Wolfowitz
- Membership: 184
- Affiliates: IDA, IFC, MIGA, ICSID

Keywords

Exchange rate: the price of one currency in terms of another currency; for example, if the exchange rate for the Euro (€€€) is 132 Yen (¥¥¥), that means that each Euro that is purchased will cost 132 yen.

Foreign exchange market: a market in which one currency is exchanged for another currency; for example, in the market for Euros, the Euro is being bought and sold, and is being paid for using another currency, such as the yen.

Demand for currency: a description of the willingness to buy a currency based on its exchange rate; for example, as the exchange rate for Euros increases, the quantity demanded of Euros decreases.

Appreciate: when the value of a currency increases relative to another currency; a currency appreciates when you need more of another currency to buy a single unit of a currency.

Depreciate: when the value of a currency decreases relative to another currency; a currency depreciates when you need less of another currency to buy a single unit of a currency.

Floating exchange rates when the exchange rate of currencies are determined in free markets by the interaction of supply and demand

Pegged Exchange Rate: A pegged exchange rate, also known as a fixed exchange rate, is a type of exchange rate in which a currency's value is fixed against either the value of another country's currency or another measure of value, such as gold.

Reserve Currency: a strong currency widely used in international trade that a central bank is prepared to hold as part of its foreign exchange reserves.

ACP: African, Caribbean and Pacific Group

ASEAN: Association of South East Asian Nations

Dumping: Selling the product at below the on-going market price

GATS: General Agreement on Trade in Service

IBRD: International Bank for Reconstruction and Development

ICSID: International Centre of Settlement of Investment Disputes

MFN: Most Favoured Nation Treatment

MIGA: Multilateral Investment Guarantee Agency

Banking Crisis: Banks are susceptible to a range of risks. These include credit risk (loans and others assets turn bad and ceasing to perform), liquidity risk (withdrawals exceed the available funds), and interest rate risk (rising interest rates reduce the value of bonds held by the bank, and force the bank to pay relatively more on its deposits than it receives on its loans).

Banking Competition: The global financial crisis reignited the interest of policy makers and academics in bank competition and the role of the state in competition policies (that is, policies and laws that affect the extent to which banks compete). Some believe that increases in competition and financial innovation in markets such as subprime lending contributed to the financial turmoil. Others worry that the crisis and government support of the largest banks increased banking concentration, reducing competition and access to finance, and potentially contributing to future instability as a result of moral hazard problems associated with too-big-to-fail institutions.

Credit Bureau: A credit bureau is one of the two main types of credit reporting institutions. It collects information from a wide variety of financial and nonfinancial entities, including microfinance institutions and credit card companies, and provides comprehensive consumer credit information with value-added services such as credit scores to private lenders.

Credit Registry: A credit registry is one of the two main types of credit reporting institutions. Credit registries generally developed to support the state's role as a supervisor of financial institutions. Where credit registries exist, loans above a certain amount must, by law, be registered in the national credit registry. In some cases, credit registries have relatively high thresholds for loans that are included in their databases. Credit registries tend to monitor loans made by regulated financial institutions.

Financial Access: The topic of access to finance and financial inclusion has been of growing interest throughout the world, particularly in emerging and developing economies. Policymakers are increasingly concerned that the benefits produced by financial intermediation and markets are not being spread widely enough throughout the population and across economic sectors, with potential negative impacts on growth, income distribution and poverty levels, among others. Furthermore, they may also be concerned with the potential negative consequences for macro stability when financial system assets are concentrated in relatively few individuals, firms, or sectors.

Financial Depth: Financial depth captures the financial sector relative to the economy. It is the size of banks, other financial institutions, and financial markets in a country, taken together and compared to a measure of economic output.

Financial Development: Financial sector is the set of institutions, instruments, markets, as well as the legal and regulatory framework that permit transactions to be made by extending credit. Fundamentally, financial sector development is about overcoming "costs" incurred in the financial system. This process of reducing the costs of acquiring information, enforcing contracts, and making transactions resulted in the emergence of financial contracts, markets, and intermediaries. Different types and combinations of information, enforcement, and transaction costs in conjunction with different legal, regulatory, and tax systems have motivated distinct financial contracts, markets, and intermediaries across countries and throughout history.

Financial Stability: There are numerous definitions of financial stability. Most of them have in common that financial stability is about the absence of system-wide episodes in which the financial system fails to function (crises). It is also about resilience of financial systems to stress.

Long-Term Finance: Long-term finance comprises all types of financing (including loans, bonds, leasing, and public and private equity) with a maturity exceeding one year. Maturity refers to the length of time between origination of a financial claim (loan, bond, or other financial instrument) and the final payment date, at which point the remaining principal and interest are due to be paid. Equity, which has no final repayment date of a principal, can be seen as an instrument with nonfinite maturity.

Nonbanking Financial Institution;Anon-bank financial institution (NBFI) is a financial institution that does not have a full banking license and cannot accept deposits from the public. However, NBFIs do facilitate alternative financial services, such as investment (both collective and individual), risk pooling, financial consulting, brokering, money transmission, and check cashing. NBFIs are a source of consumer credit (along with licensed banks).

Summary

- The Bretton Woods system was the first system used to control the value of money between different countries. It meant that each country had to have a monetary policy that kept the exchange rate of its currency within a fixed value—plus or minus one percent—in terms of gold.
- The International Monetary Fund (IMF) was created to fight against temporary imbalances of payments. The Bretton Woods system was the first monetary order that organized monetary relations among independent nation-states.
- It set out the rules for commercial and financial relations among the world's major industrial states.
- Plans to rebuild the international economic system after the end of World War II started before the war ended. 730 delegates from all 44 Allies of World War II came to Bretton Woods, New Hampshire for the United Nations Monetary and Financial Conference. The delegates discussed and then signed the Bretton Woods Agreements during the first three weeks of July 1944.
- The planners at Bretton Woods set up a system of rules, institutions, and procedures to regulate the international monetary system. They started the International Bank for Reconstruction and Development (IBRD) (now one of five institutions in the World Bank Group) and the International Monetary Fund (IMF). These organizations became active in 1946 after enough countries had ratified the agreement.
- Until the early 1970s, the Bretton Woods system worked. It controlled conflict and achieved the common goals of the leading states that had created it, especially the United States. But in 1971, In the face of increasing strain, the United States decided not to allow the conversion of dollars to gold and the system collapsed.
- When the exchange rate of a currency increases, other countries will want less of that currency. When a currency appreciates (in other words, the exchange rate increases), then the price of goods in the country whose currency has appreciated are now relatively more expensive than those in other countries. Since those goods are more expensive, less is imported from those countries, and therefore less of that currency is needed.
- The International Monetary Fund was established by an international treaty in 1945 to help promote the health of the world economy.
- The IMF is the central institution of the international monetary system-the system of international payments and exchange rates among national currencies that enable business to take place between countries.
- One of the major functions of IMF is to promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
- The day-to-day work of the IMF is carried out by an Executive Board, representing the IMF's 184 members, and an internationally recruited staff under the leadership of a Managing Director and three Deputy Managing Directors – each member of this management team being drawn from a different region of the world.
- The IMF's resources come mainly from the quota (or capital) subscriptions that countries pay when they join the IMF, or following periodic reviews in which quotas are increased.
- The IMF shares its expertise with member countries on a regular basis by providing technical assistance and training in a wide range of areas, such as central banking, monetary and exchange rate policy, tax policy and administration, and official statistics.

- It is said that IMF policy makers support capitalist dictatorship, and is friendly to American and European corporations. Critics claim that financial aid from the IMF is always come bound with conditionalities, throwing the IMF's stated goals to the winds.
- The World Bank is one of the world's largest sources of finance and knowledge to its member countries to improve the condition of health centres, provide water and electricity, fight disease, and protect the environment.
- The main purpose of the World Bank is to assist economies in the reconstruction and development by facilitating the investment of capital for productive purposes, it also helps in reconstruction of economies destroyed or disrupted by war, and it encourages the development of productive facilities and resources in less developed countries.
- World Banks works towards generation of funds, raising loans, grants, advisory services, etc. It includes bodies like IFC, Asian Development Bank, ICSID, MIGA and IDA.
- The South Asian Association for Regional Cooperation (SAARC) was established on December 8, 1985. It involves seven states of the Indian sub-continent-Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.
- The Association of Southeast Asian Nations (ASEAN) is a primary multinational trade group of Asia. The goals of this group are economic integration and cooperation through complementary industry programmes.
- South Asian Preferential Arrangement (SAPTA) was signed by the SAARC members on April 11, 1993 and came into force in December 1995. The objective of the SAPTA is the creation of trade among the SAARC countries through the reduction of tariffs and on preferential basis.

Self-Assessment

1. The Bretton Woods System is referred to as the "gold exchange standard" because...

A. ...gold was the fundamental standard of value based on the ability of the US to maintain the parity of $35 per ounce.

B. ...it replaced sterling which had been the silver exchange standard.

C. ...all central banks exchanged their foreign exchange reserves for gold to become members of the system.

D. …gold could be exchanged between countries, all other capital was controlled.

2. The fatal flaw of the Bretton Woods system was that...

A. ...sterling was overvalued and the French franc was undervalued leading to a loss of gold reserves by Great Britain.

B. ...the growth of the global economy brought with it a demand for dollars to be held as international reserves that exceeded the US gold reserves.

C. ...the World Bank was underfunded by member central banks.

D. ...it was too weak to survive simultaneous speculative attacks on the Italian and UK currencies in 1992.

3. Which of the following is *not* seen as an advantage of the gold standard?

A. For a given stock of gold, a rise in real money supply can only occur if the price level declines.

B. Inflation is unlikely to emerge as a significant problem.

C. No country needs to serve at the centre of this fixed exchange rate system.

D. The monetary mechanism has credibility.

4. The price of one currency in terms of another is known as _________
A. Foreign exchange rate
B. Trade rate
C. Interest rate
D. Balance of Payment

5. The market where the national currencies are traded for one another is known as ________
A. Domestic exchange market
B. Foreign exchange market
C. Bazaar
D. Shop

6. Increase in the value of foreign commodities is known as _________
A. Revaluation
B. Devaluation
C. Inflation
D. None of these

7. Decrease in the value the foreign commodities is known as _________
A. Revaluation
B. Devaluation
C. Deflation
D. All of these

8. When was IMF established?
A. Dec. 27,1945
B. Jan. 30, 1947
C. Jan.1, 1946
D. Sept. 24, 1947

9. Which of the following statement is NOT correct regarding the membership of the IMF?
A. Currently its membership is 189
B. All "member countries" of the IMF are members of the United Nations
C. All member countries of the IMF are not sovereign states
D. Nauru is the latest member of the IMF

10. The value of Special Drawing Right (SDR) is determined by the basket of ......currencies.
A. 4
B. 5
C. 6
D. 7

11. Which of the following is not the objective of the IMF?
A. To promote international monetary cooperation
B. To ensure balanced international trade

C. To ensure exchange rate stability

D. To provide loan to private sectors

12. Which of the following statement is correct?

A. Every member country of the IMF automatically becomes the member of the World Bank

B. The World Bank has 45 founder members

C. India is not the founding member of the World Bank

D. IMF is the part of World Bank group

13. Which of the following is not matched correctly?

A. IBRD (estd.): 1945

B. IFC (estd.): 1948

C. IDA (estd.): 1960

D. MIGA (estd.): 1988

14. Currently how many members are in the IBRD?

A. 179

B. 189

C. 193

D. 194

15. Which of the following is not the function of the World Bank?

A. To provide long term loan to the member countries

B. To provide loan to private investors belonging to member countries on its own guarantee

C. To ensure exchange rate stability

D. To provides loan mainly for productive activities

Answers for Self Assessment

1.	A	2.	B	3.	A	4.	A	5.	B
6.	B	7.	A	8.	A	9.	B	10.	B
11.	D	12.	A	13.	B	14.	B	15.	C

Review Questions

1. Trace the journey of IMF since its inception. What are the major changes that have taken place since inception?
2. Explain the hierarchy at IMF. Compare it with the organisation of World Bank and WTO.
3. "Quotas also are the main determinant of countries' voting power in the IMF". Discuss.
4. Critically analyse the role of IMF in development of its member nations.
5. "IMF supports capitalist dictatorship, and is friendly to American and European corporations". Comment.
6. "The World Bank is not a "bank" in the common sense." Substantiate.
7. Why do you think the World Bank is called International Bank for Reconstruction and Development or vice-versa?

8. What is the difference between all the member bodies of the World Bank? Do they do separate work from the World Bank?
9. What are the Functions of Currency?
10. How is Foreign Exchange Exposures Identified?
11. Give an Example to Explain Exchange Rates?
12. What is Forex Exchange Market?
13. What is the Economic Basis of International Trade?
14. What are the Items of Dealings in Balance of Payment?
15. What is meant by Foreign Exchange Rate?

Further Readings

- Bedi Suresh, Business Environment, Excel Books, 2006
- Mittal Vivek, Business Environment, Excel Books, 2007
- Starling, Grower, The Changing Environment of Business, Cincinnati, OH, South-Western College Publishing, 1996

Web Links

https://www.khanacademy.org/economics-finance-domain/ap-macroeconomics/ap-open-economy-international-trade-and-finance/the-foreign-exchange-market/a/the-foreign-exchange-market

https://simple.wikipedia.org/wiki/Bretton_Woods_system#:~:text=The%20Bretton%20Woods%20system%20was,percent%E2%80%94in%20terms%20of%20gold.

https://www.worldbank.org/en/publication/gfdr/gfdr-2016/background/key-terms-explained

https://en.wikipedia.org/wiki/Bretton_Woods_system#:~:text=Bretton%20Woods%20established%20a%20system,every%20other%20currency%20was%20pegged

Unit 11: International Trading Environment

CONTENTS

Objectives

Introduction

11.1 International Trade

11.2 Factors Influencing International Trade

11.3 World Trade Organization

11.4 Tariff Barriers

Keywords

Summary

Self-Assessment

Answers for Self Assessment

Review Questions

Further Readings

Objectives

After this Lecture, you will be able to

- understanding the meaning of trade, inter-regional and international trade.
- to analyze the differences and similarities between inter-regional and international trade.
- understanding factors affecting international trade.
- gain an insight into world trade organization, its members and observers, activities, facts, history functions.
- analyse the trade negotiations, implementation and monitoring, and the dispute settlement procedure.
- gain an insight into the concept of international trade
- get knowledge about the concept of trade barriers, reasons of existence of trade barriers.
- analyse tariff barriers and its types.

Introduction

The 20th century was also governed by economic nationalism. Most of the European nations followed this policy. After the Second World War economic nationalism became the key for most nations in Asia and Europe. Even nations like the US and France were not untouched with the phenomenon of economic nationalism.

When the US started losing jobs because of globalisation it reacted sharply. Not only this, in the 20th century itself it took various measures to protect its domestic industry like automobiles and motorcycles. It imposed quantitative restrictions on the imports of automobiles from Japan. Similarly, when in 2006 a Britain-based NRI made a bid for Europe's largest steel maker France reacted sharply.

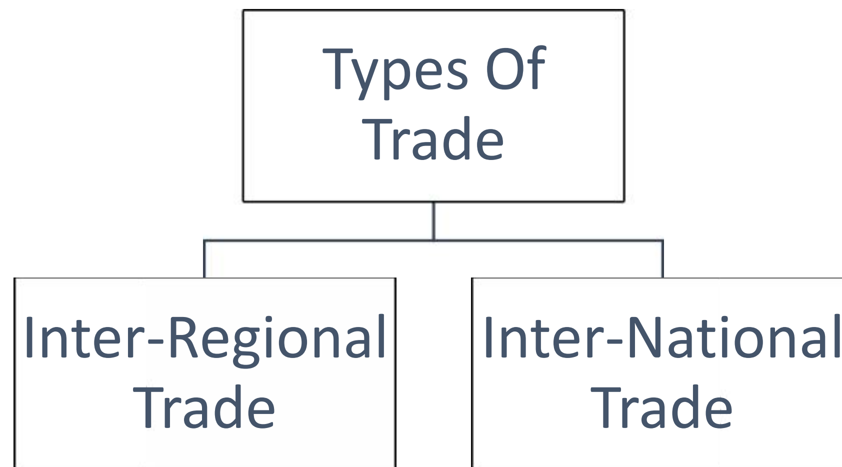
Economic nationalism is a term used to describe policies which are guided by the idea of protecting domestic consumption, labour and capital formation, even if this requires the imposition of tariffs and other restrictions on the movement of labour, goods and capital. It opposes globalisation in many cases, or at least it questions the perceived benefits of unrestricted free trade. Economic nationalism may include such doctrines as protectionism and import substitution.

11.1 International Trade

Trade is a basic economic concept involving the buying and selling of goods and services, with compensation paid by a buyer to a seller, or the exchange of goods or services between parties. Trade can take place within an economy between producers and consumers.Trade involves the transfer of goods or services from one person or entity to to another, often in exchange for money.

Economists refer to a system or network that allows trade as a market. An early form of trade, barter, saw the direct exchange of goods and services for other goods and services. Trade can take place within an economy between producers and consumers as well as between two economies.

Types of Trade



Inter-Regional Trade

- Trade, i.e., exchange of goods and services that happen between two parts or areas or regions within the same country.
- Thus they have the same currency, an integrated capital market and common banking system all of which facilitate trade.

Inter-National Trade

- International trade allows countries to expand markets for both goods and services that otherwise may not have been available to it.
- It is the reason why an American consumer can pick between a Japanese, German, or American car.
- As a result of international trade, the market contains greater competition and therefore, more competitive prices, which brings a cheaper product home to the consumer.
- Trading globally between nations allows consumers and countries to be exposed to goods and services not available in their own countries.
- Almost every kind of product can be found on the international market: food, clothes, spare parts, oil, jewellery, wine, stocks, currencies, and water. Services are also traded: tourism, banking, consulting, and transportation.
- A product that is sold to the global market is an export, and a product that is bought from the global market is an import.

Similarities Between Inter-regional Trade & International Trade

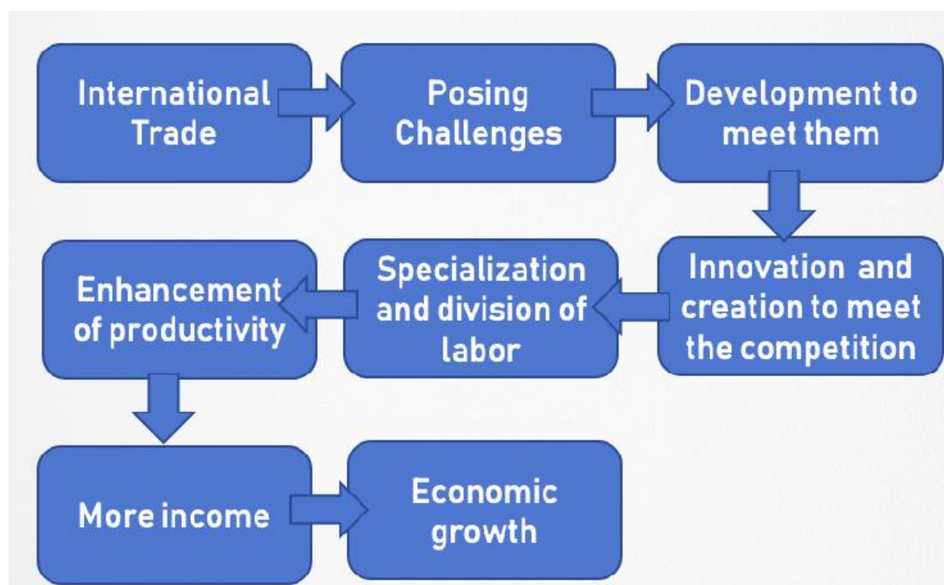
- Participants in both trade have the same desire i.e. to achieve maximum gain at minimum of sacrifice.
- The difference between the two trades is one of the degree and not of kind.
- No area and no region of any country can produce all that is necessary for itself.
- Immobility of factors of production give rise to both internal and international trade. Eg: Assam and Kerala — greater distance, Bihar and Nepal — lesser distance.

- The fundamental principle in both is the same.
- Both trades are due to division of labour.
- In both trades, people specialize in producing goods in which they have greater comparative advantage.

Differences between Inter-Regional Trade & International Trade

- Immobility of factors of production
- Differences in production conditions
- Natural resources
- Currency system differs
- Trade and exchange controls
- Market knowledge
- Barter systems
- Difference in law
- Cultural distinctions

Foreign Trade as an engine of Economic Growth



Foreign trade the market for a country's output. Exports lead to increase enlarges in national output and become an engine of growth.Increased exports lead to greater utilization of existing capacities, reduce costs which may lead to a further increase in exports. Expanding exports provide greater employment opportunities. Increased foreign demand lead to large production and economies of scale with lower unit costs.Opens up the opportunities of global market to the entrepreneurs of the developing nations.Makes the latest technology readily available to the businesses operating in these countries, resulting in increased competition both in the domestic and global fronts.To compete with their global counterparts, the domestic entrepreneurs try to be more efficient and this in turn ensures efficient utilization of available resources.The opening of Suez Canal in 1869 led to a reduction of distance between India and Europe which led to an increase in the demand for India's commercial crops. As a result, production and exports of commercial crops increased. The rise in the output of such agricultural crops as oilseeds, cotton, jute and tea was largely due to a flourishing export trade.Many export processing zones and special economic zones have been established to facilitate manufacture or reprocessing for export. All such efforts create a lot of employment opportunities and lead to an increase in incomes which lead to the demand for many new products which are very often manufactured in the country itself.

Largest Trading Partners With India

Rank	Country	Exports	Imports	Total Trade
1	United States	57.7	34.3	92.0
2	China	16.61	65.26	81.87
3	United Arab Emirates	28.81	30.22	59.03
4	Saudi Arabia	6.39	20.32	26.71
5	Switzerland	1.21	16.9	18.11
6	Germany	8.21	13.69	21.9
7	Hong Kong	13.7	20.34	34.04
8	Indonesia	4.12	15.06	19.18
9	South Korea	4.85	15.65	20.5
10	Malaysia	3.71	9.08	16.93

11.2 Factors Influencing International Trade

Impact of Inflation

- Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling.
- If a country's inflation rate increases relative to the countries with which it trades, its current account will be expected to decrease, other things being equal.

Impact of National Income

- Consumers and corporations in that country will most likely purchases more goods overseas (due to high local inflations), while the country's exports to other countries will decline.
- The total amount of income accruing to a country from economic activities in a year's time is known as national income.
- It includes payments made to all resources in the form of wages, interest, rent and profits.
- If a country's income level (national income) increases by a higher percentage than those of other countries, its current account is expected to decrease, other things being equal.

- As the real income level (adjusted for inflation) rises, so does consumption of goods.
- A percentage of that increase in consumption will most likely reflect an increased demand for foreign goods.

Impact of Government Restrictions

- Government will impose some trade restrictions on certain products for health and safety reasons.
- Governments restrict international trade to protect domestic producers from competition by using three main tools:
  - TARIFF: A tariff is a tax that is imposed by the importing country when an imported good crosses its international boundary.
  - SUBSIDY: A subsidy is a payment made by a government to a domestic producer based on the quantity produced
  - QUOTA: A quota is a limit on the quantity of a good that may be imported

Impact of Exchange Rates

- The price of a nation's currency in terms of another currency.
- An exchange rate thus has 2 components, (1). Domestic currency and (2) Foreign currency, and can be quoted either directly or indirectly.
- In a Direct quotation, the price of a unit of foreign currency is expressed in terms of the domestic currency.
- In an Indirect quotation, the price of a unit of domestic currency is expressed in terms of the foreign currency.
- If a country's currency begins to rise in value, its current account balance will decrease as imports increase and exports decrease.
- When currency appreciates, exports will be expensive for the other countries.
- Demand for such products will decrease.

Geographical Location

- The geographic location of the trading country's also affect the international trade.
- The ease of transportation, climate, presence of coastal areas, etc. smooths the entire process of trade flow.

Lack of Restriction On Piracy

- In some cases, a government can affect international trade flows by its lack of restrictions on piracy.
- The manufacturing of products that looks almost exactly as the original product.
- It will greatly affect the country which produces the original products.

Level of Economic Development

- Economic development level can directly affect a country's foreign trade commodity structure and the position in international trade.
- In developing countries and relatively backward economy, foreign trade is relatively less.

Competitiveness

- Competitiveness is a measure of the relative ability of different countries to provide different products or services.
- Competitiveness takes into account the efficiency, costs of employment, level of government regulation and the ease of doing business.
- Competitiveness effects international trade because the more competitive countries will tend to attain a higher level of global trade.
-

Globalisation

- Globalization is the term used to describe a general tendency for national economies to become more integrated with each other.
- This happens because of a combination of advanced communication technologies, logistic technologies, increased capital flows and reduction of trade barriers by national governments.
- Globalization is a general trend that has caused an increase in international trade over the last three or four decades.

11.3 World Trade Organization

The World Trade Organization (WTO) is an intergovernmental organization that regulates and facilitates international trade between nations. It officially commenced operations on 1 January 1995, pursuant to the 1994 Marrakesh Agreement, thus replacing the General Agreement on Tariffs and Trade (GATT) that had been established in 1948. The WTO is the world's largest international economic organization, with 164-member states representing over 96% of global trade and global GDP.

The WTO facilitates trade in goods, services and intellectual property among participating countries by providing a framework for negotiating trade agreements, which usually aim to reduce or eliminate tariffs, quotas, and other restrictions; these agreements are signed by representatives of member governments and ratified by their legislatures. The WTO also administers independent dispute resolution for enforcing participants' adherence to trade agreements and resolving trade-related disputes. The organization prohibits discrimination between trading partners, but provides exceptions for environmental protection, national security, and other important goals.

The WTO is headquartered in Geneva, Switzerland. Its top decision-making body is the Ministerial Conference, which is composed of all member states and usually convenes biannually; consensus is emphasized in all decisions. Day-to-day functions are handled by the General Council, made up of representatives from all members.A Secretariat of over 600 personnel, led by the Director-General and four deputies, provides administrative, professional, and technical services. The WTO's annual budget is roughly 220 million USD, which is contributed by members based on their proportion of international trade.

Studies show the WTO has boosted trade and reduced trade barriers. It has also influenced trade agreement generally; a 2017 analysis found that the vast majority of preferential trade agreements (PTAs) up to that point explicitly reference the WTO, with substantial portions of text copied from WTO agreements. Goal 10 of the United Nations Sustainable Development Goals also referenced WTO agreements as instruments of reducing inequality. However, critics contend that the benefits of WTO-facilitated free trade are not shared equally, citing the outcomes of negotiations and data showing a continually widening gap between rich and poor nations.

Organization Structure

The highest authority of the WTO is the Ministerial Conference, which must meet at least every two years.In between each Ministerial Conference, the daily work is handled by three bodies whose membership is the same; they only differ by the terms of reference under which each body is constituted.

- The General Council
- The Dispute Settlement Body
- The Trade Policy Review Body

The General Council, whose Chair as of 2020 is David Walker of New Zealand,[62] has the following subsidiary bodies which oversee committees in different areas:

Council for Trade in Goods

There are 11 committees under the jurisdiction of the Goods Council each with a specific task. All members of the WTO participate in the committees. The Textiles Monitoring Body is separate from the other committees but still under the jurisdiction of the Goods Council. The body has its chairman and only 10 members. The body also has several groups relating to textiles.

Council for Trade-Related Aspects of Intellectual Property Rights

Information on intellectual property in the WTO, news and official records of the activities of the TRIPS Council, and details of the WTO's work with other international organizations in the field.

Council for Trade in Services

The Council for Trade in Services operates under the guidance of the General Council and is responsible for overseeing the functioning of the General Agreement on Trade in Services (GATS). It is open to all WTO members and can create subsidiary bodies as required.

Trade Negotiations Committee

The Trade Negotiations Committee (TNC) is the committee that deals with the current trade talks round. The chair is WTO's director-general. As of June 2012 the committee was tasked with the Doha Development Round.

The Service Council has three subsidiary bodies: financial services, domestic regulations, GATS rules, and specific commitments.The council has several different committees, working groups, and working parties.There are committees on the following: Trade and Environment; Trade and Development (Subcommittee on Least-Developed Countries); Regional Trade Agreements; Balance of Payments Restrictions; and Budget, Finance and Administration. There are working parties on the following: Accession. There are working groups on the following: Trade, debt and finance; and Trade and technology transfer.

As of 31 December 2019, the number of WTO staff on a regular budget is 338 women and 285 men.

Main Activities of WTO

- Negotiating the reduction or elimination of obstacles to trade (import tariffs, other barriers to trade) and agreeing on rules governing the conduct of international trade (e.g. antidumping, subsidies, product standards, etc.)
- Administering and monitoring the application of the WTO's agreed rules for trade in goods, trade in services, and trade-related intellectual property right
- Monitoring and reviewing the trade policies of our members, as well as ensuring transparency of regional and bilateral trade agreements settling disputes among our members regarding the interpretation and application of the agreements.
- Building capacity of developing country government officials in international trade matters.
- Assisting the process of accession of some 30 countries who are not yet members of the organization
- Conducting economic research and collecting and disseminating trade data in support of the wto's other main activities.
- Explaining to and educating the public about the wto, its mission and its activities.

Mechanism of WTO

- The WTO facilitates trade in goods, services and intellectual property among participating countries by providing a framework for negotiating trade agreements, which usually aim to reduce or eliminate tariffs, quotas, and other restrictions;
- These agreements are signed by representatives of member governments and ratified by their legislatures.
- The WTO also administers independent dispute resolution for enforcing participants' adherence to trade agreements and resolving trade-related disputes.
- The organization prohibits discrimination between trading partners, but provides exceptions for environmental protection, national security, and other important goals.

Objectives of WTO

- Establishing and enforcing rules for international trade
- Acting as a global apex forum
- Resolution of trade disputes

- Increasing transparency in decision making process.
- Collaboration between international economics institutions
- Safeguarding the trading interest of developing countries.

Facts of WTO

Formation	1 January 1995; 26 years ago
Type	International trade organization
Purpose	Reduction of tariffs and other barriers to trade
Headquarters	Centre William Rappard, Geneva, Switzerland
Region served	Worldwide
Membership	164 member states
Official languages	English, French, Spanish
Director-General	Ngozi Okonjo-Iweala
Budget	197.2 million Swiss francs (approx. 220 million US$) in 2020.
Staff	640
Website	www.wto.org

Dispute Settlement

The WTO's dispute-settlement system "is the result of the evolution of rules, procedures and practices developed over almost half a century under the GATT 1947". In 1994, the WTO members agreed on the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU) annexed to the "Final Act" signed in Marrakesh in 1994. Dispute settlement is regarded by the WTO as the central pillar of the multilateral trading system, and as a "unique contribution to the stability of the global economy". WTO members have agreed that, if they believe fellow-members are violating trade rules, they will use the multilateral system of settling disputes instead of taking action unilaterally.

The operation of the WTO dispute settlement process involves case-specific panels appointed by the Dispute Settlement Body (DSB), the Appellate Body, The Director-General and the WTO Secretariat, arbitrators, and advisory experts.

The priority is to settle disputes, preferably through a mutually agreed solution, and provision has been made for the process to be conducted in an efficient and timely manner so that "If a case is adjudicated, it should normally take no more than one year for a panel ruling and no more than 16 months if the case is appealed... If the complainant deems the case urgent, consideration of the case should take even less time. WTO member nations are obliged to accept the process as exclusive and compulsory.

According to a 2018 study in the Journal of Politics, states are less likely and slower to enforce WTO violations when the violations affect states in a diffuse manner. This is because states face collective action problems with pursuing litigation: they all expect other states to carry the costs of litigation.

A 2016 study in International Studies Quarterly challenges that the WTO dispute settlement system leads to greater increases in trade.

However, the dispute settlement system cannot be used to resolve trade disputes that arise from political disagreements. When Qatar requested the establishment of a dispute panel concerning measures imposed by the UAE, other GCC countries and the US were quick to dismiss its request as a political matter, stating that national security issues were political and not appropriate for the WTO dispute system.

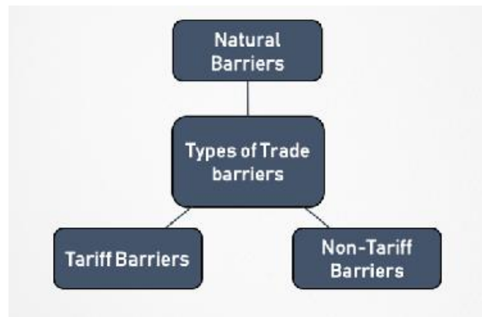
11.4 Tariff Barriers

Trade barriers are government policies which place restrictions on international trade. Trade barriers can either make trade more difficult and expensive (tariff barriers) or prevent trade completely.

Why are trade barriers important?

- Protecting Domestic Employment
- Protecting Consumers
- Infant Industries
- National Security
- Retaliation

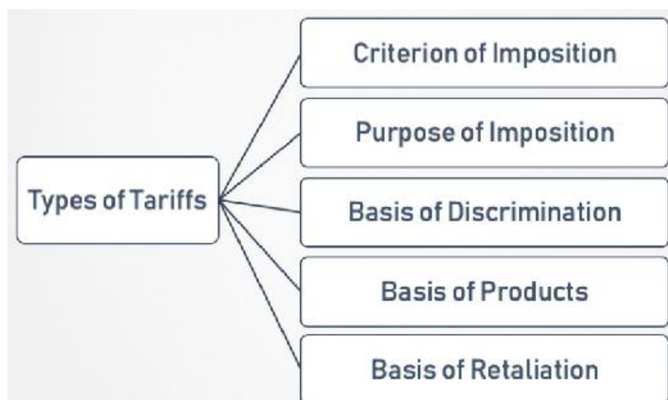
Types of Trade Barriers



Tariff Barriers

- A tariff is a duty or tax imposed by the government of a country upon the traded commodity as it crosses the national boundaries.
- Tariff can be levied both upon exports and imports.
- The tariff or duties imposed upon the goods originating in the home country and scheduled for abroad are called as the export duties. Countries, interested in maximising their exports generally avoid the use of export duties.
- Tariffs have, therefore, become synonymous with import duties.

Types of Tariff Barriers



Basis of Criterion for Imposition

(a) Specific Tariff

Specific tariff is the fixed amount of money per physical unit or according to the weight or measurement of the commodity imported or exported.

- Such duties can be levied on goods like wheat, rice, fertilisers, cement, sugar, cloth etc.
- Specific duties are quite easy to administer, as they do not involve the evaluation of the goods.

(b) Ad Valorem Tariff

- 'Ad Valorem' is the Latin word that means 'on the value.'
- When the duty is levied as a fixed percentage of the value of the traded commodity, it is called as valorem tariff.
- Such duties are levied on the products the value of which is disproportionately higher compared to their physical characteristics such as weight or measurement.

(c) Compound Tariff

- The compound tariff is a combination of specific and ad valorem tariff.
- The structure of compound tariff includes specific duty on each unit of the commodity plus a percentage of ad valorem duty.
- The compound tariffs not only impart a greater elasticity to revenues but also assure a more effective protection to the home industries.

(d) Sliding Scale Tariff

- The import duties which vary with the prices of the commodities are termed as sliding scale duties.
- These may either be on specific or ad valorem basis.
- In practice, these are generally on a specific basis.

Basis of Purpose for Which Tariff is Imposed

(a) Revenue Tariff

- The tariff, which is imposed primarily for generating more revenues for the government is called as the revenue tariff.
- In advanced countries, the introduction and diversification of direct taxes has reduced the importance of tariff as a source of government revenues.
- But in the less developed countries, there is still much reliance of the governments on this source of revenue.

(b) Protective Tariff

- The tariff may be imposed by the government to protect the home industries from the cut-throat competition from the foreign produced goods.
- The higher the tariff, greater may be the protective effect of tariff.
- A perfect protective tariff is likely to prohibit completely the import from abroad.

Basis of Discrimination

(a) Non-Discriminatory Tariff

- If the uniform tariff rates are applicable to all the commodities irrespective of the country of origin, these are known as non-discriminatory tariffs.
- It is possible that low rates of tariffs on certain commodities exist because of commercial agreements with some countries but the tariff-imposing home country extends the same low tariff rates to the commodities of all the countries.

(b) Discriminatory Tariff

- In case of discriminatory tariff, the varying tariff rates exist for different commodities.
- The products originating from favoured countries are subject to a lower tariff rate than those of other countries.
- The discriminatory tariffs can be double or multiple column tariffs.

Basis of Products

(a) Import Duties

If the home country imposes tariff upon the products of the foreign countries as they enter its territory, the tariff is known as import tariff or import duty.

(b) Export Duties

If the products of the home country become subject to tax as they leave its territory to be sold in the foreign market, the tax or duty is called as export tariff or export duty.

Basis of Retaliation

(a) Retaliatory Tariff

- If a foreign country has imposed tariffs upon the exports from the home country and the latter imposes tariffs against the products of the former, the tariffs resorted to by the home country will be regarded as the retaliatory tariffs.
- The home country, while adopting this measure does not either has the object of raising revenues or protecting home industries but of acting in retaliation.

(b) Countervailing Tariff

- If the foreign country has been exporting large quantities of its products in the market of the home country on the strength of export subsidies, the home country can neutralise the 'unfair advantage' enjoyed by foreign products through imposing duties upon them as they enter the territory of the home country.
- The latter has full justification for resorting to these countervailing duties in order that the unfair advantage given by exports subsidies to the foreign products is offset and the competition takes place on equal footing between the foreign and home produced goods.

Keywords

- Anti-Dumping: Anti-dumping suits, along with 'safeguards' and 'countervailing measures', are tools for protecting domestic industries from surges of cheap foreign imports. Although the WTO strives to eliminate all trade barriers, it recognizes that nations require flexibility to adjust to economic shocks as multilateral agreements increasingly liberalize trade. Thus, these measures allow nations to temporarily protect their economies against fluctuations in trading patterns.
- Arbitrage: The process of buying foreign exchange, stocks, bonds, and other commodities in one market and immediately selling them in another market at higher prices.
- Barter: Trade in which merchandise is exchanged directly for other merchandise without use of money. Barter is an important means of trade with countries using currency that is not readily convertible.
- Beneficiary: The person in whose favor a letter of credit is issued or a draft is drawn.
- Bill of exchange: An unconditional order in writing from one person (the drawer) to another (the drawee), directing the drawee to pay a specified amount to a named drawer at a fixed or determinable future date.
- Bill of Lading: A document that establishes the terms of a contract between a shipper and a transportation company under which freight is to be moved between specified points for a specified charge. Usually prepared by the shipper on forms issued by the carrier, it serves as a document of title, a contract of carriage, and a receipt for goods. Also see Air waybill, Inland Bill of Lading, Ocean Bill of Lading, and Through Bill of Lading.
- Certificate of Origin: A document, required by certain foreign countries for tariff purposes, certifying the country of origin of specified goods.
- Countervailing Duty: A duty imposed to counter unfairly subsidized products.
- Spot Exchange: The purchase or sale of foreign exchange for immediate delivery.

- GATT: General Agreement on Tariffs and Trade
- SAARC: South Asian Association for Regional Cooperation SAPTA: South Asian Preferential Arrangement
- SELA: Latin American Economic System
- TRIMS: Trade Related Investment Measures
- TRIPS: Trade-related Aspects of Intellectual Property Rights
- Tariff: A system of government-imposed duties levied on imported or exported goods; a list of such duties, or the duties themselves.
- Import tariffs: Taxes on goods that are imported into a country. They are more common than export tariffs.
- Export tariffs: Taxes on goods that are leaving a country. This may be done to raise tariff revenue or to restrict world supply of a good.
- Protective tariffs: Tariffs levied in order to reduce foreign imports of a product and to protect domestic industries.
- Revenue tariffs: Tariffs levied in order to raise revenue for the government.
- Specific tariffs: Tariffs that levy a flat rate on each item that is imported. For example, a specific tariff would be a fixed $1,000 duty on every car that is imported into a country, regardless of how much the car costs.
- Ad valorem tariffs: Tariffs based on a percentage of the value of each item. For example, an ad valorem tariff would be a 20% tax on the value of every car imported into a country.
- Compound tariffs: Tariffs that are a combination of specific tariffs and ad valorem tariffs. For example, a compound tariff might consist of a fixed $100 duty plus 10% of the value of every imported car.

Summary

- International trade is the exchange of goods and services between countries.
- Trading globally gives consumers and countries the opportunity to be exposed to goods and services not available in their own countries, or more expensive domestically.
- The importance of international trade was recognized early on by political economists such as Adam Smith and David Ricardo.
- Still, some argue that international trade can actually be bad for smaller nations, putting them at a greater disadvantage on the world stage.
- International trade opens new markets and exposes countries to goods and services unavailable in their domestic economies.
- Countries that export often develop companies that know how to achieve a competitive advantage in the world market.
- Trade agreements may boost exports and economic growth, but the competition they bring is often damaging to small, domestic industries.
- WTO gives an opportunity to the nations to sit together and talk trade. It gives them the forum where nations can negotiate with the objective of a win-win situation.
- WTO agreements include goods, services and intellectual property. It has an objective of reducing tariffs to zero. It enables liberalisation and allows limited exemption regarding duties.
- The WTO is run by its member-governments. All major decisions are made by the membership as a whole, either by ministers (who meet at least once ever two years) or by their ambassadors or delegates (who meet regularly in Geneva).
- Many groups operate in the WTO. Some are for economic integration – custom unions, free trade areas, and common markets, such as the European Union, ASEAN, NAFTA and MERCOSUR.
- In WTO, the Dispute Settlement Body consists of all its members. This body appoints a panel of experts to consider the case. It has the authority to accept or reject the findings of the panel.

- India is a founding member of the GATT (1947) as well as of the WTO, which came into effect from January 1, 1995. By virtue of its WTO membership, India automatically avails of Most Favoured Nation Treatment (MFN) and National Treatment (NT) from all WTO members for its exports and vice versa.
- Tariffs can be levied on goods being imported in a country (import tariff), or exported from a country (export tariff). They may be levied in order to protect domestic producers (protective tariff), or to raise revenue for the government (revenue tariff).
- Specific tariffs levy a fixed duty on a good. Ad valorem tariffs are based on a percentage of the good's value. Compound tariffs are a combination of specific and ad valorem tariffs.
- Tariffs often increase domestic producer surplus and the quantity of a good supplied domestically, but hurt domestic consumer surplus.
- Tariffs, or taxes imposed on imports, have been making news lately as the Trump administration initiated multiple tariff rounds on China and elsewhere.
- Tariffs are a type of protectionist trade barrier that can come in several forms.
- While tariffs may benefit a few domestic sectors, economists agree that free trade policies in a global market are ideal.
- Tariffs are paid by domestic consumers and not the exporting country, but they have the effect of raising the relative prices of imported products.

Self-Assessment

1. Trade between two countries can be useful if cost ratios of goods are:

A. Undetermined
B. Decreasing
C. Equal
D. Different

2. The term Euro Currency market refers to

A. The international foreign exchange market
B. The market where the borrowing and lending of currencies take place outside the country of issue
C. The countries which have adopted Euro as their currency
D. The market in which Euro is exchanged for other currencies

3. Which of the following theories suggests that firms seek to penetrate new markets over time?

A. Imperfect Market Theory
B. Product cycle theory
C. Theory of Comparative Advantage
D. None of the above

4. Dumping refers to:

A. Reducing tariffs
B. Sale of goods abroad at low a price, below their cost and price in home market

C. Buying goods at low prices abroad and selling at higher prices locally

D. Expensive goods selling for low prices

5. International trade and domestic trade differ because of:

A. Different government policies

B. Immobility of factors

C. Trade restrictions

D. All of the above

6. The margin for a currency future should be maintained with the clearing house by

A. The seller

B. The buyer

C. Either the buyer or the seller as per the agreement between them

D. Both the buyer and the seller

7. The following statement with respect to currency option is wrong

A. Foreign currency- Rupee option is available in India

B. An American option can be executed on any day during its currency

C. Put option gives the buyer the right to sell the foreign currency

D. Call option will be used by exporters

8. Govt. policy about exports and imports is called:

A. Commercial policy

B. Fiscal policy

C. Monetary policy

D. Finance policy

9. Which of the following is international trade:

A. Trade between countries

B. Trade between regions

C. Trade between provinces

D. Trade between regions and provinces both

10. Market in which currencies buy and sell and their prices settle on is called the

A. International bond market

B. International capital market

C. Foreign exchange market

D. Eurocurrency market

11. When did the World Trade Organization come into effect?

A. March 6, 1996

B. April 8, 1994

C. February 5, 1994

D. January 1, 1995

12. How many members are present in the WTO?

A. 207

B. 195

C. 160

D. 164

13. Where is the headquarters of the WTO located?

A. Austria

B. Geneva

C. New York

D. Washington DC

14. Which of these institutions is not a part of the World Bank community?

A. IFC

B. IDA

C. WTO

D. IBRD

15. Along with the World Bank and __________________, WTO is the third economic pillar of worldwide dimensions.

A. International Economic Association (IEA)

B. International Monetary Funds (IMF)

C. International Development Bank (IDB)

D. International Funding Organisation (IFO)

16. A tariff is when a _______ is put on an imported good

A. Tax

B. Limit

C. Block

D. Embargo

17. A block or restriction on trade with another country is called

A. Tariff

B. Limit

C. Embargo

D. Quota

18. A country might place a limit or __________ on another country to weaken their economy.

A. Limit

B. Tariff

C. Block

D. Quota

Answers for Self Assessment

1.	D	2.	B	3.	B	4.	B	5.	D
6.	D	7.	D	8.	A	9.	A	10.	C
11.	D	12.	D	13.	B	14.	C	15.	B
16.	A	17.	C	18.	D				

Review Questions

1. "Instead of calling it Word Trade Organization it should be called World Trade of Opportunities". Do you agree? Justify.
2. Are the rules of the GATT agreement binding on all member countries? What are the special protection measures do the agreement offers?
3. If any country wants to become a member of the World Trade Organisation, what it should do? Why would any nation be willing to join WTO?
4. "The process of harmony amongst nations can't be complete without proper dispute redressal". Discuss.
5. Discuss the association of WTO and India. How has India benefited by this association?

Further Readings

Bedi Suresh, Business Environment, Excel Books, 2006

Mittal Vivek, Business Environment, Excel Books, 2007

Starling, Grower, The Changing Environment of Business, Cincinnati, OH, South-Western College Publishing, 1996

https://en.wikipedia.org/wiki/Trade

https://www.investopedia.com/terms/t/trade.asp

http://www.protrans.com/blog-the-importance-of-international-trade/

https://accountlearning.com/international-trade-meaning-features-inter-regional-trade-vs-international-trade/

www.wikipedia.com

www.ask.com

www.slideshare.com

https://www.wto.org/english/thewto_e/thewto_e.htm

https://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr_e.htm

https://en.wikipedia.org/wiki/World_Trade_Organization

https://corporatefinanceinstitute.com/resources/knowledge/economics/world-trade-organization-wto/

https://www.vedantu.com/commerce/world-trade-organisation

https://www.investopedia.com/articles/economics/08/tariff-trade-barrier-basics.asp

https://www.economicshelp.org/blog/glossary/trade-barriers/

https://www.economicsdiscussion.net/tariffs/tariffs-meaning-and-types-international-trade-economics/30413

https://opentextbc.ca/businessopenstax/chapter/barriers-to-trade/

https://www.wto.org/english/thewto_e/thewto_e.htm

https://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr_e.htm

https://en.wikipedia.org/wiki/World_Trade_Organization

https://corporatefinanceinstitute.com/resources/knowledge/economics/world-trade-organization-wto/

https://www.vedantu.com/commerce/world-trade-organisation

https://www.investopedia.com/articles/economics/08/tariff-trade-barrier-basics.asp

https://www.economicshelp.org/blog/glossary/trade-barriers/

https://www.economicsdiscussion.net/tariffs/tariffs-meaning-and-types-international-trade-economics/30413

https://opentextbc.ca/businessopenstax/chapter/barriers-to-trade/

Unit 12: Economic Integration

CONTENTS

Objectives

Introduction

12.1 Non-Tariff Barriers

12.2 Types of Non-Tariff Barriers

12.3 Examples of Non-Tariff Barriers

12.4 Inter National and Regional Trade Blocs

Keywords

Summary

Self-Assessment

Answers for Self Assessment

Review Questions

Further Readings

Objectives

After this lecture, you will be able to

- understand the meaning of Non-Tariff Barrier (NTB).
- analyse the origin of NTB.
- gain knowledge of the different types of NTB and
- potential consequences of different policies.
- gain introduction to the concept of trading blocs.
- analyse the different stages of economic integration.
- understand the advantages and disadvantages of trade blocs.

Introduction

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

Non-tariff barriers to trade (NTBs; also called non-tariff measures, NTMs) are trade barriers that restrict imports or exports of goods or services through mechanisms other than the simple imposition of tariffs.

The Southern African Development Community (SADC) defines a non-tariff barrier as "any obstacle to international trade that is not an import or export duty. They may take the form of import quotas, subsidies, customs delays, technical barriers, or other systems preventing or impeding trade". According to the World Trade Organization, non-tariff barriers to trade include import licensing, rules for valuation of goods at customs, pre-shipment inspections, rules of origin ('made in'), and trade prepared investment measures. A 2019 UNCTAD report concluded that trade costs associated with non-tariff measures were more than double those of traditional tariffs.

12.1 Non-Tariff Barriers

A nontariff barrier is a way to restrict trade using trade barriers in a form other than a tariff. Nontariff barriers include quotas, embargoes, sanctions, and levies. As part of their political or economic strategy, some countries frequently use nontariff barriers to restrict the amount of trade they conduct with other countries.

Countries commonly use nontariff barriers in international trade. Decisions about when to impose nontariff barriers are influenced by the political alliances of a country and the overall availability of goods and services.

In general, any barrier to international trade–including tariffs and non-tariff barriers–influences the global economy because it limits the functions of the free market. The lost revenue that some companies may experience from these barriers to trade may be considered an economic loss, especially for proponents of laissez-faire capitalism. Advocates of laissez-faire capitalism believe that governments should abstain from interfering in the workings of the free market.

Countries can use nontariff barriers in place of, or in conjunction with, conventional tariff barriers, which are taxes that an exporting country pays to an importing country for goods or services. Tariffs are the most common type of trade barrier, and they increase the cost of products and services in an importing country.

Often times countries pursue alternatives to standard tariffs because they release countries from paying added tax on imported goods. Alternatives to standard tariffs can have a meaningful impact on the level of trade (while creating a different monetary impact than standard tariffs).

What is a Non-Tariff Barrier?

These include:

- Regulations: Any rules which dictate how a product can be manufactured, handled, or advertised.
- Rules of origin: Rules which require proof of which country goods were produced in.
- Quotas: Rules that limit the amount of a certain product that can be sold in a market.

Origin of Non-Tariff Barriers

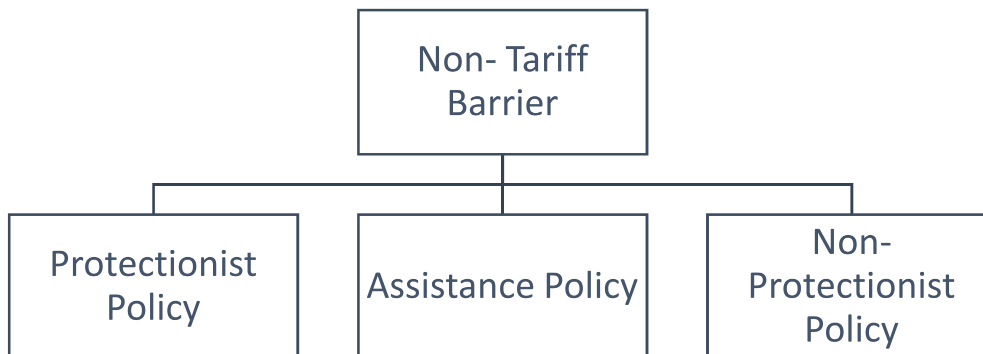
- During the formation of nation-states, countries had to devise ways of raising money to finance local projects and pay recurrent expenditures.
- One of these ways was the introduction of tariffs, which placed restrictions on imported and exported goods and services.
- However, industrialized countries transitioned from tariff barriers to non-tariff barriers since they had built other sources of funding.
- Most developing nations still rely on tariff barriers as a way of raising revenues to finance national projects while regulating international trade with other countries.
- Later, the industrialized countries switched from tariff to non-tariff barriers for several reasons.
- One reason was to regulate international trade, even in the absence of tariff barriers.
- It exempts certain countries from paying additional taxes on goods, and instead, created other meaningful non-traffic barriers.
- A second reason for introducing non-tariff barriers is to support weak industries that have been affected by the reduction or withdrawal of tariff barriers.
- A final reason is that non-tariff barriers are an avenue for interest groups to influence trade regulation in the absence of trade tariffs.

Why do Non-Tariff Barriers matter?

- Non-tariff barriers can be more restrictive for trade than actual tariffs.
- During the second half of the 20th century, multilateral trade rounds dramatically reduced tariffs.

- In 1949, the US charged an average tariff of 33.9%. Today it is 3.5%. The EU's is 5.3%, while China's is 9.5%.
- A 2009 study of the trade policies of 91 countries found that non-tariff barriers were equivalent to a 12% tariff barrier across the sample.
- The UN Conference on Trade and Development found non-tariff barriers contribute more than twice as much as tariffs to overall market access trade restrictiveness.

12.2 Types of Non-Tariff Barriers



1. Protectionist barriers

- Protectionist barriers are designed to protect certain sectors of domestic industries at the expense of other countries.
- The restrictions make it difficult for other countries to compete favourably with locally produced goods and services.
- The barriers may take the form of licensing requirements, allocation of quotas, antidumping duties, import deposits, etc.

2. Assistive policies

- Although assistive policies are designed to protect domestic companies and enterprises, they do not directly restrict trade with other countries, but they implement actions that can impede free trade with other countries.
- Examples of assistive barriers include custom procedures, packaging and labeling requirements, technical standards and norms, sanitary standards, etc.

3. Non-protectionist policies

- Non-protectionist policies are not designed to directly restrict the import or export of goods and services, but the overall outcomes may lead to free trade restrictions. The policies are primarily designed to protect the health and safety of people and animals while maintaining the integrity of the environment.
- Examples of non-protectionist policies include licensing, packaging and labeling requirements, plant and animal inspections, import bans for specific fishing or harvesting methods, sanitary rules, etc.

Potential Consequences of different Policies

Professor Alan Deardorff characterisesNTB policies under three headings:

- ✓ Purposes,
- ✓ Examples, and
- ✓ Consequences

Policy	Purpose	Examples	Potential Consequences
Protectionist policies	To help domestic firms and enterprises at the expense of other countries.	Import quotas; local content requirements; public procurement practices; anti-dumping laws;	Challenges levied at World Trade Organization, Free-trade area dispute resolution, and other trade forums
Assistance policies	To help domestic firms and enterprises, but not at the expense of other countries.	Domestic subsidies; industry bailouts.	Adversely affected countries may respond to protect themselves (i.e.,imposing countervailing duties and subsidies).
Non-Protectionist policies	To protect the health and safety of people, animals, and plants; to protect or improve the environment.	Licensing, packaging, and labeling requirements; food sanitation rules; food, plant and animal inspections; import bans based on objectionable harvesting or fishing methods.	Limited formal consequences lead to efforts to establish common standards or mutual recognition of different standards.

12.3 Examples of Non-Tariff Barriers

Licenses

- Countries may use licenses to limit imported goods to specific businesses.
- If a business is granted a trade license, it is permitted to import goods that would otherwise be restricted for trade in the country

Quotas

- With quotas, countries agree on specified limits for products and services allowed for importation to a country.
- In most cases, there are no restrictions on importing these goods and services until a country reaches its quota, which it can set for a specific timeframe.
- Additionally, quotas are often used in international trade licensing agreements.

Embargoes

- Embargoes are when a country–or several countries–officially ban the trade of specified goods and services with another country.
- Governments may take this measure to support their specific political or economic goals.

Sanctions

- Countries impose sanctions on other countries to limit their trade activity.
- Sanctions can include increased administrative actions–or additional customs and trade procedures–that slow or limit a country's ability to trade.

Voluntary Export Restraints

- Exporting countries sometimes use voluntary export restraints.
- Voluntary export restraints set limits on the number of goods and services a country can export to specified countries.
- These restraints are typically based on availability and political alliances.

Administrative and bureaucratic delays at the border

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

Foreign exchange restrictions and foreign exchange controls

- Foreign exchange restrictions constitute the management of transactions between national and foreign operators, either by limiting the supply of foreign currency (to restrict imports) or by state manipulation of exchange rates (to boost exports and limit imports).

Import Deposits

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

Administrative regulation of capital movements

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

Localization requirement

- An importing country may require the prospective exporter to include a degree of local participation in the product or service.
- Options include a designated importer, a joint-venture company with majority local control, requirement for complete local manufacture which may imply transfer of intellectual property.

Standards

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

Non-Tariff Barriers to trade can arise from any of the following factors:

- Complex regulatory environment
- Determination of eligibility of an exporting country by the importing country
- Determination of eligibility of an exporting establishment (firm, company) by the importing country.
- Additional trade documents like Certificate of Origin, Certificate of Authenticity etc
    - Import bans
    - General or product-specific quotas
    - Complex/discriminatory Rules of Origin
    - Quality conditions imposed by the importing country on the exporting countries

- Unjustified Sanitary and Phyto-sanitary conditions
- Unreasonable/unjustified packaging, labelling, product standards
- Occupational safety and health regulation
- Employment law
- Import licenses
- State subsidies, procurement, trading, state ownership
- Export subsidies
- Fixation of a minimum import price
- Product classification
- Quota shares
- Multiplicity and Controls of Foreign exchange market
- Inadequate infrastructure
- "Buy national" policy
- Over-valued currency
- Restrictive licenses
- Seasonal import regimes
- Corrupt and/or lengthy customs procedures

12.4 Inter National and Regional Trade Blocs

A regional trading bloc is a group of countries within a geographical region that protect themselves from imports from non-members. Trading blocs are a form of economic integration, and increasingly shape the pattern of world trade. There are a variety of ways in which countries can "protect" their domestic economies from competition from abroad. One of them is through trading blocs.

A trading bloc is a type of intergovernmental agreement, often part of a regional intergovernmental organisation, where regional barriers to international trade, (tariffs and non-tariff barriers) are reduced or eliminated among the participating states, allowing them to trade with each other as easily as possible.

The idea is that member countries freely trade with each other, but establish barriers to trade with non-members, which has had a significant impact on the pattern of global trade.International trade agreements can open up new opportunities for exporters. They can also ensure access to competitively priced imports from other countries.

While the formation of trade blocs, such as the European Union and NAFTA (North American Free Trade Agreement), has led to trade creation between members, by the same token it is also harder for countries outside the bloc to trade, leading to what is called trade diversion, where a company that otherwise might have got the business in that country is prevented from doing so because of a trading bloc and the barriers in place for non-member countries.

Trade blocs can be stand-alone agreements between several states (such as the North American Free Trade Agreement) or part of a regional organization (such as the European Union). Depending on the level of economic integration, trade blocs can be classified as preferential trading areas, free-trade areas, customs unions, common markets, or economic and monetary unions.

Trade Blocs

There are different types of trade blocs as follows:

- Preferential trade areas
- Free trade areas (bilateral, multilateral)
- Customs unions
- Common markets

- Economic unions
- Monetary unions
- Customs and monetary unions
- Economic and monetary unions

Preferential Trade Area

- Preferential Trade Areas (PTAs) exist when countries within a geographical region agree to reduce or eliminate tariff barriers on selected goods imported from other members of the area.
- This is often the first small step towards the creation of a trading bloc.

Free Trade Area

- Free Trade Areas (FTAs) are created when two or more countries in a region agree to reduce or eliminate barriers to trade on all goods coming from other members.
- They maintain their own individual tariffs and quotas with respect to non-members.

Customs unions

- A customs union involves the removal of tariff barriers between members, plus the acceptance of a common (unified) external tariff against non-members.
- This means that members may negotiate as a single bloc with 3rd parties, such as with other trading blocs, or with the WTO.

Common markets

- A 'common market' (or single market) is the first significant step towards full economic integration, and occurs when member countries trade freely in all economic resources – not just tangible goods.
- This means that all barriers to trade in goods, services, capital, and labour are removed.
- In addition, as well as removing tariffs, non-tariff barriers are also reduced and eliminated.
- For a common market to be successful there must also be a significant level of harmonization of micro-economic policies, and common rules regarding monopoly power and other anti-competitive practices.
- There may also be common policies affecting key industries, such as the Common Agricultural Policy (CAP) and Common Fisheries Policy (CFP) of the European Single Market (ESM).

Economic unions

A common market which is taken further by agreeing to establish common economic policies on such things as taxation and interest rates and, even, a common currency.

Monetary unions

- Monetary union, agreement between two or more states creating a single currency area.
- A monetary union involves the irrevocable fixation of the exchange rates of the national currencies existing before the formation of a monetary union.
- Historically, monetary unions have been formed on the basis of both economic and political considerations.
- A monetary union is accompanied by setting up a single monetary policy and establishing a single central bank or by making the already existing national central banks the integrative units of a common central banking system.

Customs and monetary unions

- A customs and monetary union are a type of trade bloc which is composed of a customs union and a currency union.
- The participant countries have both common external trade policy and share a single currency.

- Customs and monetary union are established through trade pact.

Economic and monetary unions

- An economic and monetary union (EMU) is a type of trade bloc that features a combination of a common market, customs union, and monetary union.
- The Economic and Monetary Union (EMU) represents a major step in the integration of EU economies. Launched in 1992, EMU involves the coordination of economic and fiscal policies, a common monetary policy, and a common currency, the euro.

Advantages for Members of Trading Blocs

Free trade within the bloc

- Knowing that they have free access to each other's markets, members are encouraged to specialize.
- This means that, at the regional level, there is a wider application of the principle of comparative advantage.

Market access and trade creation

- Easier access to each other's markets means that trade between members is likely to increase.
- Trade creation exists when free trade enables high cost domestic producers to be replaced by lower cost, and more efficient imports.
- Because low cost imports lead to lower priced imports, there is a 'consumption effect', with increased demand resulting from lower prices.

Jobs

- Jobs may be created as a consequence of increased trade between member economies.

Economies of scale

- Producers can benefit from the application of scale economies, which will lead to lower costs and lower prices for consumers.

Protection

- Firms inside the bloc are protected from cheaper imports from outside, such as the protection of the EU shoe industry from cheap imports from China and Vietnam.

Disadvantages of Trading Blocs

Distortion of trade

- Trading blocs are likely to distort world trade, and reduce the beneficial effects of specialisation and the exploitation of comparative advantage.

Inefficiencies and trade diversion

- Inefficient producers within the bloc can be protected from more efficient ones outside the bloc.
- For example, inefficient European farmers may be protected from low-cost imports from developing countries.
- Trade diversion arises when trade is diverted away from efficient producers who are based outside the trading area.

Retaliation

- The development of one regional trading bloc is likely to stimulate the development of others. This can lead to trade disputes, such as those between the EU and NAFTA, including the recent Boeing (US)/Airbus (EU) dispute.
- The EU and US have a long history of trade disputes, including the dispute over US steel tariffs, which were declared illegal by the WTO in 2005.
- In addition, there are the so-called beef wars with the US applying £60m tariffs on EU beef in response to the EU's ban on US beef treated with hormones; and complaints to the WTO of each other's generous agricultural support.

- During the 1970s many former UK colonies formed their own trading blocs in reaction to the UK joining the European common market.

Examples of Trading Blocs:

Inside Europe:

- EU– The European Union. This is the most important trade bloc in Europe. The EU combined is amongst the world's biggest exporters and around two thirds of EU countries' total trade is done with other EU countries.
- EFTA – European Free Trade Association with member countries Iceland, Liechtenstein, Norway and Switzerland
- EEA – The European Economic Area EU members plus the three EFTA states of Iceland, Norway and Liechtenstein
- CEFTA – The Central European Free Trade Agreement which covers Albania; Bosnia and Herzegovina; Croatia; Former Yugoslav Republic of Macedonia; Moldova; Montenegro; Serbia; UNMIK/Kosovo.

Outside Europe:

- NAFTA - (the North American Free Trade Agreement) which covers Canada, the United States of America and Mexico
- MERCOSUR – Argentina, Brazil, Paraguay, Uruguay and Venezuela are full members, Bolivia, Chile, Colombia, Ecuador and Peru have associate member status, with Bolivia becoming an accessing member in December 2012.
- ASEAN Free Trade Area - Free trade area in South East Asia founded 1992. Includes: Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand, Vietnam, Laos, Myanmar and Cambodia.
- SAFTA - South Asia Free Trade Area based around the Indian sub-continent. Includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.
- African Union - 55 countries of the continent of Africa. Created to forge closer political and economic ties. It has aspirations to become a free trade area.

Keywords

- **Absolute Advantage**: The ability to produce a good at lower cost, in terms of real resources, thananother country. In a Ricardian model, cost is in terms of labor only.
- **Anti-Dumping Measures**: A complaint by a domestic producer that imports are being dumped, leading to an anti-dumping duty if both dumping and injury are found in the resulting investigation.
- **Countervailing Duties**: A tariff levied against imports because they are subsidized by the exporting country's government, designed to offset (countervail) the effect of the subsidy.
- **Customs procedure**: The practices used by customs officers to clear goods into a country and levy tariffs. Includes clearance documentation and inspection, determination of a good's classification, and assigning its value as the base for an ad valorem tariff. Any of these can impede trade and constitute an NTB.
- **Customs station**: An office through which imported goods must pass in order to be monitored and taxed by customs officers.
- **Customs territory**: A geographical area the borders of which are managed, imposing duties and controls on goods entering the area. A customs territory need not be an internationally recognized country, and the customs territory of a country may be larger or smaller than the country.

- **Customs union**: A group of countries that adopt free trade (zero tariffs and no other restrictions on trade) on trade among themselves, and that also, on each product, agree to levy the same tariff on imports from outside the group. Equivalent to an FTA plus a common external tariff.
- **Customs user fee**:A charge levied on traders for the service of passing through customs.
- **Customs valuation procedure**: The method by which a customs officer determines the customs value. When this method is biased against importing, it becomes an NTB.
- **Deficit financing**: The method used by a government to finance its budget deficit, that is, to cover the difference between its tax receipts and its expenditures. The main choices are to issue bonds or to print money.The assumption that a change in government spending or taxes will be financed by a change in the government budget deficit, rather than by an accommodating additional change in spending or taxes to keep the budget balanced. Example: a "deficit-financed increase in government purchases."
- **Dumping**: Export price that is "unfairly low," defined as below either home market price (normal value) (hence price discrimination) or cost. Except for of predatory dumping, dumping benefits the importing country as a whole (but harms competing producers) and is often normal business practice.
- **Labor intensive**: Describing an industry or sector of the economy that relies relatively heavily on inputs of labor, usually relative to capital but sometimes relative to human capital or skilled labor, compared to other industries or sectors.
- **Nontariff measure**: Any policy or official practice that alters the conditions of international trade, including those that act to increase trade as well as those that restrict it.
- **Trading bloc**: A group of countries that are somehow closely associated in international trade.
- **Preferential Trading Arrangement**: A group of countries that levy lower (or zero) tariffs against imports from members than from outsiders. Includes FTAs, customs unions, and common markets.
- **ASEAN Free Trade Area**: A free trade area announced in 1992 among the ASEAN countries that is in the process of being implemented.

Summary

- A nontariff barrier is a trade restriction–such as a quota, embargo or sanction–that countries use to further their political and economic goals.
- Countries usually opt for nontariff barriers (rather than traditional tariffs) in international trade.
- Nontariff barriers include quotas, embargoes, sanctions, and levies.
- Non-tariff barriers refer to any measures, other than customs tariffs, that regulate imports or exports into a country.
- Industrialized countries use non-tariff barriers to protect local industries against foreign competition.
- Common examples of non-tariff barriers include licenses, quotas, embargoes, foreign exchange restrictions, and import deposits.
- A trading bloc is a type of intergovernmental agreement, often part of a regional intergovernmental organisation, where regional barriers to international trade, (tariffs and non-tariff barriers) are reduced or eliminated among the participating states, allowing them to trade with each other as easily as possible.

- Trade blocs can be stand-alone agreements between several states (such as the North American Free Trade Agreement) or part of a regional organization (such as the European Union). Depending on the level of economic integration, trade blocs can be classified as preferential trading areas, free-trade areas, customs unions, common markets, or economic and monetary unions.

Self-Assessment

1. Which of the following is no an example of sanitary and phyto-sanitary barrier to trade?

A. Level of pesticide residue in agricultural produce

B. Possibility of imported food causing disease in local population

C. Addictive nature of a beverage

D. None of the above

2. Which of the following is not a non-tariff barrier?

A. A quota on apparel.

B. A tax equal to 12% of value on imported oil.

C. A voluntary export restraint on cars.

D. A regulation requiring government agencies to favor domestically producers.

3. A government procurement regulation or practice constitutes a nontariff barrier when

A. Government agencies are required to purchase from the lowest bidder.

B. Government shows a preference for domestic sellers over foreign sellers.

C. Government requires that goods that it purchases meet a uniform safety standard.

D. Government purchases are financed by tax receipts.

4. Import quotas are most commonly administered

A. By permitting all imports until the quota is filled for the year, then none after that.

B. By taxing imports.

C. By auctioning import licenses to the highest bidder.

D. None of the above

5. Which of the following will cause the tariff equivalent of a quota to increase in a small country?

A. A decrease in domestic demand (the demand curving shifting left).

B. A decrease in domestic supply (the supply curving shifting left).

C. A rise in the world price.

D. A rise in the quantity of imports permitted by the quota. e. Nothing: the tariff equivalent of a quota is fixed by law.

6. Which of the following is not a NTB?

A. Voluntary export restrictions
B. Local content requirement
C. Administrative barriers
D. Tariff rate quotas

7. Which one of the following NTBs prevents free movement of capital between countries?

A. Preferential government procurement
B. Exchange controls
C. Domestic subsidies
D. Local content requirement

8. Countervailing tariffs specifically aim to

A. give preference to imports from a customs union
B. retaliate to a tariff imposed by a trading partner
C. neutralize the effects of subsides given to the producers in the exporting countries
D. counter dumping by other countries

9. The reduction in domestic consumption due to imposition of quota results in

A. increase in government revenue
B. increase in consumer surplus
C. loss of social welfare
D. increase in social welfare

10. A preferential trade area is a trade bloc where

A. countries agree to reduce or eliminate tariff barriers on all goods imported from other member nations
B. countries agree to reduce or eliminate tariff barriers on selected goods imported from other member nations
C. countries agree to have a common unified tariff against non-members
D. all barriers are eliminated to allow free movement of goods, services, capital and labour

11. A free trade area is a trade bloc where

A. countries agree to reduce or eliminate tariff barriers on all goods imported from other member nations
B. countries agree to reduce or eliminate tariff barriers on selected goods imported from other member nations
C. countries agree to have a common unified tariff against non-members
D. all barriers are eliminated to allow free movement of goods, services, capital and labour

12. A customs union is a trade bloc where

A. countries agree to reduce or eliminate tariff barriers on all goods imported from other member nations

B. countries agree to reduce or eliminate tariff barriers on selected goods imported from other member nations

C. countries agree to have a common unified tariff against non-members

D. all barriers are eliminated to allow free movement of goods, services, capital and labour

13. A common or single market is a trade bloc where

A. countries agree to reduce or eliminate tariff barriers on all goods imported from other member nations

B. countries agree to reduce or eliminate tariff barriers on selected goods imported from other member nations

C. countries agree to have a common unified tariff against non-members

D. all barriers are eliminated to allow free movement of goods, services, capital and labour

14. _____________ is one of the disadvantages of international economic integration.

A. cross-border investment flows

B. employment generation

C. increasing interdependence

D. conflict resolution

15. ASEAN was formed in

A. 1967

B. 1945

C. 1999

D. 2000

16. The ____________was established in 2015 to bring about economic integration to create a single market in ASEAN.

A. ATIGA

B. AEC

C. AFTA

D. ABIF

Answers for Self Assessment

1.	D	2.	B	3.	B	4.	D	5.	B	
6.	D	7.	B	8.	C	9.	C	10.	B	
11.	A	12.	C	13.	D	14.	C	15.	A	16. B

Review Questions

1. What is a non-tariff barrier?
2. What are the trade barriers?
3. Why do non-tariff barriers matter?
4. Can these non-tariff barriers be removed?
5. What non-tariff measures might apply to the UK's new relationship to the EU?
6. Is non-tariff 'measures' the same as non-tariff 'barriers'?
7. Explain different types of barriers?
8. Distinguish between free trade areas (FTAs) and customs unions.
9. Describe the evolution of non-tariff barriers?
10. Explain the potential consequences of different policies?
11. What do you mean by trading bloc?
12. Explain the different stages of economic integration around the World?
13. What are the different advantages of trading blocs?
14. What are the different disadvantages of trading blocs?
15. Describe the following trading blocs:
    (a) EU
    (b) EFTA
    (c) EEA
    (d) CEFTA
    (e) NAFTA
    (f) ASEAN
    (g) SAFTA

Further Readings

Bedi Suresh, Business Environment, Excel Books, 2006

Mittal Vivek, Business Environment, Excel Books, 2007

Starling, Grower, The Changing Environment of Business, Cincinnati, OH, South- Western College Publishing, 1996

https://opentoexport.com/article/what-is-a-trading-bloc/#:~:text=A%20trading%20bloc%20is%20a,other%20as%20easily%20as%20possible.

https://en.wikipedia.org/wiki/Trade_bloc

https://www.economicsonline.co.uk/Global_economics/Trading_blocs.html

https://www.britannica.com/topic/monetary-union

https://www.investopedia.com/terms/n/nontariff-barrier.asp

https://corporatefinanceinstitute.com/resources/knowledge/economics/non-tariff-barriers/

https://en.wikipedia.org/wiki/Non-tariff_barriers_to_trade

https://www.tradebarriers.org/ntb/non_tariff_barriers

http://www-personal.umich.edu/~alandear/glossary/l.html

Unit 13: Social Security Schemes

CONTENTS

Objectives
Introduction
13.1 Swachh Bharat Abhiyan
13.2 Smart City Initiatives
13.3 Smart City Features
13.4 Digital India
13.5 Make in India
13.6 Ayushmann Bharat Scheme
Keywords
Summary
Self Assessment
Answers for Self Assessment
Review Questions
Further Readings

Objectives

After this Lecture, you will be able to

- gain an insight into the concept of Swach Bharat Abhiyan.
- analyse the objectives, background and structure, planned initiatives, performance monitoring and impact of SBM.
- know the details of National Annual Rural Sanitation Survey (NARSS)- Round-3.
- gain an insight into the concept, meaning of a smart city.
- analyze the history, vision, dashboard and six fundamental principles of Smart Cities Mission.
- understand the reason why Smart Cities Mission is essential.
- gain an insight into the concept of Digital India, vision and vision areas, approach and methodology of DI.
- analyse the programme management structure and programme pillars of DI.
- know the major achievements, estimated costs and impacts, challenges for Digital India.
- gain an insight into the concept, program and objectives of Make in India.
- know the process, plan and partnerships of Make in India
- analyse the present progress and sectors covered under Make in India
- gain an insight of Ayushman Bharat Yojana, its charges for applicants and history.
- analyse the functions of National Health Authority(NHA).
- know the key features, vision, mission of PM-JAY.
- identify the reach and challenges of Ayushman Bharat scheme.

Introduction

The Government of India has initiated a number of social security schemes to boost the financial stability of its citizens and to reinforce the economic development of the nation.

Like other socio-economic concepts, the connotation of the term "social security" varies from country to country with varying political ideologies. For example, social security in the socialist countries implies complete protection to every citizen of this country from the cradle to the grave.

In other countries which are relatively less regimented ones, social security refers to measures of protection afforded to the needy citizens by means of schemes evolved by democratic processes consistent with resources of the State.

In general sense, social security refers to protection provided by the society to its members against providential mishaps over which a person has no control. The underlying philosophy of social security is that the State shall make itself responsible for ensuring a minimum standard of material welfare to all its citizens on a basis wide enough to cover all the main contingencies of life. In other sense, social security is primarily an instrument of social and economic justice.

13.1 Swachh Bharat Abhiyan

Swachh Bharat Mission (SBM), Swachh Bharat Abhiyan, or Clean India Mission is a country-wide campaign initiated by the Government of India in 2014 to eliminate open defecation and improve solid waste management. It is a restructured version of the Nirmal Bharat Abhiyan launched in 2009 that failed to achieve its intended targets. Phase 1 of the Swachh Bharat mission lasted till October 2019. Phase 2 will be implemented between 2020–21 and 2024-25.

Initiated by the Government of India, the mission aimed to achieve an "open-defecation free" (ODF) India by 2 October 2019, the 150th anniversary of the birth of Mahatma Gandhi. The objectives of the first phase of the mission also included eradication of manual scavenging, generating awareness and bringing about a behavior change regarding sanitation practices, and augmentation of capacity at the local level. The second phase of the mission aims to sustain the open defecation free status and improve the management of solid and liquid waste. The mission is aimed at progressing towards target 6.2 of the Sustainable Development Goals Number 6 established by the United Nations in 2015.

The campaign's official name is in Hindi. In English, it translates to "Clean India Mission". The campaign was officially launched on 2 October 2014 at Rajghat, New Delhi by Prime Minister Narendra Modi. It is India's largest cleanliness drive to date with three million government employees and students from all parts of India participating in 4,043 cities, towns, and rural communities. At a rally in Champaran, the Prime minister called the campaign Satyagrah se Swachhagrah in reference to Gandhi's Champaran Satyagraha launched on 10 April 1916.

The mission was split into two: rural and urban. In rural areas "SBM - Gramin" was financed and monitored through the Ministry of Drinking Water and Sanitation; whereas "SBM - urban" was overseen by the Ministry of Housing and Urban Affairs.

As part of the campaign, volunteers, known as Swachhagrahis, or "Ambassadors of cleanliness", promoted indoor plumbing and community approaches to sanitation (CAS) at the village level. Other activities included national real-time monitoring and updates from non-governmental organizations such as The Ugly Indian, Waste Warriors, and SWaCH Pune (Solid Waste Collection and Handling).

The government provided subsidy for construction of nearly 110 million toilets between 2014 and 2019, although some Indians especially in rural areas choose to not use them. The campaign was criticized for using coercive approaches to force people to use toilets. Some people were stopped from defecating in open and threatened with withdrawal from government benefits.

Background

Coverage about open defecation and contamination of drinking and bathing water in India prompted government to take measures to deal with the problem. In 2014, India was the country with the highest number of people practicing open defecation, around 530 million people.

Launch

Swachh Bharat Abhiyan campaign, launched on 2 October 2014 on birth anniversary of Mahatma Gandhi, aimed to eradicate open defecation by 2 October 2019, the 150th anniversary of the birth of

Mahatma Gandhi, by constructing 90 million toilets in rural India at a projected cost of 1.96 lakh crore (US$27 billion). The national campaign spanned 4,041 statutory cities and townsconceived in March 2014 at a sanitation conference organised by UNICEF India and the Indian Institute of Technology as part of the larger Total Sanitation Campaign, which the Indian government launched in 1999.

Previous Sanitation Campaigns

A formal sanitation programme was first launched in 1954, followed by Central Rural Sanitation Programme in 1986, Total Sanitation Campaign (TSC) in 1999 and Nirmal Bharat Abhiyan in 2012.. A limited randomized study of eighty villages in rural (Madhya Pradesh) showed that the TSC programme did modestly increase the number of households with latrines, and had a small effect in reducing open defecation. However, there was no improvement in the health of children." The earlier "Nirmal Bharat Abhiyan" rural sanitation program was hampered by the unrealistic approach. Consequently, Nirmal Bharat Abhiyan was restructured by Cabinet approval on 24 September 2014 as Swachh Bharat Abhiyan. The rural household toilet coverage in India increased from 1% in 1981 to 11% in 1991, to 22% in 2001, to 32.7% in 2011. Since 2014, the Government of India, has made remarkable strides in reaching the Open Defecation Free targets. 36 states and union territories, 706 districts and over 603,175 villages have been declared open defecation free as of Jan 2020. India has made rapid progress in ending open defecation across the Country which is having a huge impact on improving water, sanitation and hygiene (WASH). The Swachh Bharat Mission (SBM) has changed the behaviour of hundreds of millions of people with respect to toilet access and usage. 500 million people have stopped defecating in the open since 2014, down from 550 million to less than 50 million today. A tremendous achievement, only possible because of the Swacch Bharat Mission (SBM) (Clean India Campaign), led by the Prime Minister. Even with these impressive figures, it is vital that social and behavioural change communication approaches keep pace with the service delivery to ensure that families receiving toilets continue to use them regularly.

Structure

Components

The core objectives of the first phase of the mission were to reduce open defecation and improve management of municipal solid waste in both urban and rural areas. Elimination of open defecation was to be achieved through construction of individual household level toilets (often twin pit pour flush pit latrines), toilets and public toilets. For improving solid waste management, cities were encouraged to prepare detailed project reports that are bankable and have a financial model.

The second phase on the other hand focuses on sustaining gains of the first phase and improving management of the solid and liquid wastes.

Finance

Swachh Bharat Abhiyan is expected to cost over 620 billion (US$8.7 billion). The government provides an incentive of 12,000 (US$170) for each toilet constructed by a rural family. An amount of 90 billion (US$1.3 billion) was allocated for the mission in the 2016 Union budget of India. The World Bank provided a US$1.5 billion loan and $25 million in technical assistance in 2016 for the Swachh Bharat Mission to support India's universal sanitation initiation. The programme has also received funds and technical support from the World Bank, corporations as part of corporate social responsibility initiatives, and by state governments under the Sarva Shiksha Abhiyan and Rashtriya Madhyamik Shiksha Abhiyan schemes.

Impacts

According to the dashboards maintained by respective ministries, more than 100 million individual household level toilets have been constructed in rural areas, and 6 million household toilets in urban areas. In addition, nearly 6 million community and public toilets have also been constructed in the urban areas. Consequently, 4,234 cities and more than 600,000 villages across the country have declared themselves open defecation free (ODF).

Further, more than 81.5 thousand wards in urban areas now have100% door to door collection of solid waste and nearly 65 thousand wards practice 100% segregation of waste at source. Of the nearly 150 thousand metric tonnes of solid waste generated in urban areas, 65% is being processed.

An independent survey released by Quality Council of India in August 2017, reported that overall national rural "household access to toilet" coverage increased to 62.5% and usage of toilets to 91.3%, with Haryana topping the national ranking with 99% of households in rural areas covered and usage of toilets of 100%. World Health Organization (WHO) has in its report stated that at least 180,000 diarrhoeal deaths were averted in rural India since the launch of the Swachh Bharat Mission. According to a survey carried out in 2018 and published in 2019 by National Statistical Office (NSO), 71% of rural households had access to toilets as of 2018. Though this was at odds with the Indian government's claim in 2019 that 95% of rural households had access to toilets, NSO's numbers still indicated a significant improvement over the situation during the previous survey period in 2012, when only 40% of rural households had access to toilets.

A study by Ashoka University concluded that the construction of toilets under the program led to a reduction in incidence of sexual assault against women.

Data from the National Family Health Surveys (NFHS) demonstrate the increase in access to improved sanitation due to SBM. Post 2015, 3.4% households gained access to better sanitation as compared to just 1.5% earlier.

Objectives of Swachh Bharat Abhiyaan

- Construction of individual, cluster and community toilets.
- To eliminate or reduce open defecation. Open defecation is one of the main causes of deaths of thousands of children each year.
- Not only latrine construction, the Swachh Bharat Mission will also make an initiative of establishing an accountable mechanism of monitoring latrine use.
- Public awareness will also be provided about the drawbacks of open defecation and promotion of latrine use.
- Proper, dedicated ground staff will be recruited to bring about behavioural change and promotion of latrine use.
- For proper sanitation use, the mission will aim at changing people's attitudes, mindsets and behaviours.
- Villages to be kept clean with Solid and Liquid Waste Management.
- Solid and liquid waste management through gram panchayats.
- To lay water pipelines in all villages, ensuring water supply to all households by 2019.
- To make India Open Defecation Free (ODF) India by 2019, by providing access to toilet facilities to all.
- To provide toilets, separately for Boys and Girls in all schools by 15.8.2015.
- To provide toilets to all Anganwadis
- Elimination of open defecation
- Eradication of Manual Scavenging
- Modern and Scientific Municipal Solid Waste Management
- To effect behavioral change regarding healthy sanitation practices
- Generate awareness about sanitation and its linkage with public health
- Capacity Augmentation for ULB's
- To create an enabling environment for private sector participation in Capex (capital expenditure) and Opex (operation and maintenance)

Swachh Bharat Mission: Urban Areas

The mission aims to cover 1.04 crore households, provide 2.5 lakh community toilets, 2.6 lakh public toilets, and a solid waste management facility in each town. Under the programme, community toilets will be built in residential areas where it is difficult to construct individual household toilets. Public toilets will also be constructed in designated locations such as tourist places, markets, bus stations, railway stations, etc. The programme will be implemented over a five-year period in 4,401 towns. Of the Rs 62,009 crore likely to be spent on the programme, the Centre will pitch in Rs 14,623 crore. Of the Centre's share of Rs 14,623 crore, Rs 7,366 crore will be spent on

solid waste management, Rs 4,165 crore on individual household toilets, Rs 1,828 crore on public awareness and Rs 655 crore on community toilets.

The programme includes elimination of open defecation, conversion of unsanitary toilets to pour flush toilets, eradication of manual scavenging, municipal solid waste management and bringing about a behavioural change in people regarding healthy sanitation practices.

Swachh Bharat Mission: Gramin Areas

The Nirmal Bharat Abhiyan has been restructured into the Swachh Bharat Mission (Gramin). The mission aims to make India an open defecation free country in Five Years. Under the mission, One lakh thirty four thousand crore rupees will be spent for construction of about 11 crore 11 lakh toilets in the country. Technology will be used on a large scale to convert waste into wealth in rural India in the forms of bio-fertilizer and different forms of energy. The mission is to be executed on war footing with the involvement of every gram panchayat, panchayat samiti and ZilaParishad in the country, besides roping in large sections of rural population and school teachers and students in this endeavor.

13.2 Smart City Initiatives

A smart city is an urban area that uses different types of electronic methods and sensors to collect data. Insights gained from that data are used to manage assets, resources and services efficiently; in return, that data is used to improve the operations across the city. This includes data collected from citizens, devices, buildings and assets that is then processed and analyzed to monitor and manage traffic and transportation systems, power plants, utilities, water supply networks, waste, crime detection, information systems, schools, libraries, hospitals, and other community services.

The smart city concept integrates information and communication technology (ICT), and various physical devices connected to the IoT (Internet of things) network to optimize the efficiency of city

operations and services and connect to citizens. Smart city technology allows city officials to interact directly with both community and city infrastructure and to monitor what is happening in the city and how the city is evolving. ICT is used to enhance quality, performance and interactivity of urban services, to reduce costs and resource consumption and to increase contact between citizens and government. Smart city applications are developed to manage urban flows and allow for real-time responses. A smart city may therefore be more prepared to respond to challenges than one with a simple "transactional" relationship with its citizens. Yet, the term itself remains unclear to its specifics and therefore, open to many interpretations.

The creation, integration, and adoption of smart city capabilities require a unique set of frameworks to realize the focus areas of opportunity and innovation central to smart city projects. The frameworks can be divided into 5 main dimensions which include numerous related categories of smart city development:

Frameworks

Technology framework

A smart city relies heavily on the deployment of technology. Different combinations of technological infrastructure interact to form the array of smart city technologies with varying levels of interaction between human and technological systems.

- Digital: A service oriented infrastructure is required to connect individuals and devices in a smart city. These include innovation services and communication infrastructure. Yovanof, G. S. &Hazapis, G. N. define a digital city as "a connected community that combines broadband communications infrastructure; a flexible, service-oriented computing infrastructure based on open industry standards; and, innovative services to meet the needs of governments and their employees, citizens and businesses."
- Intelligent: Cognitive technologies, such as artificial intelligence and machine learning, can be trained on the data generated by connected city devices to identify patterns. The efficacy and impact of particular policy decisions can be quantified by cognitive systems studying the continuous interactions of humans with their urban surroundings
- Ubiquitous: A ubiquitous city provides access to public services through any connected device. U-city is an extension of the digital city concept because of the facility in terms of accessibility to every infrastructure.
- Wired: The physical components of IT systems are crucial to early-stage smart city development. Wired infrastructure is required to support the IoT and wireless technologies central to more interconnected living. A wired city environment provides general access to continually updated digital and physical infrastructure. The latest in telecommunications, robotics, IoT, and various connected technologies can then be deployed to support human capital and productivity.
- Hybrid: A hybrid city is the combination of a physical conurbation and a virtual city related to the physical space. This relationship can be one of virtual design or the presence of a critical mass of virtual community participants in a physical urban space. Hybrid spaces can serve to actualize future-state projects for smart city services and integration.
- Information city: The multiplicity of interactive devices in a smart city generates a large quantity of data. How that information is interpreted and stored is critical to Smart city growth and security.

Human framework

Smart city initiatives have measurable positive impacts on the quality of life of its citizens and visitors The human framework of a smart city – its economy, knowledge networks, and human support systems – is an important indicator of its success.

- Creativity: Arts and culture initiatives are common focus areas in smart city planning. Innovation is associated with intellectual curiosity and creativeness, and various projects have demonstrated that knowledge workers participate in a diverse mix of cultural and artistic activities.
- Learning: Since mobility is a key area of Smart city development, building a capable workforce through education initiatives is necessary. A city's learning capacity includes its education system, including available workforce training and support, and its cultural development and exchange.
- Humanity: Numerous Smart city programs focus on soft infrastructure development, like increasing access to voluntary organizations and designated safe zones. This focus on social and relational capital means diversity, inclusion, and ubiquitous access to public services is worked in to city planning.
- Knowledge: The development of a knowledge economy is central to Smart city projects. Smart cities seeking to be hubs of economic activity in emerging tech and service sectors stress the value of innovation in city development.

Institutional framework

According to Moser, M. A., since the 1990s, the smart communities movement took shape as a strategy to broaden the base of users involved in IT. Members of these Communities are people that share their interest and work in a partnership with government and other institutional organizations to push the use of IT to improve the quality of daily life as a consequence of different worsening in daily actions. Eger, J. M. said that a smart community makes a conscious and agreed-upon decision to deploy technology as a catalyst to solving its social and business needs. It is very important to understand that this use of IT and the consequent improvement could be more demanding without the institutional help; indeed institutional involvement is essential to the success of smart community initiatives. Again Moser, M. A. explained that "building and planning a smart community seeks for smart growth"; smart growth is essential for the partnership between citizen and institutional organizations to react to worsening trends in daily issues like traffic congestion, school overcrowding and air pollution. However, it is important to note that technological propagation is not an end in itself, but only a means to reinventing cities for a new economy and society. To sum up, it is possible to assert that any smart city initiatives necessitate the government's support for their success.

The importance of these three different dimensions is that only a link among them can make possible the development of a real smart city concept. According to the definition of smart city given by Caragliu, A., Del Bo, C., & Nijkamp, P., a city is smart when investments in human/social capital and IT infrastructure fuel sustainable growth and enhance quality of life, through participatory governance.

Energy framework

Smart cities use data and technology to create efficiencies, improve sustainability, create economic development, and enhance quality of life factors for people living and working in the city. It also means that the city has a smarter energy infrastructure. More formally, a smart city is: "… An urban area that has securely integrated technology across the information … and Internet of Things (IoT) sectors to better manage a city’s assets." Employment of smart technologies enables the more efficient application of integrated energy technologies in the city allowing the development of more self-sustaining areas or even Positive Energy Districts that produce more energy than consume.

A smart city is powered by "smart connections" for various items such as street lighting, smart buildings, distributed energy resources (DER), data analytics, and smart transportation. Amongst these things, energy is paramount; this is why utility companies play a key role in smart cities. Electric companies, working partnership with city officials, technology companies and a number of other institutions, are among the major players that helped accelerate the growth of America's smart cities.

Data Management framework

Smart cities employ a combination of data collection, processing, and disseminating technologies in conjunction with networking and computing technologies and data security and privacy measures encouraging the application of innovation to promote the overall quality of life for its citizens and covering dimensions that include: utilities, health, transportation, entertainment and government services.

Challenges/The Need for Smart Cities

Cities are engines of growth for the economy of every nation, including India. Nearly 31% of India's current population lives in urban areas and contributes 63% of India's GDP (Census 2011). With increasing urbanization, urban areas are expected to house 40% of India's population and contribute 75% of India's GDP by 2030. This requires comprehensive development of physical, institutional, social and economic infrastructure. All are important in improving the quality of life and attracting people and investments to the City, setting in motion a virtuous cycle of growth and development. Development of Smart Cities is a step in that direction.

- This is the first time an Urban Ministry programme used the 'Challenge' or competition method to select cities for funding and used the strategy of area-based development. This captures the spirit of 'competitive and cooperative federalism'.
- States and ULBs will play a key supportive role in the development of Smart Cities. Smart leadership and vision at this level and ability to act decisively will be important factors determining the success of the Mission.
- Understanding the concepts of retrofitting, redevelopment and greenfield development by the policy makers, implementers and other stakeholders at different levels will require capacity assistance.
- Major investments in time and resources will have to be made during the planning phase prior to participation in the Challenge. This is different from the conventional DPR-driven approach.
- The Smart Cities Mission requires smart people who actively participate in governance and reforms. Citizen involvement is much more than a ceremonial participation in governance. Smart people involve themselves in the definition of the Smart City, decisions on deploying Smart Solutions, implementing reforms, doing more with less and oversight during implementing and designing post-project structures in order to make the Smart City developments sustainable. The participation of smart people will be enabled by the SPV through increasing use of ICT, especially mobile-based tools.

13.3 Smart City Features

In the approach to the Smart Cities Mission, the objective is to promote cities that provide core infrastructure and give a decent quality of life to its citizens, a clean and sustainable environment and application of 'Smart' Solutions. The focus is on sustainable and inclusive development and the idea is to look at compact areas, create a replicable model which will act like a lighthouse to other aspiring cities. The Smart Cities Mission of the Government is a bold, new initiative. It is meant to set examples that can be replicated both within and outside the Smart City, catalysing the creation of similar Smart Cities in various regions and parts of the country.

The core infrastructure elements in a Smart City would include - adequate water supply, assured electricity supply, sanitation, including solid waste management, efficient urban mobility and public transport, affordable housing, especially for the poor, robust IT connectivity and digitalization, good governance, especially e-Governance and citizen participation, sustainable environment, safety and security of citizens, particularly women, children and the elderly, and health and education. Some typical features of comprehensive development in Smart Cities are described below:

- Promoting mixed land use in area-based developments — planning for 'unplanned areas' containing a range of compatible activities and land uses close to one another in order

tomake land use more efficient. The States will enable some flexibility in land use and building bye-laws to adapt to change;

- Housing and inclusiveness — expand housing opportunities for all;
- Creating walkable localities — reduce congestion, air pollution and resource depletion, boost local economy, promote interactions and ensure security. The road network is created or refurbished not only for vehicles and public transport, but also for pedestrians and cyclists, and necessary administrative services are offered within walking or cycling distance;
- Preserving and developing open spaces — parks, playgrounds, and recreational spaces in order to enhance the quality of life of citizens, reduce the urban heat effects in Areas and generally promote eco-balance;
- Promoting a variety of transport options — Transit Oriented Development (TOD), public transport and last mile para-transport connectivity;
- Making governance citizen-friendly and cost effective — increasingly rely on online services to bring about accountability and transparency, especially using mobiles to reduce cost of services and providing services without having to go to municipal offices; form e-groups to listen to people and obtain feedback and use online monitoring of programs and activities with the aid of cyber tour of worksites;
- Giving an identity to the city — based on its main economic activity, such as local cuisine, health, education, arts and craft, culture, sports goods, furniture, hosiery, textile, dairy, etc;
- Applying Smart Solutions to infrastructure and services in area-based development in order to make them better. For example, making Areas less vulnerable to disasters, using fewer resources, and providing cheaper services.
-

13.4 Digital India

Digital India is a campaign launched by the Government of India in order to ensure the Government's services are made available to citizens electronically by improved online infrastructure and by increasing Internet connectivity or making the country digitally empowered in the field of technology. The initiative includes plans to connect rural areas with high-speed internet networks.It consists of three core components: the development of secure and stable digital infrastructure, delivering government services digitally, and universal digital literacy.

Launched on 1 July 2015, by Indian Prime Minister Narendra Modi, it is both enabler and beneficiary of other key Government of India schemes, such as BharatNet, Make in India, Startup India and Standup India, industrial corridors, Bharatmala, Sagarmala

As of 31 December 2018, India had a population of 130 crore people (1.3 billion), 123 crore (1.23 billion) Aadhaar digital biometric identity cards, 121 crore (1.21 billion) mobile phones, 44.6 crore (446 million) smartphones, 56 crore (560 million) internet users up from 481 million people (35% of the country's total population) in December 2017, and 51 per cent growth in e-commerce.

History

Digital India was launched by the Prime Minister of India Narendra Modi on 1 July 2015, with an objective of connecting rural areas with high-speed Internet networks and improving digital literacy. The vision of Digital India programme is inclusive growth in areas of electronic services, products, manufacturing and job opportunities. It is centred on three key areas – digital infrastructure as a utility to every citizen, governance and services on demand, and digital empowerment of citizens.

Objectives of Digital India

The motto of the Digital India Mission is 'Power to Empower'. There are three core components to the Digital India initiative. They are digital infrastructure creation, digital delivery of services, and digital literacy.

The major objectives of this initiative are listed below:

- To provide high-speed internet in all gram panchayats.
- To provide easy access to Common Service Centre (CSC) in all the locality.
- Digital India is an initiative that combines a large number of ideas and thoughts into a single, comprehensive vision so that each of them is seen as part of a larger goal.
- The Digital India Programme also focuses on restructuring many existing schemes that can be implemented in a synchronized manner.

Advantages of Digital India Mission

Digital India Mission is an initiative that encompasses plans to connect the rural areas of the country with high-speed internet networks. On the platform of digital adoption, India ranks amongst the top 2 countries globally and the digital economy of India is likely to cross $1 trillion by the year 2022.

Some of the advantages of Digital India are:

- There is an increase in electronic transactions related to e-governance.
- An optical fiber network of 2, 74,246 km has connected over 1.15 lakh Gram Panchayats under the Bharat Net programme.
- A Common Service Center (CSC) is created under the National e-Governance Project of the Indian government which provides access for information and communication technology (ICT). Through computer and Internet access, the CSCs provide multimedia content related to e-governance, education, health, telemedicine, entertainment, and other government and private services.
- Establishment of digital villages along with well-equipped facilities such as solar lighting, LED assembly unit, sanitary napkin production unit, and Wi-Fi choupal.
- Internet data is used as a major tool for the delivery of the services and the urban internet penetration has reached 64%.

Challenges of Digital India

The government of India has taken an initiative through the Digital India Mission to connect the rural areas of the country with high-speed internet networks. Apart from the various initiatives taken by Digital India, there are several challenges faced by it.

Some of the challenges and drawbacks of Digital Mission are mentioned below:

- The daily internet speed, as well as the Wi-Fi hotspots, are slow as compared to other developed nations.
- Most of the small and medium scale industry has to struggle a lot for adapting to the new modern technology.
- Limited capability of entry-level smartphones for smooth internet access.
- Lack of skilled manpower in the field of digital technology.

- To look for about one million cybersecurity experts to check and monitor the growing menace of digital crime.
- Lack of user education.

Digital India Initiatives

The Government has taken up many initiatives under the Digital India campaign. Discussed below are few such important initiatives:

- DigiLockers – This flagship initiative aims at 'Digital Empowerment' of the citizen by providing access to authentic digital documents to citizen's digital document wallet
- E-Hospitals – It is a Hospital Management Information System (HMIS) which is a one-stop solution in connecting patients, hospitals and doctors through a single digital platform. Till February 2021, as many as 420 e-Hospitals had been established under the Digital India campaign
- E-Pathshala – Developed by NCERT, e-Pathshala showcases and disseminates all educational e-resources including textbooks, audio, video, periodicals and a variety of other print and non-print materials through the website and mobile app
- BHIM – Bharat Interface for Money is an app that makes payment transactions simple, easy and quick using Unified Payments Interface (UPI)

Impact of Digital India Campaign

Since its launch in 2015, the Digital India campaign has left its impact in various fields:

- Around 12000 post office branches in the rural areas have been linked electronically.
- The Make in India initiative has improved the electronic manufacturing sector in India
- Digital India plan could boost GDP up to $1 trillion by 2025
- Healthcare and education sector has also seen a boost
- Improvement in online infrastructure will enhance the economy of the country

13.5 Make in India

Make in India is an initiative by the Government of India to encourage companies to manufacture in India and incentivize dedicated investments into manufacturing. The policy approach was to create a conducive environment for investments, develop a modern and efficient infrastructure, and open up new sectors for foreign capital. The initiative targeted 25 economic sectors for job creation and skill enhancement, and aimed "to transform India into a global design and manufacturing hub."

"Make in India" had three stated objectives:

1. to increase the manufacturing sector's growth rate to 12-14% per annum;
2. to create 100 million additional manufacturing jobs in the economy by 2022;
3. to ensure that the manufacturing sector's contribution to GDP is increased to 25% by 2022 (later revised to 2025).

After the launch, India gave investment commitments worth 16.40 lakh crore (US$230 billion) and investment inquiries worth of 1.5 lakh crore (US$21 billion) between September 2014 to February 2016. As a result, India emerged as the top destination globally in 2015 for foreign direct investment (FDI), surpassing the United States and China, with US$60.1 billion FDI. As per the current policy,

100% Foreign Direct Investment (FDI) is permitted in all 100 sectors, except for Space industry (74%), defence industry (49%) and Media of India (26%). Japan and India had also announced a US$12 billion 'Japan-India Make-in-India Special Finance Facility" fund to push investment.

In line with the Make in India, individual states too launched their own local initiatives, such as 'Make in Odisha,' 'Tamil Nadu Global Investors Meet,' 'Vibrant Gujarat,' 'Happening Haryana' and 'Magnetic Maharashtra.' India received US$60 billion FDI in FY 2016–17.

The World Bank's 2019 Ease of Doing Business report acknowledges India's jump of 23 positions against its rank of 100 in 2017 to be placed now at 63rd rank among 190 countries. By the end of 2017, India had risen 42 places on Ease of doing business index, 32 places World Economic Forum's Global Competitiveness Index, and 19 notches in the Logistics Performance Index, thanks to recent governmental initiatives, which include converges, synergies and enables other important Government of India schemes, such as Bharatmala, Sagarmala, Dedicated Freight Corridors, Industrial corridors, UDAN-RCS, Bharat Broadband Network, Digital India.

Make in India has not yet achieved its goals. The growth rate of manufacturing averaged 6.9% per annum between 2014-15 and 2019-20. The share of manufacturing dropped from 16.3% of GDP in 2014-15 to 15.1% in 2019-20.

Make In India – Focus on 25 Sectors

The Make in India website also has listed the 25 focus sectors and also furnished all relevant details about these sectors, and related government schemes, including the FDI policies, IPR, etc. The main sectors (27 sectors) covered under this campaign are given below:

Manufacturing Sectors:

- Aerospace and Defence
- Automotive and Auto Components
- Pharmaceuticals and Medical Devices
- Bio-Technology
- Capital Goods
- Textile and Apparels
- Chemicals and Petro chemicals
- Electronics System Design and Manufacturing (ESDM)
- Leather & Footwear
- Food Processing
- Gems and Jewellery
- Shipping
- Railways
- Construction
- New and Renewable Energy

Services Sectors:

- Information Technology & Information Technology enabled Services (IT &ITeS)
- Tourism and Hospitality Services
- Medical Value Travel
- Transport and Logistics Services
- Accounting and Finance Services
- Audio Visual Services
- Legal Services
- Communication Services
- Construction and Related Engineering Services
- Environmental Services
- Financial Services
- Education Services

Make in India – Initiatives

For the first time, the sectors of railways, insurance, defense, and medical devices have been opened up for more Foreign Direct Investment (FDI).

The maximum limit in FDI in the defense sector under the automatic route has been raised from 49% to 74%. This increase in FDI was announced by Finance Minister Nirmala Sitaraman on May 16, 2020.

In construction and specified rail infrastructure projects, 100% FDI under the automatic route has been permitted.

There is an Investor Facilitation Cell that assists investors from the time of their arrival in India to their departure from the country. This was created in 2014 for giving services to investors in all phases such as the pre-investment phase, execution, and also after delivery services.

The government has taken steps to improve India's 'Ease of Doing Business' rank. India climbed 23 points in the Ease of Doing Business index to 77th place in 2019, becoming the highest-ranked in South Asia in this index.

The Shram Suvidha Portal, eBiz portal, etc. have been launched. The eBiz portal offers single-window access to eleven government services connected with starting a business in India.

Other permits and licenses required to start a business have also been relaxed. Reforms are being undertaken in areas like property registration, payment of taxes, getting power connection, enforcing contracts, and resolving insolvency.

Other reforms include licensing process, time-bound clearances for applications of foreign investors, automation of processes for registration with the Employees State Insurance Corporation and the Employees Provident Fund Organization, adoption of best practices by states in granting clearances, decreasing the number of documents for exports, and ensuring compliance through peer evaluation, self-certification, etc.

The government hopes to improve physical infrastructure chiefly through the PPP mode of investment. Ports and airports have seen increased investment. Dedicated freight corridors are also being developed.

The government has launched plans to create 5 industrial corridors. They are underway. These corridors are spread across the length and breadth of India, with a strategic focus on inclusive development which will augment industrialization and urbanization in a planned manner. The corridors are:

- Delhi-Mumbai Industrial Corridor (DMIC)
- Amritsar-Kolkata Industrial Corridor (AKIC)
- Bengaluru-Mumbai Economic Corridor (BMEC)
- Chennai-Bengaluru Industrial Corridor (CBIC)
- Vizag-Chennai Industrial Corridor (VCIC)

Make in India – Objectives

There are several targets aimed by the Make in India mission. They are:

- Raise in manufacturing sector growth to 12-14% per year.
- Create 100 million additional jobs in the manufacturing sector by 2022.
- Increase in the manufacturing sector's share in the GDP to 25% by 2022.
- Creating required skill sets among the urban poor and the rural migrants to foster inclusive growth.
- A rise in the domestic value addition and technological depth in the manufacturing sector.
- Having an environmentally-sustainable growth.
- Augmenting the global competitiveness of the Indian manufacturing sector.

Make in India – Advantages

The Make in India campaign has had several positive developments for the country. Below are some more benefits that have been derived from this mission.

- Generating employment opportunities.
- Increasing the GDP by expanding economic growth.
- When FDI inflows become more, the rupee will be strengthened.
- Small manufacturers will get a thrust, particularly when investors from abroad invest in them.
- When countries invest in India, they will also bring with them the latest technologies in various fields.
- Due to the various initiatives taken under the Mission, India has moved up the ranks in the EoDB index.
- Setting up manufacturing centres and factories in rural areas will foster the development of these areas as well.

Make in India – Challenges

Even though the campaign has seen success in some quarters, there have been criticisms as well. There are also many challenges facing the country if she is to achieve the lofty targets set by the establishment. Some of the criticisms are laid out below.

- India has about 60% of cultivable land. The thrust on manufacturing is said to affect agriculture negatively. It can even cause a permanent disruption of arable land.
- It is also believed that the rapid industrialization (even with the thrust on "going green") can lead to a depletion of natural resources.
- A fallout of inviting large-scale FDI is that local farmers and small entrepreneurs may not be able to face the competition from international players.
- The campaign, with all its focus on manufacturing, can cause pollution and environmental side-effects.
- There are serious lacunae in the physical infrastructure facilities in the country. For the campaign to be successful, it is necessary to build up the infrastructure available in the country and also reduce problems like corruption at the lowest levels. Here, India can take lessons from China, which has dramatically improved its share of global manufacturing from 2.6% in the 1990s to 24.9% in 2013. China rapidly developed its physical infrastructure like railways, roadways, power, airports, etc.

13.6 Ayushmann Bharat Scheme

Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (abb. AB PM-JAY, translation: Longeval India Prime Minister's People's Health; also referred to as Ayushman Bharat National Health Protection Scheme abb. NHPS) of the Government of India is a national health insurance scheme of the state that aims to provide free access to healthcare for low income earners in the country (similar to Medicaid in the United States). Roughly, the bottom 50% of the country qualifies for this scheme. People using the program access their own primary care services from a family doctor. When anyone needs additional care, then PM-JAY provides free secondary health care for those needing specialist treatment and tertiary health care for those requiring hospitalization.

The programme is part of the Indian government's National Health Policy and is means-tested. It was launched in September 2018 by the Ministry of Health and Family Welfare. That ministry later established the National Health Authority as an organization to administer the program. It is a centrally sponsored scheme and is jointly funded by both the federal government and the states. By offering services to 50 crore (500 million) people it is the world's largest government sponsored healthcare program. The program is a means-tested as its users are people with low income in India.

Need for Ayushman Bharat

- The 71st round of the National Sample Survey Office (NSSO) revealed many grim numbers about the country's healthcare system.

- About 86% of rural households and 82% of urban households do not have access to healthcare insurance.
- Over 17% of the country's population spend a minimum of 1/10th of their household budgets on availing health services.
- Unexpected and serious healthcare problems often lead families to debt.
- Over 19% and over 24% of the urban and rural households respectively meet their healthcare financial needs through borrowings.
- To address these grave concerns, the government, under the National Health Policy 2017, launched the Ayushman Bharat programme along with its two sub-missions, PMJAY and HWCs.

Pradhan Mantri Jan Arogya Yojana (PM-JAY)

PMJAY is one of India's most ambitious health sector schemes.

- It was launched as the National Health Protection Mission and renamed later.
- It is the largest government-funded health insurance scheme in the world.
- The scheme offers eligible families an insurance cover of Rs. 5 lakh per annum per family.
- This amount is intended to cover all secondary and most tertiary care expenditures incurred.
- There is no cap on family size and age under the scheme, to ensure that nobody is left behind.
- The cover will include pre and post-hospitalization expenses. It will also cover all pre-existing conditions.
- 3 days of pre-hospitalization and 15 days of post-hospitalization like medicines and diagnostics are covered.
- Components of treatment covered under the scheme:
    - Medical examination, consultation, and treatment
    - Medical consumables and medicines
    - Intensive and non-intensive care services
    - Medical implant services
    - Lab and diagnostic investigations
    - Complications arising out of treatment
    - Accommodation benefits and food services
- The beneficiary will also receive a defined transport allowance per hospital.
- The beneficiaries can take cashless treatment from any empaneled hospital anywhere in the country. This includes both public and private hospitals. By default, all government hospitals in the states that are implementing the scheme will be empaneled.

PM-JAY Benefits

PM-JAY is a visionary scheme that aims at the fulfilment of the concept of Universal Health Coverage (UHC). It offers many benefits, which are discussed below.

- It will reduce medical expenditure for many families, which is currently, mostly out-of-the-pocket expense. Eligible families can avail of quality medical services without getting into debt.
- The insurance cover provided by this scheme includes items that are generally excluded from standard medi-claims (for example, pre-existing conditions, internal congenital diseases, and mental health conditions).
- The scheme requires hospitals to maintain a certain minimum standard.
- Insurers and third-party administrators will have access to the large new market that opens up because of the scheme.
- The scheme has the potential to initiate wide reforms in India’s healthcare system.
- After one year of the scheme’s beginning, beneficiary families are said to have saved over Rs.13000 crores.
- Over 60% of the treatments have been done by private hospitals. The private sector has played an active role in this scheme and they have also benefitted from it. In many tier II and III cities, private hospitals have observed increased footfall.
- Economically weaker sections of society can have access to quality healthcare services without financial hardships.
- The scheme has also resulted in the creation of more jobs. In 2018, it generated more than 50000 jobs. This number is expected to increase as the government is planning to build 1.5 lakh HWCs by 2022. (90% of the jobs are in the health sector and the remaining in allied sectors like insurance.)
- The scheme is supported by a robust IT framework. (IT supports beneficiary identification, maintaining treatment records, processes claims, addresses grievances, etc.There is fraud detection, prevention, and control system at both the central and state levels, which is critical for preventing fraud.)

PM-JAY Criticisms

There are certain criticisms and challenges in the implementation of PM-JAY. They are briefly described below.

- There has been a criticism that while the allocation of funds for PM-JAY has increased exponentially, the fund for the National Rural Health Mission (NRHM) has gone up only by 2%. So, the scheme has been eating into the funds for NRHM.
- Under this scheme, the private sector has been given a large role in offering primary health care to the people. This has been protested by many people in various states, as regulation of the private sector is marginal.
- There is a shortfall of healthcare professionals and personnel needed to implement a vast scheme as this.
- There is also a problem of infrastructure as many primary healthcare centres run without even the basic facilities such as electricity, regular water supply, etc.
- The scheme excludes those economically weaker sections that fall under the organized sector and have no access to health insurance.

Keywords

- Smart City: A smart city uses information and communication technology (ICT) to improve operational efficiency, share information with the public and provide a better quality of government service and citizen welfare.
- Digitization: the conversion of text, pictures, or sound into a digital form that can be processed by a computer
- Deity: Department of Electronics and Information Technology
- UHC: Universal Health Coverage
- SDG: Sustainable Development Goals
- PMJAY: Pradhan Mantri Jan Arogya Yojana
- ORS: Online Registration System
- NICDA: National Industrial Corridor Development Authority

Summary

- Sanitation needs to be seen as a life cycle issue and hence providing sanitation facilities at work, education and other public spaces are important.
- This requires investing in the right place at the right time and in the most appropriate manner. Time is running out and the Mahatma's 150th birth anniversary is not far away.
- The SBM should not become yet another government scheme that makes the right noises initially only to die a quiet death once the spotlight moves away.
- SBM is definitely with great goals and objectives, the issues associated with finance, implementation & awareness needs to be tackled in the right manner, every citizen of India should involve themselves and inculcate the behavioural changes to the literates and illiterates towards cleanliness respectively.
- Under the Swachh Bharat Mission, it has been decided to undertake a special clean-up initiative focused on **100 iconic heritage, spiritual and cultural places** in the country.
- This initiative aims to make these 100 places **model 'Swachh Tourist Destinations'**, which will enhance the experience for visitors from India and abroad.
- The national campaign led by the Government of India is covering 4041 statutory towns across India and aims to make the streets, roads and infrastructure clean by October 2, 2019 (Mahatma Gandhi's 150th birth anniversary)
- The mission is estimated to cost around 62,009 crore rupees, of which 14,623 crore rupees will be borne by the Union Government
- The urban component of the mission is being implemented by the Union Ministry of Urban Development and is India's biggest ever cleanliness drive. Around three million government employees and school and college students of India participated in the event in its initial phase. However, the rural component of the mission will be implemented by Union Ministry of Drinking Water and Sanitation
- A Swachh Bharat Run was organised at the RashtrapatiBhavan on October 2, 2014. According to a statement from the RashtrapatiBhavan, around 1500 people participated and the event was flagged off by President Pranab Mukherjee. Participants in the run included officers and their families.
- Indian towns and cities are littered with garbage, the result of massive urban migration, poor civic planning and inadequate waste disposal systems, and rivers and lakes are polluted with sewage and industrial effluents.

- The government has also set up a Swachchh Bharat Kosh, encouraging companies to donate funds from their CSR budget to improve sanitation facilities in the country.
- Make In India Project (MIIP), a brain child of PM Narendra Modi is anticipated to change the future phase of the Indian economy. The project is subject to attract foreign investment and to encourage the local entrepreneurs, in that way that it is marked to develop a brand value throughout the world. But not many of us know about some of the interesting facts behind it and here goes the list, as reported by the Swarajya.
- Currently India ranks 130 among 189 courtiers for 'easy business doing.' Hence to see the substantial rise in the rankings, the Union Government has reduced the possible hassles for trouble-free setting up of business in the country. As a result, reforms have been made to the related policies and thus the mandatory credentials for export and import have been reduced to three, which was ten earlier.
- MIIP has recommended for an effective coordination between the state officials and bureaucrats from the central, in order to setup a hitch free structure that will ease the process of establishing business in the country. Further, the Ease of Regulatory Requirement (ERR) has been established to assess the business friendly environment in the state and encourage the "competitive federalism."
- Business friendly industrial infrastructure plays a major role in forming industrial corridors, apprehending this significant point, under the initiative the government has setup National Industrial Corridor Development Authority (NICDA) to supervise comprehensively on the development of the industrial corridors and industrial clusters.
- Attracting foreign business has not only been the prime agenda behind the project, on the other hand it is cheering the innovation as well. As a consequence the government established an Indian Intellectual Property Rights (IPR). Under which collaboration between foreign and domestic companies, promote partnerships between public and private companies and ensure that business confidentiality and trade secrets are adequately protected.
- MIIP is strongly impacting on the FDI, as a consequence the inflow on manufacturing sector rose substantially by 23 percent in the fiscal year 2014-15. Whereas, it has fallen by 16 percent internationally, this signifies the success ratio of MIIP. Particularly, sectors like electronics, automobiles and telecom are leading in receiving the investments. Additionally, Out of 25 sectors, Defense and News Media are not listed in the 100 percent FDI program.
- In order to provide all the comprehensive information to the investors, 'Investor Facilitation Cells' was setup at the Federation of Indian Chambers of Commerce and Industry. The respective cell serves providing all information across all sectors, follow up information approvals from all departments agencies of government on behalf of the investor and the investing community and fixing appointments of the investors with different departments and agencies of the Government.
- It's been a year for initiating the IIPM and the relative development has awestruck the nation. Comparatively, Spice Group announced the investment of rupees 500 crore in Uttar Pradesh, Samsung declared that it would set up a MSME-Samsung Technical Schools in the country and telecom hardware manufacturing plant in Chennai.
- Digital Locker System aims to minimize the usage of physical documents and enable sharing of e-documents across agencies. The sharing of the e-documents will be done through registered repositories thereby ensuring the authenticity of the documents online, says the government.

- MyGov.in has been implemented as a platform for citizen engagement in governance, through a "Discuss", "Do" and "Disseminate" approach. The mobile app for MyGov would bring these features to us.
- eSign framework would allow citizens to digitally sign a document online using Aadhaar authentication.
- The Online Registration System (ORS) under the eHospital application has been introduced. This application provides important services such as online registration, payment of fees and appointment, online diagnostic reports, enquiring availability of blood online etc, the government claims.
- DeitY has undertaken an initiative namely Digitize India Platform (DIP) for large scale digitization of records in the country that would facilitate efficient delivery of services to the citizens.
- The purpose of the Smart Cities Mission is to drive economic growth and improve the quality of life of people by enabling local area development and harnessing technology, especially technology that leads to Smart outcomes.
- Smart Cities Mission was launched by the Hon' Prime Minister on 25 June, 2015.
- The main objective of the Mission is to promote cities that provide core infrastructure, clean and sustainable environment and give a decent quality of life to their citizens through the application of 'smart solutions'.
- Ayushman Bharat, a flagship scheme of Government of India, was launched as recommended by the National Health Policy 2017, to achieve the vision of Universal Health Coverage (UHC). This initiative has been designed to meet Sustainable Development Goals (SDGs) and its underlining commitment, which is to "leave no one behind."
- To ensure cashless, paperless and portable transactions through the PNJAY scheme, the Ayushman Bharat Yojana Golden Card will be issued to beneficiaries. The PMJAY e-card contains all required information of the patient. It is mandatory to present this card at the time of availing the treatment at the empanelled hospital.
- There has been a criticism that while the allocation of funds for PM-JAY has increased exponentially, the fund for the National Rural Health Mission (NRHM) has gone up only by 2%. So, the scheme has been eating into the funds for NRHM.

Self Assessment

1. Which award is given by the Indian Government to cities and villages for cleanliness?

A. SwachPuraskar

B. SwachhtaPuraskar

C. Clean Region Award

D. NirmalPuraskar

2. ___________ is the campaign started by the government of India for making India a clean and green country.

A. Swachh Bharat Abhiyan

B. Swachhta Abhiyan

C. Total saniatationcampaaign

D. Nirmalata Abhiyan

3. Who is the inspiration behind the concept of SBM?

A. Mahatma Gandhi

B. Jawaharlal Nehru

C. Sardar Patel

D. Morarji Desai

4. India's first open defecation free city is

A. Mysuru

B. Noida

C. Bengaluru

D. Pune

5. Which city tops list of 27 new smart cities announced by Ministry of Urban Development?

A. Amritsar

B. Ajmer

C. Madurai

D. Varanasi

6. The centre announced the names of cities & towns to be developed as smart cities on 27th Aug’15. Which state gets the maximum number of aspirant smart cities?

A. Maharashtra

B. Tamil Nadu

C. Uttar Pradesh

D. Madhya Pradesh

7. What is the key to making smart city programme successful in India?

A. Extensive research into the country's and the region's economic political and social situation

B. opening up the economy for more FDI to flow in

C. Taking external assistance from international financial institutions

D. All of the above

8. MeitY, GoI has constituted a committee of experts under the chairmanship of _________ for data protection.

A. Justice BN Srikrishna

B. Arvind Panagriya

C. Justice Bobde

D. Justice CP Thakur

9. Digital signature service has been launched on Aadhaar platform. What is it called?

A. DigiSign Desk

B. eSign Desk

C. OnlineSign Desk

D. None of the above

10. Which digital India initiative has been launched by National Handloom Development Corporation Ltd?

A. ERP

B. SRP

C. CRP

D. DRP

11. When was Make in India programme launched?

A. September 25, 2014

B. October 2, 2015

C. October 11, 2016

D. July 15, 2015

12. Which of the following sector is not covered in the Make in India programme?

A. Automobiles

B. Biotechnology

C. Media and entertainment

D. Education

13. Make in India programme was launched to improve the ......sector of the Indian economy.

A. Agriculture sector

B. Manufacturing sector

C. Service sector

D. None of the above

14. India's largest National Health Protection Scheme has been implemented under the name________

A. Ayushman Bharat

B. Aadarsh Bharat

C. Samman Bharat

D. Nirman Bharat

15. When was the Ayushman Bharat scheme launched?

A. March 8, 2018

B. April 14, 2018

C. September 25, 2018

D. April 30, 2018

16. The Ayushman Bharat aims to target about ____________ crore beneficiaries under the scheme?

A. 10.47 crore

B. 10.56 crore

C. 10.65 crore

D. 10.74 crore

Answers for Self Assessment

1. D	2. A	3. A	4. A	5. A
6. C	7. D	8. A	9. B	10. A
11. A	12. D	13. B	14. A	15. C
16. D				

Review Questions

1. What do you understand by the term Swachh Bharat Abhiyan?
2. What is Swachh Bharat Abhiyan?
3. What are the different campaigns under Swachh Bharat Abhiyan?
4. What are the different components of Swachh Bharat Abhiyan?
5. What are the different objectives of Swachh Bharat Abhiyan?
6. Enumerate some key facts of Swachh Bharat Abhiyan?
7. Describe some incentives given under Swachh Bharat Abhiyan?
8. What is a smart city?
9. What is the need for the development of Smart Cities?
10. What is Smart Cities Mission?
11. Describe the different stages of Smart Cities Mission planning?
12. Enumerate various challenges of Smart Cities Mission?
13. What is the coverage and duration of Smart Cities Mission?
14. Describe the Make in India logo?
15. What are the major sectors on which Make in India focusses?
16. Why is Make in India important?
17. Enumerate different initiatives under Make in India?
18. Describe various schemes launched to support Make in India programme?
19. What are the different objectives of Make in India?
20. Explain the present status of progress of Make in India?

Further Readings

Bedi Suresh, Business Environment, Excel Books, 2006

Mittal Vivek, Business Environment, Excel Books, 2007

Starling, Grower, The Changing Environment of Business, Cincinnati, OH, South- Western College Publishing, 1996

https://smartcities.gov.in/

https://en.wikipedia.org/wiki/Smart_Cities_Mission

http://mohua.gov.in/cms/smart-cities.php

https://www.computerweekly.com/opinion/Smart-cities-face-challenges-and-opportunities

https://www.digitalindia.gov.in/services

https://www.bisinfotech.com/digital-india-programme-and-its-impact/

https://www.makeinindia.com/sectors

https://en.wikipedia.org/wiki/Make_in_India

https://pmjay.gov.in/about/nha

https://pmjay.gov.in/about/pmjay

https://en.wikipedia.org/wiki/Ayushman_Bharat_Yojana

https://pmjay.gov.in/vision-mission

https://pmjay.gov.in/ndhm

https://www.insightsonindia.com/2020/02/20/swachh-bharat-mission/

Unit 14: Contemporary Issues

CONTENTS

Objectives

Introduction

14.1 Land Acquisition Act

14.2 Food Security Act

14.3 Cryptocurrency

14.4 NPA Crisis

14.5 Carbon Footprints

14.6 Recent Challenges in Corporate Governance

Keywords

Summary

Self Assessment

Answers for Self Assessment

Review Questions

Further Readings

Objectives

After this lecture, you will be able to

- understand the meaning of land acquisition.
- gain an insight into the key problems with the Land Acquisition Act, 1984.
- identify the provisions, benefits and effects of Land Acquisition, Rehabilitation and Resettlement Act, 2013.
- gain an insight into the concept, provisions and implementation of National Food Security Act, 2013.
- Identify the salient features, intent, scope and key issues of NFSA.
- gain an insight into the concept, meaning of cryptocurrency,
- analyze the history, definition of cryptocurrency,
- understand the advantages and disadvantages, types of cryptocurrency.
- gain an insight into the meaning and definition of NPA.
- know the different types of assets.
- identify the possible reasons, impact for NPA crisis in India.
- analyse the various initiatives and resolutions to tacke the NPA crisis.
- gain an insight into the concept, definition and origin of carbon footprint.
- know the average annual carbon footprint.
- understand the process of measuring carbon footprints.
- analyse the ways to reduce carbon footprint by an individual.
- gain an insight into the concept of corporate governance
- know 4Ps and basic principles of corporate governance
- understand the corporate governance framework in India

- analyse the positive impact and present scenario of corporate governance
- know the different issues affecting corporate governance practices in India and ways to overcome the same.

Introduction

Businesses large and small almost instinctively understand the value and importance of planning. If you're not adequately prepared for the holiday rush or stocked up with next season's hot-selling items, your business can suffer. Beyond just stocking the shelves, however, there are many contemporary issues in business management that your company needs to keep on top of.

We're a nation of laws — lots and lots of laws. In addition to new legislation emerging from Congress, states enact their own laws, and many cities and counties do as well, creating an ever-changing milieu for businesses to respond to.

Consider the shifting legal grounds that business people have needed to respond to in the past few years:

- Must my business include contraceptives in employee health insurance?
- Can we still use plastic straws and bags, or have these items been banned?
- Is state or local minimum requirements wage higher than the federal minimum?
- What new environmental regulations are we responsible for?

The list can go on and on. If your business belongs to a trade association, these can be invaluable sources of information to help with planning for any new responsibilities that are emerging. Your local Chamber of Commerce may also provide useful assistance. Some states operate regulatory assistance hotlines or ombudsman offices that also help in this regard.

14.1 Land Acquisition Act

What is Land Acquisition?

- Land acquisition is the process by which the government acquires private property for public purpose.
- Till 2013, land acquisition in India was governed by Land Acquisition Act of 1894.

The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (also Land Acquisition Act, 2013) is an Act of Indian Parliament that regulates land acquisition and lays down the procedure and rules for granting compensation, rehabilitation and resettlement to the affected persons in India. The Act has provisions to provide fair compensation to those whose land is taken away, brings transparency to the process of acquisition of land to set up factories or buildings, infrastructural projects and assures rehabilitation of those affected. The Act establishes regulations for land acquisition as a part of India's massive industrialisation drive driven by public-private partnership. The Act replaced the Land Acquisition Act, 1894, a nearly 120-year-old law enacted during British rule.

The Land Acquisition, Rehabilitation and Resettlement Bill, 2011 was introduced in Lok Sabha on 7 September 2011. The bill was then passed by it on 29 August 2013 and by Rajya Sabha on 4 September 2013. The bill then received the assent of the President of India, Pranab Mukherjee on 27 September 2013. The Act came into force from 1 January 2014.

An amendment bill was then introduced in Parliament to endorse the Ordinance. Lok Sabha passed the bill but the same is still lying for passage by the Rajya Sabha. On 30 May 2015, President of India promulgated the amendment ordinance for third time.

History

The Land Acquisition Act, 1894 was a law passed by the Imperial Legislative Council,that governed the process of land acquisition in India until 2013 and continues to do so in Pakistan and Myanmar.It allows the acquisition of land for some public purpose by a government agency from individual landowners after paying a government-determined compensation to cover losses incurred by landowners from surrendering their land to the agency. In India, a new Act, The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013, replaced this law.

Need

The Government of India believed there was a heightened public concern on land acquisition issues in India. Of particular concern was that despite many amendments, over the years, to India's Land Acquisition Act of 1894, there was an absence of a cohesive national law that addressed fair compensation when private land is acquired for public use, and fair rehabilitation of land owners and those directly affected from loss of livelihoods. The Government of India believed that a combined law was necessary, one that legally requires rehabilitation and resettlement necessarily and simultaneously follow government acquisition of land for public purposes.

Forty-Fourth Amendment Act of 1978 omitted Art 19(1) (f) with the net result being: -

- The right not to be deprived of one's property save by authority of law has since been no longer a fundamental right. "No person shall be deprived of his property saved by authority of law" (Constitution 44th Amendment, w.e.f. 10.6.1979). The amendment ensured that the right to property" is no more a fundamental right but rather a constitutional/legal right/as a statutory right and in the event of breach, the remedy available to an aggrieved person is through the High Court under Article 226 of the Indian Constitution and not the Supreme Court under Article 32 of the Constitution. .
- Moreover, no one can challenge the reasonableness of the restriction imposed by any law the legislature made to deprive the person of his property.

State must pay compensation at the market value for such land, building or structure acquired (Inserted by Constitution, Seventeenth Amendment Act, 1964), the same can be found in the earlier rulings when property right was a fundamental right (such as 1954 AIR 170, 1954 SCR 558, which propounded that the word "Compensation" deployed in Article 31(2) implied full compensation, that is the market value of the property at the time of the acquisition. The Legislature must "ensure that what is determined as payable must be compensation, that is, a just equivalent of what the owner has been deprived of"). Elsewhere, Justice, Reddy, O Chinnappa ruled (State of Maharashtra v. Chandrabhan Tale on 7 July 1983) that the fundamental right to property has been abolished because of its incompatibility with the goals of "justice" social, economic and political and "equality of status and of opportunity" and with the establishment of "a socialist democratic republic, as contemplated by the Constitution. There is no reason why a new concept of property should be introduced in the place of the old so as to bring in its wake the vestiges of the doctrine of Laissez Faire and create, in the name of efficiency, a new oligarchy. Efficiency has many facets and one is yet to discover an infallible test of efficiency to suit the widely differing needs of a developing society such as ours" (1983 AIR 803, 1983 SCR (3) 327) (Dey Biswas 2014, 14-15 footnote).

The Land Acquisition, Rehabilitation and Resettlement Bill, 2011 was introduced in Lok Sabha. Two Bills on similar lines were introduced in Lok Sabha in 2007. These Bills lapsed with the dissolution of the 14th Lok Sabha.

14.2 Food Security Act

The National Food Security Act 2013 (also 'Right to Food Act') is an Act of the Parliament which aims to provide subsidized food grains to approximately two thirds of India's 1.2 billion people. It was signed into law on 12 September 2013, retroactive to 5 July 2013.

The National Food Security Act, 2013 (NFSA 2013) converts into legal entitlements for existing food security programmes of the Government of India. It includes the Midday Meal Scheme, Integrated Child Development Services scheme and the Public Distribution System. Further, the NFSA 2013 recognizes maternity entitlements. The Midday Meal Scheme and the Integrated Child Development Services Scheme are universal in nature whereas the PDS will reach about two-thirds of the population (75% in rural areas and 50% in urban areas).

Under the provisions of the bill, beneficiaries of the Public Distribution System (or, PDS) are entitled to 5 kilograms (11 lb) per person per month of cereals at the following prices:

- Rice at INR 3 per kg
- Wheat at INR 2 per kg
- Coarse grains (millet) at INR 1 per kg.

Pregnant women, lactating mothers, and certain categories of children are eligible for daily free cereals.

The bill has been highly controversial. It was introduced into India's parliament on 22 December 2011, promulgated as a presidential ordinance on 5 July 2013, and enacted into law on 12 September 2013.

Odisha government implemented food security bill in 14 districts from 17 November 2015.

Assam government implemented Act on 24 December 2015. Total 67% (rural 75% and urban 50%).

Salient Features

- Coverage and entitlement under Targeted Public Distribution System (TPDS): Up to 79.56% of the rural population and 64.43% of the urban population will be covered under TPDS, with uniform entitlement of 5 kg per person per month. However, since Antyodaya Anna Yojana (AAY) households constitute poorest of the poor, and are presently entitled to 35 kg per household per month, entitlement of existing AAY households will be protected at 35 kg per household per month. State-wise coverage: Corresponding to the all India coverage of 75% and 50% in the rural and urban areas, State-wise coverage will be determined by the Central Government. Planning Commission has determined the State-wise coverage by using the NSS Household Consumption Survey data for 2011-12.
- Subsidized prices under TPDS and their revision: Food grains under TPDS will be made available at subsidized prices of Rs. 3/2/1 per kg for rice, wheat and coarse grains for a period of three years from the date of commencement of the Act. Thereafter prices will be suitably linked to Minimum Support Price (MSP). In case, any State's allocation under the Act is lower than their current allocation, it will be protected up to the level of average offtake under normal TPDS during last three years, at prices to be determined by the Central Government. Existing prices for APL households i.e. Rs. 6.10 per kg for wheat and Rs 8.30 per kg for rice has been determined as issue prices for the additional allocation to protect the average offtake during last three years.
- Identification of Households: Within the coverage under TPDS determined for each State, the work of identification of eligible households is to be done by States/UTs.
- Nutritional Support to women and children: Pregnant women and lactating mothers and children in the age group of 6 months to 14 years will be entitled to meals as per prescribed nutritional norms under Integrated Child Development Services (ICDS) and Mid-Day Meal (MDM) schemes. Higher nutritional norms have been prescribed for malnourished children up to 6 years of age.
- Maternity Benefit: Pregnant women and lactating mothers will also be entitled to receive maternity benefit of not less than Rs.6,000.
- Women Empowerment: Eldest woman of the household of age 18 years or above to be the head of the household for the purpose of issuing of ration cards.
- Grievance Redressal Mechanism: Grievance redressal mechanism at the District and State levels. States will have the flexibility to use the existing machinery or set up separate mechanism.
- Cost of intra-State transportation & handling of food grains and FPS Dealers' margin: Central Government will provide assistance to States in meeting the expenditure incurred by them on transportation of food grains within the State, its handling and FPS dealers' margin as per norms to be devised for this purpose.
- Transparency and Accountability: Provisions have been made for disclosure of records relating to PDS, social audits and setting up of Vigilance Committees in order to ensure transparency and accountability.
- Food Security Allowance: Provision for food security allowance to entitled beneficiaries in case of non-supply of entitled food grains or meals.
- Penalty: Provision for penalty on public servant or authority, to be imposed by the State Food Commission, in case of failure to comply with the relief recommended by the District Grievance Redressal Officer.

14.3 Cryptocurrency

A cryptocurrency, crypto-currency, or crypto is a digital asset designed to work as a medium of exchange wherein individual coin ownership records are stored in a ledger existing in a form of a computerized database using strong cryptography to secure transaction records, to control the creation of additional coins, and to verify the transfer of coin ownership.It typically does not exist in physical form (like paper money) and is typically not issued by a central authority. Cryptocurrencies typically use decentralized control as opposed to centralized digital currency and central banking systems. When a cryptocurrency is minted or created prior to issuance or issued by a single issuer, it is generally considered centralized. When implemented with decentralized control, each cryptocurrency works through distributed ledger technology, typically a blockchain, that serves as a public financial transaction database.

Bitcoin, first released as open-source software in 2009, is the first decentralized cryptocurrency. Since the release of bitcoin, other cryptocurrencies have been created.

History

In 1983, the American cryptographer David Chaum conceived an anonymous cryptographic electronic money called ecash. Later, in 1995, he implemented it through Digicash, an early form of cryptographic electronic payments which required user software in order to withdraw notes from a bank and designate specific encrypted keys before it can be sent to a recipient. This allowed the digital currency to be untraceable by the issuing bank, the government, or any third party.

In 1996, the National Security Agency published a paper entitled How to Make a Mint: the Cryptography of Anonymous Electronic Cash, describing a Cryptocurrency system, first publishing it in an MIT mailing list and later in 1997, in The American Law Review (Vol. 46, Issue 4).

In 1998, Wei Dai published a description of "b-money", characterized as an anonymous, distributed electronic cash system. Shortly thereafter, Nick Szabo described bit gold. Like bitcoin and other cryptocurrencies that would follow it, bit gold (not to be confused with the later gold-based exchange, BitGold) was described as an electronic currency system which required users to complete a proof of work function with solutions being cryptographically put together and published.

In 2009, the first decentralized cryptocurrency, bitcoin, was created by presumably pseudonymous developer Satoshi Nakamoto. It used SHA-256, a cryptographic hash function, in its proof-of-work scheme. In April 2011, Namecoin was created as an attempt at forming a decentralized DNS, which would make internet censorship very difficult. Soon after, in October 2011, Litecoin was released. It used scrypt as its hash function instead of SHA-256. Another notable cryptocurrency, Peercoin used a proof-of-work/proof-of-stake hybrid.

On 6 August 2014, the UK announced its Treasury had been commissioned a study of cryptocurrencies, and what role, if any, they could play in the UK economy. The study was also to report on whether regulation should be considered.

In June 2021, El Salvador became the first country to accept Bitcoin as legal tender, after the Legislative Assembly had voted 62–22 to pass a bill submitted by President NayibBukele classifying the cryptocurrency as such.

Formal Definition

According to Jan Lansky, a cryptocurrency is a system that meets six conditions:

- The system does not require a central authority; its state is maintained through distributed consensus.
- The system keeps an overview of cryptocurrency units and their ownership.
- The system defines whether new cryptocurrency units can be created. If new cryptocurrency units can be created, the system defines the circumstances of their origin and how to determine the ownership of these new units.
- Ownership of cryptocurrency units can be proved exclusively cryptographically.
- The system allows transactions to be performed in which ownership of the cryptographic units is changed. A transaction statement can only be issued by an entity proving the current ownership of these units.
- If two different instructions for changing the ownership of the same cryptographic units are simultaneously entered, the system performs at most one of them.

In March 2018, the word cryptocurrency was added to the Merriam-Webster Dictionary.

14.4 NPA Crisis

When a bank offers a loan, it charges interest on the amount, which is why it is regarded as an asset to the bank. When the borrower stops paying the interest, or the principal, or both, the lender loses money. Such a loan then becomes a non-performing asset (NPA) for the bank. The banking industry in India is seriously affected by the NPA crisis with the rising number of defaulters.

As per the Reserve Bank of India (RBI), a loan is considered a “bad loan”, or an NPA when the interest due for any quarter is not fully paid within 90 days from the end of the quarter. However, this time period may vary based on the terms and conditions agreed upon by the bank and the borrower.

A commonly accepted definition of NPA is: "*An asset, including a leased asset, becomes nonperforming when it ceases to generate income for the bank.*"

Possible Reasons for Rising NPA Crisis in India

1. **Credit Boom**: The problem of rising NPA was magnified during the credit boom of 2003-04. During this time, the world economy, as well as the Indian economy, was booming; and hence, multiple Indian firms borrowed a lot to avail of the growth opportunities.
2. **Tightened Monetary Policy: The** RBI followed a tightened monetary policy at that time, increasing the repo rate and reserve repo rate. However, even after that, there was credit expansion that led to a rising NPA ratio.
3. **Stalled Judicial & Legislative Procedures:** The judgments given by courts at the time were not in favor of businesses; and had an adverse impact, especially on the mining, power, and steel sectors. Moreover, businesses faced problems in acquiring land, which led to many projects getting stalled.

The combination of the above factors, along with regulatory control, made it difficult for companies to repay the loans. Some of the other factors that made the NPA crisis even worse are:

1. Severe competition in specific market segments
2. Natural reasons, like flood, drought, earthquake, etc.
3. Misgovernance and policy paralysis that affected the timeline, thereby, increasing the project cost (for example, in the infrastructure sector)
4. Maladministration by corporates
5. Slowdown in specific industry segments

Initiatives to Tackle the NPA Crisis in India

Although it has risen disproportionately in contemporary times, NPA is not a new problem. Over the years, there have been several reform measures undertaken by the government at various levels to bring it down. Some of the important ones are:

1. Debts Recovery Tribunal (Procedure) Rules - 1993
2. The Credit Information Bureau (India) Ltd - 2000
3. Lok Adalats -2001
4. Compromise Settlement - 2001
5. SARFAESI Act – 2002
6. Asset Reconstruction Companies (ARC)
7. Corporate Debt Restructuring - 2005
8. Joint Lenders' Forum - 2014
9. Mission Indradhanush - 2015
10. Strategic Debt Restructuring - 2015
11. Asset Quality Review - 2015
12. Sustainable Structuring of Stressed Assets - 2016
13. Insolvency and Bankruptcy Code - 2016
14. Public ARC Vs Private ARC - 2017

14.5 Carbon Footprints

A carbon footprint is the total greenhouse gas (GHG) emissions caused by an individual, event, organization, service, place or product, expressed as carbon dioxide equivalent. Greenhouse gases, including the carbon-containing gases carbon dioxide and methane, can be emitted through the burning of fossil fuels, land clearance and the production and consumption of food, manufactured goods, materials, wood, roads, buildings, transportation and other services. The term was popularized by a $250 million advertising campaign by the oil and gas company BP in an attempt to move public attention away from restricting the activities of fossil fuel companies and onto individual responsibility for solving climate change.

In most cases, the total carbon footprint cannot be calculated exactly because of inadequate knowledge of and data about the complex interactions between contributing processes, including the influence of natural processes that store or release carbon dioxide. For this reason, Wright, Kemp, and Williams proposed the following definition of a carbon footprint:

A measure of the total amount of carbon dioxide (CO2) and methane (CH4) emissions of a defined population, system or activity, considering all relevant sources, sinks and storage within the spatial and temporal boundary of the population, system or activity of interest. Calculated as carbon dioxide equivalent using the relevant 100-year global warming potential (GWP100).

The global average annual carbon footprint per person in 2014 was about 5 tonnes CO2eq.

Definition of Carbon Footprint: Wright, Kemp, and Williams

- A measure of the total amount of carbon dioxide (CO_2) and methane (CH_4) emissions of a defined population, system or activity, considering all relevant sources, sinks and storage within the spatial and temporal boundary of the population, system or activity of interest.
- Calculated as carbon dioxide equivalent using the relevant 100-year global warming potential (GWP100).

Average Annual Carbon Footprint

- The global average annual carbon footprint per person in 2014 was about 5 tonnes.
- India is the third-largest emitter of greenhouse gases and accounts for 2.46 billion metric tonnes of carbon or 6.8% of the total global emissions.
- The average carbon footprint of every person in India was estimated at 0.56 tonne per year– with 0.19 tonne per capita among the poor and 1.32 tonne among the rich (January 2021).

Measuring carbon footprints

- An individual's, nation's, or organization's carbon footprint can be measured by undertaking a GHG emissions assessment, a life cycle assessment, or other calculative activities denoted as carbon accounting.
- Once the size of a carbon footprint is known, a strategy can be devised to reduce it, for example, by technological developments, energy efficiency improvements, better process and product management, changed Green Public or Private Procurement (GPP), carbon capture, consumption strategies, carbon offsetting and others.
- For calculating personal carbon footprints, several free online carbon footprint calculators exist including a few supported by publicly available peer-reviewed data and calculations including the University of California, Berkeley's CoolClimate Network research consortium and CarbonStory.
- These websites ask you to answer more or less detailed questions about your diet, transportation choices, home size, shopping and recreational activities, usage of electricity, heating, and heavy appliances such as dryers and refrigerators, and so on.
- The website then estimates your carbon footprint based on your answers to these questions.
- A systematic literature review was conducted to objectively determine the best way to calculate individual/household carbon footprints.

Calculating Your Carbon Footprint

You will need to know the following:

- ✓ Approximately how many miles you travel by car, bus, train and plane.
- ✓ The energy usage in your home.
- ✓ How much you spend shopping.
- ✓ The composition of your diet.

14.6 Recent Challenges in Corporate Governance

Understanding Corporate Governance

- Governance refers specifically to the set of rules, controls, policies, and resolutions put in place to dictate behavior.
- A company’s corporate governance is important to investors since it shows a company's direction and business integrity.

- Good corporate governance helps companies build trust with investors and the community.
- As a result, corporate governance helps promote financial viability by creating a long-term investment opportunity for market participants.

What Is Corporate Governance?

- Corporate governance is the system of rules, practices, and processes by which a firm is directed and controlled.
- Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community.
- Corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

The Four Ps of Corporate Governance

Corporate governance is a complex beast. Even those of us who have built their careers in fields where governance is a necessity might not fully understand everything it encompasses.

That's why many governance experts break it down into four simple words: **People**, **Purpose**, **Process**,and **Performance**.

These are the Four Ps of Corporate Governance, the guiding philosophies behind why governance exists and how it operates. Let's have a look at exactly what each of the Ps means.

People

People come first in the Four Ps because people exist on every side of the business equation. They are the founders, the board, the stakeholder and consumer and impartial observer.

People are the organisers who determine a purpose to work towards, develop a consistent process to achieve it, evaluate their performance outcomes, and use those outcomes to grow themselves and others as people.

It's cyclical, yes, but it has to start with people.

Purpose

Purpose is the next step. Every piece of governance exists *for* a purpose and to *achieve* a purpose. The 'for' is the guiding principles of the organisation. Their mission statement. Every one of their policies and projects should exist to further this agenda.

The 'achieve' is the small step on the road to completing that large goal. It might seem pointless to type up minutes for a meeting that felt irrelevant, but those minutes and all the other governance from that meeting contribute to making the business effective at achieving it's stated purpose.

Process

Governance is the process by which people achieve their company's purpose, and that process is developed by analysing performance. Processes are refined over time in order to consistently achieve their purpose, and it's always smart to take a critical eye to your governance processes.

Can they be streamlined? Are they efficiently achieving their purpose? It takes work to make your processes function, but once they do you will quickly see how they can help your company grow.

Performance

Performance analysis is a key skill in any industry. The ability to look at the results of a process and determine whether it was successful (or successful *enough*), and then apply those findings to the rest of your organisation, is one of the primary functions of the governance process.

Using these results to develop personal skills, both your own and your coworkers', is how the Four Ps cycle revolves endlessly. So take a critical eye to your governance: is it performing?

Corporate governance framework in India

There are many acts with provisions relating to corporate governance in India. These provisions are set in accordance with the international standards.

- **The Companies Act, 2013** – it has provisions regarding the constituency of the board, general meetings, audit committees, board processes etc.
- **SEBI (Securities Exchange Board of India)** – there are many guidelines regarding the corporate governance which are mandatory for the companies to follow and violation of any guidelines attracts penalties.
- **ICAI (Institute of Chartered Accountants of India)** – there are various accounting standards related to corporate governance such as disclosure of financial statements set by ICAI.
- **ICSI (Institute of Company Secretaries of India**) – there are various secretarial standards on meeting of the board of directors, general meetings etc. set by ICSI which have to be followed by the companies.
- **Standard listing agreement of stock** – this is regarded as the most important framework for corporate governance which is applicable to the listed companies.

Positive Impacts of Corporate Governance in Companies

- Ensures that the management of a company considers the best interests of everyone;
- Helps companies deliver long-term corporate success and economic growth;
- Maintains the confidence of investors and as consequence companies raise capital efficiently and effectively;
- Has a positive impact on the price of shares as it improves the trust in the market;
- Improves control over management and information systems (such as security or risk management)
- Gives guidance to the owners and managers about what are the goals strategy of the company;
- Minimizes wastages, corruption, risks, and mismanagement;
- Helps to create a strong brand reputation;
- Most importantly – it makes companies more resilient.

Types of bad governance practices include:

- Companies that do not cooperate sufficiently with auditors or do not select auditors with the appropriate scale, resulting in the publication of spurious or noncompliant financial documents
- Bad executive compensation packages that fail to create an optimal incentive for corporate officers
- Poorly structured boards that make it too difficult for shareholders to oust ineffective incumbents

Issues affecting corporate governance practices in India

Getting the Board Right

- Enough has been said on board and its role as the cornerstone for good corporate governance.
- To this end, the law requires a healthy mix of executive and non-executive directors and appointment of at least one woman director for diversity.

Performance Evaluation of Directors

- Although performance evaluation of directors has been part of the existing legal framework in India, it caught the regulator's attention recently.
- In January 2017, SEBI, India's capital markets regulator, released a 'Guidance Note on Board Evaluation'.
- This note elaborated on different aspects of performance evaluation by laying down the means to identify objectives, different criteria and method of evaluation.

Duties of Directors

- The corporate governance reports have aimed to build on the directors' duties as defined in statutory and case law duties of directors.
- These include the fiduciary duties to act in the best interests of the company, use their powers for a purpose, avoid conflicts of interest and exercise a duty of care.

Executive Compensation

- Executive compensation is a contentious issue especially when subject to shareholder accountability.
- Companies have to offer competitive compensation to attract talent.

Privacy and Data Protection

- As a key aspect of risk management, privacy and data protection is an important governance issue.
- In this era of digitalisation, a sound understanding of the fundamentals of cyber security must be expected from every director.

Conflicts Of Interest

- Avoiding conflicts of interest is vital.
- A conflict of interest within the framework of corporate governance occurs when an officer or other controlling member of a corporation has other financial interests that directly conflict with the objectives of the corporation.

Oversight Issues

- Effective corporate governance requires the board of directors to have substantial oversight of the company's procedures and practices, daily operations of the company and the way in which its objectives are being achieved.

Accountability Issues

- Accountability is necessary for effective corporate governance.
- From the top-level executives to lower-tier employees, each level and division of the corporation should report and be accountable to another as a system of checks and balances.

Transparency

- To be transparent, a corporation must accurately report their profits and losses and make those figures available to those who invest in their company.
- Overinflating profits or minimizing losses can seriously damage the company's relationship with stockholders in that they are enticed to invest under false pretenses.

Ethics Violations

- Members of the executive board have an ethical duty to make decisions based on the best interests of the stockholders.
- Further, a corporation has an ethical duty to protect the social welfare of others, including the greater community in which they operate.

Remuneration and Reward of Directors

- Directors being paid excessive bonuses and salaries have been identified as significant corporate abuses for a large number of years.

Board's Responsibility for Risk Management & Internal Control

- If the board does not arrange the regular meetings in order to consider the organizational activities systematically, it shows that the board is not meeting their responsibilities.
- It is a poor system and they fail to measure the risks associated with business.

Overcoming these challenges

Investment in Compliance cost

- In the initial stages, the compliance cost might seem huge but it will prove to be a huge investment in the long run.
- Simplifying the unambiguous regulations might promote the smooth functioning of the company and also encourage corporate governance as the compliance cost will reduce.

Changing regulations with time

- In this time of rapid growth where the technology changes day by day it is important to upgrade the regulations of corporate governance in accordance with the changing industrial and economic climate of the country.
- Adhering to the old provisions might cause repercussions in the company.

Regulations for unlisted companies

- The unlisted companies should also be brought under the purview of corporate governance for healthy competition and better competition goals.
- Standard and incentives are required for the mid-sized new entrants of the capital market.

Competence of independent directors

- Directors should have integrity and independence of thought; the courage to express their independent thoughts.
- They should possess a grasp of the realities of business operations and an understanding of business and financial language.
- The skill set of the independent directors has to match to the company in order to have an effective corporate governance.

Strictness in regulators vigilance

- The role of regulatory bodies should not just be reactive but proactive too.
- They shouldn't just react after the scam but also supervise and regulate the functions of the company to deviate risks which could be avoided.
- Precautionary measures have to be taken in order to avoid violation of any guidelines established by the regulatory bodies.

Stringent rules for transparency

- Transparency is a huge part of corporate governance but there isn't any clear regulation as to what should be disclosed and what shouldn't be.
- Providing clear rules on transparency will make compliance of corporate governance easier and effective.
- Strengthening the disclosure strategy can prove to be the stepping stone to effective corporate governance in India.

Keywords

- Land acquisition:Land acquisition is the power of the union or a state government in India to acquire private land for the purpose of industrialisation, development of infrastructural facilities or urbanisation of the private land, and to compensate the affected land owners for their rehabilitation and resettlement.

- Food security:Food security is a measure of the availability of food and individuals' ability to access it.
- Cryptocurrency: A cryptocurrency is a digital or virtual currency that is secured by cryptography, which makes it nearly impossible to counterfeit or double-spend.
- Bitcoin:Bitcoin is a decentralized digital currency, without a central bank or single administrator, that can be sent from user to user on the peer-to-peer bitcoin network without the need for intermediaries.
- NPA: Non-Performing Asset
- Non-Performing Asset: A non-performing asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days.
- Carbon footprint:The amount of carbon dioxide released into the atmosphere as a result of the activities of a particular individual, organisation or community
- GHG: Green House Gases
- Corporate Governance: Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed.

Summary

- Society and culture primarily govern the lifestyle of an individual.
- Poverty is one of the main issues, attracting the attention of sociologists and economists. It indicates a condition in which a person fails to maintain a living standard adequate for a comfortable lifestyle.
- Out of India's total population of more than 1 billion, 350 to 400 million people are living below the poverty line. Nearly 75% of the poor people are in rural areas, most of them are daily wagers, landless laborers and self employed house holders.
- The phenomenal increase in the city populations is the main reason for poverty in the urban areas of India. A major portion of this additional population is due to the migration of the rural families from villages to cities.
- India as a nation is facing a massive problem of unemployment. Unemployment can be defined as a state of no work for a man fit and willing to work. It is a condition of involuntary and not voluntary idleness.
- The problem of unemployment has becoming a colossal. Various problems have caused this problem. There are individual factors like age, vocational unfitness and physical disabilities which restrict the people.
- The remedial measures for reducing unemployment may lay greater emphasis on creation of opportunities for self -employment, augmentation of productivity and income levels.
- Human development is a multifaceted and complex process. There are many dimensions along which development occurs and there are complex interdependencies and linkages between these dimensions.
- Corporate governance has in recent years succeeded in attracting a good deal of public interest because of its apparent importance for the economic health of corporations and society in general.
- Good corporate governance is good business because it inspires investors confidence, which is essential in attracting capital. In India corporate governance is not a new concept.
- The socio-economic obligation of business refers to its responsibility in preventing to prevent economic consequences of business from adversely affecting public welfare.

- The primary responsibility of business is to increase shareholders' wealth, to give good returns on investment, to give dividends at the proper time, to protect the interests of even small shareholders, to listen to and respect shareholders, to regularly invite shareholders to participate in decision-making.
- Industrialisation is doing much irreparable harm to the environment. It is therefore an obligation on them to not only morally, but also legally undo the damage by taking serious and responsible steps to protect the environment and to keep it healthy condition.

Self Assessment

1. Till 2013, land acquisition in India was governed by Land Acquisition Act of
A. 1893
B. 1894
C. 1895
D. 1896

2. Which of the following is NOT a key problem of Land Acquisition Act, 1894?
A. No safeguards
B. Low rates of compensation
C. Litigation
D. None of the above

3. Fishing rights is an important provision of new law.
A. True
B. False

4. Who released a special stamp entitled 'Wheat Revolution' in July 1968?
A. Mahatma Gandhi
B. Indira Gandhi
C. Jawahar Lai Nehru
D. Motilal Nehru

5. The minimum guaranteed price at which the government offers to purchase any quantity is known as
A. Procurement price
B. Minimum Support Price
C. Issue Price
D. Market Price

6. What does food security mean?
A. Availability of food
B. Accessibility of food
C. Availability and accessibility of food to all at all times
D. Availability, accessibility and affordability of food to all at all the times

7. The Bitcoin was introduced in this world by?
A. Stuart Haber
B. W. Scott Stornetta
C. Satoshi Nakamoto
D. Dave Bayer

8. Bitcoin is a cryptocurrency invented in?
A. 2007

B. 2008
C. 2009
D. 2010

9. Transactions are verified by network nodes through cryptography and recorded in a public distributed ledger called a _____?
A. cryptocurrency wallet
B. blockchain
C. nodes
D. cryptocurrency

10. The corporate governance structure of a company reflects the individual companies':
A. Cultural and economic system.
B. Legal and business system.
C. Social and regulatory system.
D. All of the above.

11. The four types of social responsibility include:
A. legal, philanthropic, economic, and ethical
B. ethical, moral, social, and economic
C. philanthropic, justice, economic, and ethical
D. legal, moral, ethical, and economic

12. The goal of corporate governance and business ethics education is to:
A. Teach students their professional accountability and to uphold their personal Integrity to society.
B. Change the way in which ethics is taught to students.
C. Create more ethics standards by which corporate professionals must operate.
D. Increase the workload for accounting students.

13. Which of the following are carbon sources.
A. fossil fuel combustion
B. forests
C. oceans
D. fossil fuel combustion and volcanic eruptions

14. Which of the following are carbon sinks.
A. soil and rocks
B. fossil fuels
C. forests
D. oceans

15. The main human activity that adds to an individual's carbon footprint.
A. usage of alternative energies (wind, solar, etc)
B. respiration and growth
C. photosynthesis by plants
D. usage of fossil fuels for energy

16. Why should you be concerned with the size of your carbon footprint?
A. Sometimes itshard to find shoes that are the right size.
B. If we don't decrease greenhouse gas emissions Earth will continue to cool.
C. Greenhouse gases are becoming scarce in Earth's atmosphere.
D. Increases in greenhouse gases in the atmosphere are contributing to global climate change.

17. What is the time period for a term loan to be classified as NPA?
A. 30 days
B. 60 days
C. 90 days

D. 365 days

18. What is the time period for the long duration crops to be termed as NPA?
A. 90 days
B. 1 crop season
C. 2 crop seasons
D. 180 days

19. What do we call a loan which remains NPA for a period less than or equal to 12 months?
A. Doubtful asset
B. Sub-standard asset
C. Loss
D. None of the above

20. What is carbon dioxide?
A. a type of rock
B. a liquid
C. a solid
D. a gas

Answers for Self Assessment

1.	B	2.	D	3.	A	4.	B	5.	B
6.	D	7.	C	8.	B	9.	B	10.	D
11.	A	12.	C	13.	D	14.	D	15.	D
16.	D	17.	C	18.	B	19.	B	20.	D

Review Questions

1 "With the technology developments, time, space, and other temporal constraints to information have been reduced and, in many cases, eliminated". Discuss.
2 "Each new process or invention makes even further advances possible." Comment.
3 Has technology completely taken over our lives? Does it have negative implications also?
4 Suppose you are the CEO of a FMCG company. Your company is not bale to keep up with other companies and it has reach limited to major cities. What can you do to revive your company?
5 "Application of technology requires a set of specific capabilities." Substantiate.
6 Take an example of any automobile company and discuss how it has used technology to move ahead of competition.
7 Do social issues come under the purview of technological growth? How?
8 Only those companies that keep their eyes and ear open are able to survive. Comment.
9 DIscuss the role of technology in growth of Indian economy.
10 What do you infer from “Land Acquisition Bill”?
11 “People around the globe are more connected with each other than ever before." Discuss.
12 Describe food security bill in detail and its implication for our country?
13 Explain the different types of cryptocurrencies in World till date.
14 What are the advantages and disadvantages of cryptocurrency?

15 Discuss the idea behind rationalised production. Give suitable examples to support your answer.

16 What do you mean by NPA?

17 Give examples of two NPA crisis of Indian economy.

18 When and why do concepts of standardization and customization work for certain products?

19 Why do organizations have to choose a tradeoff between standardization and product adaptation?

20 Discuss the importance of HR in growing world economy.

21 How can you calculate carbon footprint of your family?

Further Readings

Bedi Suresh, Business Environment, Excel Books, 2006

Mittal Vivek, Business Environment, Excel Books, 2007

Starling, Grower, The Changing Environment of Business, Cincinnati, OH, South-Western College Publishing, 1996

https://study.com/academy/practice/carbon-footprints-quiz-worksheet-for-kids.html

https://www.investopedia.com/terms/c/corporategovernance.asp

https://youmatter.world/en/definition/corporate-governance-definition-purpose-and-benefits/

https://www.acc.com/resource-library/top-ten-issues-corporate-governance-practices-india

https://jmuirandassociates.com/corporate-governance-issues/

https://www.slideshare.net/AbdulRazakKBFC/issues-in-corporate-governance-113773980

https://en.wikipedia.org/wiki/Corporate_governance

https://corporatefinanceinstitute.com/resources/knowledge/other/corporate-governance/

https://www.acc.com/resource-library/top-ten-issues-corporate-governance-practices-india

https://blog.ipleaders.in/corporate-governance-challenges/

https://www.indiainfoline.com/article/general-blog/corporate-governance -in-india-key-challenges-and-what-needs-to-change-118113000309_1.html

https://www.carbonfootprint.com/

https://en.wikipedia.org/wiki/Carbon_footprint

https://www.carbonfootprint.com/calculator.aspx

https://www.nytimes.com/guides/year-of-living-better/how-to-reduce-your-carbon-footprint

http://css.umich.edu/factsheets/carbon-footprint-factsheet

https://www.iberdrola.com/sustainability/carbon-footprint

https://aspirantszone.com/non-performing-asset-types-causes/

https://www.careerlauncher.com/rbi-grade-b/npa-crisis-in-india/

https://www.clearias.com/non-performing-assets-npa/

LOVELY PROFESSIONAL UNIVERSITY
Jalandhar-Delhi G.T. Road (NH-1)
Phagwara, Punjab (India)-144411
For Enquiry: +91-1824-521360
Fax.: +91-1824-506111
Email: odl@lpu.co.in