I MBA – Semester - I					
Course Code	**BUSINESS ENVIRONMENT**	**L**	**T**	**P**	**C**
22MBA112		**4**	**0**	**0**	**4**

Course Educational Objectives:

CEO1:Understand the concept, significance and changing dimensions of Business Environment
CEO2: Identify various types of Business Environment and tools for scanning the Environment
CEO3: Gain insights Trends in Revenue and Expenditure of Central and State Governments
CEO4: Understand the Impact of WTO on Various Aspects of Indian Economy
CEO5: Gain insights on Trade Zone–Export Processing Zone–Special Economic Zones

UNIT - I	**Industrial Policy, Globalization and FDI**	Lecture Hrs: 10
1956 Industrial Policy - 1991 Industrial Policy – Globalization - Global Trade and Developing Countries - Globalization and its Impact on India - FDI Strategies – Acquisitions and Greenfield Investment – FDI Theories and Concepts – FDI and Developing Countries – FDI in India – Benefits of FDI – EXIM Policy.		
UNIT - II	**Fiscal Policies and Balance of Payments**	Lecture Hrs: 10
Public Revenue and Expenditure–Public Debt – Trends in Revenue and Expenditure of Central and State Governments – Deficit Financing in India – Highlights of Budget - Balance of Payments - Structure and Components of Balance of Payments – Causes and Correction Measures of Disequilibrium in Balance of Payments.		
UNIT - III	**International Trade Regulatory Frame Work**	Lecture Hrs:10
Trade Barriers - Tariff and Non-Tariff Barriers – Quotas – Export Promotion and Import Substitution - Foreign Exchange Market - Exchange Rate and its Impact on Exports and Imports – Foreign Exchange Risk - FEMA.		
UNIT - IV	**World Trade Organization**	Lecture Hrs:12
GATT–Uruguay Round–WTO–TRIPs–TRIMs–GATS - Dispute Settlement Body – Anti Dumping Measures – Impact of WTO on Various Aspects of Indian Economy.		
UNIT - V	**Economic Zones**	Lecture Hrs:8
Foreign Trade Zone–Export Processing Zone–Special Economic Zones (SEZs) – Evaluation of SEZs Policy.		

Course Outcomes (CO) :

	On successful completion of the course the student will be able to	**POs & PSOs related to COs**
CO1	**Analyze** the environment of a business from the legal & regulatory, macroeconomic, cultural, political, technological and natural perspectives	PO1, PO2, PO4, PSO1,PSO2
CO2	**Identify** the Trends in Revenue and Expenditure of Central and State Governments	PO1, PO2, PO4, PO5, PSO1,PSO2
CO3	**Identify** Tariff and Non tariff barriers and their Impact on Exports and Imports	PO1, PO2, PO3, PO4, PSO1,PSO2
CO4	**Analyze** the Impact of WTO on Various Aspects of Indian Economy.	PO1, PO2, PO4, PSO1,PSO2
CO5	**Examine the role of** Foreign Trade Zone and Export Processing Zone policies in India	PO1, PO2, PO4, PSO1,PSO2

Text Books:
1. Indian Economy, 62/e, Datt & Sundhram, Sultan Chand & Sons, New Delhi, 2011. 2. Essentials of Business Environment (Text, Cases & Exercises), 4/e, K. Aswathappa, Himalaya Publishing House. 2021. 3. International Business, Text and Cases, 5/e, Francis Cherunilam, PHI Learning Private Limited, New Delhi, 2011.
Reference Books:
1. Business Environment Text and Cases, 20/e, Francis Cherunilam, Himalaya Publishing House, Mumbai, 2011. 2. Essentials of Business Environment, 10/e, K.Aswathappa, Himalaya Publishing House, Mumbai, 2010. 3. Indian Economy, 28/e, Misra and Puri, Himalaya Publishing House, Mumbai, 2010. 4. International Business, Text and Cases, 3/e, P.Subba Rao, Himalaya Publishing House, Mumbai, 2012. 5. International Business, 5/e, Justin Paul, PHI Learning Private Limited, New Delhi, 2011.
Online Learning Resources:
https://mycbseguide.com/blog/business-environment-class-12-notes-business-studies https://byjus.com/commerce/business-environment https://www.wto.org/english/tratop_e/envir_e/envt_rules_gatt_e.htm https://cdrpc.org/programs/economic-development/foreign-trade-zone-121/ftz-benefits

COURSE OUTCOMES VS POs MAPPING (DETAILED; HIGH:3; MEDIUM:2; LOW:1**):**

Course	PO / CO	PO 1	PO 2	PO 3	PO 4	PO 5	PO 6	PO 7	PO 8	PSO1	PSO2
C1102 : BUSINESS ENVIRONMENT	C1102.1	3	3	-	3	-	-	-	-	3	3
	C1102.2	3	3	-	3	3	-	-	-	3	3
	C1102.3	3	3	3	3	-	-	-	-	3	3
	C1102.4	3	3	-	3	-	-	-	-	3	3
	C1102.5	3	3	-	3	-	-	-	-	3	3
	C1102	**3**	**3**	**3**	**3**	**3**	**-**	**-**	**-**	**3**	**3**

UNIT-1

INTRODUCTION

Definition:

–Business Environment encompasses the -climate' or set of conditions, economic, social, political or institutional in which business operations are Conducted.‖

—Arthur M. Weimer

–Environment contains the external factors that create opportunities and threats to the business. This includes socio-economic conditions, technology and political conditions.‖ – William Gluck and Jauch

Nature of Business Environment

The nature of Business Environment is simply and better explained by the following approaches:

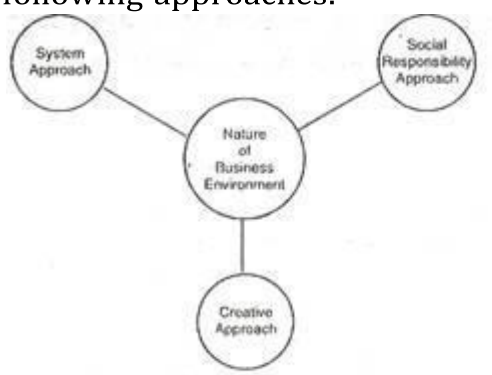


FIG. 1 : NATURE OF BUSINESS ENVIRONMENT

(i) **System Approach:**

In original, business is a system by which it produces goods and services for the satisfaction of wants, by using several inputs, such as, raw material, capital, labour etc. from the environment.

(ii) **Social Responsibility Approach:**

In this approach business should fulfill its responsibility towards several categories of the society such as consumers, stockholders, employees, government etc.

(iii) **Creative Approach:**

As per this approach, business gives shape to the environment by facing the challenges and availing the opportunities in time. The business brings about changes in the society by giving attention to the needs of the people.

Significance of Business Environment & Importance of Business Environment

A business can be established, but to successfully sustain a business,

The business needs resources like

- Finance for which it has to depend on financial institutions.
- Acceptance of social norms, for which it has to depend on society.
- Proper market conditions, for which it has to depend on the market.

- The sale of products/services, for which it has to depend on the customers.
- The labour, for which it has to depend on society.
- Then there are natural resources and raw material, for which it has to depend on Nature.
- Also, the legal support of the government, for which it has to depend on the government.

There are many factors and dimensions that affect Business Environment.

The changing needs of customers and new innovations in the market are a part of the business environment. The challenge for businesses in this technological era is not to enter the market but to survive in the market. To survive in the market means to adapt to the changes as fast as possible. To adapt to the changes means to be aware of the business environment.

On the basis of the foregoing discussion, it can be said that the Business Environment is the most important aspect of any business. To be aware of the ongoing changes, not only helps the business to adapt to these changes but also to use them as opportunities.

Business Environment presents threats as well as opportunities for any business. A good business manager not only identifies and evaluates the environment but also reacts to these external forces.

The importance of the business environment can be neatly understood if we consider the following facts:

1. Enables to Identify Business Opportunities

All changes are not negative. If understood and evaluated them, they can be the reason for the success of a business. It is very necessary to identify a change and use it as a tool to solve the solve the problems of the business or populous.

For example, Mr. Phanindra Sama was troubled by the ticket booking condition in India. He used to travel a long distance to his travel agent to book his ticket but even after traveling this distance he was not sure if his seat was confirmed. He saw the opportunity to establish an app in the face of the problem and co-founded the online ticket booking app called ‗redBus'.

2. Helps in Tapping Useful Resources

Careful scanning of the Business Environment helps in tapping the useful resources required for the business. It helps the firm to track these resources and convert them into goods and services.

3. Coping with Changes

The business must be aware of the ongoing changes in the business environment, whether it be changes in customer requirements, emerging trends, new government policies, technological changes. If the business is aware of these regular changes then it can bring about a response to deal with those changes.

For example, when the Android OS market was blooming and the customers were preferring Android devices for its easy interface and apps, Nokia failed to cope with the change by not implementing Android OS on Nokia devices. They failed to adapt and lost tremendous market value.

4. Assistance in Planning

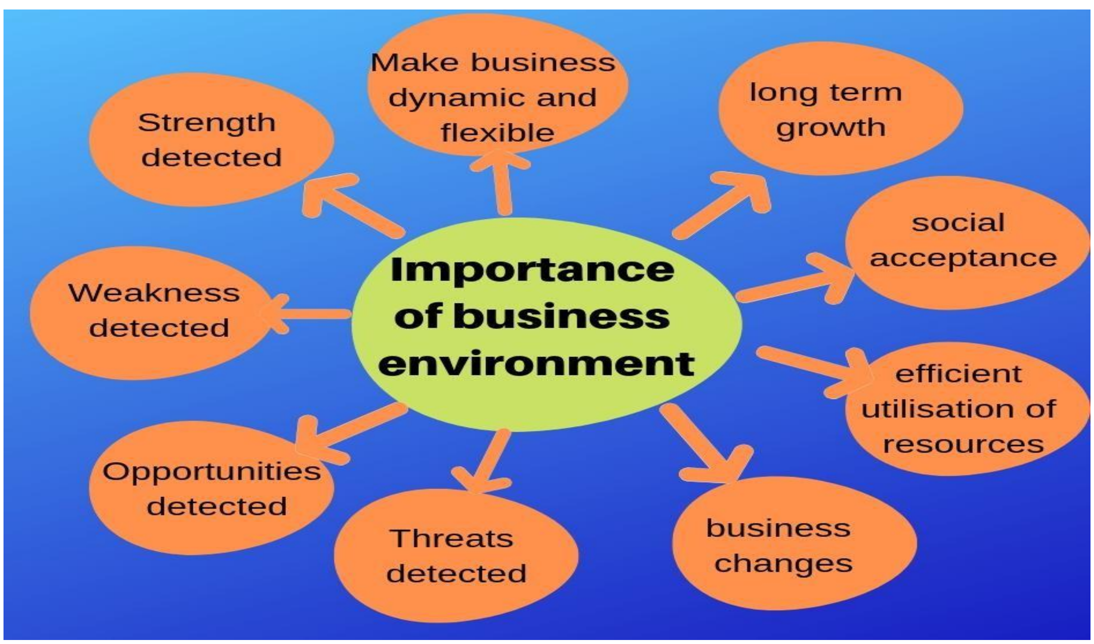
This is another aspect of the importance of the business environment. <u>Planning</u> purely means *what is to be done in the future.* When the Business Environment presents a problem or an opportunity, it is up to the business to decide what plan would it have to come up with in order to address the future and solve the problem or utilise the opportunity. After analysing the changes presented, the business can incorporate plans to counteract the changes for a secure future.

5. Helps in Improving Performance

Enterprises that are thoroughly scanning their environment not only deal with the changes presented but also flourish with them. Adapting to the external forces help the business to improve the performance and survive in the market.

Business Environment refers to the –Sum total of conditions which surround man at a given point in space and time. In the past, the environment of man consisted of only the physical aspects of the planet Earth (air, water and land) and the biotic communities. But in due course of time and advancement of society, man extended his environment through his social, economic and political function.‖

In a globalised economy, the business environment plays an important role in almost all business enterprises.



1.1 1956 INDUSTRIAL POLICY

What is industrial policy?

An industrial policy of a country, sometimes denoted with IP, it is official strategic effort to encourage the development and growth of all or part of the economy.

Main Features of Industrial Policy Resolution of 1956!

In a short period of operation of the 1948 Industrial Policy, some significant changes took place in the economic and political spheres that called for changes in industrial policy as well. The country hand launched a programme of planned economic development with the first five-year plan.

The second five- year plan gave high priority to industrial development aimed at setting up a number of heavy industries such as steel plants, capital goods industries, etc., for which direct government participation and state involvement was needed.

Further in December 1954, the Parliament adopted the ‗Socialistic Pattern of Society' as the goal of economic policy which called for the state or the public sector to increase its sphere of activity in industrial sector and thus prevent concentration of economic power in private hands. In view of aill these developments, a new **industrial policy was announced in April 1956**. The main features of this Industrial Policy Resolution of 1956 were as follows:

New Classification of industries:

The Industrial Policy Resolution - 1956 was shaped by the Mahalanobis Model of growth, which suggested that emphasis on heavy industries would lead the economy towards a long term higher growth path. The Resolution widened the scope of the public sector. The objective was to accelerate economic growth and boost the process of industrialization as a means to achieving a socialistic pattern of society. Given the scarce capital and inadequate entrepreneurial base, the Resolution accorded a predominant role to the State to assume direct responsibility for industrial development. All industries of basic and strategic importance and those in the nature of public utility services besides those requiring large scale investment were reserved for the public sector.

The Industrial Policy Resolution - 1956 classified industries into three categories. The first category comprised 17 industries (included in Schedule A of the Resolution) exclusively under the domain of the Government. These included inter alia, railways, air transport, arms and ammunition, iron and steel and atomic energy.

The **second** category comprised 12 industries (included in Schedule B of the Resolution), which were envisaged to be progressively State owned but private sector was expected to supplement the efforts of the State.

The **third** category contained all the remaining industries and it was expected that private sector would initiate development of these industries but they would remain open for the State as well.

It was envisaged that the State would facilitate and encourage development of these industries in the private sector, in accordance with the programmes formulated under the Five Year Plans, by appropriate fiscal measures and ensuring adequate infrastructure.

Despite the demarcation of industries into separate categories, the Resolution was flexible enough to allow the required adjustments and modifications in the national interest. Another objective spelt out in the Industrial Policy Resolution – 1956 was the removal of regional disparities through development of regions with low industrial base. Accordingly, adequate infrastructure for industrial development of such regions was duly emphasized. Given the potential to provide large-scale employment, the Resolution reiterated the Government‘s determination to provide all sorts of assistance to small and cottage industries for wider dispersal of the industrial base and more equitable distribution of income. The Resolution, in fact, reflected the prevalent value system of India in the early 1950s, which was centered around self sufficiency in industrial production.

The Industrial Policy Resolution – 1956 was a landmark policy statement and it formed the basis of subsequent policy announcements.

Assistance to Private Sector:

While the Industrial Policy of 1956 sought to give a dominant role to public sector, at the same time it assured a fair treatment to the private sector. The ‗policy‘ said that the state would continue to strengthen and expand financial institutions that extend financial assistance to private industry and cooperative enterprises. The state would also strengthen infrastructure (power, transport etc.) to help private sector.

Expanded role of Cottage and Small-Scale Industries:

The Industrial Policy of 1956 laid stress on the role of cottage and small scale industries for generating larger employment opportunities, making use of local manpower and resources and reducing- regional inequalities in industrial development. It stated that the Government would continue pursuing a policy of supporting such industries through tax concessions and subsidies.

Balanced Industrial Growth among Various Regions:

The Industrial Policy, 1956 helped to reduce regional disparities in industrial development. The policy stated that facilities for development will be made available to industrially backward areas. The state, apart from setting up more public sector industries in these backward areas, will provide incentives such as tax concessions, subsidized loans etc., to the private sector to start industries in these backward regions.

Role of Foreign Capital:

The industrial Policy 1956 recognized the important role of foreign capital in country‘s development. The foreign capital supplements domestic savings. Provides more resources for investment and relieves pressure on Balance of payments.

The country therefore welcomed inflow of foreign capital. But the ‗Policy‘ made it clear that inflow of foreign capital will be permitted subject to the condition that major share in management, ownership and control should be in the hands of Indians.

Development of managerial and Technical Cadres:

The Industrial Policy, 1956 notes that the programme of rapid industrialization in India will create large demand for managerial and technical personnel.

Therefore, the policy emphasised the setting up and strengthening of institutions that Trans and provide such personnel. It was also announced that proper technical and managerial cadres in the public services are also being established.

Incentives to labour:

The Industrial Policy, 1956 recognised the important role of labour as a partner in the task of development. The ‗policy' therefore put emphasis on the provision of adequate incentives to workers and improvement in their working and service conditions. It laid down that wherever possible the workers should be progressively associated with that management so that they are enthusiastically involved in the development process.

Conclusion:

The Industrial Policy 1956 thus provided a comprehensive framework for industrial development in India. However, this policy has been criticised on the grounds that by enormously expanding the field of public sector it had drastically reduced the area of activity for the private sector.

1991 INDUSTRIAL POLICY

Major Objectives of India's New Industrial Policy 1991

(i) Liberalising the industry from the regulatory devices such as licenses and controls.

(ii) Enhancing support to the small scale sector.

(iii) Increasing competitiveness of industries for the benefit of the common man.

(iv) Ensuring running of public enterprises on business lines and thus cutting their losses.

(v) Providing more incentives for industrialisation of the backward areas, and

(vi) Ensuring rapid industrial development in a competitive environment.

The Industrial Policy of 1991

On July 24, 1991, Government of India announced its new industrial policy with an aim to correct the distortion and weakness of the Industrial Structure of the country that had developed in 4 decades; raise industrial efficiency to the international level; and accelerate industrial growth.

Major Provisions of 1991 Policy

(a)Abolition of licensing procedures:

The NIP has abolished the industrial licensing requirement irrespective of the level of investment in all industries except those 18 industries specified in Annexure II of the ID & R Act (1951). The industries where industrial licensing will be necessary include areas like coal, petroleum, sugar, cigarettes, motor cars, hazardous chemicals, drugs and pharmaceuticals and some luxury items.

(b) Broad branding facility and FMP:

Existing and new industrial units have been provided with the broad branding facility to produce any article so long as no additional investment in plant and machinery is undertaken. The Phased Manufacturing Programme (PMP) will no longer be applicable to new projects.

(c) Modifications in the MRTP Act:

The MRTP Act will be amended to remove the threshold limit of assets in respect of MRTP companies and dominant undertakings. This would eliminate the requirement of prior approval of the Central Government for establishment of new undertakings, merger, amalgamation, takeover and appointment of directors under certain circumstances.

(d) Foreign investment:

While welcoming foreign investment with its attendant advantage of technology transfer, marketing expertise, introduction of modern managerial techniques and export promotion, the NIP provides for automatic approval of foreign equity participation up to 51% in high priority industries which include 34 broad areas like metallurgy, electrical equipment, transformer, food processing, hotel and tourism.

There will be no bottlenecks of any kind in clearing proposals for foreign equity participation. Such clearance will be available if foreign equity covers the foreign exchange requirement for imported capital goods. Furthermore, the foreign equity proposals need not necessarily be accompanied by foreign technology agreements. Companies with 51% foreign equity will be encouraged to act as trading houses primarily engaged in exporting activities in order to generate greater passage of Indian goods to export markets.

A specially empowered Board will be constituted to negotiate with large international firms called multinational corporations (MNCs) and encourage direct foreign investment in select areas.

This would be a special programme to attract substantial investment that would provide access to high technology and world markets.

Repatriation of dividends by companies with foreign equity will have to be met through export earnings over a period of time.

(e) Foreign collaboration:

On foreign technology agreements, the Government intends to combine the need for updating technology in high priority areas with incentives for domestic sales and export promotion.

The stress is on foreign technology agreements in high priority areas with incentives for domestic sales and export promotion.

Foreign technology agreements in high priority industries will be given automatic permission up to a lump-sum payment of Rs. 1 crore. In non-high priority areas, automatic permission would be given as per the same guidelines provided no free foreign exchange is required for the payments.

So far as hiring foreign technicians or foreign testing of indigenously developed products, no permission would be required. Payments may be made from blanket permits or free foreign exchange as per RBI guidelines.

(f) Import of capital goods:

The NIP envisages automatic clearances for import of capital goods provided the foreign exchange requirement for such imports is ensured through foreign equity. In addition, with effect from April 1992, such automatic approval would be given provided the cost, insurance and freight (c.i.f.) value of the capital goods to be imported was less than 25% of the total value of plant and machinery and subject to maximum limit of Rs. 2 crores.

(g) Public sector:

The pre-eminent place of public sector will be continued in 8 core areas. These are arms and ammunition, atomic energy, mineral oils, rail transport and mining of coal and minerals.

Though the role of the public sector has been emphasised, the Government has committed to ensure that it runs on sound commercial lines and continues to innovate and maintain its dominant role in strategic areas.

Furthermore, in order to raise resources and encourage wider public participation, a part of the Government's shareholding in the public sector units would be offered to mutual funds, financial institutions, the public and workers.

Chronically sick PSUs, which are unlikely to turn around, will be referred to the BIFR or other such institutions to formulate a rehabilitation-cum- revival scheme for such units. Also, a social security mechanism will be created to protect the interests of workers likely to be affected by such rehabilitation packages.

(h) Non-applicability of convertible clause:

In a significant step, the NIP has dispensed with the applicability of the mandatory convertibility clause which enabled financial institutions to convert loans into equity for the term loans extended by financial institutions for new projects.

(i) Reservation for small-scale industries:

The reservation of items for small-scale sector will be continued to promote industrial and agro-industrial employment base. A package for tiny and small-scale sector will be announced by the Government separately.

(j) Locational policy:

In cities of less than 1 million population there will be no need for obtaining industrial approvals from the Central Government except for industries subject to compulsory licensing. In respect of cities with population greater than 1 million, industries (other than those of a non-polluting nature such as electronics, computer software and printing) will be located outside 25 kms. of the periphery, except in prior designated industrial areas.

GLOBALIZATION

Globalization

Meaning:

By the term globalisation we mean opening up of the economy for world market by attaining international competitiveness. Thus the globalisation of the economy simply indicates interaction of the country relating to production, trading and financial transactions with the developed industrialized countries of the world.

Accordingly, the term globalisation has four parameters:

(a) Permitting free flow of goods by removing or reducing trade barriers between the countries,

(b) Creating environment for flow of capital between the countries,

(c) Allowing free flow in technology transfer and

(d) Creating environment for free movement of labour between the countries of the world. Thus taking the entire world as global village, all the four components are equally important for attaining a smooth path for globalisation.

The concept of Globalisation by integrating nation states within the frame work of World Trade Organisation (WTO) is an alternative version of the ‗Theory of Comparative Cost Advantage' propagated by the classical economists for assuming unrestricted flow of goods between the countries for mutual benefit, especially from Great Britain to other less developed countries or to their colonies.

In this way, the imperialist nations gained much at the cost of the colonial countries who had to suffer from the scar of stagnation and poverty. But the advocates of the policy of globalisation argue that globalisation would help the underdeveloped and developing countries to improve their competitive strength and attain higher growth rates. Now it is to be seen how far the developing countries would gain by adopting the path of globalisation in future.

In the mean time, various countries of the world have adopted the policy of globalisation. Following the same path India had also adopted the same policy since 1991 and started the process of dismantling trade barriers along with abolishing quantitative restrictions (QRs) phase-wise.

Accordingly, the Government of India has been reducing the peak rate of customs duty in its subsequent budgets and removed QRs on the remaining 715 items in the EXIM Policy 2001-2002. All these have resulted open access to new markets and new technology for the country.

Advantages of Globalisation:

The following are some of the important advantages of globalisation for a developing country like India:

(i) Globalisation helps to boost the long run average growth rate of the economy of the country through:

(a) Improvement in the allocative efficiency of resources;

(b) Increase in labour productivity; and

(c) Reduction in capital-output ratio.

(ii) Globalisation paves the way for removing inefficiency in production system. Prolonged protective scenario in the absence of globalisation makes the production system careless about cost effectiveness which can be attained by following the policy of globalisation.

(iii) Globalisation attracts entry of foreign capital along with foreign updated technology which improves the quality of production.

(iv) Globalisation usually restructure production and trade pattern favouring labour-intensive goods and labour-intensive techniques as well as expansion of trade in services.

(v) In a globalized scenario, domestic industries of developing country become conscious about price reduction and quality improvement to their products so as to face foreign competition.
(vi) Globalisation discourages uneconomic import substitution and favour cheaper imports of capital goods which reduces capital-output ratio in manufacturing industries. Cost effectiveness and price reduction of manufactured commodities will improve the terms of trade in favour of agriculture.
(vii) Globalisation facilitates consumer goods industries to expand faster to meet growing demand for these consumer goods which would result faster expansion of employment opportunities over a period of time. This would result trickle down effect to reduce the proportion of population living below the poverty line
(viii) Globalisation enhances the efficiency of the banking insurance and financial sectors with the opening up to those areas to foreign capital, foreign banks and insurance companies.

The following are some of these disadvantages:
(i) Globalisation paves the way for redistribution of economic power at the world level leading to domination by economically powerful nations over the poor nations.
(ii) Globalisation usually results greater increase in imports than increase in exports leading to growing trade deficit and balance of payments problem.
(iii) Although globalisation promote the idea that technological change and increase in productivity would lead to more jobs and higher wages but during the last few years, such technological changes occurring in some developing countries have resulted more loss of jobs than they have created leading to fall in employment growth rates.
(iv) Globalisation has alerted the village and small scale industries and sounded death-knell to it as they cannot withstand the competition arising from well organized MNCs.
(v) Globalisation has been showing down the process to poverty reduction in some developing and underdeveloped countries of the world and thereby enhances the problem of inequality.
(vi) Globalisation is also posing as a threat to agriculture in developing and underdeveloped countries of the world. As with the WTO trading provisions, agricultural commodities market of poor and developing countries will be flooded farm goods from countries at a rate much lower than that indigenous farm products leading to a death-blow to many farmers.
(vii) Implementation of globalisation principle becoming harder in many industrially developed democratic countries to ask its people to bear the pains and uncertainties of structural adjustment with the hope of getting benefits in future.

GLOBAL TRADE AND DEVELOPING COUNTRIES

A new frontier for trade

It isn't easy for politicians and policy-makers to tackle the issue. Protests against trade deals quickly erupt if governments are perceived to be endangering the good of the public or the environment for better trade deals. **This is the new frontier in the global trade agenda.**

Trade policy cannot question the right of countries to protect their citizens and promote sustainable development. But trade policy can, and must, guide how countries exercise this right.

The manner in which a country implements its regulatory choices, and the way it operates its regulations, is not a free-for-all – especially when it frustrates the attainment of sustainable development through trade by other countries, particularly the poorest countries.

To move in this direction, five concerted actions are critical:

1. The transparency of existing regulations needs to be increased. UNCTAD is leading an international effort to collect and freely disseminate comprehensive data on currently imposed non-tariff measures. This data covers 80% of world trade and further data collection is underway, particularly in Africa. These efforts go hand-in-hand with capacity building.
2. The international trade community should increasingly embrace international standards. This will simplify unnecessary regulatory hurdles, especially for developing countries. By some estimates, African exporters of textiles and clothing lose up to 50% of their potential export earnings because European Union regulations differ from the international standards set by the International Organization for Standardization. By promoting the use of international standards at home, countries also help their companies to integrate into global value chains. And since international standards usually embed global best practices, the increased uptake of such standards can help promote sustainable development.
3. Meanwhile, regional trade blocs should push for more regional regulatory convergence, finding common answers to address their regulatory needs. A recent UNCTAD study of the South American free-trade bloc MERCOSUR showed that international standards can bring almost twice the gains of regulatory convergence. Strikingly, the welfare gains would also be far higher for MERCOSUR if its key trading partners, such as the EU, simultaneously converged to international standards. Regional regulatory convergence should therefore be seen as a stepping stone for global convergence.
4. Countries can and should do much better in avoiding unnecessary red tape for trade in national regulatory processes. Rules and guidelines exist on this issue, by the WTO and the OECD for example. But the effective and efficient application of these principles is broadly missing.
5. Regulatory measures disproportionately affect trade in developing countries, so we need to strengthen their participation in international standard-setting bodies. Technical cooperation and capacity building needs to be increased to help these countries comply with regulatory requirements and reduce procedural obstacles.

Global Trade Opportunities

GDP in developing countries was expected to grow at 5 percent in 2016 and 5.8 percent in 2017, compared to growth in developed economies of only 1.4 percent and 1.7 percent, respectively.[3] ―Over the medium term, while we expect that advanced economies will continue along a disappointingly low growth path, emerging market and developing economies should accelerate as most of the large countries with currently shrinking economies stabilize and return to their longer-term growth paths,‖ according to the International Monetary Fund (IMF).[4]

This is not a new pattern. ―Since the early 1990s, developing countries have been the fastest-growing market in the world for most products and services,‖ according to an article in the *Harvard Business Review* (HBR) titled ―Strategies that Fit Emerging Markets.‖[5] As importantly, this is not a short-term or cyclical difference, but a long-term, secular transformation of the global economy – a fact that too few corporate executives appreciate, says the PwC consultancy.[6]

In an international trade survey published by the KPMG consultancy in 2015, over half of all respondents (54 percent) said that high-growth, developing countries already account for more than 30 percent of their revenue.[7] Among only mid-sized companies, 44 percent claimed developing country revenue of 30 percent or more. Seventy-six percent of all respondents expected revenue from this market segment to increase in the coming three to five years. In developing countries, ―massive consumer growth, increasing prosperity, greater rule of law and young populations all create significant opportunity,‖ KPMG concludes.

U.S. SMEs currently conduct international trade mostly in Mexico or Canada (43 percent), according to a 2016 survey by American Express, followed by Europe (29 percent) and Asia (17 percent). ―While exporters are more likely to see the regions where they are already exporting and regions nearest to home as possessing the greatest growth potential, Asia may experience increased sales efforts in the next five years,‖ the survey showed.[8]

The Appeal of Developed-Country Markets in International Trade

Despite low growth and established competition, developed markets also hold obvious appeal. For example, there are over 500 million consumers in the European Union (EU), which is evolving around the principle of free movement of goods without barriers to trade and with a minimum of administrative burden.[9] Even with slow growth, a large addressable market like the EU can deliver the business benefits of lower unit costs, easier access to a wide range of commercial partners and greater rewards for innovation.[10] Online information resource Startup Overseas factored in this easy access across the EU when declaring Denmark a good ―starter market‖ for SMEs,[11] even though the local market has only 5.7 million people and is growing at only 1 percent to 1.9 percent in 2016.

Newcomers have succeeded in taking market share in European consumer goods, for example, despite apparent market saturation. Smartphone market statistics for the third quarter of 2016 bear this out: Huawei, a relative newcomer from China, has built a brand in Europe that continued to take market share in the quarter from more established suppliers by providing competitive features at lower price points, according to market researcher IDC.[13]

In any market, the digitization of global trade presents new opportunities by lowering costs and other barriers to entry for SMEs as well as the biggest multinationals. –Trade was once largely confined to advanced economies and their large multinational companies. Today, a more digital form of globalization has opened the door to developing countries, to small companies and start-ups, and to billions of individuals,‖ according to the McKinsey Global Institute.[14] As an example, McKinsey cites tens of millions of SMEs worldwide that have turned themselves into exporters by joining e-commerce marketplaces.

Global Trade Challenges

Still, many companies struggle to expand outside of their existing markets to capture the benefits of global trade, KPMG says. Expansion can be delayed by a lack of insight into local markets, as well as the need to identify the right market entry models and local partners to reduce risk while maximizing reach.

Add to that the litany of practical challenges quantified in the World Bank's *Doing Business* 2017 report, including taxes, the costs of starting a business, construction permits, getting electricity, labor market regulation, enforcing contracts, property registrations and trading documentation and finance. In these and other areas, developed economies dominate the report's –ease of doing business‖ ranking.

As the oil that lubricates international commerce, trade finance can be a key challenge for exporters as well as importers – and this is particularly true for SMEs and developing countries. –Following the 2008-09 economic crisis, SMEs have found it increasingly difficult to access this vital form of credit,‖ according to the WTO. –The poorer the country, the greater the challenge.‖[15]

Even analyzing the market opportunity can be harder in developing countries. –Executives are usually taught that data is an objective and critical input for strategic planning and operations. Applying this, however, is much easier said than done — especially among companies operating in emerging markets,‖ according to an *HBR* analysis.[16] Issues include significant data gaps, biased data and outdated or incorrect numbers that can lead executives to make misguided investment decisions.

But developed countries present their own set of challenges. According to noted management theorist Michael Porter, competing with entrenched market leaders often means investing to achieve sufficient scale, overcoming customers' long-standing loyalties, testing local government's relationships with national industry and battling advantages in everything from distribution channels to locked-in supply contracts.[17]

Global Trade Strategies and Tactics

–Business in emerging markets is just business,‖ says Harvard Business School Professor Felix Oberholzer-Gee. –That is the essence of global management. A thousand things change completely as you go from one market to another, and a thousand things stay exactly the same. The difficulty is in knowing which is which – what needs to change, what can stay the same.‖[19]

Successful companies take the trouble to understand and work around institutional voids, information gaps and market barriers in whatever country they are targeting, according to specialists in global trade. –They develop strategies for doing business in emerging markets that are different from those they use at home and often find novel ways of implementing them, too. They also customize their approaches to fit each nation's institutional context,‖ according to the HBR article on –Strategies that Fit Emerging Markets.‖

In developed markets, entrants may need to keep an especially keen eye on the established competition, and may need particularly aggressive marketing and advertising to persuade competitors' customers to switch. For SMEs, in particular, –engaging in appropriate levels of brand management opens all the initial channels for negotiating with government regulators and potential business partners – such as supply chain, manufacturing, warehouse solutions, distribution, and delivery services – in foreign markets,‖ says Smartling, a translation technology company.[20]

For each tactical challenge raised here – and many others – there are increasingly well-documented solutions. For example, in gathering the data required to assess a developing country's market potential, companies need to be creative, finding the right proxy indicators to fill in gaps, for example, and focusing on forward-looking demand drivers.[21]

Many successful companies create joint ventures and partnerships or acquire local companies to combine global know-how with local experience and insight, KPMG says. They keep on top of changing market and regulatory conditions and stay in constant communication with distributors, sales representatives and other colleagues.[22] They aim to establish solid, enforceable contracts.

Such rules of thumb apply to most any market. However, –some executives with little experience in emerging markets expect them to be radically different,‖ says Oberholzer-Gee. –This is the wrong impression. What is almost always true of emerging markets is that there are islands of modernity where emerging markets are way ahead, and then there are islands where they are clearly backward.‖

GLOBALIZATION AND ITS IMPACT ON INDIA

Globalization and its impact on Indian Economy: Developments and Challenges

Globalization (or globalization) describes a process by which regional economies, societies, and cultures have become integrated through a global network of communication, transportation, and trade. The term is sometimes used to refer specifically to economic globalization: the integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and the spread of technology. Globalization as a spatial integration in the sphere of social relations when he said -Globalization can be defined as the intensification of worldwide social relations which link distant locations in such a way that local happenings are shaped by events occurring many miles away and vice – versa.‖ Globalization generally means integrating economy of our nation with the world economy. The economic changes initiated have had a dramatic effect on the overall growth of the economy. It also heralded the integration of the Indian economy into the global economy. The Indian economy was in major crisis in 1991 when foreign currency reserves went down to $1 billion. Globalization had its impact on various sectors including Agricultural, Industrial, Financial, Health sector and many others. It was only after the LPG policy i.e. Liberalization, Privatization and Globalization launched by the then Finance Minister Man Mohan Singh that India saw its development in various sectors.

Advent of New Economic Policy -

After suffering a huge financial and economic crisis Dr. Man Mohan Singh brought a new policy which is known as Liberalization, Privatization and Globalization Policy (LPG Policy) also known as New Economic Policy,1991 as it was a measure to come out of the crisis that was going on at that time.

The following measures were taken to liberalize and globalize the economy:

1. Devaluation: To solve the balance of payment problem Indian currency were devaluated by 18 to 19%.
2. Disinvestment: To make the LPG model smooth many of the public sectors were sold to the private sector.
3. Allowing Foreign Direct Investment (FDI): FDI was allowed in a wide range of sectors such as Insurance (26%), defense industries (26%) etc.
4. NRI Scheme: The facilities which were available to foreign investors were also given to NRI's.

The New Economic Policy (NEP-1991) introduced changes in the areas of trade policies, monetary & financial policies, fiscal & budgetary policies, and pricing & institutional reforms. The salient features of NEP-1991 are (i) liberalization (internal and external), (ii) extending privatization, (iii) redirecting scarce Public Sector Resources to Areas where the private sector is unlikely to enter, (iv) globalization of economy, and (v) market friendly state.

Consequences of Globalization:

The implications of globalisation for a national economy are many. Globalisation has intensified interdependence and competition between economies in the world market. This is reflected in Interdependence in regard to trading in goods and services and in movement of capital. As a result domestic economic developments are not determined entirely by domestic policies and market conditions. Rather, they are influenced by both domestic and international policies and economic conditions. It is thus clear that a globalising economy, while formulating and evaluating its domestic policy cannot afford to ignore the possible actions and reactions of policies and developments in the rest of the world. This constrained the policy option available to the government which implies loss of policy autonomy to some extent, in decision-making at the national level.

Now for Further analysis we take up Impact of Globalization on various sector of Indian Economy.

Impact of Globalization on Agricultural Sector:

Agricultural Sector is the mainstay of the rural Indian economy around which socio-economic privileges and deprivations revolve and any change in its structure is likely to have a corresponding impact on the existing pattern of Social equity. The liberalization of India‗s economy was adopted by India in 1991. Facing a severe economic crisis, India approached the IMF for a loan, and the IMF granted what is called a ‗structural adjustment‗ loan, which is a loan with certain conditions attached which relate to a structural change in the economy. Essentially, the reforms sought to gradually phase out government control of the market (liberalization), privatize public sector organizations (privatization), and reduce export subsidies and import barriers to enable free trade (globalization). Globalization has helped in:

- Raising living standards,
- Alleviating poverty,
- Assuring food security,
- Generating buoyant market for expansion of industry and services, and
- Making substantial contribution to the national economic growth.

Impact of Globalization on Industrial Sector:

Effects of Globalization on Indian Industry started when the government opened the country's markets to foreign investments in the early 1990s. Globalization of the Indian Industry took place in its various sectors such as steel, pharmaceutical, petroleum, chemical, textile, cement, retail, and BPO.

Globalization means the dismantling of trade barriers between nations and the integration of the nations economies through financial flow, trade in goods and services, and corporate investments between nations. Globalization has increased across the world in recent years due to the fast progress that has been made in the field of technology especially in communications and transport. The government of India made changes in its economic policy in 1991 by which it allowed direct foreign investments in the country. The benefits of the effects of globalization in the Indian Industry are that many foreign companies set up industries in India, especially in the pharmaceutical, BPO, petroleum, manufacturing, and chemical sectors and this helped to provide employment to many people in the country. This helped reduce the level of unemployment and poverty in the country. Also the benefit of the Effects of Globalization on Indian Industry are that the foreign companies brought in highly advanced technology with them and this helped to make the Indian Industry more technologically advanced.

The negative Effects of Globalization on Indian Industry are that with the coming of technology the number of labor required decreased and this resulted in many people being removed from their jobs. This happened mainly in the pharmaceutical, chemical, manufacturing, and cement industries.

Impact on Financial Sector:

Reforms of the financial sector constitute the most important component of India's programme towards economic liberalization. The recent economic liberalization measures have opened the door to foreign competitors to enter into our domestic market. Innovation has become a must for survival. Financial intermediaries have come out of their traditional approach and they are ready to assume more credit risks. As a consequence, many innovations have taken place in the global financial sectors which have its own impact on the domestic sector also. The emergences of various financial institutions and regulatory bodies have transformed the financial services sector from being a conservative industry to a very dynamic one. In this process this sector is facing a number of challenges. In this changed context, the financial services industry in India has to play a very positive and dynamic role in the years to come by offering many innovative products to suit the varied requirements of the millions of prospective investors spread throughout the country. Reforms of the financial sector constitute the most important component of India's programme towards economic liberalization.

Growth in financial services (comprising banking, insurance, real estate and business services), after dipping to 5.6% in 2003-04 bounced back to 8.7% in 2004-05 and 10.9% in 2005-06. The momentum has been maintained with a growth of 11.1% in 2006-07. Because of Globalization, the financial services industry is in a period of transition. Market shifts, competition, and technological developments are ushering in unprecedented changes in the global financial services industry.

Impact on Export and Import:

India's Export and Import in the year 2001-02 was to the extent of 32,572 and 38,362 million respectively. Many Indian companies have started becoming respectable players in the International scene. Agriculture exports account for about 13 to 18% of total annual of annual export of the country. In 2000-01 Agricultural products valued at more than US $ 6million were exported from the country 23% of which was contributed by the marine products alone. Marine products in recent years have emerged as the single largest contributor to the total agricultural export from the country accounting for over one fifth of the total agricultural exports. Cereals (mostly basmati rice and non-basmati rice), oil seeds, tea and coffee are the other prominent products each of which accounts fro nearly 5 to 10% of the countries total agricultural exports.

Advantages of Globalization:

• There is an International market for companies and for consumers there is a wider range of products to choose from.

• Increase in flow of investments from developed countries to developing countries, which can be used for economic reconstruction.

• Greater and faster flow of information between countries and greater cultural interaction has helped to overcome cultural barriers.

• Technological development has resulted in reverse brain drain in developing countries.

Demerits of Globalization (Challenges):

• The outsourcing of jobs to developing countries has resulted in loss of jobs in developed countries.

• There is a greater threat of spread of communicable diseases.

• There is an underlying threat of multinational corporations with immense power ruling the globe.

• For smaller developing nations at the receiving end, it could indirectly lead to a subtle form of colonization.

· The number of rural landless families increased from 35 %in 1987 to 45 % in 1999, further to 55% in 2005. The farmers are destined to die of starvation or suicide.

A Comparison with Other Developing Countries:

Consider global trade – India's share of world merchandise exports increased from .05% to .07% over the past 20 years. Over the same period China's share has tripled to almost 4%.

India's share of global trade is similar to that of the Philippines an economy 6 times smaller according to IMF estimates.

Over the past decade FDI flows into India have averaged around 0.5% of GDP against 5% for China and 5.5% for Brazil. FDI inflows to China now exceed US $ 50 billion annually. It is only US $ 4billion in the case of India.

Conclusion:

India gained highly from the LPG model as its GDP increased to 9.7% in 2007-2008. In respect of market capitalization, India ranks fourth in the world. But even after globalization, condition of agriculture has not improved. The share of agriculture in the GDP is only 17%. The number of landless families has increased and farmers are still committing suicide. But seeing the positive effects of globalization, it can be said that very soon India will overcome these hurdles too and march strongly on its path of development. The lesson of recent experience is that a country must carefully choose a combination of policies that best enables it to take the opportunity - while avoiding the pitfalls. For over a century the United States has been the largest economy in the world but major developments have taken place in the world Economy since then, leading to the shift of focus from the US and the rich countries of Europe to the two Asian giants- India and China. Economics experts and various studies conducted across the globe envisage India and China to rule the world in the 21st century. India, which is now the fourth largest economy in terms of purchasing power parity, may overtake Japan and become third major economic power within 10 years. To conclude we can say that the modernization that we see around us in our daily life is a contribution of Globalization. Globalization has both positive and as well as negative impacts on various sectors of Indian Economy. So Globalization has taken us a long way from 1991 which has resultant in the advancement our country.

ACQUISITIONS AND GREENFIELD INVESTMENT

Acquisitions
Meaning:

A merger occurs when two separate entities combine forces to create a new, joint organization. Meanwhile, an acquisition refers to the takeover of one entity by another.

In an acquisition, a new company does not emerge. Instead, the smaller company is often consumed and ceases to exist with its assets becoming part of the larger company. Acquisitions, sometimes called takeovers, generally carry a more negative connotation than mergers. Due to this reason, many acquiring companies refer to an acquisition as a merger even when it is clearly not. An acquisition takes place when one company takes over all of the operational management decisions of another company. Acquisitions require large amounts of cash, but the buyer's power is absolute.

One well-known acquisition in 2019 occurred when Xerox acquired 3D printing company Vader Systems, a company which manufactured liquid metal jet 3D printers. The startup was run by Zachary Vader and Scott Vader, in the Buffalo, New York, area. After the acquisition, Vader Systems was relocated outside of Rochester, New York, at the Xerox Webster campus. Xerox intends on tapping into a market worth $8 billion USD.

Since mergers are so uncommon and takeovers are viewed in a negative light, the two terms have become increasingly blended and used in conjunction with one another. Contemporary corporate restructurings are usually referred to as merger and acquisition (M&A) transactions rather than simply a merger or acquisition. The practical differences between the two terms are slowly being eroded by the new definition of M&A deals.

Reasons for Mergers and Acquisitions:

- Financial synergy for lower cost of capital
- Improving company's performance and accelerate growth
- Economies of scale
- Diversification for higher growth products or markets
- To increase market share and positioning giving broader market access
- Strategic realignment and technological change
- Tax considerations
- Undervalued target
- Diversification of risk

Types of Mergers and Acquisitions

Companies will merge together and acquire each other for a **variety of reasons**. Here are four of the main ways companies join forces:

Horizontal Merger / Acquisition

Two companies come together with **similar products / services**. By merging they are **expanding their range** but are not essentially doing anything new. In 2002 Hewlett Packard took over Compaq Computers for $24.2 billion. The aim was to create the dominant personal computer supplier by **combining the PC products** of both companies.

Vertical Merger / Acquisition

Two companies join forces in the same industry but they are at **different points on the supply chain**. They become more vertically integrated by improving logistics, consolidating staff and perhaps reducing time to market for products. A clothing retailer who buys a clothing manufacturing company would be an example of a vertical merger.

Conglomerate Merger / Acquisition

Two companies in different industries join forces or one takes over the other in order to broaden their range of services and products. This approach can help reduce costs by combining back office activities as well as reduce risk by operating in a range of industries.

Concentric Merger / Acquisition

In some cases, two companies will share customers but provide different services. An example would be Sony who manufacture DVD players but who also bought the Columbia Pictures movie studio in 1989. Sony were now able to produce films to be able to be played on their DVD players. Indeed, this was a key part of the strategy to introduce Sony Blu-Ray DVD players.

Difference Between Mergers and Acquisitions

MERGER	ACQUISITION
Two or more companies dissolve in order to form a new company.	The participating companies in the process of acquisition do not lose their existence.
This is a corporate strategy in which two or more companies come together to form a new business or an enterprise.	This is also a corporate strategy but which is utilized when one company intends to purchase the other company or companies.
More often than not, two or more companies of similar size come together to form a merger.	In Acquisition, a larger company buys or purchases the smaller one.
The merger is done voluntarily	The acquisition may or may not be done voluntarily
The minimum number of companies involved in a merger are three.	In the case of Acquisition, the minimum number of companies involved are 2
There are more legal formalities in a merger.	Compared to a merger, there are less legal formalities in an acquisition.
The emerging merged company is often given	There is no new name in case of

MERGER	ACQUISITION
a new name.	an acquisition. The acquired company comes under the name of acquiring the company.
Since the merging companies are almost on a similar scale, the power difference is negligent.Since the merging companies are almost on a similar scale, the power difference is negligent.	In the case of Acquisition, the acquiring company is larger and gets to dictate terms.
New Stocks are issued in a merger.	There are no new stocks issued in an acquisition.

What is a Greenfield Investment?

A green field investment is a corporate investment that involves building a new entity in a foreign country. In a green field investment, the parent company seeks to create a new business, usually with the parent company‘s branding. Green field investments can be for the purpose of targeting customers in the foreign region or they may involve building facilities and employing labor for work that reduces a company‘s overall costs. Green field investments are also known as foreign direct investments (FDI). In a green field investment, the new company must typically adhere to all local laws regardless of its parent company association.

Understanding a Greenfield Investment

A greenfield investment is a form of market entry commonly used when a company wants to achieve the highest degree of control over foreign activities. It can be compared to other foreign direct investments such as the purchase of foreign securities or the acquisition of a majority stake in a foreign company in which the parent company exercises little to no control over daily business operations.

Apart from potential tax breaks or subsidies in establishing a greenfield investment, the overarching goal of such an investment is to achieve a high level of control over business operations and to avoid intermediary costs.

Advantages of a Greenfield Investment

- There are numerous advantages of a greenfield investment, including:
- High level of control over business operations
- High quality control over the manufacturing and sale of products and/or services
- High control over brand image and staffing
- Economies of scale and economies of scope can be achieved in terms of marketing, research and development, and production
- Bypassing trade restrictions

- ❖ Creating jobs for the economy where the greenfield investment is taking place
- ❖ You gain access to an established market.
- ❖ You will be able to implement the best long-term strategy.
- ❖ Commitment to the market will be solid.
- ❖ Vendor financing is often available.
- ❖ You can work with the relevant authorities from the beginning.
- ❖ You will have control over your staff.
- ❖ There will be press opportunities.

Disadvantages of a Greenfield Investment

- ❖ There are numerous disadvantages of a greenfield investment, including:
- ❖ An extremely high-risk investment – a greenfield investment is the riskiest form of foreign direct investments
- ❖ Potentially high market entry cost (barriers to entry)
- ❖ Government regulations that may prevent foreign direct investments
- ❖ High fixed costs involved in establishing a greenfield location
- ❖ Competition will be difficult to overcome.
- ❖ The entry process may take years.
- ❖ The barriers to entry can be costly.
- ❖ Governmental regulations may put multinational enterprises at a disadvantage in the short term.

Against this, you need to consider:

- ➔ Could there be hidden surprises?
- ➔ Which of the target company‘s employees are politically connected, and with whom?
- ➔ ―Favours‖ and concessions may be assumed.
- ➔ The target company‘s technology may well be outmoded, and it will probably have chosen its vendors for reasons other than merit.
- ➔ Branding is often not part of HQ‘s ideals.
- ➔ An acquisition is often expensive and time-consuming.
- ➔ It necessitates a blending of corporate cultures.
- ➔ You will need to train local management (and HQ‘s management).
- ➔ There are potential tax and legal problems.

Example of a Greenfield Investment

Company A is based in Europe and is looking to expand its operations internationally. Namely, the company wants to penetrate the US market with a new innovative product. Upon completing market research, Company A realizes that there are little to no competitors in the United States.

Thus, there are no acquisition opportunities available to the company to establish a ―base.‖ In addition, the United States previously imposed tariffs on all European imports, causing the selling price of the company‘s product to be very high.

Company A decides to create a sales office and manufacturing facility on US soil with the goal of bypassing existing US import tariffs and also to penetrate into the domestic market with its new product. The company‘s CEO deems establishing a foreign subsidiary crucial as they are able to exert complete control over overseas business operations and brand image.

Real World Examples of Greenfield Investments

Toyota Motor Corp. in Mexico

In 2015, Toyota Motor Corporation announced plans to establish a new manufacturing facility in Mexico through an investment of about US$1 billion. Slated to open in 2019, the facility is expected to produce up to 200,000 units per year in conjunction with the currently established Tijuana plant.

The rationale behind Toyota's greenfield investment is to improve competitiveness in North America – specifically the United States. In addition, the low labor cost and the close proximity to US markets offer the Japanese automaker an attractive country to establish a manufacturing facility.

A greenfield investment starts with bare ground and builds up from there. Coca-Cola, McDonald's and Starbucks are great examples of US firms that have invested in greenfield projects around the world.

FDI THEORIES AND CONCEPT

FDI Concept

What Is a Foreign Direct Investment (FDI)?

A foreign direct investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country. Generally, FDI takes place when an investor establishes foreign business operations or acquires foreign business assets in a foreign company. However, FDIs are distinguished from portfolio investments in which an investor merely purchases equities of foreign-based companies.

How a Foreign Direct Investment Works

Foreign direct investments are commonly made in open economies that offer a skilled workforce and above-average growth prospects for the investor, as opposed to tightly regulated economies. Foreign direct investment frequently involves more than just a capital investment. It may include provisions of management or technology as well. The key feature of foreign direct investment is that it establishes either effective control of or at least substantial influence over the decision-making of a foreign business.

The Bureau of Economic Analysis (BEA), which tracks expenditures by foreign direct investors into U.S. businesses, reported total FDI into U.S. businesses of $253.6 billion in 2018. Chemicals represented the top industry, with $109 billion in FDI for 2018.

FDI Theories

1 Industrial Organization Theory

During the decades of 1960s and 1970s, a search for the new theory of FDI/MNE resulted in the identification of FDI as a bundle of tangible and intangible resources created by oligopolistic firms. Based on the insight of theory of industrial organisation originally developed by Bain (1956, 1959), Hymer (1976) proposed a path breaking theory of FDI in his Ph. D. dissertation in the 1960 that was published posthumously in the year 1976. In the meantime, Kindleberger (1969) and Caves (1971, 1974) refined Hymer's theory of FDI as proposed in his Ph. D. dissertation. We call this theory as industrial organisation (10) theory of FDI/MNEs and review the same in this section. Hymer's (1976) versiOn of IO theory of FDI underlines two major factors causing the most common type of FDI. The first one relates to the chief motive of an oligopolistic firm to *overcome competition or to eliminate conflicts,* which arises due to the simultaneous operations of a few firms of different countries in same industry having high barriers to entry. As conflict erodes the profits of the individual firms, the firms may prefer to operate under a unified ownership (or common control). In this process, FDI occurs when an existing enterprise in country takeovers or colludes with an independent enterprise of another country, both operating in the similar industry.

2. Transaction Cost or Internalisation Theory of FDI

Internalisation is a process by which an arm's length transaction based contractual relationship in external market is replaced by internal transaction between a parent firm and its affiliates as well as among affiliates of the parent firm through managerial coordination and administrative fiat. When the cost of transaction is excessive due to imperfections in market for the products or factors or technology or when the market for a certain item (e.g. proprietary knowledge or technology) is completely absent, it is beneficial for a firm to enter into intra-firm trade at the transfer-prices set by administrative fiat of the management The TCI theory asserts that FDI occurs in the process of internalisation of imperfect (or non-existent) external market across national boundaries. Firms find it more efficient to trade through internal market than external market if the market for particular goods or services is either non - existent or imperfect. Rugman (1981) recognizes basically two kinds of market imperfections, which induce a firm to form an internal market across international boundaries. The first is the artificial market imperfection that is created mainly by the governments' restrictions on free trade of goods across national boundaries. One important example of this kind of restriction is the custom duties (or import tariffs) levied by a country for protecting its domestic industries from imports. To gain access to the domestic market of such countries, therefore, a foreign firm attempts to establish its FCFs.

3. Eclectic Theory of International Production

Combining the insights of 10, internalisation and location advantage theories, Dunning (1977, 1980) proposed an eclectic theory or paradigm of FDI. In view of many new developments including those on theoretical front, increasing globalization of economies, integration of economic and financial activities, maturation of knowledge-based economies and liberalisation of cross-border trade and FDI, Dunning (2000) substantially updated the eclectic theory in a paper titled *"The Eclectic Paradigm as an Envelope for Economic and Business Theories of MNE Activi ty".* Based on this updated version we discuss the eclectic theory and each of its components in this sub-section. Dunning (2000) argues that the extent, geography and industrial composition of FDI undertaken by MNEs depends on the configuration of three sets of advantages:

the (net) competitive advantages, which firms of one nationality possess vis-a-vis firms of other nationalities for serving that particular market, internalisation advantage and locational advantage.

4. Product Life-Cycle Theory

Vernon (1966), argued that –the decision to locate production is not made by standard factor-cost or labour-cost analysis, but by a more complicated process|| (Kogut, 1998 #2, p.29). The product cycle model was introduced in the 1960s to explain market-seeking production by firms of a particular ownership or nationality (Dunning, 2008 #3). On the other hand, the product cycle was the first dynamic interpretation of the determinants of, and relationship between, international trade and foreign production (Dunning, 1996 #5). It also introduced some novel hypotheses regarding demand stimuli, technology leads and lags, and information and communication costs, which have subsequently proved useful tools in the study of foreign production and exchange (Dunning, 1996 #5). According to Vernon, a product has a life cycle that has three main stages. These stages are important as they have implications for the international location of a product as follows.

Stage One: Product development process. In other words, the nature of the product that the firm is making is not standardized.

Stage Two: Maturing product. This means that the need for the product to be situated near to its market declines, which allows for economies of scale. These impact on the locational decision of the firm, especially as the demand for the product is likely to grow in other countries, and the firm will have to decide whether it is worth setting up production abroad. Furthermore, this could even mean that the home country experiences exports back to it from the foreign plant.

Stage Three: Standardised product. This is an extension to the maturing product stage, where the standardisation of the product has reached its ‗zenith', and a final framework of the product has been found.

5. Caves Theory

Caves (1971), expanded upon Hymer's theory of direct investment, and placed it firmly in the context of industrial organisation theory. The importance of Caves work is that this theory will linked Hymer's theory of international production to the then current theories of industrial organisation on horizontal and vertical integration. Caves identify between firms that engage in horizontal FDI and those that undertake vertical FDI. Horizontal FDI takes place when a firm enters into its own product market within a foreign country, whereas vertical FDI happens when a firm enters into the product market at a different stage of production.

6. Investment Development Path Theory

John Dunning's ‗investment development path (IDP)' theory (1981) and its latest version are implicitly built on the notion that the global economy is necessarily hierarchical in terms of the various stages of economic development in which its diverse constituent nations are situated. The IDP essentially traces out the net cross-border flows of industrial knowledge, the flows that are internalised in foreign direct investment (FDI) and that restructure and upgrade the global economy, although there is also the non-equity type of knowledge transfer such as licensing, turn-key operations, and the like. In this way, the IDP can thus be view as a cross-border learning curve exhibited by a nation that successfully move up the stages of development by acquiring industrial knowledge from its more advanced ‗neighbours'.

FDI STRATEGIES

Strategies for attracting quality FDI

1. **Open markets and allow for FDI inflows**. Reduce restrictions on FDI. Provide open, transparent and dependable conditions for all kinds of firms, whether foreign or domestic, including: ease of doing business, access to imports, relatively flexible labour markets and protection of intellectual property rights.
2. **Set up an Investment Promotion Agency (IPA)**. A successful IPA could target suitable foreign investors and could then become the link between them and the domestic economy. On the one side, it should act as a one-stop shop for the requirements investors demand from the host country. On the other side, it should act as a catalyst in the host's domestic economy, prompting it to provide top notch infrastructure and ready access to skilled workers, technicians, engineers and managers that may be required to attract such investors (Moran, 2014; Barnes et al., 2015; Harding and Javorcig, 2012).Moreover, it should engage in after-investment care, acknowledging the demonstration effects from satisfied investors, the potential for reinvestments, and the potential for cluster-development because of follow-up investments.
3. **Think carefully about sectors/activities to be targeted.** Investment and location decisions of suppliers may be dependent on those of prime multinational investors in the host economy (McKinsey, 2001; Javorcik et al., 2006).
4. **Put up the infrastructure required for a quality investor**: such as sufficient close-by transport facilities (airport, ports), adequate and reliable supply of energy, provision of an adequately skilled workforce, facilities for the vocational training of specialised workers, ideally designed in cooperation with the investor (Ibid.).
5. **Strengthen backward linkages from FDI into the indigenous economy**. Allow for the competitive pressure of foreign entrants on their local suppliers to raise competitiveness of the latter (Rhee et al., 1990), and allow for multiple forms of direct assistance from foreign to domestic firms, in the form of training, help with setting up production lines, management coaching regarding strategy and financial planning, financing, assistance with quality control and introduction to export markets (Javorcik and Spatareanu, 2005; Blalock and Gertler, 2008; Godart and Görg, 2013; Görg and Seric, 2016).

6. **Encourage spillovers from FDI into the indigenous economy**. Local firms set up by managers who had started in multinational firms are more successful and more productive than others (Görg and Strobl, 2005). Managers of local firms gain knowledge of new technologies and marketing techniques by studying and imitating their multinational competitors (Javorcic and Spatareanu, 2005; Boly et al., 2015). Similarly, worker movements from multinational to local firms spread knowledge and skills.
7. **Encourage first-time foreign direct investors**. Foreign firms that are not already part of an extensive network of subsidiaries are readier to accept linkages to domestic suppliers (Amendolagine et al., 2015).
8. **Encourage foreign direct investors from diaspora members**. These are also more likely to generate linkages to domestic firms and contribute to the internationalisation of the host country (Boly et al., 2014).
9. **Provide access to credit by reforming domestic financial markets**. Setting-up a business-friendly financial system helps indigenous firms to respond to challenges and impulses from foreign entrants, to self-select into supplier status, and to thereby grow and prosper (Alfaro et al., 2009).
10. **Set up a vendor development programme to support the match making process between foreign customer and local supplier**. To strengthen the capacity of the domestic economy, it may offer financing opportunities to indigenous suppliers for required investment on the basis of purchase contracts from foreign buyers (see the Local Industry Upgrading Program (LIUP) of Singapore), or reimburse the salary of a manager in a foreign plant acting as a talent scout among domestic suppliers (see the example of the Singapore's Economic Development Board).
11. **Shape Export Processing Zones (EPZs) in a way that they spearhead into the domestic economy.** Avoid EPZ regulations discriminating against the creation of local supplier relationships. Set up a secondary industrial zone for local suppliers, be it as a geographical site adjacent to formal export processing zones, or be it as a legal status allowing for easy foreign-domestic linkages with, for example, databanks and –marriage counselors‖, to assist in supplier selection (Moran et al., 2016).
12. **Refocus the "Who Is Us?" perspective and address related concerns adequately.** –Us‖ should be understood as the firms that are most beneficial to the domestic economy irrespective of the nationality of their owners. Therefore, the firms that create the highest-skilled and highest-paying jobs, the least-expensive products, and the most competitive exports are considered –Us‖ (Reich, 1990).
13. **Be patient and rely on the gradual structural transformation of the domestic economy**. Investors may come in waves. For example, first, investors in thermionic tubes, valves and transistors, then, in television and broadcasting systems, and finally, in computers, computer peripherals, and data processing systems. Along such avenues, FDI may contribute to diversifying and upgrading domestic production (Amendolagine et al., 2013; Moran, 2014; Barnes et al., 2015).

1.9 BENEFITS OF FDI

ADVANTAGES OF FOREIGN DIRECT INVESTMENTS IN INDIA:

1. Promotion of investment in key areas:

By allowing FDI, we can promote investment in key areas such as infrastructure development as a result of which there will be more production of capital goods. For example, investment in power generation can generate more electric power which will enable the growth of more industries.

2. New technologies:

FDI can bring in more new technologies which were not adopted in the country till now. Examples are the recent developments in the Communications System. The launching of satellites with the help of other countries has enabled the growth of communication system in the country. Nokia has come to India for promoting India's communication system.

3. Increase in Capital inflow:

FDI promotes more capital inflow into the country especially in key and core sectors. We have a shortage of capital not only in the form of money but also in the form of material. FDIs will bridge this gap by which there will be speedy economic growth in the country.

4. Increase in Exports:

With the help of FDI, the exports of many underdeveloped countries have increased. The creation of Economic Zones and promotion of 100% export oriented units have helped FDIs in increasing their exports from other countries. Certain consumer products produced by them have world-wide markets. There is a change in the composition of exports and direction of exports with the presence of FDI.

5. Promotion of Employment opportunities:

The advent of FDI in developing countries has promoted the service sector. This has resulted in a change in the advertising and marketing technologies. This provides more scope for employment opportunities. Educated unemployment to some extent is reduced by the FDI as they could absorb some of Indian work force.

6. Promotion of financial services:

FDI strengthens financial services of a country by not only entering its banking industry but also by extending other activities such as merchant banking, portfolio investment, etc., which has resulted in the promotion of more new companies. It has also helped the capital market in the country.

7. Exchange rate stability:

Reserve Bank of India has been maintaining the exchange rate in the country through its exchange control measures. But the constant and continuous supply of foreign exchange is a must for continuing exchange rate stability. With more FDIs coming into the country, this is made possible and today RBI is having a comfortable foreign exchange reserve position of more than 1 billion dollars.

8. Development of backward areas:

Foreign direct investments are in a way responsible for the development of backward areas. There are so many industries started by them in far reaching and backward areas, as a result of which these areas have developed into industrial centres. Some of the backward regions have utilized the services of FDIs for starting industries in backward areas. Examples are Hyundai and Ford car units started at Sriperumbadur and Maraimalainagar in India.

9. Utilization of natural resources:

The natural resources in the country is put to better use by the FDls which otherwise would have remained un utilised. The examples are Saint Gobain glass company and manufacture of paper and newsprint.

10. Change in the lifestyle of people:

The presence of FDIs has no doubt changed the life-style pattern of people. The purchase of consumer goods such as TV, fridge, automobiles are made possible as these goods are made available through hire purchase system. The increasing number of automobiles in most of the cities is a standing example for the change in the life-style

FDI AND DEVELOPING COUNTRIES (FDI AND INDIA)

Foreign direct investment (FDI) in developing countries has a bad reputation. In some discussions, it is presented as tantamount to postcolonial exploitation of raw materials and cheap labour. Howe ver, recent data shows that FDI in developing countries increasingly flows to medium and high-skilled manufacturing sectors, involving elevated income levels (Figure 1). What‘s more, many emerging economies have built their growth on FDI flows.

Quality FDI

The trick is to attract –quality FDI‖ that links foreign investors into the local host country economy.

Quality FDI is characterised as:

- contributing to the creation of decent and value-adding jobs;
- enhancing the skill base of host economies;
- facilitating the transfer of technology, knowledge and know-how;
- boosting competitiveness of domestic firms and enabling their access to markets; and
- operating in a socially and environmentally responsible manner.

To achieve this, host countries cannot just wait and see what international market forces may bring to them. Rather, they need tailored policies to overcome domestic imperfections that hinder the smooth integration of indigenous and foreign firms into world-wide supply-chain networks.

Recent research offers evidence for strategies in developing countries that successfully turned FDI into quality FDI. The idea underlying the following suggestions is to learn the lessons from experience

Foreign Investment and its Impact on Developing Countries

In recent months, there has been much debate over whether opening up of economies to foreign direct investment is good for developing countries.

Further, foreign direct investment is seen by many old timers as surrendering the sovereignty of the country though the younger generation views it as a blessing for the economy.

Whatever be the stance, it cannot be denied that with the global economy being integrated so tightly, developing countries have no choice but to allow foreign direct investment. However, they can have some restrictions on which sector to invest and how much profit can be repatriated.

Impact of Foreign Direct Investment on Developing Countries

Many developing countries do not have the necessary resources at their disposal to develop some sectors and hence, they permit foreign capital to invest in these sectors. Of course, they also ensure that sectors like defense and other sectors that have national security implications are kept off the list of sectors in which foreign direct investment is allowed. For many countries, opening up of their economies results in benefits since they need the dollars as well as because they might not have the expertise to commence productive activities in these sectors. Finally, foreign direct investment can be used to pay for expensive imports and encourage exports as well. After all, every developing country (except those with large oil reserves) needs to pay for its oil imports in dollars and hence foreign direct investment helps to earn precious dollars.

Downsides of Foreign Direct Investment on Developing Countries

There are many downsides to allowing Foreign Direct Investment into the developing countries. However, the developing countries benefit because of inflow of dollars and much needed capital, which is not available domestically, there is scope for outflow of dollars as well since the foreign companies typically repatriate a part or whole of their profits back to their home countries. This is the reason why developing countries must think twice before allowing blanket foreign direct investment. To circumvent this, many developing countries typically restrict foreign direct investment into sectors that badly need capital and where the developing country does not have expertise. Further, the fact that many developing countries have capital controls on the capital account (which is to restrict wholesale repatriation of both profits and investment) and relax the current count where only profits and that too a percentage of it is repatriated.

Closing Thoughts

The key point here is that no country can be isolated from the global economy in this day and age. Hence, **it is in the interest of developing countries to allow foreign direct investment though some safeguards can be put in place as discussed above**. Of course, the best path would be to not have a blanket ban on foreign investment nor to allow 100% foreign investment. In this respect, countries like India and China have showed the way on how to attract investment and at the same time not fall prey to the phenomenon of capital flight that happened to East Asian economies in 1998.

EXIM BANK

Exim Policy or **Foreign Trade Policy** is a set of guidelines and instructions established by the **DGFT** in matters related to the import and export of goods in India.

India New Foreign Trade Policy (Exim Policy) 2015-2020

–The existing foreign trade policy 2015-20 which is valid up to March 31 this year is extended up to March 31, 2021,‖ the Directorate General of Foreign Trade (DGFT) said in a notification.

As per the notification, the validity of various import-linked export schemes such as Duty Free Import Authorisation (DFIA) and Export Promotion Capital Goods (EPCG) have been extended by one year.

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

History of Exim Policy of India

In the year 1962, the Government of India appointed a special **Exim Policy** Committee to review the government previous export import policies. The committee was later on approved by the Government of India. Mr. V. P. Singh, the then Commerce Minister and announced the Exim Policy on the 12th of April, 1985. Initially the EXIM Policy was introduced for the period of three years with main objective to boost the **export business** in India

EXIM Policy is the **export import policy** of the government that is announced every five years. ... This **policy** consists of general provisions regarding exports and imports, promotional measures, duty exemption schemes, export promotion schemes, special economic zone programs and other details for different sectors.

Objectives Of The FTP (EXIM) Policy:

The main objectives are:

1. **To accelerate** the economy from low level of economic activities to high level of economic activities by making it a globally oriented vibrant economy and to derive maximum benefits from expanding global market opportunities.
2. **To stimulate** sustained economic growth by providing access to essential raw materials, intermediates, components,' consumables and capital goods required for augmenting production.

3. **To enhance** the techno local strength and efficiency of Indian agriculture, industry and services, thereby, improving their competitiveness.
4. **To generate** employmentOpportunities and encourage the attainment of internationally accepted standards of quality.
5. **To provide** quality consumer products at reasonable prices.

Salient Features of the New Export & Import Policy

Govt. of India introduced a series of trade reforms since July 1991 as part of economic liberalisation. The aim of the new policy was to promote exports and to remove restrictions on imports.

The following are the salient features of the new export, import policy:

1. Increase in number of Export Items:

The Govt. has identified many new products for exports. They are fish and fish preparations, agricultural products and marine products etc. These products are import-light and hence pressure on foreign exchange was relieved.

2. Special Economic Zones:

For promotion of exports, special economic zones (SEZ) have been established. SEZ units are deemed to be foreign territory for the purpose of trade operations and tariffs. The main objective of the SEZ units is to provide a congenial atmosphere for exports. Indian banks were pre-mitted to establish off share banking units in SEZ. These units will attract foreign direct investments (FDI‘s) and would be free from cash reserve ratio (CRR) and statutory liquidity ratio (SLR).

3. Role of Public Sector Agencies:

Certain exports are controlled by Public sector agencies like State Trading Corporations (STC), Mineral and Metal Trading Corporation (MMTC). Now these are asked to compete with other exporters. Foreigners have been permitted to set up trading houses for export purposes.

4. Restriction Free Export Policy:

Restrictions on exports have been reduced to minimum according to new policy. Export restrictions have been imposed on a few sensitive commodities taking the domestic demand and supply factors into consideration. Export duties are now not considered as source of revenue generation but a means of increasing the competitiveness of domestic exporters in the international market.

5. Liberalisation of Export-Oriented Import:

Import licenses were removed from most of the items. Provisions were made to levy low custom duties an imports which were used as inputs for production of export goods. Imports were linked to the availability of foreign exchange generated through exports.

Import duties were gradually reduced and the objective was to equal the same with other countries of the world. The restrictions laid on import of all items were removed to conform to the WTO norms and these were put under Open General License (OGL) list. This process liberalized imports and simplified export-import procedures.

6. Convertibility of Rupee:

To increase exports, the rupee was made partly convertible on current account. In 1994-95 budget rupee was made fully convertible.

7. Devaluation of Rupee:

Generally speaking, devaluation of rupee means lowering the value of rupee in terms of foreign currencies. Devaluation makes domestic goods cheaper in the foreign market. To cover the balance of payment difficulty. Govt. of India devalued rupee in June 1991 by 23%. This helped in encouraging exports.

Information related to EXIM Policy/ Foreign trade policy

India New Foreign Trade Policy (Exim Policy) 2015-2020

Interim New Exim Policy 2009 - 2010

Exim Policy: 2004- 2009

Exim Policy 1997 -2002

Indian Institute of Foreign Trade

India Trade Promotion Organization (ITPO)

National Centre for Trade Information (NCTI)

Export Credit Guarantee Corporation (ECGC)

UNIT- II: Fiscal Policies and Balance of Payments: Public Revenue and Expenditure–Public Debt – Trends in Revenue and Expenditure of Central and State Governments – Deficit Financing in India – Highlights of Budget - Balance of Payments - Structure and Components of Balance of Payments – Causes and Correction Measures of Disequilibrium in Balance of Payments.

UNIT-III: International Trade Regulatory Frame work: Trade Barriers - Tariff and Non-Tariff Barriers – Quotas – Export Promotion and Import Substitution - Foreign Exchange Market – Exchange Rate and its Impact on Exports and Imports – Foreign Exchange Risk - FEMA.

Unit – ii : fiscal policies and Balance of Payments

Public Revenue is an important concept of Public Finance. It refers to the income of the Government from different sources. Dalton in his "Principles of Public Finance" mentioned two kindsof public revenue. Public revenue includes income from taxes and goods and services of public enterprises, revenue from administrative activities such as fees, fines etc. and gifts and grants. On the other hand public receipts include all the incomes of the government received from formal sources.

The sources of public revenue have been broadly divided into:

(A) Tax Revenue **(B) Non-Tax Revenue.**

(A) Tax Revenue

Taxes are the first and foremost sources of public revenue. Taxes are compulsory payments to government The Tax has been divided into two types such as Direct Taxes and Indirect Taxes.

(A) Direct Taxes:

Direct taxes are those taxes which are paid by the same person on whom it has been imposed. Direct taxes include the following taxes.

i) **Personal Income tax** is a tax imposed on the excess income earned by an individual over and above the limit decided by the finance ministry form time to time. It is progressive in nature.
ii) **Corporate Tax** is a tax levied on the profits earned by registered companies.
iii) **Capital Gains Tax** is a tax imposed on the net profits earned through capital investment in stock market ,Rreal estate, Gold and Jewelry etc.
iv) **Wealth Tax (or) Property Tax** is a tax levied upon the property owned by individuals. The property includes Land, Building, shares, Bonds, Fixed Deposits, Gold and Jewelry etc.
v) **Other taxes :**These taxes include taxes like **Gift tax** and **Estate duty.**

(B) Indirect Taxes:

Indirect taxes are those taxes which are imposed on one group of people, but the ultimate burden will fall on another group of people. . The important Indirect Taxes are as follows:

i) **Excise Duty** is a tax imposed on the manufacturers as per the value of goods produced but the ultimate burden will fall on the final consumers.

ii) **Customs Duty** is a tax imposed on import and export of Goods
iii) **Value Added Tax (VAT)** is a part of a sales tax imposed by the state government.

iv) **Sales Tax** revenue goes to the state government when sale or purchase takes place within the state. Sales tax revenue on interstate transactions goes to the central government.

v) **Service Tax** is tax imposed on services provided. The impact is on the service provider and the incidence of tax false on the customers. Service tax is the fastest growing tax in India.

vi) **Octroi**is a tax levied on transfer of goods from one state to another or from one region to another.

(B) Non-Tax Revenue:

These sources of revenue are classified as **administrative revenues, commercial revenues** and grants and gifts.

1) **Grants: Grants :**
are made by a higher public authority to a lower one, for example, from the Central to the State government or from the State to the local government.

2) **Gifts:**
Gifts and donations are voluntarily made by individuals, organizations, foreign governments to the funds of the government, e.g. Prime Minister's Relief Fund.

3) **Fees:**
Fees are an important source of **administrative non-tax revenue** . For example, fees are charged for issuing of passports, granting licenses to telecom companies, driving licenses etc.

4) **Fines and Penalties:**
Another source of administrative non-tax revenue includes fines and penalties. They are imposed asa form of punishment for breaking law . They are not expected to be a major source of revenue to the government.

5) **Special Assessment:**
It is a kind of special charge levied on certain members of the community who are beneficiaries of certain government activities or public projects. For example, due to public park in a locality or dueto the construction of a road, people in the locality may experience an appreciation in the value of their property or land.

6) **Surpluses of Public Enterprises:**
Most countries have government departments and public sector enterprises involved in commercial activities. The surpluses of these departments and enterprises are an important source of non-tax revenue. These revenues are in the form of profits and interests and are termed as **commercial revenues**.

7) **Borrowings:**When government revenue is not sufficient to meet the public expenditure government borrows either from internal or external sources. Borrowing is income of the government which creates liability because the government has to repay the borrowings with interest.

PUBLIC EXPENDITURE

The term public expenditure refers to the expenses of public authorities like the Central, state and local governments. Public expenditure occupies a very important place in the study of public finance. It is the end of all financial activities of the government. Public expenditure is incurred basically to maximize social welfare.

Classification of public expenditure refers **to the systematic arrangement of different items on which the government incurs expenditure.**

1. **Revenue and Capital Expenditure:**

(A) **Revenue Expenditures** are **recurrent** or **consumption expenditures** incurred on public administration, defence forces, public health and education, maintenance of government machinery,subsidies and interest payments. These expenditures are **recurrent** in nature and they do not create any capital assets.
Revenue expenditure is classified into **development** and **non-development** expenditure

i) **Development Expenditure:**
The part of revenue expenditure that directly or indirectly contributes to the development of the country is known as **development revenue expenditure**. For example, maintenance of education

ii) **Non-Development Expenditure:**
The part of revenue expenditure that may not directly contribute to economic development is known as non-development revenue expenditure. Eg:, payment of old age pension etc.

(B) **Capital Expenditures** are incurred on **building durable assets**, like highways, multipurpose dams, irrigation projects, buying machinery and equipment. They are a **non-recurring type** of expenditure in the form of **capital investments**. Such expenditures are expected to improve the productive capacity of the economy.

2. **Productive and Unproductive Expenditure**

(a) **Productive Expenditure:**
Expenditure on infrastructure development, public enterprises or development of agriculture increase productive capacity in the economy and bring income to the government through tax and non-tax revenues. Thus they are classified as productive expenditure.

(b) **Unproductive Expenditure:**
Expenditures in the nature of consumption, such as defence, interest payments, expenditure on law and order, public administration do not create any productive asset which can bring income or returns to the government. Such expenses are classified as unproductive expenditures.

3. **Non-Transfer and Transfer Expenditure:**

(a) **Non-transfer Expenditures:**
Are incurred for buying or using goods and services. These include expenditure on defence,education, public health etc. Investment expenditures on capital assets are also non-transfer expenditures as the government gets capital goods and assets in return for them.

(b) **Transfer Expenditures:**
Refer to those expenditures against which there is no corresponding transfer of real resources i.e. goods or services. These include expenditures incurred on old age pension, unemployment allowance, sickness benefits, interest payments on public debt and subsidies.

4. **Plan and Non-Plan Expenditure:**

(a) Plan Expenditures:

Refer to the spending of the annual funds allocated by the Central government for development schemes outlined in the ongoing Five Year Plan. For example: Industrial Development, Agricultural Development, Infrastructure, Education & Health etc.

(b) Non-Plan Expenditures:

Include all those expenditures of the government that are not included in the ongoing Five-Year Plan. They include both development and non-development expenditure. Part of the expenditure is obligatory in nature e.g. interest payments, pensions etc. and a part is essential obligation e.g. defence and internal security.

5. **Dalton's Classification:**

Economist Hugh Dalton has provided the following comprehensive classification of publicexpenditure:

i) **Expenditures on political executives** i.e. maintenance of ceremonial heads of state, like thePresident.
ii) **Administrative expenditure** to maintain the general administration of the country, like government departments and offices.
iii) **Security expenditures** to maintain armed forces and the police forces.
iv) **Expenditures on administration of justice** include maintenance of courts, judges, publicprosecutors.
v) **Developmental expenditures** to promote growth and development of the economy, likeexpenditure on infrastructure, irrigation etc.
vi) **Social expenditures** on public health, community welfare, social security etc.
vii) **Public debt charges** include payment of interest and repayment of principal amount.

Trends in Public Revenue and Expenditure

Trends in Public Expenditure:

- **Wagner's Law**

Adolph Wagner in 1876 propounded "Law of increasing state activities" which explains that the public expenditure increases over time as the economy grows.

- **Peacock Wiseman Hypothesis**

The first effect is called displacement effect i.e. due to some desirable or undesirable reason the level of public expenditure and taxation increase to a new level with displacing the old level. The second effect is the inspection effect The third effect is called concentration-effect as it is not possible to go back to old level.

- **Trends in Total Public Expenditure**

Socialism is in the preamble to the constitution of India. After independence the Indian government is continuously working to establish a welfare state. The study found an increasing trend in total expenditure of the both state and Indian government in absolute terms in India.

Since the last decade the public expenditure has grown significantly and started to rise upward. During this decade the public expenditure has been growing very fast and moving toward the vertical shape.

Causes of Growth of Public Expenditure in India

The increasing trends in public expenditure in India are due to various factors. Followings are the some important reasons that resulted in increase in public expenditure in India.

- **Population**

The increase in population is one of the major causes of the growth of public expenditure in India. Increasing population requires more and more social sectors expenditure, public goods and strong law and order.

- **Increase in per-capita income**

According to Musgrave increase in per-capita income leads to an increase in demand for public goods.

- **Defense Expenditure**
  Defence expenditure in India has increased significantly.
- **Subsidy**
  The subsidy is necessary to support essential economic activities like agriculture.
- **Interest payments**
  Interest payments have been increased over time contributes significantly to raising public expenditure in India.
- **Administrative services Expenditure**
  Administrative services are necessary to maintain peace, law and order. The administrative expenditure has also increased very rapidly.
- **Social services Expenditure**
  The social services expenditure also has increased over time in India. .
- **Urbanization and Infrastructure Development**
  India is still to urbanized so a major portion of expenditure goes to urbanization and development of basic infrastructure facilities. Government undertakes the development and construction of various social overheads to support economic activities.
- **Inflation**
  This is also one of the reasons that increased public expenditure. Inflation is a rise in the general price level in the country. Inflation increases the cost of both new and existing projects.

Trends in Public revenue

Central Government receipts can broadly be divided into non-debt and debt receipts. The non-debt receipts comprise of tax revenue, non-tax revenue, recovery of loans, and disinvestment receipts. Debt receipts mostly consist of market borrowings and other liabilities, which the government is obliged to repay in the future. The Budget 2021-22 targeted significantly high growth in non-debt receipts of the Central Government, which was driven by robust growth in all its' components

The public revenue shows at an increasing rate but at a lower speed compared to expenditure.

The reasons are

a. GST boosts government's revenues

GST biggest source of tax revenue: In 2017, the Goods and Services Tax, or GST, came into effect. It replaced several multiple taxes levied by the central and state governments. Since then it has become the major source of the government's indirect tax collection. In 2021-22, over 57% of the indirect tax collection came from GST.

b. **Government gives citizens an option to choose slab:** In 2020, two tax regimes were introduced – Old and New. The New Tax Regime has more (seven) slabs rates, ranging from 0% to 30%. The maximum rate is applicable on income above Rs 15 lakh. The Old Tax Regime has four slabs rates with the maximum rate applicable on income above Rs 10 lakh.

c. Borrowings fund nearly half of government's spending:
The borrowings for financing the deficit has increased rapidly.

d. Government's 'business' ventures

Revenue from various government activities and services such as administrative services, public service commission, police, jails, agriculture and allied services.

Numbers: Non-tax revenue was expected to be Rs 2,43,028 crore in the 2021-22 Budget, an annual decrease of 14% over the actuals for 2019-20.

e. Disinvestment creates capital

A large portion of the capital receipts of the government is fuelled by revenue generated from disinvestments.

Public Debt:

Public debt or public borrowing is considered to be an important source of income to the government. If revenue collected through taxes and other sources is not adequate to cover government expenditure, government may resort to borrowing.

Public debt may be raised internally or externally. Internal debt refers to public loans floated within the country, while external debt refers loans floated outside the country.

Loans taken by the government may be from individuals, banks, financial institutions like the International Monetary Fund, World Bank etc. The instruments of public debt take the form of government bonds or securities of various kinds.

Types of public Debt:

Government loans are of different kinds. They may differ in respect of time of repayment, the purpose, conditions of repayment, place of their floating and the method of covering the liability. Thus public debt may be classified into following types.

1. **Internal and External Debt:**The internal loans are raised within the country and subscribed mainly by its own citizens and/or institutions. It is repayable only in domestic currency. An internal debt maybe either voluntary or compulsory. Internal debtimply a redistribution of income and wealth within thecountry and therefore it has no direct money burden.

   External loans are raised from foreign countries or international institutions. These loans are repayable in foreign currencies. External loans help to take up various development programme in developing and underdeveloped countries. These loans are usually voluntary. An external loan involves, initially a transfer of resources from foreign countries to the domestic country but when interest and principal amount are being repaid a transfer of resources takes place in the reverse direction.

2. **Voluntary and Compulsory debt:**Public debts may be incurred through voluntary or compulsory loans. Generally, public loans are voluntary in nature. In this case the government makes an announcement regarding the floating of loans. This announcement may be accompanied by some kind of publicity. The government floats a loan by issuing certificates, bond, etc. Individuals, banks and other financial institutions lend to the government willingly by purchasing these securities.

   On the other hand, compulsory loans are those which are raised by using coercive methods. A compulsory loan is a rare phenomenon in modern public finance unless there are some special circumstances like war or crisis. The rate of interest on such loans may be low. Considering the compulsion aspect, these loans resemble a tax, the only difference is that loans are repaid but tax isnot. In India, Compulsory Deposit Scheme is an example of compulsory debt.

3. **Productive and unproductive debts:**Public debt is said to be productive when it is raised for productive purposes and is used to add to the productive capacity of the economy. If the borrowed money is invested in the construction of railways, irrigation projects, power generations, etc. It adds to the productive capacity of the economy and also provides a continuous flow of income to the government. The interest and principal amount is generally paid out of income earned by the government from these projects.

   Unproductive are those which do not add to the productive capacity of the economy. Such debts arenot necessarily self-liquidating. The interest and the principal amount may have to be paid from other sources of revenue, generally from taxation, and therefore, such debts are a burden on the community. Public debt used for war, famine relief, social services,etc. is considered as unproductive debt.

4. **Short Term, Medium Term and Long-Term Debt:**Here the basis of classification is duration of loans. Short-term debt matures within a duration of 3 to 9 months. Generally, rate of interest is low. For instance, in India, Treasury Bills of 91 days and 182 days are examples of short term debts incurred to cover

temporary shortages of funds. The treasury bills of government of India, which usually have a maturity period of 90 days, are the best examples of short-term loans. Interest rates are generally low on such loans. Long-term debt has a maturity period of ten years or more. Generally the rate of interest is high. Such loans are raised for development programmes and to meet other long0-term needs of public authorities.
Medium-term debt has a maturity period in between short-term and long-term loans. The rate of interest is intermediate. They are generally raised for welfare programmes.

5. **Redeemable and Irredeemable Debt:**Redeemable debt is repaid at some specific future date and therefore, government has to make arrangement for repayment of interest and principle amount within a specific time period. These loans are terminable. The debts which the government promisesto pay off at some future date are called redeemable debts.
   In case of irredeemable debt, no definite date for final repayment is promised for the rate of interest is paid regularly. Therefore, the government makes arrangements for interest payment only. Such debts are likely to become perpetual and therefore, they are considered as undesirable on the grounds of sound finance. The maturity period is not fixed. Such loans create a burden as taxes would be raised to pay the debt in the future.

6. **Funded and unfunded debts:**The basis of division is duration of the loan. It has a maturity periodof at least twelve months at the time of issue. The period is generally longer than this and it may be even 30 years or more. Funded debt has an obligation to pay a fixed sum of interest, subject to an option to the government to repay the principal. The government may repay it even before the maturity if market conditions are favourable.
   Unfunded debt has an obligation to pay at due date with interest. In such debts duration iscomparatively short say a year. Unfunded debts are incurred to meet temporary needs of the government. The rate of interest is low.

Budget :

The public budget consists of a financial plan of a government. It contains the details of its programmes and policies, the estimated receipts and proposed expenditure under different headsfor a specific period, usually a year. Preparing the budget is a very important activity of thegovernment. Public budget is a very important fiscal document. It reflects the programmes and policies of a government.

1. **Departmental and Ministerial Budgets:**Every department of each ministry prepares its departmental budget. These departmental budgets are consolidated into the budget of the ministry. All such budgets of ministries are then consolidated into the main budget. This is presented to the parliament of the country every year. In some cases if a particular ministry is large, a separate budget is placed before the parliament by the concerned minister.
   Example: The railway budget in India. But its overall revenue and expenditure statement is included in the main budget.

2. **Union and State Budgets:**Both the central government and the state governments require money for the fulfillment of their respective needs. The sources of revenue for them are different. The constitution contains the functions of the centre and the state. The types of taxes and the power to levy taxes and the distribution of taxes between the states and the centre are also laid down in the constitution.
   Thus every state government presents its state budget to its legislature and the central government presents the union budget. The grants-in-aid received by the state governments from the central government are

mentioned in their respective budgets and also in the union budget.

3. **Administrative and Cash Budgets:** The administrative budget shows the revenue and expenditure on actual basic. It excludes those funds which are owned by the government. On the other hand, cash budget shows revenue and expenditure on actual payment basis. It includes funds which do not belong to the government.

4. **Plan and Non-Plan Budget:** The plan budget shows the budgetary provisions relating to the annualplan for the year. The plan budget includes the financial provisions of the government relating to the different sectors such as agriculture and allied sector, industry and mines, transport and communications, power, social services etc. The plan budgets also includes central assistance for state Plans. Non-plan budget relates to other than the plan expenditure.

5. **Executive and Legislative Budget:** The legislative budget is prepared by the legislature directly orwith the help of committees. A legislature consists of elected representatives of the government. The executive budget is prepared by the executive wing of the government. The executive isresponsible to the implementations of the budget proposals prepared by the legislation. Theexecutive budget is likely to be better because the executive being actual player in the field canhave more correct estimate of expected revenues and expenditures than the legislature.

6. **Revenue Budget and Capital Budget:** Revenue Budget refers to the financial statement of the government dealing with Revenue receipts and Revenue expenditure. Revenue receipts consists of both Tax Revenue and Non-tax revenue. Tax revenue includes both direct taxes and Indirect taxes. On the other sides Non-tax revenue includes fees, fines, penalties, surplus from public sector organizations, interest and dividends from investments etc. Revenue expenditure is the expenditure on the day to day activities or services of the government. Both revenue receipts and revenue expenditure are recurring in nature.
   Capital budge refers to the financial statement of the government dealing with capital receipts and capital expenditure. Capital receipts include funds received by the government in the form of borrowings, provident funds, loan recoveries, disinvestment funds and other incomes of government. Capital expenditure includes the expenditure on creation of capital assets like roads, buildings, irrigation projects, power generation projects, establishment of industries etc.

7. **Deficit, Surplus and Balanced Budgets:** A budget is said to be balanced when public revenue equals public expenditure. If the public expenditure is more than public revenue it is called a deficit budget and if the public revenue exceeds the public expenditure it is known as surplus budget.

Components of budget / concepts of Budget.

1. **Revenue Receipts:** Revenue receipts refer to those receipts which increase usable funds of the government without creating any debt liability. It includes receipts from taxation and other non-tax receipts like registration fees, court fees, fines and penalties surpluses from public enterprises and surpluses from public utilities. .

2. **Capital receipts:** Capital receipts refer to those receipts which increase the usable funds of the government by creating debt obligations or by causing a reduction in the assets of the government.

3. **Revenue Expenditure:**Revenue expenditure refers to those items of current expenditure which reduce the usable funds of the government without reducing any debt liability

4. **Capital expenditure:**Capital expenditure refers to expenditure incurred by the central government on acquisition of assets like land, building, machinery and equipment, investment on shares, loans granted to state and union territories, government companies, corporations etc.

5. **Development expenditure:**It refers to expenditure incurred by the government on programmes related to the growth and development activities of the government. It includes expenditure on education, health, industry, road, channels, rural developments, water works and power generation etc.

6. **Plan expenditure:**It refers to expenditure incurred by the government towards its planned development programmes.

7. **Non development expenditure:**It refers to expenditure incurred on the non development activities of the government. It includes activities like maintenance of law and order, defence, tax collections, payment of interest and loan, payment of old age pension etc.

8. **Non plan expenditure:**It refers to expenditure made beyond the preview of the plan development activities of the government. It includes expenditure on subsidies, defence, law and order, payment of loan and interest etc.

Budget Highlights for the year 2022
: The Union Budget seeks to complement macro-economic level growth with a focus on micro-economic level all inclusive welfare. The Union Minister for Finance & Corporate Affairs, Smt Nirmala Sitharaman tabled the Union Budget 2022-23 in Parliament today.
The key highlights of the budget are as follows:

PART A
India's economic growth estimated at 9.2% to be the highest among all large economies.
60 lakh new jobs to be created under the productivity linked incentive scheme in 14 sectors.
PLI Schemes have the potential to create an additional production of Rs 30 lakh crore.
Entering Amrit Kaal, the 25 year long lead up to India @100, the budget provides impetus for growth along four priorities:

- PM GatiShakti
- Inclusive Development
- Productivity Enhancement & Investment, Sunrise opportunities, Energy Transition, and Climate Action.
- Financing of investments

PM GatiShakti
The seven engines that drive PM GatiShakti are Roads, Railways, Airports, Ports, Mass Transport, Waterways and Logistics Infrastructure.
Education
'One class-One TV channel' programme of PM eVIDYA to be expanded to 200 TV channels.

Banking
100 per cent of 1.5 lakh post offices to come on the core banking system.
Scheduled Commercial Banks to set up 75 Digital Banking Units (DBUs) in 75 districts.
e-Passport
e-Passports with embedded chip and futuristic technology to be rolled out.
Accelerated Corporate Exit
Centre for Processing Accelerated Corporate Exit (C-PACE) to be established for speedy winding-up of companies.
Telecom Sector
Scheme for design-led manufacturing to be launched to build a strong ecosystem for 5G as part of the Production Linked Incentive Scheme.
Export Promotion
Special Economic Zones Act to be replaced with a new legislation to enable States to become partners in 'Development of Enterprise and Service Hubs'.
Digital Rupee
Introduction of Digital Rupee by the Reserve Bank of India starting 2022-23.

Fiscal Management
Budget Estimates 2021-22: Rs. 34.83 lakh crore
· Revised Estimates 2021-22: Rs. 37.70 lakh crore
· Total expenditure in 2022-23 estimated at Rs. 39.45 lakh crore
· Total receipts other than borrowings in 2022-23 estimated at Rs. 22.84 lakh crore
· Fiscal deficit in current year: 6.9% of GDP (against 6.8% in Budget Estimates)
Fiscal deficit in 2022-23 estimated at 6.4% of GDP

Deficit financing in India

"

Deficit occurs when expenses are more than revenue. The various types of deficits are

Revenue Deficit: Revenue deficit occurs when the revenue expenditure exceeds revenue receipts.

Revenue Deficit = (R.R. – R. Exp.)

Budgetary deficit: Budgetary deficit denotes the difference between all receipts and expenditure of the government, both revenue and capital

Fiscal deficit: Fiscal deficit is treated to be a complete and comprehensive deficit. It is an internationally recognized concept. It is the excess of total expenditure (both revenue & capital accounts) over revenue receipts

Primary deficit: Primary deficit is equal to fiscal deficit minus interest payments

Monetised deficit: It shows the net increase in holdings of treasury bills of the RBI and its contribution to the market borrowings of the government. In other words it refers to the increase in central bank's credit to the government.

The deficit is financed through internal and external debt

Internal debt comprises of the following:

1. **Market Borrowings:** These are interest bearing loans with maturity period of one year more. They are raised in the open market through sale of government securities. Such loans are used for development as well as non-development purposes. Market borrowings have increased significantlyfrom Rs.70,520 crore in 1990-91 to Rs.17,66,900 crore in 2009-10.

2. **Treasury Bills:** T-Bills are a major source of short-term funds for the government, usually used to meet revenue shortfalls. On maturity the face value is paid to the holder. The government issues T- Bills of 91-day, 182-day and 364-day maturity period.
3. **Bonds:** Bonds are medium to long term credit instruments through which the government funds its development expenditures. The Government of India has issued gold Bonds, National Rural Development Bonds. Capital Investment Bonds, Special Bearer Bonds over the years.
4. **Special Floating and other Loans:** These include contribution of the Government of India towards the capital of IMF, International Bank for Reconstruction and Development and International Development Association. These are non-negotiable, non-interest bearing short term debt of the government and can be called back the International institutions.
5. **Special Securities Issued to the RBI:**The government issues non-negotiable, non-interest bearingspecial securities to borrow from RBI. Such borrowings are for not more than one year. In recent years, there has been a steep decline in this source of public debt.
6. **Ways and Means Advances:**These are temporary advances or overdrafts extended by RBI to the government. These advances bridge the gap between expenditure and receipts. They are not a source of finance but are meant to provide support, for temporary difficulties that arise because of mismatch or shortfall in revenue or other receipts. They have to be repaid usually within three months.
7. **Small Savings:**Small savings include Post Office Savings and Time Deposits, National Savings Scheme, KisanVikasPatra, National Savings Certificates, Small Savings play a significant role in mobilization of the financial resources required for planned development.
8. **Provident Funds:**These are of two types: (i) Employee's Provident Fund, and (ii) Public Provident Fund. These funds are liabilities of the government. The government uses these funds as a source of finance. People are encouraged to save in such funds as they offer attractive returns.
9. **Reserve Funds and Deposits:**They include Depreciation and Reserve Funds of Railways, Departments of Posts and Department of Telecommunications, deposits of Local Funds, departmental and judicial deposits and civil deposits. These funds and deposits are the liabilities of the Central government and they are divided into interest-bearing and non-interest bearing

EXTERNAL DEBT:

As a developing country. India has raised loans from many countries for developmental purposes. Major lenders include USA, former USSR, Japan, Germany and France. India has also borrowed from the IMF, IBRD and IDA.

Balance of Payments

According to Kindle Berger, "The balance of payments of a country is a systematic record of all economic transactions between the residents of the reporting country and residents of foreign countries during a given period of time".

Definition

The balance of payments of a country is a systematic record of all economic transactions between the residents of a country and the rest of the world. It presents a classified record of all receipts on account of goods exported, services rendered and capital received by residents and payments made by them on account of goods imported and services received from the capital transferred to non-residents or foreigners.

- Reserve Bank of India

A country has to deal with other countries in respect of the following

1. Visible items which include all types of physical goods exported and imported.
2. Invisible items which include all those services whose export and import are not visible. e.g. transport services, medical services etc.
3. Capital transfers which are concerned with capital receipts and capital payment.

Features

- It is a systematic record of all economic transactions between one country and the rest of the world.
- It includes all transactions, visible as well as invisible
- It relates to a period of time. Generally, it is an annual statement.
- It adopts a double-entry book-keeping system. It has two sides: credit side and debit side. Receipts are recorded on the credit side and payments on the debit side.

Balance of Trade

The difference between a country's imports and its exports. Balance of trade is the largest component of a country's balance of payments. Debit items include imports, foreign aid, domestic spending abroad and domestic investments abroad.

Credit items include exports, foreign spending in the domestic economy and foreign investments in the domestic economy.

When exports are greater than imports than the BOT is favourable and if imports are greater than exports then it is unfavourable

The various components of a BOP statement

1. Current Account
2. Capital Account
3. Reserve Account
4. Errors & Omissions

1. Current Account Balance

• BOP on current account is a statement of actual receipts and payments in short period.

• It includes the value of export and imports of both visible and invisible goods. There can be either surplus or deficit in current account.

• The current account includes:- export & import of services, interests, profits, dividends and unilateral receipts/payments from/to abroad.

• BOP on current account refers to the inclusion of three balances of namely – Merchandise balance, Services balance and Unilateral Transfer balance

2. Capital Account Balance

 The capital account records all international transactions that involve a resident of the country concerned changing either his assets with or his liabilities to a resident of another country. Transactions in the capital account reflect a change in a stock – either assets or liabilities.

 It is difference between the receipts and payments on account of capital account. It refers to all financial transactions.
 The capital account involves inflows and outflows relating to investments, short term borrowings/lending, and medium term to long term borrowing/lending.
Capital Account Balance
 There can be surplus or deficit in capital account.
 It includes: - private foreign loan flow, movement in banking capital, official capital transactions, reserves, gold movement etc.
 These are classifies into two categories: Direct foreign investments (FDI) and Foreign Institutional investment (portfolio investment)
3. The Reserve Account
Three accounts: IMF, SDR, & Reserve and Monetary Gold are collectively called as The Reserve Account.4.
The IMF account contains purchases (credits) and repurchase (debits) from International Monetary Fund. Special Drawing Rights (SDRs) are a reserve asset created by IMF and allocated from time to time to member countries. It can be used to settle international payments between monetary authorities of two different countries
Errors & Omissions
 The entries under this head relate mainly to leads and lags in reporting of transactions
 It is of a balancing entry and is needed to offset the overstated or understated components.

Receipts (Credits)	*Payments (Debits)*
1) Exports of goods	1) Imports of goods
Trade Account Balance	
2) Exports of services	2) Imports of services
3) Interests, profits and dividends received	3) Interests, profits and dividends paid
4) Unilateral receipts	4) Unilateral Payments
Current Account Balance (1 to 4)	
5) Foreign Investments	5) Investments abroad
6) Short term borrowing	6) Short term lending
7) Medium and long term borrowing	7) Medium and long term lending
8) Statistical discrepancy (Errors and omission)	
Capital Account Balance (5 to 8)	
9) Change in reserves (+)	9) Change in reserves
Total Receipts = Total payments	

Disequilibrium In The Balance Of Payments
A disequilibrium in the balance of payment means its condition of Surplus Or deficit
 A Surplus in the BOP occurs when Total Receipts exceeds Total Payments. Thus,
BOP= CREDIT>DEBIT
 A Deficit in the BOP occurs when Total Payments exceeds Total Receipts. Thus,
BOP= CREDIT<DEBIT
Causes of Disequilibrium In The Bop
 Cyclical fluctuations
 Short fall in the exports

 Economic Development
 Rapid increase in population
 Structural Changes
 Natural Calamites
 International Capital Movements
Measures To Correct Disequilibrium in the BOP
1. Monetary Measures :-
a) Monetary Policy
The monetary policy is concerned with money supply and credit in the economy. The Central Bank may expand or contract the money supply in the economy through appropriate measures which will affect the prices.
b) Fiscal Policy
Fiscal policy is government's policy on income and expenditure. Government incurs development and non - development expenditure,. It gets income through taxation and non - tax sources. Depending upon the situation governments expenditure may be increased or decreased.
c) Exchange Rate Depreciation
By reducing the value of the domestic currency, government can correct the disequilibrium in the BoP in the economy. Exchange rate depreciation reduces the value of home currency in relation to foreign currency. As a result, import becomes costlier and export become cheaper. It also leads to inflationary trends in the country,
d) Devaluation
devaluation is lowering the exchange value of the official currency. When a country devalues its currency, exports becomes cheaper and imports become expensive which causes a reduction in the BOP deficit.
e) Deflation
Deflation is the reduction in the quantity of money to reduce prices and incomes. In the domestic market, when the currency is deflated, there is a decrease in the income of the people. This puts curb on consumption and government can increase exports and earn more foreign exchange.
f) Exchange Control
All exporters are directed by the monetary authority to surrender their foreign exchange earnings, and the total available foreign exchange is rationed among the licensed importers. The license-holder can import any good but amount if fixed by monetary authority.
II. Non- Monetary measures :-
a) Export Promotion
To control export promotions the country may adopt measures to stimulate exports like:
 export duties may be reduced to boost exports
 cash assistance, subsidies can be given to exporters to increase exports
 goods meant for exports can be exempted from all types of taxes.
b) Import Substitutes
Steps may be taken to encourage the production of import substitutes. This will save foreign exchange in the short run by replacing the use of imports by these import substitutes.
c) Import Control
Import may be kept in check through the adoption of a wide variety of measures like quotas
and tariffs. Under the quota system, the government fixes the maximum quantity of goods
and services that can be imported during a particular time period.
1. Quotas – Under the quota system, the government may fix and permit the maximum quantity or value of a commodity to be imported during a given period. By restricting imports through the quota system, the deficit is reduced and the balance of payments position is improved.

2. Tariffs – Tariffs are duties (taxes) imposed on imports. When tariffs are imposed, the prices of imports would increase to the extent of tariff. The increased prices will reduced the demand for imported goods and at the same time induce domestic producers to produce more of import substitutes
Unit – iii International Trade Regulatory Framework

UNIT –II

Trade barriers

TRADE BARRIERS

Trade barriers may be (i) Tariff Barriers and (ii) Non Tariff Barriers or protective barriers.

i) **TARIFF BARRIERS:** Tariff barriers have been one of the classical methods of regulating internationaltrade. Tariffs may be referred to as taxes on the imports. It aims at restricting the inward flow of goods from other countries to protect the country's own industries by making the goods costlier in that country. Sometimes the duty on a product becomes so steep that it is not worthwhile importing it. In addition, the duty soimposed also provides a substantial source of revenue to the importing country. In India, Customs duty forms a significant part of the total revenue, and therefore, is an important element in the budget. Some countries usethis method of imposing tariffs and Customs duties to balance its balance of trade. A nation may also use this method to influence the political and economic policies of other countries. It may impose tariffs on certain imports from a particular country as a protest against tariffs imposed by that country on its goods.

Specific Duties, imposed on the basis of per unit of any identifiable characteristic of merchandise such as per unit volume, weight, length, etc. The duty schedules so specified must specify the rate of duty as well as the determining factor such as weight, number, etc. and basis of arriving at the determining factor such as gross weight, net weight or tare weight.

Ad valorem Tariffs are based on the value of imports and are charged in the form of specified percentage of the value of goods. The schedule should specify how the value of imported goods would be arrived at. Most of the countries follow the practice of charging tariffs on the basis of CIF cost or FOB cost mentioned in the invoice. As tariffs are based on the cost, sometimes unethical practices of under invoicing are adopted whereby Customs revenue is affected. In order to eliminate such malpractices, countries adopt a fair value (given in the schedule) or the current domestic value of the goods as the basis of computing the duties.

NON - TARIFF MEASURES (BARRIERS)

To protect the domestic industries against unfair competition and to give them a fair chance of survival various countries are adopting non-tariff measures. Some of these are :

Quantity Restrictions, Quotas and Licensing Procedures:-

Under quantity restriction, the maximum quantity of different commodities which would be allowed to be imported over a period of time from various countries is fixed in advance. The quota fixed normally depends onthe relations of the two countries and the needs of the importing country. Here, the Govt. is in a position to restrict the imports to a desired level. Quotas are very often combined with licensing system to regulate the flowof imports over the quota period as also to allocate them between various importers and supplying countries.

Foreign Exchange Restrictions -Exchange control measures are used widely by a number of developing countries to regulate imports. Under this system an importer has to ensure that adequate foreign exchange is available for imports by getting a clearance from the exchange control authorities of the country.

Technical Regulations -

Another measure to regulate the imports is to impose certain standards of technical production, technical specification, etc. The imported commodity has to meet these specifications. Stringent technical regulations and standards beyond international norms, expensive testing and certification, and complicated marking and packaging requirements.

Local Content Requirement:-

A local content requirement is an agreement between the exporting and the importing country that the exporting country will use some amount or, content of resources of the importing country in its process of production. If the exporting country agrees to do that only then the importing country will import their goods.

Embargo:- Embargo is a specific type of quota prohibiting trade. Like quotas, embargoes may be imposed on imports, or exports of particular goods, regardless of destinations, in respect of certain goods supplied to specific countries, or in respect of all goods shipped to certain countries. Although the embargo is usually introduced for political purposes, the consequences, in essence, could be economics

Anti - Dumping

Anti dumping is a new weapon in the trade war. Anti dumping is one policy which is creating a non tariff barrier, hindering free trade.

If a company exports a product at a price lower than the one charged in its home market, it is said to be dumping. If the importing company succeeds, its country will levy an anti dumping duty on the product exported by the Indian Co. to him. This adds to the landed cost of the product and reduces the Indian exporter's competitiveness.

Difference between Tariff and Non-Tariff Barriers

Import substitution and Export promotion

Import substitution: It refers to the policy of the Government to reduce or replace imports
Export promotion: It refers to the policy of the Government to increase exports

Three phases of the policy:
Phase – I : Reducing imports through domestic consumption
Phase – II : Replacement of import of capital goods
Phase – III : Indigenous production

Import Substitution Strategy:

Imposing high barriers to foreign goods in order to encourage domestic production is termed import substitution. A package of policies, called import substitution (IS), consists of a broad range of control, restriction and prohibitions such as import quotas and high tariffs on imports.
Methods of Import substitution:

- Quota
- Tariff

PROBLEMS OF IMPORT-SUBSTITUTION IN INDIA

Following are the main problems of import substitution in India :

(1) High Production Cost at Initial Stage: Besides the raw material, certain other cost like interest rates, higher price of importable and non traded inputs, technological factors and low product,civil,y contribute to the high cost, of production in India Therefore, commodities produced in the country have high prices in comparison to the imported goods and consumers show, no interest in buying the goods produced for the intention of import-substitution.

(2) Poor Quality of Production: Poor quality and inadequacy of inputs, technology and facilities affect the product quality. Policy of import substitution proves unsuccessful due to poor quality products.

(3) Ignorance of Consumers: Generally, people believe that imported goods are better than the home products. This view attract them towards the imported goods and they do not take interest in buying goods produced in the country. Policy of

(4) Lack of Essential Resources import-substitution becomes impractical due to lack of resources essential for production. Inadequacy of capital and raw material, backwardness of technology create hinderane in the way of import substitution.

(5) Dampens Innovation: Critics observe that such subsidised import substitution generally limits competition, dampens innovation and productivity growth, and keeps the country's real income low.

Export Promotion:

The government would encourage the development of labour-intensive industries in the hope of promoting exports of these products.
Methods of Export promotion:

- Incentives
- Subsidies
- Free of Tax

- Infrastructure development

Problems in Export Promotion policy:

1. **Technological Factors:** Technological problems have very seriOUS effect on India's exports. The Tandon Committee and Alexander Committee have referred to the adverse 'impact of technological backwardness on India's exports through poor quality, low productivity, high costs, etc.
2. **High Costs:** In a large number of cases, high domestic costs are an inhibiting factor. This problem has been clearly stated by Abid Hussain Committee, "India is often at a disadvantage vis-a-vis competing countries because its costs of production, and hence export price, are higher than in competing countries. It is not only because of the higher prices of importable and non-traded inputs, or because of time and cost over-runs implicit in managerial inefficiency, but also because of much lower level of productivity, all of which stem from the aforesaid problems."
3. **Poor Quality Image:** India has a poor quality image abroad. Despite the measures taken under the Exports (Quality Control and Inspection) Act and other laws, our exports continue to suffer because ofquality problems. Poor quality and inadequacy of inputs, technology and facilities affect the product quality. In several instances, carelessness or lack of commitment on the part of the exporters is also responsible. Adulteration and dumping are also not uncommon. There is a general impression that a proper export culture is lacking in India.
4. **Unreliability:** Besides quality, Indian exporters have been regarded as unreliable on certain other factors. As the Tandon Committee has observed, a very important black mark on the Indian exporters is reneging a term used in the USA to refer to going back on a contract and refusing to fulfil it on its original terms.

Foreign Exchange Market:

The FOREX market, also known as the Foreign Exchange Market, is a decentralized global marketplace for foreign currency trading. The FOREX market is an OTC (over-the-counter) market and foreign exchange rates are dictated by it. It also entails selling, purchasing, and exchanging currencies at market rates. In terms of trade rate, the Foreign Exchange Trading is the largest in the world.

> Features of Foreign Exchange Market in India

The following are the characteristics of the foreign exchange market in India:

- Low Transaction Costs

Because of the lower **online FOREX trading** costs, even small investors will make good money. Unlike other investment options, FOREX traders only charge a small fee. The spread, or the difference between buying and selling prices for a currency pair, is where the FOREX commission is limited.

- Elevated Leverage

In the FOREX market, you can sell on margins, which are technically borrowed funds. The return on your investment is rising exponentially, so the value of your investment is high. Since the FOREX market is so unpredictable, trading with leverage (borrowed money) will result in significant losses if the market goes against you. The foreign currency trading is a two-edged sword. If the market is on your side, you will make a lot of money. If the market goes against your bet, you will lose a lot of money.

- Extremely Transparent

The foreign exchange market in India is a transparent market in which traders have complete access to market data and information necessary for successful transactions. Traders who operate on open markets have more leverage over their investments and can make informed decisions based on the information available.

- FOREX Market Accessibility

If you have an internet connection, you can access your foreign currency trading account from anywhere. You can trade at any time and from any place. Since it is easy for traders to position trade transactions at their leisure, the **FOREX market has an advantage over other markets.**

> Types Of Foreign Exchange Market in India

The types of foreign exchange markets are as follows:

- Spot Market

In this market, transactions involving currency pairs happen quickly. In the spot market, transactions require immediate payment at the current exchange rate, also known as the 'spot rate.' The traders on the spot market are not exposed to the FOREX market's uncertainty, which increases or lowers the price between trade and agreement.

- Futures Market

Future market transactions, as the name implies, require future payment and distribution at a previously negotiated exchange rate, also known as the future rate. These agreements and transactions are formal, which ensures that the terms of the agreement or transaction are set in stone and cannot be changed. Traders who conduct major FOREX transactions and pursue a consistent return on their assets prefer future market transactions.

- Forward Market

Forward market deals are identical to future market transactions. The main difference is that in a forward market, the parties will negotiate the terms. The terms of the agreement can be negotiated and adapted to the needs of the parties concerned. Flexibility is provided by the forward market.

<u>Exchange Rate and its impact on Exports and imports</u>

The exchange rate will play an important role for firms who export goods and import raw materials. Essentially:

- A depreciation (devaluation) will make exports cheaper and exporting firms will benefit.
  - However, firms importing raw materials will face higher costs of imports.
- An appreciation makes exports more expensive and reduces the competitiveness of exporting firms.
  - However, at least raw materials (e.g. oil) will be cheaper following an appreciation.

Effect of depreciation in the exchange rate

Effects of a depreciation

Winners	Losers
• Exporters • Domestic tourist industry • Workers gaining jobs in export industry • Economic growth might increase www.economicshelp.org	• Consumers who buy imports • Firms who buy imported raw materials • Those on fixed incomes/wages who see inflation rise faster • Foreign exporters/tourist industry

1. *Impact on export*

The goods become much cheaper. . This should increase demand for exporters

2 Impact on importers of raw materials

The downside of a depreciation will see an increase in the cost of buying raw materials. . This will reduce its profit margin.

2. Impact on incentives

In the long term, it is argued that a depreciation may reduce the incentives for exports to cut costs. The depreciation enables an 'easy' increase in their profit margin. As a result, there may be less incentive to cut costs and boost productivity. If a firm is facing an appreciation, then they may face a greater incentive to cut costs.

Impact of an appreciation on business

If there is an appreciation in the value of currency, the impact will be:

- Exports will be more expensive. .
- Imports will be cheaper. The import of raw materials will be cheaper.

Evaluation of changes in the exchange rate on business

The effect of the exchange rate on business depends on several factors.

1. Elasticity of demand. . If exports are price sensitive, then there will be a bigger percentage increase in demand. Evidence suggests that British goods are increasingly price inelastic and after a depreciation, there is a relatively small increase in demand.
2. Economic growth in other countries.
3. Depends on the percentage of raw materials imported. . If a firm imports only a small percentage of raw materials from abroad and sells to other countries, then it will benefit more from a depreciation.
4. It depends why there was an appreciation/depreciation. If there is an appreciation in labour productivity is increasing, then firms are likely to be able to absorb the stronger currency value. .
5. Inflation: One possible problem of a depreciation is that it could cause inflation
6. Fixed contracts. Many business use fixed contracts for buying imported raw materials. This means temporary fluctuations in the exchange rate will have little effect.

<u>Foreign Exchange Risk:</u>

Foreign exchange risk can be caused by appreciation/depreciation of the base currency, appreciation/depreciation of the foreign currency, or a combination of the two. It is a major risk to consider for exporters/importers and businesses that trade in international markets.

Types of Foreign Exchange Risk
The three types of foreign exchange risk include:

1. Transaction risk
Transaction risk is the risk faced by a company when making financial transactions between jurisdictions. The risk is the change in the exchange rate before transaction settlement. Essentially, the time delay between transaction and settlement is the source of transaction risk. Transaction risk can be mitigated using forward contracts and options.

2. Economic risk

Economic risk, also known as forecast risk, is the risk that a company's market value is impacted by unavoidable exposure to exchange rate fluctuations. Such a type of risk is usually created by macroeconomic conditions such as geopolitical instability and/or government regulations.

For example, a Canadian furniture company that sells locally will face economic risk from furniture importers, especially if the Canadian currency unexpectedly strengthens.

3. Translation risk

Translation risk, also known as translation exposure, refers to the risk faced by a company headquartered domestically but conducting business in a foreign jurisdiction, and of which the company's financial performance is denoted in its domestic currency. Translation risk is higher when a company holds a greater portion of its assets, liabilities, or equities in a foreign currency.

For example, a parent company that reports in Canadian dollars but oversees a subsidiary based in China faces translation risk, as the subsidiary's financial performance – which is in Chinese yuan – is translated into Canadian dollar for reporting purposes.

How to Cover the Foreign Exchange Risk?/ MANAGING FOREIGN EXCHANGE RISK

Covering the foreign exchange risk is term as hedging the risk. If the company does not want to hedge, it means it is taking a view that the future movements of exchange rates will move in its favor. Even if the company wants to adopt the policy of hedging everything, still economic exposure cannot be eliminated and this give rise to opportunity cost. If suppose the company hedged the exposure and if the spot rates moved in favor of the company due to shift in the economic factors between the date of invoice and conversion of currency, the company may lose out or incur and opportunity cost by hedging the exposure if the rates moved against.

Corporate Managers specially companies operating in several; countries have the advantage of containing the exposures by their own management techniques by

Opening foreign currency accounts where there are receivables payable in the same currency (our Foreign Exchange regulations permit opening of foreign currency A/Cs in certain cases).

Netting group exposure and reduce the risk by currency switches between asset and liabilities.

In case of manufacturing companies, switch the base of manufacturer so that cost and revenue are in the same currency.

Forward Exchange Contracts :

This is usual hedge extended to customers. Banks offer forward exchange contracts both for sale and purchase transaction to customer with a maturity date for a fixed amount at a determined rate of the exchange at the outset. Normally contracts are entered in India for a period where the maturity period of the hedge does not exceed the maturity of the underlying transaction.

As per current regulations in India, forward contracts involving rupee as one of the currencies, once cancelled shall not be re-booked although they can rolled over at ongoing rates on or before maturity.

Currency Futures :

A future contract is an agreement to buy or sell a standard quantity of specific financial instrument at a future rate and at an agreed priced. These are tailors made contracts and sold organized exchanges such Chicago international money market. A corporate can take an up a future contract which is opposite to its foreign currency transaction exposure.

This may not precisely meet the requirements of corporate which may result in a residual exposure either in respect of maturity dates or the amount. Also the loss in value arising out of revaluation may have to be adjusted in the margin posted in the exchange rate therefore cash flow in the corporate may be effected.

Currency Option :

Currency option gives the right but no obligation to the buyer of the option to sell (put option) or buy (call option) a specific amount of foreign currency at a pre-determined price called strike price. As stated above there are tailor made options which can be picked up over the counters of the banks. The buyer of a option to pay a price premium for conferring the above right by the option writer i.e. banks.

FEMA: FOREIGN EXCHANGE MANAGEMENT ACT 1999

FEMA had become the need of the hour to support the pro- liberalisation policies of the Government of India. The objective of the Act is to consolidate and amend the law relating to foreign exchange with the objective of facilitating external trade and payments for promoting the orderly development and maintenance of foreign exchange market in India.

FEMA extends to the whole of India. It applies to all branches, offices and agencies outside India owned or controlled by a person, who is a resident of India and also to any contravention there under committed outside India by two people whom this Act applies.

Objectives of FEMA:

- To help facilitate external trade and payments in India.
- To help orderly development and maintenance of foreign exchange market in India.
- To utilize the foreign exchange resources in efficient manner

The Main Features of the FEMA:

i. It is consistent with full current account convertibility and contains provisions for progressive liberalisation of capital account transactions.

ii. It is more transparent in its application as it lays down the areas requiring specific permissions of the Reserve Bank/Government of India on acquisition/holding of foreign exchange.

iii. It classified the foreign exchange transactions in two categories, viz. capital account and current account transactions.

iv. It provides power to the Reserve Bank for specifying, in , consultation with the central government, the classes of capital account transactions and limits to which exchange is admissible for such transactions.

v. It gives full freedom to a person resident in India, who was earlier resident outside India, to hold/own/transfer any foreign security/immovable property situated outside India and acquired when s/he was resident.

vi. This act is a civil law and the contraventions of the Act provide for arrest only in exceptional cases.

vii. FEMA does not apply to Indian citizen's resident outside India

Difference between the FERA and FEMA:

FERA, 1973	FEMA, 1999
It is an old enactment. It was passed in 1973. Now this Act has been repeated.	It is a new enactment. It was passed in the year 1999.
It was a long enactment with 81 Sections. It was very strict in nature.	It is a small enactment with 49 Sections. It is liberal in nature.
Approach towards foreign exchange transactions was very conservative and restrictive.	The approach towards foreign exchange transactions is very positive and welcoming.
Penalty provisions were very hard. In this Act, imprisonment was imparted to the person violating its provisions.	It provides only for monetary penalty for violating the provisions. Imprisonment is imparted only on non-payment of monetary penalty.
The scope of FERA was very wide. It dealt with all the transactions related to foreign exchange, i.e, anything and everything related to foreign exchange was controlled by FERA.	The scope of FEMA is narrow. It deals only with specified transactions related to foreign exchange, i.e. it checks and controls only those transactions, which are specifically mentioned in the Act. It dose not deal with the transactions which are not specifically mentioned in its scope.

UNIT-IV

World Trade Organization:

The World Trade Organisation or the WTO is the only such global international entity that deals with the rules and regulations related to international trade between different countries. Such regulations and obligations only cover countries that hold membership to the World Trade Organisation.

The functioning of the WTO is based on negotiated and signed WTO agreements between member countries. It has to be kept in mind that the WTO agreements will have to be ratified by the parliaments of the member countries.

The World Trade Organisation was established on January 1, 1995, following the Marrakesh Agreement which was ratified on April 15, 1994. The General Agreement on Tariff and Trade was substituted by the Marrakesh Agreement.

Elements of WTO / Role and functions

The six key objectives of the World Trade Organization have been discussed below.

1. **Establishing Rules and regulations**

   The international trading rules by the World Trade Organisation are established under three separate agreements – rules relating to the international trade in goods; the agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the General Agreement on Trade in Services (GATS).

2. **Apex Forum**

   World Trade organization is the global forum for monitoring and negotiating further trade liberalization. The premise of trade liberalization measures undertaken by WTO is based on the benefits of member countries to optimally utilize the position of comparative advantage due to a free and fair trade regime.

3. **Disputes Settlments**

   Trade disputes, before the WTO, usually arise out of deviation from agreements between member countries. The resolution of such trade disputes does not take place unilaterally but through a multilateral system involving set rules and procedures before the dispute settlement body.

4. **Liberalisation of Foreign Trade and increasing Transparency**

   The World Trade Organisation attempts to liberalize the foreign trade policy of member counties and increase transparency in the decision-making process by way of more participation in the decision-making.. The combined effect of such measures helps to reduce the strict rules of foreign trade.

5. **Linking International Organization**

   The global economic institutions include the World Trade Organisation, the International Monetary Fund, the United Nations Conference on Trade and Development, and the World Bank.

   With the advent of globalization, close cooperation has become necessary between multilateral institutions. These institutions are functional in the sector of formulation and implementation of a global economic policy framework. In the absence of regular consultation and mutual cooperation, policymaking may be disrupted.

6. **Safeguarding The Trading Interest of Developing Countries**

Stringent regulations are implemented by the WTO to protect the trading interests of developing countries. It supports such member countries to leverage the capacity for carrying out the mandates of the organization, managing disputes, and implementing relevant technical standards.

Scope of WTO

The major features of the World Trade Organization are –

- The scope of WTO is far more expensive than the erstwhile General Agreement on Trade and Tariff. For instance, GATT solely focused on goods while excluding textiles and agriculture. On the other hand, WTO covers all goods, services, and investment policies along with intellectual property.
- Each member country of the WTO carries a single voting right and all members enjoy privilege on the global scale.
- The WTO agreements encompass all the member states and act as a common forum of deliberation for the members.
- WTO Secretariat has formalized the mechanisms for the review of policies as well as the settlement of disputes. This aspect has become crucial due to the proliferation of member countries and more goods and services being covered by the WTO. Another important consideration in this regard is the substantial increase in open access to different international markets.
- There are rules implemented for the protection of small and weak countries against the discriminatory trade practices of developed countries.
- Most Favored Nation (MFN) clause permits equal access to markets for just treatment of both domestic and foreign suppliers.

Objectives **of WTO**

The broad reach of WTO and its functions have been mentioned below.

- **Implementation of Rules for Review of Trade Policy**
  The international rules of trade provide stability and assurance and lead to a general consensus among member countries. The policies are reviewed to ensure that even with the ever-changing trading scenarios, the multilateral trading system thrives. It also helps in the facilitation of a transparent and stable framework for conducting business.
- **Forum for Member Countries Discuss Future Strategies**
  The WTO, as a forum, allows for trade negotiations in the multilateral trading system. In the absence of trade negotiations, growth may stunt, and issues related to tariff and dumping may go unaddressed. Further liberalization of trade is also subject to consistent trade negotiations.
- **Implementing and Administering Bilateral and Multilateral Trade Agreements**
  The bilateral or multilateral trade agreements have to be necessarily ratified by the parliaments of respective member countries. Unless such ratification comes through, the non-discriminatory trading system cannot be put into practice. The executed agreements will ensure that every member is guaranteed to be treated fairly in other members' markets.
- **Trade Dispute Settlement**
  The dispute settlement by the WTO is concerned with the resolution of trade disputes. Independent experts of the tribunal interpret the agreements and give out judgment

mentioning the due commitments of the concerned member states. It is encouraged to settle the disputes by way of consultation among the members as well.

- **Optimal Utilization of the World's Resources**
  Resources across the world can be further optimally utilized by harnessing the trade capacities of the developing economies. It requires special provisions in the WTO agreements for the least-developed economies. Such measures may include providing greater trading opportunities, longer duration to implement commitments, and also support to build the sue infrastructure

GATT:

The World Bank recommended the establishment of an International Trade Organization (ITO). Instead of ITO, General Agreement on Tariff and Trade (GATT) was formed in 1948.

Objectives of GATT

The General Agreement on Tariff and Trade was a multilateral treaty that laid down rules for conducting international trade. The preamble to the GATT can be linked to its objectives.

1. To raise the standard of living of the people,

2. To ensure full employment and a large and steadily growing volume of real income and effective demand.

3. To tap the use of the resources of the world fully.

4. To expand overall production capacity and international trade.

Principles of GATT

For the realization of the above mentioned objectives, GATT adopted the following principles.

1. **Non Discrimination,**
2. **tariffs,**
3. **A stable policy and;**
4. **Consultation**

1. Non Discrimination

The international trade should be conducted on the basis of nondiscrimination. No member country shall discriminate between the members of GATT in the conduct of international trade. On this basis, the principle "Most favored Nation" (MFN) was enunciated. This means that "each nation shall be treated as good as the most favored nation". All contracting parties should regard others as most favorable while applying and administering import and export duties and charges. As far as quantitative restrictions are concerned, they should be administered without favor.

Exceptions to the principle of non-discrimination: However, certain exceptions to this basic rule are to be allowed. There is no objection to form free trade areas or custom unions. Such integration should facilitate consistent trade between the constituent territories. They should not raise barriers to the trade of other parties. GATT allows its members to follow measures to counter dumping and export subsidies. However, such measures should be applied only to offending countries.

2. Tariffs

GATT rules prohibit quantitative restrictions. Domestic industries should be protected only through customs tariffs. Restrictions on trade should be limited to the less rigid tariffs. Exceptions: exceptions to this principle is given to the countries which suffer from unfavorable balance of payments position. Developing countries also enjoy this exception. Import restrictions may be applied to agricultural and fishery products if their domestic production is subject to equally restrictive production.

3. A stable policy

GATT seeks to provide a stable and predictable basis for trade. It binds the tariff levels negotiated among the contracting countries. Binding of tariffs prevents the unilateral increase in tariffs, But still there is a provision for renegotiation of bound tariffs. A return to higher tariffs is discouraged by the requirement that any increase is to be compensated for.

4. Consultation

The member countries should consult one another on trade matters and problems. The members who feel aggrieved that their rights under GATT are withheld can call for a fair settlement. Panels of independent experts have been formed under the GATT council. Panel members are drawn from countries which have no direct interest in the disputes under investigation. They look into the trade disputes among members. The panel procedure aims at mutually satisfactory settlement among members.

URUGUAY ROUND

The Uruguay Round was the 8th round of Multilateral Trade Negotiations (MTN) conducted within the framework of the General Agreement on Tariffs and Trade (GATT), spanning from 1986 to 1994 and embracing 123 countries as "contracting parties". The negotiations and process ended with the signing of the Final Act of the Marrakesh Agreement in April 1994 at Marrakesh, Morocco. The round led to the creation of the World Trade Organization (WTO), with GATT remaining as an integral part of the WTO agreements. The Uruguay Round was, without a doubt, the largest trade negotiation ever, and may very well have been the largest negotiation ever. It set out rules and principles to cover all global trade, from banking to consumer products. The subjects for negotiations, the widest of any GATT round, were tariffs, non-tariff measures, tropical products as a priority area, natural resource-based products, textiles and clothing, agriculture, review of GATT articles, safeguards, Tokyo Round agreements ad arrangements, subsidies and countervailing measures, dispute settlement, trade-related aspects of intellectual property rights, trade-related investment measures and the Functioning of the GATT System (FOGS).

The main achievements of the Uruguay Round included:

1- a trade-weighted average tariff cut of 38%;

2- conclusion of the Agreement on Agriculture which brought agricultural trade for the first time under full GATT disciplines;

3- adoption of the General Agreement of trade in Services (GATS);

4- the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS);

5- the Agreement on Trade-Related Investment Measures (TRIMS);

6- the creation of unified and predictable dispute settlement mechanism (<u>Dispute Settlement Body-DSB</u>);

7- confirmation f the trade Policy Review Mechanism (TPRM);

8- the establishment of the WTO, which administers 15 multilateral, and four plurilateral trade agreements;

The Uruguay Round had extended considerably the realm of world trade rules with agreements on intellectual property and trade in services in ex-change for finally tackling agricultural protectionism on a broader scale and getting rid of the textile and clothing quotas

TRIPS:

Overview: the TRIPS Agreement

The TRIPS Agreement, which came into effect on 1 January 1995, is to date the most comprehensive multilateral agreement on intellectual property.

INTELLECTUAL PROPERTY RIGHTS Introduction Intellectual property (IP) is a term referring to creation of the intellect (the term used in studies of the human mind) for which a monopoly (from greek word monos means single polein to sell) is assigned to designated owners by law. Some common types of intellectual property rights (IPR), in some foreign countries intellectual property rights is referred to as industrial property, copyright, patent and trademarks, trade secrets all these cover music, literature and other artistic works, discoveries and inventions and words, phrases, symbols and designs. Intellectual Property Rights are themselves a form of property called intangible property. .

The three main features of the Agreement are:

- Standards. In respect of each of the main areas of intellectual property covered by the TRIPS Agreement, the Agreement sets out the minimum standards of protection to be provided by each Member. Each of the main elements of protection is defined, namely the subject-matter to be protected, the rights to be conferred and permissible exceptions to those rights, and the minimum duration of protection.
- Enforcement. The second main set of provisions deals with domestic procedures and remedies for the enforcement of intellectual property rights. The Agreement lays down certain general principles applicable to all IPR enforcement procedures
- Dispute settlement. The Agreement makes disputes between WTO Members about the respect of the TRIPS obligations subject to the WTO's dispute settlement procedures.

Types of intellectual properties

Copyrights and related rights

The Agreement states that copyright protection only applies to phrases, ideas, techniques, operating methods, or mathematical concepts. Literary, musical, dramatic, photographic, sculptural, architectural, choreography, graphic, motion picture, sound recording, multimedia work, computer programs, and other works are all given copyright. For a certain amount of time, the owner of a copyright has the right to prevent others from duplicating, distributing, making derivative works, performing, exhibiting, or utilising the work covered by the copyright. The essence of copyright is originality, which means that the work was created by the copyright owner or claimant. A work of originality, on the other hand, does not have to be innovative. In copyright law, originality does not entail innovation.

Trademarks

Trademark is any sign, or set of signs, able to distinguish one undertaking's products and services from other undertakings', shall be eligible for trademark registration, provided that it is clearly detectable. Such signs, in particular words, characters, digits, figurative components, and colour combinations, as well as any combination of these signs, must be acceptable for trademark registration. According to Article 16, the trademark owner has the exclusive right to restrict third parties from using similar or identical signs for products or services that are similar to those for which the trademark is registered.

Geographical indications

Geographical indications designate a good as coming from a member's territory, or an area or place within that territory, where the good's quality, reputation, or other attribute is largely due to its geographical origin.

Industrial designs

The member countries must ensure that fresh or unique industrial designs generated independently are protected. The Agreement preserve industrial designs for a minimum of 10 years. When such activities are conducted for commercial objectives, the right holder can ban third parties who do not have the holder's agreement from producing, importing or selling items that incorporate the protected design.

Patents

A patent is an intellectual property right (IPR) awarded to inventors. The inventor, as the patent owner, has the right to prevent anybody else from creating, using, selling, or importing the patent-protected invention in a specified region for a set length of time.

Layout-Designs of Integrated Circuits

Importing, selling, or distributing (for commercial reasons) a secured layout design, an integrated circuit where a secured layout design is implemented, or an article including such a circuit is prohibited

Protection of undisclosed information

The information which is undisclosed is referred to as a trade secret . It provide trade secret protection in accordance with the Agreement's provisions.

Agreement on Trade Related Investment Measures

The Agreement on Trade-Related Investment Measures (TRIMS) recognizes that certain investment measures can restrict and distort trade. It states that WTO members may not apply any measure that discriminates against foreign products or that leads to quantitative restrictions, both of which violate basic WTO principles. A list of prohibited TRIMS, such as local content requirements, is part of the Agreement. The TRIMS Committee monitors the operation and implementation of the Agreement and allows members the opportunity to consult on any relevant matters.

Objectives of Trade-Related Investment Measures

TRIMs believe that there is a strong connection between trade and investment. The goal of trade-related investments measures is to give fair treatment to all investing members across the world.

As the TRIMs deal says, members have to inform the World Trade Organization (WTO) council to buy and sell various services and goods of their current TRIMs that are incompatible with the agreement.

Main Features of TRIMs

- It only applies to investment measures related to goods trade.
- This doesn't apply to service trade.
- It doesn't regulate the entry of foreign industry or investment.

- It is about the discriminatory treatment of imported/exported products.
- Concern measures were applied to both foreign domestic firms.
- A transition period of 2 years in the case of developed countries, 5 years in the case of developing countries and 7 years in the case of LDCs, from the date this agreement came into effect, which is 1st January 1995.

The main obligation contained in this agreement is that members shall not apply any trade-related investment major that is inconsistent with Article III (national treatment) or Article XI (general elimination of quantitative restrictions) of the GATT.

The TRIMs agreement has directly restricted the following.

1. Local Content Requirement

Local content requirement is the measure that if a developed country wants to trade their products in a developing country. Then the developing country wishes to agree on that deal if and only if it uses one of the domestic items on their product. It means that the growth of domestic products will increase.

For example, suppose a mobile brand wants to sell its products in India. However, India agrees if only the brand uses the battery made in India. If that mobile brand agrees to this agreement, the value of 'made in India' batteries will increase gradually, which is India's benefit.

However, that mobile brand doesn't get proper profit because of purchasing those domestic products or using those products. In other words, a developing country is restricting developed countries from trading their products.

2. Trade Balancing Requirements

Trade balancing measures require that an enterprise's purchase of imported products is equivalent to the quantity or worth of exported products. In simple words, someone from India has a business of desi ghee, and they export it in foreign.

However, they want to expand their business and import foreign cheese. Then, Indian government gave them the condition that they could import the same amount of foreign cheese as the amount of desi ghee they export. Basically, balancing the import and export amount of product or trade is called Trade Balancing.

However, the government is restricting the individual as per the TRIMs agreement.

2. Foreign Exchange Restrictions

These include measures restricting importation by limiting access to foreign exchange.

4. Domestic Sales Requirements

By using domestic sales requirements, many nations restrict the export of domestic products and distort trade. Because of this, the value of those products gradually decreases. As a result, the production of those products is highly available in the market.

Developing countries are permitted to retain Trade-Related Investment Measures by virtue of the economic development needs of developing countries. In TRIMs, some restrictions are overlooked for the developing countries' economic needs.

GATS

The World Trade Organisation's **General Agreement on Trade in Services** came into force in January 1995 as a **result of the Uruguay Round discussions**. It establishes a framework for controlling services trade, a system for countries to make promises to liberalise services trade, and a **process for resolving cross-national disputes**

What is the General Agreement On Trade In Services (GATS)?

- The General Agreement on Trade in Services (GATS) is the first and only multilateral agreement that **governs international services trade**.
- It was negotiated as part of the **Uruguay Round** in response to the growing importance of services in global trade and the rise of the services sector.
- It does not have an expiration date.

Objective
The objective of the GATS is to build a sound multilateral framework of principles and norms for service trade.

Main Purpose

- The Uruguay Round's biggest achievement was the development of the GATS, which went into effect in January 1995.
- The GATS was founded on the same principles as its merchandise trade counterpart, the General Agreement on Tariffs and Trade (GATT):
    - establishing a credible and reliable system of international trade rules;
    - ensuring fair and equitable treatment of all participants (**principle of non-discrimination**);
    - stimulating economic activity through guaranteed policy bindings; and
    - promoting trade and development through progressive liberalisation.

Participates
Who participates?
All WTO members are also members of the GATS and have assumed commitments in various service sectors to differing degrees.

Types of Services Supply
The GATS divides services into four categories: cross-border trade, international consumption, commercial presence, and natural person presence.

Mode 1: Cross Border

Distance learning, consultancy, and BPO services are examples of services that cross borders from one country to another.

Mode 2: Foreign company

Services provided by a foreign entity that is commercially pressed in another country, such as banking, hotels, and so on.

Mode 3: Consumption Abroad

Services are made available to foreign consumers within a country, such as tourism, educational students for students, medical treatment, and so on.

Mode 4: Movements of natural persons

This is a foreign national who works as a consultant or employee in another country, delivering services such as a doctor, nurse, IT engineer, and so on.

Significance

Significance

- They ensure that all signatories are **treated equally when entering international markets**.
- They support the progressive liberalisation of service trade.

Conclusion

The WTO, according to studies, facilitated trade. According to studies, without the WTO, the average country's export duties would increase by 32 percentage points. The WTO's influence on PTA(preferential trade agreements) has expanded over time.

The Dispute Settlement Body (DSB)

The composition:

The General Council of WTO discharges its responsibilities under the Dispute Settlement Body. DSB is composed of representatives of all WTO Members.

These are governmental representatives, in most cases diplomatic delegates who reside in Geneva (where the WTO is based) and who belong to either the trade or the foreign affairs ministry of the WTO Member they represent. As civil servants, they receive instructions from their capitals on the positions to take and the statements to make in the DSB. As such, the DSB is a political body.

Functions of DSB:

The DSB is responsible for administering the DSU, i.e. for overseeing the entire dispute settlement process.
Establish panels: .
The DSB has the authority to establish panels, adopt panel and Appellate Body. The panel has to prepare reports and implement the rules and regulations with regard to dispute settlement.

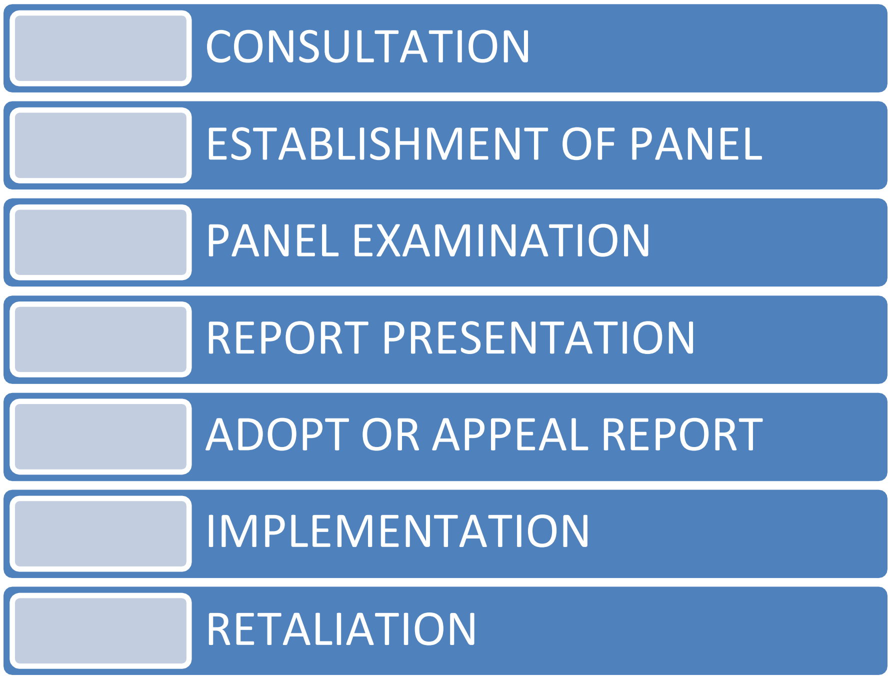
Conduct meeting:
DSB usually has one regular meeting per month. When a Member so requests, the Director-General convenes additional special meetings. The staff of the WTO Secretariat provides administrative support for the DSB

Adjudication and decision by consensus:
In case of disputes, DSB is responsible for the referral of a dispute to adjudication (establishing a panel); for making the adjudicative decision binding (adopting the reports); generally, for supervising the implementation of the ruling; and for authorizing "retaliation" when a Member does not comply with the ruling.
Consensus decision: The general rule is for the DSB to take decisions by consensus. DSU defines consensus as being achieved if no WTO Member, present at the meeting when the decision is taken, formally objects to the proposed decision. This means that the chairperson does not actively ask every delegation whether it supports the proposed decision, nor is there a vote. On the contrary, the chairperson merely asks, for example, whether the decision can be adopted and if no one raises their voice in opposition, it is consensus.
the chairperson will announce that the decision has been taken or adopted. In other words, a delegation wishing to block a decision is obliged to be present and alert at the meeting, and when the moment comes, it must raise its flag and voice opposition. Any Member that does so, even alone, is able to prevent the decision.
Ensure full participation:
No Member (including the affected or interested parties) is excluded from participation in the decision-making process. This means that the Member requesting the establishment of a panel, the adoption of the report

Stages in a typical WTO dispute settlement case

A dispute can pass in the (WTO) dispute settlement system. There are two main ways to settle a dispute once a complaint has been filed in the WTO: (i) the parties find a mutually agreed solution, particularly during the phase of bilateral consultations; and (ii) through adjudication, including the subsequent implementation of the panel and Appellate Body reports, which are binding upon the parties once adopted by the DSB. There are three main stages to the WTO dispute settlement process:

(i) consultations between the parties;
(ii) adjudication by panels and, if applicable, by the Appellate Body; and
(iii) the implementation of the ruling, which includes the possibility of countermeasures in the event of failure by the losing party to implement the ruling.



Dumping in the GATT/WTO
What is dumping?
Dumping is, in general, a situation of international price discrimination, where the price of a product when sold in the importing country is less than the price of that product in the market of the exporting country. Thus, in the simplest of cases, one identifies dumping simply by comparing prices in two markets.

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What is this Agreement and what does it do?

The Anti-Dumping Agreement of the World Trade Organization (WTO), commonly known as the AD Agreement, governs the application of anti-dumping measures by WTO member countries.

A product is considered to be "dumped" if it is exported to another country at a price below the normal price of a like product in the exporting country. Anti-dumping measures are unilateral remedies (the imposition of anti-dumping duties on the product in question) that the government of the importing country may apply after a thorough investigation has determined that the product is, in fact, being dumped, and that sales of the dumped product are causing material injury to a domestic industry that produces a like product.

All **members of the WTO** are parties to this Agreement, whose full name is the “Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994”. It went into effect on January 1, 1995. Pursuant to the Doha Ministerial Declaration, negotiations for the Anti-Dumping Agreement are currently underway. The agreement has no expiration date. The negotiations are scheduled to be completed by January 1, 2005.

Who benefits from this Agreement?

Any company involved in international trade can benefit from clear and predictable rules for the application of anti-dumping measures.

ROLE OF ANDTIDUMPIG AGREEMENT

The AD Agreement ensures that WTO members will not apply anti-dumping measures arbitrarily. It provides detailed substantive requirements for determining whether dumping and injury are, in fact, taking place, and sets forth elaborate procedures that governments must follow when they conduct anti-dumping investigations and impose anti-dumping duties. The Agreement ensures that all proceedings will be transparent and that all interested parties have a full opportunity to defend their interests.

Substantive Requirements

Since a determination of dumping requires a comparison between the export price of a product and its normal value in the exporting country, the AD Agreement sets forth rules for the calculation of export price and normal value. It then explains how a “fair comparison” is made between the two. The government conducting an anti-dumping investigation uses this fair comparison as the basis for determining the “margin of dumping”.

The Agreement then sets forth rules for determining whether dumped imports are causing injury to a domestic industry that produces a like product. Injury is defined to mean material injury itself, the threat of material injury or material retardation in the establishment of a domestic industry. The government authorities must establish injury to the domestic industry and that the dumped imports are a cause of that injury. The AD Agreement provides for “cumulative assessments” of the effects of imports on a domestic industry when imports of a product from more than one country are simultaneously subject to anti-dumping investigations.

Investigations

A government normally initiates an anti-dumping investigation on the basis of a written application by a domestic industry, although in special circumstances the government itself can initiate the investigation on the industry’s behalf. The application must provide evidence of dumping, injury and a causal link between the two. It must include a complete description of the allegedly dumped product, information on the like product produced by the applicant, evidence regarding export price and normal value, an assessment of the impact of the imports on the domestic industry and information concerning industry support for the application.

The rules set forth in the Agreement for the collection of evidence state that as soon as government authorities initiate an investigation, they must provide the full text of the written application to all known exporters. All interested parties are given access to non-confidential information and the opportunity to meet with the parties that have adverse interests, so that opposing views can be presented and rebuttal arguments offered. Before they make a final determination of whether dumping has occurred, the government authorities must inform all interested parties of the essential facts under consideration, giving them sufficient time to defend their interests.

An application will be rejected, according to the Agreement, and an investigation promptly terminated if the government authorities conclude that there is insufficient evidence of either dumping or injury. The Agreement provides that unless there are special circumstances, investigations will be concluded within one year and will continue in no case more than 18 months after their initiation.

Price Undertakings

The Agreement provides that government authorities can suspend or terminate an anti-dumping proceeding if they receive voluntary undertakings from an exporter that it will revise its prices or cease exporting to the area in question at dumped prices. Investigating authorities have the option of accepting price increases that are less than the margin of dumping if they are adequate to remove the injury to the domestic industry.

Imposition of Anti-dumping Duties

Under the Agreement, it is up to the government of the importing country to decide whether or not to impose anti-dumping duties. (The Agreement provides an option of not imposing duties in cases where all requirements for imposing such duties have been fulfilled, but not all authorities allow such an option.) The amount of the duty set by the government cannot exceed the margin of dumping, but the Agreement permits it to be lower if it is adequate to remove the injury to the domestic industry.

Normally anti-dumping duties are applied to all imports of the subject merchandise made on or after the date on which there is a preliminary determination of dumping, injury and causality.

The Agreement states that an anti-dumping duty shall remain in force as long as necessary to counteract dumping that is causing injury. It contains a “sunset” provision that provides that the duty will be terminated five years from the date of its imposition unless the government authorities determine in a review that termination of the duty would lead to continuation or recurrence of dumping and injury.

The Committee; Notifications

The Agreement established a Committee on Anti-dumping Practices, composed of representatives of each WTO member country. This Committee meets not less than twice a year and affords members the opportunity to consult on any matters relating to the operation of the

Agreement. Member countries are required to notify this Committee of their anti-dumping legislation and/or regulations, their anti-dumping actions and the names, addresses and contact numbers of officials responsible for anti-dumping matters.

Impact of WTO on Indian Economy

Effect of the WTO on India

Trading is an excellent weapon for any developing country, and one who uses it rightly wins prosperity and wealth for their country. India, as a developing nation, does the same. India is an agricultural country, and most of its GDP depends upon agriculture, as it exports agrarian products across the world. Trading can play a huge role in developing any nation, if adequately used, because it also has harmful impacts. So, let's take a look at the good and bad impacts of the WTO on India.

Positive impacts of the WTO on India

India is a developing country and has a vast geographical area and population. That's why it needs more capital to feed its citizens. India is good in agriculture, as its geographical condition is very good for crops, so they are self-sufficient in feeding their people and exporting edible products, but some things are imported. So, it has a perfect balance of imports and exports, and India, as one of the founding members of the WTO, has a very positive impact on it. There are some points listed below that helped in the development of India through the World Trade Organization:

- India's export competitiveness has been improved by the WTO.
- The lower tariff has helped integrate with the global economy more efficiently.
- India's growth and development have been pursued by transferring and exchanging technology and ideas.
- There is a reduction in cost and time due to market access.
- The WTO helped better settle trade disputes in a well-defined and structured manner.

Negative impacts of the WTO on India

Every positive impact carries a negative with it. Even after so many positive things, the WTO has also harmed India in some ways, which are listed below:

- The TRIPs agreement went against the Indian Patents Act (1970).
- The introduction of product patents in India by MNCs caused a hike in drug prices, which left no
-
- generic option for the poor.
- India and its research institutions have been negatively affected by the extension of intellectual property rights to agriculture.
- The MFN (most favoured nations)clause proved detrimental to India's interests and provided grounds for the Chinese invasion of the Indian market through dumping.
- India's service sectors are backward compared to those in developed countries.

Impact of WTO On Indian industry

Since India scrupulously followed the agreement, the tariffs have been reduced year after year to conform with the WTO provisions. As the protection afforded by import duties gradually disappeared, Indian industry had to face increasing competition form foreign goods.

Impact on the import of second hand cars

The Government of India allowed the import of second hand cars into India. This policy has seriously hit Indian automobile industry. Mr. Rahul Bajaj described this as **“anti-national and anti-India Act”**.

Impact on import of Chinese goods

In recent years, Chinese goods are flooding the lndian markets. These include battery cells, cigarette lighters, locks, car stereos, energy saving lamps ,VCD players, wrist watches, toys, fans, electric ovens and a large variety of consumer articles. Since china has become a member of the WTO, this is going to create another problem because action against Chinese dumping of goods can be taken only within WTO provisions,

Impact on SSI Units:

WTO agreements do not discriminate on the basis of industries or enterprises. In the WTO regime, reservations may have to be withdrawn, preferential purchase and other support measures may not be available and thus SSIs have to complete not only with the large units within the country, but also the cheap imported products. SSIs are thus losing their markets to cheap imported products. Consequently, a very large number of SSI units are becoming sick or have closed down.

Impact on Textile industry

India is quite competitive in textiles. But developed countries through various protectionist measures deny accesses to cost efficient textiles producers. These measures take the form of anti-dumping duties, unilateral change in the rule of origin and unjustifiable fasting of environmental issues. All these measures are taken to protect domestic industries in developed countries and thus, these measures hamper free flow of Indian textile exports.

Impact due to policy on child labour

When imports from developing countries hurt the interests of United States, number of environmental and human rights issues were raised with the objective of imposing a ban on the import of Indian carpets, chemicals, handicrafts, ready made garments on the plea that in their manufacture child labour was involved. The United States banned imports of several products from India on the plea of child labour. The US uses the child labour stick to punish India.

Impact on Agriculture

The agreement on Agriculture has only in theory favoured agriculture in developing countries, but in practice, its implementation has seriously affected agriculture in developing countries. According to the Agreement, developed countries agreed to reduce these subsidies by 20 percent over six years and developing countries by 13 percent over 10 year. However, developed countries under Green Box and Blue Box subsidies continue to support agriculture.

UNIT -V:

FOREIGN-TRADE ZONES

The foreign-trade zones is used to help encourage activity and value-added. facilities in competition with foreign alternatives by allowing delayed or reduced duty payments on foreign merchandise, as well as other savings.

- **Enhancing Competitiveness.** By reducing costs, FTZs level the playing field and improve . competitiveness. FTZs can help businesses reduce production, transaction, and logistics-related costs by lowering effective duty rates, allowing special entry procedures, and encouraging production closer to market. Reducing costs through FTZ use can lead to more competitive operations, thereby helping to maintain activity and jobs.
- **Creating/Retaining Jobs and Encouraging Investment.** By helping local employers remain competitive, zones can contribute to maintaining or boosting employment opportunities. And lower FTZ-based production costs encourage increased investment in . facilities.

There are two types of FTZs: 1) General Purpose Zones and 2) Special Purpose Subzones. General Purpose Zones operate as public utilities providing a variety of services to many users. Special Purpose Subzones are single-use facilities which cannot be accommodated within the General Purpose Zone.

WHAT ARE THE BENEFITS OF A FOREIGN-TRADE ZONE?
In the global marketplace, many companies consider moving to foreign facilities to reduce costs. The benefits of the Foreign-Trade Zone program may be the competitive advantage that companies need to keep their manufacturing or distribution operations in the United States. These include:

- No duties on imported goods that are later re-exported
- Delayed payment of duties on goods that enter the U.S. market
- Manufacturing-specific benefits – with case-by-case approval by the FTZ Board – that can include reduction of duties if a lower tariff rate applies to the finished product leaving the zone than the tariff rates that would have applied on foreign components (“inverted tariff”)
- Elimination of duties on waste, scrap and rejected or defective parts

- Reductions in merchandise processing fees because zone users may be able to file a single customs “entry” (and pay a single fee) per week rather than making multiple entries during the course of a week
- Exhibit products

What is EPZ?

Export Processing Zone, shortly known as EPZ is a special economic zone where Export and Import of goods are allowed without any restrictions. EPZ offers Export-Import oriented units many facilities and incentives for promoting exports from country. It was established in the year 1980 under Export Processing Zones Authority Ordinance, 1980.

History of EPZs

- The Export Processing Zone (EPZ) is a special economic zone designated by the government of a country for the promotion of export-oriented businesses. The full form of EPZ is Export Processing Zone
- The first EPZ was established in Shannon, Ireland in 1959 by the Irish government. The zones were created in response to the needs of businesses for special economic conditions and infrastructure to promote exports
- In subsequent years, EPZs were established in other countries, including the United States and Japan. The first EPZ in Asia was established in 1965 in the Export Processing Zone of Kandla in Gujarat
- EPZs have been criticized for their negative effects on the local communities in which they are located. Critics argue that the zones provide preferential treatment to foreign businesses, which leads to a loss of jobs for local workers
- EPZs continue to be an important part of the global economy, and their role is likely to continue to grow in the future. Businesses seeking to take advantage of the benefits offered by EPZs should be aware of the full form of EPZ and the various benefits it offers

Objectives of EPZ

There are several objectives of EPZ. They are mentioned below for your understanding.

– The main objective of establishing EPZs is to promote export-oriented industrialisation and to provide an environment that is conducive to the establishment and growth of Export Processing Enterprises

– The other objectives include creating employment opportunities, generating foreign exchange earnings, promoting technological up-gradation and improving productivity in EPZs

– In addition, EPZs are also seen as a means of achieving balanced regional development by attracting industries to less developed areas

– EPZs also play an important role in the economic development of a country by providing employment opportunities and contributing to foreign exchange earnings

– They also help to promote technological up-gradation and improve productivity in Export Processing Enterprises

– EPZs are seen as a means of achieving balanced regional development by attracting industries to less developed areas

Advantages of EPZ

Following are the advantages of EPZ:

– Export Processing Zones provide a hassle-free environment for the companies

– Export Processing Zones are specially designed areas that offer certain fiscal and non-fiscal incentives to the industries located therein

– Export Processing Zones help in generating employment opportunities
– Export Processing Zones promote exports and the economic development of a country
– Export Processing Zones offer world-class infrastructure and facilities
– Export Processing Zones are equipped with best in class security arrangements
Thus, Export Processing Zones prove to be a boon for the companies looking to set up their businesses abroad in a hassle-free environment with excellent incentives and world-class infrastructure.

Drawbacks of EPZ

We have also mentioned the drawbacks of EPZ below:
– EPZs are often used by MNCs to relocate production to low-wage countries, undermining local economies and labour standards
– The workers in EPZs are usually not protected by the same labour rights as other workers in the country
– Many women working in EPZs face gender discrimination and sexual harassment
Despite these drawbacks, Export Processing Zones continue to be popular in many developing countries as a way to attract foreign investment and create jobs.

The management system of EPZ

- The management system of EPZ is completely different from that of the rest of the country. In an Export Processing Zone, industries are set up for the exclusive purpose of export. These industries are given special tax holidays and other incentives to promote exports
- The government has also set up Export Processing Zones in order to attract foreign investment. Export Processing Zones are usually located in areas where there is a concentration of Export-Oriented Units
- The Export Processing Zone Authority is the agency responsible for the administration of Export Processing Zones

he concept of Export Processing Zones was introduced to enhance exports in India with the help of tax holidays and lucrative incentive packages, which are the most important aspects About EPZ in India.

Developmental Stages About EPZ in India:

The Export Processing Zones in India had gone through four significant stages of development. The initial stage witnessed the establishment of the Kandla Free Trade Zone in the city of Gujarat in the year 1965 and the consequent establishment of the Santacruz Electronics Export Processing Zone.The limitations faced by these zones are lack of a proper policy and administrative control, weak infrastructure, limited scope for concessions, and lack of adequate incentives.

Therefore, the government of India has been setting up various committees to suggest measures About EPZ in India, in order to check these existing shortcomings.Moreover, in the year 1980 a new scheme was formulated by the government known as the Export Oriented Units Scheme to bring about an over all development in these zones. The second stage witnessed the Second Oil Price Shock, which hampered the export activities significantly and led the establishment of a number of Export Processing Zones to boost the export sector. Thus, Export Processing Zones were set up in West Bengal, Tamil Nadu, Kerala, Uttar Pradesh and in Andhra Pradesh and were named as:

- Falta Export Processing Zone

- Chennai Export Processing Zone
- Noida Export Processing Zone
- Cochin Export Processing Zone
- Visakhapatnam Export Processing Zone

The third stage witnessed economic liberalization in India and restructuring of the entire export processing zone framework in the year 1991. The stage incorporated various measures for example:

- More Fiscal Incentives
- Simplification of Policy Provisions
- Incorporation of more industries like horticulture, re-engineering, agriculture, aqua culture

The fourth stage witnessed the introduction of the concept of special economic zones in the EXIM policy of 1997-2002. Presently, most of the export-processing zones have been transformed into special economic zones. The special economic zones extended their scope to include private companies together with the government organizations and offered space to be used for residential as well as for industrial purpose. They offer various fiscal and non-fiscal benefits to the inhabitants in the form of tax exemption, relaxation in duties, and various incentives to enhance the Indian economy.

Features of the EPZs in India:

- EPZs allow subcontracting activities in case of manufactured goods within India as well as in foreign countries
- Licenses are required for IT industries only
- Tax Holidays allowed for raw materials and capital goods
- Exemption from Corporate Income Tax
- Private bonded warehouses for the purpose of import, re-export, marketing etc.
- Exemption from Customs Duty
- Commodities supplied from DTA are exempted from Excise Duty
- Advantage of choosing the desirable location on the fulfillment of required conditions

Facilities offered by the EPZs in India:

- Uninterrupted Power Supply
- Single Window Clearance
- Cost Effective and Skilled Labor
- Water Connection
- Locational advantage
- Proper Infrastructure
- Medical Facilities

Thus, About EPZ in India, it is clear that they have boosted the overall economy of the country by their policies of exemptions and incentives offered to the industries operating in these zones.

Special Economic Zone (SEZ) -

A Special Economic Zone or SEZ is a specially marked territory or enclave within the national borders of a country that has more liberal economic laws than the rest of the country. This is a very important topic that features in the Indian Economy section of the UPSC syllabus. Know more about SEZs in India through this article.

Special Economic Zone – Definition

An SEZ is an enclave within a country that is typically duty-free and has different business and commercial laws chiefly to encourage investment and create employment.

- Apart from generating employment opportunities and promoting investment, SEZs are created also to better administer these areas, thereby increasing the ease of doing business.

SEZ Background

An SEZ Policy was announced for the very first time in 2000 in order to overcome the obstacles businesses faced.

- There were multiple controls and many clearances to be obtained before starting a venture.
- Infrastructure facilities were shoddy and well below world standards in India.
- The fiscal regime was unstable as well.
- In order to attract huge foreign investments into the country, the government announced the Policy.
- The Parliament passed the **Special Economic Zones Act** in 2005 after many consultations and deliberations.
- The Act came into force along with the SEZ Rules in 2006.
- However, SEZs were operational in India from 2000 to 2006 (under the Foreign Trade Policy).
- **Note:-** A precursor to the SEZs, the Export Processing Zones were set up in India well before. The first EPZ came up in Kandla in 1965 to promote exports. This was the first EPZ not only in India but in all of Asia as well.

Special Economic Zones Act, 2005

"It is defined as an Act to provide for the establishment, development and management of the Special Economic Zones for the promotion of exports and for matters connected therewith or incidental thereto."

The chief objectives of the SEZ Act are:

1. To create additional economic activity.
2. To boost the export of goods and services.
3. To generate employment.
4. To boost domestic and foreign investments.
5. To develop infrastructure facilities.

SEZ Rules

The Rules provide for:

1. Simplified procedures to develop, operate and maintain SEZs and also to set up units and conduct businesses in the SEZs.

2. Single-window clearance to set up a Special Economic Zone, and also to set up a unit in an SEZ.
3. Single-window clearance for matters connected to the Central and State governments.
4. Simplified compliance procedures and documentation with a focus on self-certification.
5. Different minimum land requirements for different classes of Special Economic Zones.

SEZ Approval Mechanism

The SEZ approval mechanism is a single-window process provided by a 19-member inter-ministerial SEZ Board of Approval (BoA).

- The developer has to submit the proposal to the state government.
- The state government forwards this proposal to the BoA along with its recommendation within forty-five days.
- The developer or applicant can also directly submit the proposal to the BoA.
- The Board, which has been constituted by the Central Government, and is a 19-member Board takes the decision considering the merits of the proposal. All decisions taken by the Board are by consensus.
    - The Board is chaired by the Secretary of the Dept. of Commerce, Ministry of Commerce and Industry.
    - The other members are from various bodies and ministries such as the Central Board of Excise and Customs (CBEC), the Central Board of Direct Taxes (CBDT), Department of Economic Affairs, Dept. of Commerce, Ministry of Science and Technology, Ministry of Home Affairs, Ministry of Law and Justice, Ministry of Urban Development, etc.

Once the BoA gives its approval, and the central government notifies the area of the SEZ, units are allowed to be established inside the SEZ.

SEZs Facilities & Incentives

The government offers many incentives for companies and businesses established in SEZs. some of the important ones are:

- Duty-free import or domestic procurement of goods for developing, operating and maintaining SEZ units.
- 100% Income tax exemption on export income for SEZ units under the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years. (Sunset Clause for Units will become effective from 2020).
- Units are exempted from Minimum Alternate Tax (MAT).
- They were exempted from Central Sales Tax, Service Tax and State sales tax. These have now subsumed into GST and supplies to SEZs are zero-rated under the IGST Act, 2017.
- Single window clearance for Central and State level approvals.
- There is no need for a license for import.
- In the manufacturing sector, barring a few segments, 100% FDI is allowed.
- Profits earned are permitted to be repatriated freely with no need for any dividend balancing.
- There is no need for separate documentation for customs and export-import policy.
- Many SEZs offer developed plots and ready-to-use space.

SEZs in India

As of 31st January 2021; 265 SEZs are operational in the country. About 64% of the SEZs are located in five states – Tamil Nadu, Telangana, Karnataka, Andhra Pradesh and Maharashtra.

The following table gives data about the SEZs as of 31st January 2021

SEZs approved	425
SEZs notified	378
SEZs approved in-principle	33
SEZs operational	265

A few important figures related to SEZs in India:

- As of 31st December 2020; 22.84 lakh persons have been employed in the SEZs, the division of which is given below:
  1. Number of persons employed in the Central Government SEZs – 186768
  2. Number of persons employed in the state/private SEZs set up before 2006 – 98309
  3. Number of persons employed in the SEZs notified under the act – 1999871
- In the financial year 2020-21 (As of 31st December 2020) the exports from SEZs have decreased by about 7.25% when compared to the previous financial year (2019-2020).
- Examples of SEZs in India:
  1. SEEPZ Special Economic Zone (Mumbai),
  2. Kandla SEZ
  3. Cochin SEZ
  4. Madras SEZ
  5. Visakhapatnam SEZ
  6. Falta SEZ

Challenges

- Since SEZs offer a wide range of incentives and tax benefits, it is believed that many existing domestic firms may just shift base to SEZs.
- There is a fear that the promotion of SEZs may be at the cost of fertile agricultural land affecting food security, loss of revenue to the exchequer and cause uneven growth with adverse effects.
- Apart from food security, water security is also affected because of the diversion of water use for SEZs.
- SEZs also cause pollution, especially with the release of untreated effluents. There has been a huge destruction of mangroves in Gujarat affecting fisheries and dairy sectors.
- SEZs have to be promoted but not at the cost of the agricultural sector of the country. It should also not affect the environment adversely.

EVALUATION OF SEZ POLICY:

Production and Innovation:

Several companies in Indian SEZs have entered in a JV partnership w ith foreign companies w hich has resulted in the transfer of know ledge and technology in hi-tech sectors. Prominent examples include L&T MBDA, Tata Boeing Aerospace Limited and Mahindra World City Auto SEZ

Employment and job quality :

SEZs in India have created a large number of quality jobs. They have provided several monetary and non-monetary benefits, occupational safety standards, insurances, transportation facilities, etc.

Skills:

In Indian SEZs, the FDI-attracting hi-tech sectors such as defense, apparel, aerospace, automotive, etc. have supported skill development by offering training opportunities to employees for technical and managerial skills.

Gender equality :

FDI inflow in SEZs in India have been impactful for promoting w omen employment and gender equal employment opportunities. The Salcomp SEZ near Chennai hires more than 10,000 w orkers of w hich 90% are w omen. Brandix Apparel City SEZ employs ~16,000 female w orkers (76% of their total employment)

Carbon footprint ;

Among various examples, Brandix Apparel City SEZ has undertaken measures tow ards driving a more sustainable future. Brandix has developed a sustainability framew ork across the pillars of Air, Water and Earth and supported it by investment in robust infrastructure.

Labour productivity:

It is defined as the ratio of real economic output per unit of labour. The results suggest that SEZs have performed better in terms of labor productivity vis-a-vis the rest of India. Labour productivity in SEZs has averaged over INR 1.5 Crore compared to INR 1 Crore in rest of India.x

Female employment ratio:

It is defined as the share of females in overall direct employment. SEZs have performed better in generating employment opportunities for w omen, compared to the rest of India. Employment ratio of w omen in SEZs has averaged over 31 percent compared to less than 20 percent in rest of India.

Ex;

Tata Boeing Aerospace Ltd	Aerospace SEZ Adibatla	• Transfer of Technology • Hi-Tech	Boeing's first equity venture in India, TBAL manufactures aero-structures for Boeing's AH-64 Apache helicopter, major step tow ards co-development of integrated systems in aerospace and defense in India
Biocon SEZ	Biocon SEZ	• Hi-Tech • API	An innovation led biopharmaceutical company that develops biosimilars, API & generics, novel biologics and research services and exports to 126 countries
Serum Institute of India	Serum Biopharma Park	• Hi-Tech	First biotechnology park in India, established w ith the aim of manufacturing and supplying immuno biologicals, largest manufacturer of vaccinations globally, substantial focus on R&D, manufacture of vaccines and exporting anti-cancer products to the US and EU markets, have entered into new partnership w ith GAVI and BMGF to escalate the production of up to 100 million doses of COVID-19 vaccines for India and for 65 other countries.

Negative impact of SEZ policy:

Establishing a well-defined institutional structure with effective one stop shop for SEZ development:

Institutional framework of BoA and UAC confined to grant approvals for authorized operations only, resulting in inordinate time for seeking approvals

Attracting anchor investors for ecosystem development and incentivizing hi-tech sectors
Absence of fiscal and nonfiscal incentives based on employment, investment, technology, value addition and other activities
Developing SEZs which are in proximity & well connected to major markets & gateways:
Availability and quality of link is not meeting expectations in SEZ.
Creating a facilitating business environment with multiple options for investors
Rigid lease structure for developers and tenants
Providing high value services related to quality of life & business services in SEZs
Absence of high value added support services Availability and quality of internal infrastructure is not meeting expectations in SEZ Providing high value services related to quality of life & business services in SEZs Lack of enablers or facilitation measures to promote green technology and green energy
Non availability of infrastructure status to some components of SEZs restricts access to concessional option of finance Lessons for joint SEZ development for addressing capital & knowledge constraints