UNIT - IV

Role of Government in Regulation and Development of Business; Monetary and Fiscal Policy; Overview of International Business Environment, Trends in World Trade, EXIM Policy; WTO- Objectives and role in international trade.

ROLE OF GOVERNMENT IN BUSINESS

Regulator of Business:

The entire regulatory legislation and policies **stand** covered under this segment. On the one hand, there is a very large indirect area of government control over the functioning of private sector business through budgetary and monetary policies.

But against this there is also a fast-expanding area of direct administrative or physical controls through which the government seeks to ensure that private investment and production in industry and the use of scarce resources conform to government's basic socio-economic objectives.

They have become necessary tools in a system which seeks to avoid total nationalisation of resources.

Government's regulatory functions with regard to trade, business and industry aim at laying down the limits for the private enterprise. The regulatory functions of the Government include:

(i) Restraints on private activities

(ii) Control of monopoly and big business

(iii) Development of public enterprises as an alternative to private enterprises to ensure competitive dualism

(iv) Maintenance of a proper socio-economic infrastructure.

Promoter of Business:

The promotional role of the government in relation to industries can be seen as providing finance to industry, in granting various incentives and in creating infrastructure facilities for industrial growth and investment.

For example, our government has identified certain backward areas as ‘No Industry Districts’. To promote development of such areas, Government provides subsidies and tax holiday to attract investment in backward areas.

In this way the government will help the process of balanced development and thereby remove regional disparities. The government is assisting the development of small scale industries.

The District Industrial Centers are assisting the development of small industries. The government is actively helping the industrial development of the country by providing finance to them through the development banks.

Government as the Planner:

In its role as a planner, the government indicates various priorities in the Five Year Plans and also the sectoral allocation of resources. Mixed economies are democratically planned economies.

The government tries to manage the economy and its business activities through the exercise of planning. Planning is the most important activity in a modern mixed economy. The idea of economic planning can be traced to three different sources: Rationalism, Socialism and Nationalism.

Economists advocate a planned economy on the ground that it can be a rational economy which can utilize the available resources in an optimal manner.

In other words, the planned economy is a rational economy which attempts to secure the maximum return with minimum wastage of productive resources.

The socialists advocate a planned economy because it helps to achieve some desirable social ends like economic equality. An unplanned economy, left to it, is incapable of attaining the social ends.

The nationalists advocate a planned economy because a planned economy is a powerful economy.

The Government’s responsibilities towards business are as follows:

Providing Monetary System

The Government has to provide monetary system so that business transactions can be effected. Further, it is also the responsibility of the Government to regulate money and credit, and protect the money value of the currency in terms of other currencies.

Incentives to Home Industries

It is the responsibility of the Government to encourage the development of home industries by providing them various incentives and subsidies.

Conducting Inspections

It is the responsibility of the Government to inspect the private business concerns in order to make sure that they produce quality products, and also to prevent the production and sale of sub-standard goods.

Transfer of Technology

It is the responsibility of the Government to transfer to private industries whatever discoveries are made by the Government owned Research Institutions so that they can be used for commercial production.

Assistance to Small-scale Industries

It the responsibility of the Government to provide the required facilities and encourage the development of small-scale industries to overcome the problem faced by them.

Supply of Information

It is the responsibility of the Governments to provide information, which is useful to businessmen in carrying out their business activities. Government agencies publish and provide a large volume of information, which is used extensively by business firms. This information normally relates to economic and business activity, specific lines of business, scientific and technological developments, and many other things of interest to business houses or business leaders.

Provision of Basic Infrastructure

Government should provide basic infrastructural facilities such as transportation, power, finance, trained personnel and civic amenities, which are indispensable for the effective functioning of business concerns.

Balanced Regional Development and Growth

It is the responsibility of the Government to make sure that there are balanced regional developments and growth.

Maintaining Law and Order

Maintaining law and order and protecting persons and property is another responsibility of the Government of the country. It would be impossible to carry on business in the absence of a peaceful atmosphere.

Enacting and Enforcing Laws

Enacting and enforcing laws is the prime responsibility of the Government of each country. This is because laws and regulations only enable the businesses to function smoothly. Further, Government provides a system of court for adjudicating differences between firms, individual or Government agencies.

Legal framework in India in Business Environment

An effective regulatory and legal framework is indispensable for the proper and sustained growth of the company. In rapidly changing national and global business environment, it has become necessary that regulation of corporate entities is in tune with the emerging economic trends, encourage good corporate governance and enable protection of the interests of the investors and other stakeholders. Further, due to continuous increase in the complexities of business operation, the forms of corporate organizations are constantly changing. As a result, there is a need for the law to take into account the requirements of different kinds of companies that may exist and seek to provide common principles to which all kinds of companies may refer while devising their corporate governance structure.

The important legislations for regulating the entire corporate structure and for dealing with various aspects of governance in companies are Companies Act, 1956 and Companies Bill, 2004. These laws have been introduced and amended, from time to time, to bring more transparency and accountability in the provisions of corporate governance. That is, corporate laws have been simplified so that they are amenable to clear interpretation and provide a framework that would facilitate faster economic growth.

Secondly, the Securities Contracts (Regulation) Act, 1956, Securities and Exchange Board of India Act, 1992 and Depositories Act, 1996 have been introduced by Securities and Exchange Board of India (SEBI), with a view to protect the interests of investors in the securities markets as well as to maintain the standards of corporate governance in the country.

Legal Framework of Doing Business in India

Legal Framework of Doing Business in India is intended to provide foreign investors and their advisors a broad legal perspective on foreign investment in India. The guide is written in general terms and its application to specific situations will depend on the particular circumstances involved. It summarizes all major foreign investment regulations and procedures that are currently in force in India. It has been prepared in order to facilitate multinational companies, start-ups and venture capital investor’s set-up business operations in India and includes valuable regulations, forms and policies for ready reference of entrepreneurs and senior managers of foreign entities. It also includes a step-by-step guide to compliance and filings of forms in India. The information in this guide is accurate as of March 20, 2014.

Citizens of India have the option to set-up their business operations either in the form of incorporated entities, (a company or limited liability partnership) or unincorporated entities like a sole proprietorship. On the other hand, a foreign company opting to enter India can do so either by incorporating a wholly owned subsidiary ("WOS") or by way of joint venture collaboration with an Indian company ("JV Company"). For registration and incorporation of WOS or JV Company, one would first need to incorporate an Indian company and then file an application with Registrar of Companies ("ROC"). The WOS and JV Company will be subject to Indian laws and regulations as applicable to other domestic Indian companies.

Additionally, a foreign company not opting to be incorporated in India, either by way of a JV Company or WOS, is permitted to conduct its business operations through any of the following offices, namely

i) liaison office, also known as a representative office;
ii) branch office; or
iii) project office. Such offices can undertake activities permitted to them under the regulations framed by Foreign Exchange Management Act, 1999 ("FEMA") for such offices. The approvals for these offices are accorded by the Reserve Bank of India ("RBI") on a case-to-case basis.

The Government of India is making all efforts to attract and facilitate foreign direct investment ("FDI") from abroad including investment from non-resident Indians ("NRIs") to compliment and supplement domestic investment.

To make the investment attractive, returns on them are freely repatriable***** subject to certain legislative restrictions. In addition to approval for bringing FDI in India, many other clearances and approvals, such as registration of company, environment and land related clearances, permission for import of plant and machinery, land acquisition etc are required for starting a business in India.

***<u>Repatriable</u>** = Capable of repatriation. *Repatriation brings back home something brought to or acquired in a foreign country. Something is repatriable if the laws of both the foreign and home country permit and don't impede their repatriation. Repatriation laws can impede or encourage foreign investment and cross-border currency flow.*

MONETARY POLICY

Monetary policy refers to the policy of the central bank of a country to regulate and control the volume, cost and allocation of money and credit with the aim of achieving the objectives of optimum levels of output and employment, price stability, balance of payment equilibrium, or any other goal set by the government.

Monetary and fiscal policies are closely interrelated and therefore should be pursued in coordination with each other. Fiscal policy generally brings about changes in money supply through the budget deficit. An excessive budget deficit, for example, shifts the burden of control of inflation to monetary policy. This requires a restrictive credit policy.

On the contrary, a fiscal policy, which keeps the budget deficit at a very low level, frees the monetary authority from the burden of adopting an anti-inflationary monetary policy. The monetary policy can then play a positive role in promoting economic growth by extending credit facilities to development programmes.

In a developing economy like India, appropriate monetary policy can play a positive role in creating conditions necessary full rapid economic growth. Moreover, since these economies are highly sensitive to inflationary pressures, the monetary policy should also serve to control inflationary tendencies by increasing savings by the people, checking credit expansion by the banking system and discouraging deficit financing by the government.

In India, during the planning period, the aim of the monetary policy of the Reserve Bank has been to meet the needs of the planned development of the economy.

With this broad aim, the monetary policy has been pursued to achieve the twin objectives of the economic policy of the government:

(a) To accelerate the process of economic growth with a view to raise national income, and

(b) To control and reduce the inflationary pressures in the economy.

Thus, the monetary policy of the Reserve Bank during the course of planning has been appropriately termed as that of ‘controlled expansion’. It aims at adequately financing of economic growth and, at the same time, ensuring reasonable price stability in the country.

POLICY OF CREDIT EXPANSION

The overall trend in the economy during the planning period has been that of continuous expansion of currency and credit with an objective of meeting the developmental needs of the economy.

This expansion has been achieved by adopting the following measures:

1. **Revision of Open Market Operations**

The Reserve Bank revised its open operations policy in October 1956, according to which it started giving discriminatory support to the sale and purchase of government securities. Between 1948-51 the Bank made large purchases of government securities.

In the subsequent period, the Bank's sales of the government securities to the public exceeded its purchases. This excess sales method was discontinued between 1964 and 1969 with a purpose of expanding currency and credit in the economy.

2. **Liberalisation of the Bill Market Scheme**

Through the bill market scheme, the commercial banks receive additional funds from the Reserve Bank to meet the increasing credit requirements of their borrowers. Since 1957, the Reserve Bank has extended the bill market scheme to include export bills in order to help the commercial banks to provide credit to exporters liberally

3. **Facilities to Priority Sectors**

The Reserve Bank continues to provide credit facilities to priority sectors such as small-scale industries and cooperatives, even though the general policy of the Bank is to control credit expansion.

For instance, in October 1962, the banks were allowed to borrow additional funds from the Reserve Bank in order to provide finance to small scale industries and cooperatives. The Reserve Bank has also been providing short-term finance to the rural cooperatives.

4. **Refinance and Rediscounting Facilities**

In recent years, the Reserve Bank has been following a policy of providing selective refinance and rediscounting facilities. At present, the banks are permitted to refinance equal to one per cent of the demand and time liabilities at the rate of 10 per cent per annum. Refinance facilities are also available for food procurement credit and export credit.

5. **Credit Facilities through Financial Institutions:**

The Reserve Bank has also been instrumental in the establishment of various financial institutions like Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India (IFCI), Industrial Reconstruction Corporation of India (IRCI), Industrial Credit and Investment Corporation of India (ICICI), State Finance Corporations (SFCs).

Agricultural Refinance and Development Corporation (ARDC) and National Bank for Agriculture and Rural Development (NABARD). Through these institutions, the Reserve Bank provides medium-term and long-term credit facilities for development.

6. **Deficit Financing**

Continuous increase in money supply in the country has been caused by adopting the method of deficit financing to finance the budgetary deficit of the government. This has been made possible through changes in the reserve requirements of the Reserve Bank.

The reserve system was made more flexible by making two changes:

(a) By dropping proportional reserve system which required keeping of 40 per cent of reserves in gold (coins and bullion) and foreign securities, with the provision that the value of gold would not be less than Rs. 40 crore.

(b) Modifying the minimum reserve system so that the Reserve Bank need keep only gold worth Rs. 115 crore with the provision that the minimum requirement of keeping foreign securities of the value of Rs. 85 crore can be waived during extreme contingency.

7. **Anti-Inflationary Fiscal Policy**

The Seventh Five Year Plan prefers an anti-inflationary fiscal policy to an anti-inflationary monetary policy and emphasises a positive, promotional and expository role for monetary policy. It is believed that “a fiscal policy that keeps the budget deficit down would give greater autonomy to monetary policy.”

In the seventh plan, the amount of deficit financing (i.e., net Reserve Bank Credit to the government) has been fixed at a level considered just sufficient to generate the additional money supply needed to meet expected increase in the demand for money, such an anti-inflationary fiscal policy will liberate the Reserve Bank for its anti-inflationary responsibilities and will enable it to extend sufficient credit facilities for the development of industry and trade.

8. **Allocation of Credit**

The pattern of allocation of credit is in accordance with the plan priorities. The major part of the total credit available goes to the public sector through statutory requirements and other means. A certain minimum of credit at concessional rates of interest is ensured for the priority sectors through selective credit control and the differential rate of interest scheme. Private industries can secure funds for investment purposes through public financial institutions.

POLICY OF CREDIT CONTROL

Apart from meeting developmental and expansionary requirements of the economy, the Reserve Bank has also been assigned the task of controlling the inflationary pressures in the economy. During the planning period, the large and continuous increase in the deficit financing and government expenditure has been expanding the monetary demand for goods and services.

But, on the other hand, the factors like shortfalls in production, hoardings, etc., have been creating inelasticity's in the supply of commodities. As a result the country has been experiencing an inflationary rise in prices ever since 1955-56 and particularly after 1973-74.

The Reserve Bank has adopted a number of credit control measures to check the inflationary tendencies in the country:

1. **Bank Rate**

The bank rate is the rate at which the Reserve Bank advances to the member banks against approved securities or rediscounts the eligible bills of exchange and other papers. Bank rate is considered as a pace-setter in the money market. Changes in the bank rate influence the entire interest rate structure, i.e., short- term as well as long term interest rates.

A rise in the bank rate leads to a rise in the other market interest rates, which implies a dear money policy increasing the cost of borrowing. Similarly, a fall in the bank rate results in a fall in the other market rates, which implies a cheap money policy reducing the cost of borrowing.

The Reserve Bank has changed the bank rate from time of time to meet the changing conditions of the economy. The bank rate was raised from 3% to 3.5% in November 1951 and was further raised to 4% in January 1963, to 5% in September 1964, to 6% in February 1965.

In March 1968, the bank rate was reduced to 5% in view of the recessionary conditions. Subsequently, it was further raised to 7% in May to 9% in July 1974 and to 10% in July 1981. The bank rate was again raised to 11% in July 1991. It was 12% w.e.f October 8, 1991.

The increases in the bank rate were adopted to reduce bank credit and control inflationary pressures. At present the bank rate is 9%.

The situation, however, has changed since the introduction of economic reforms in early 1990s. As a part of financial sector reforms, the Reserve Bank of India (RBI) has decided to consider the Bank Rate as a policy instrument for transmitting signals of monetary and credit policy. Bank rate now serves as a reference rate for other rates in the financial markets.

With this new role assigned to the Bank Rate and to meet the growing demand for credits from all sectors of the economy under the liberalised economic conditions, the Bank Rate has been reduced in phases in subsequent years. It was reduced to 10% in June 1997, to 9% in October 1997, to 8% in March 1999, to 7% in April 2000, to 6.5% in October 2001, to 6.25% in October 2002, to 6.00% in April 2003.

2. **Net Liquidity Ratio**

In order to check excessive borrowings from the Reserve Bank by the commercial banks, the Reserve Bank introduced the system of net liquidity ratio in September 1964. According to this system, a commercial bank can borrow from the Reserve Bank at the bank rate only if it maintains a minimum net liquidity ratio to its total demand and time liabilities, and it will have to pay a penal rate of interest to the Reserve Bank, if the net liquidity ratio falls below the minimum ratio fixed by the Reserve Bank.

Net liquidity of a borrowing bank comprises:

(a) Cash in hand and balances with the Reserve Bank plus.

(b) Balances in currency account with other banks, plu.

(c) Investments in government and other approved securities, minus.

(d) Borrowing from the Reserve Bank, the State Bank of India and the Industrial Development Bank of India.

In 1964, when the system was introduced, the net liquidity ratio was fixed at 28%, and for every point drop in the ratio, the interest rate was to go up by 0.5%. In 1973, the net liquidity ratio was raised to 40% and the rate of interest was to go up by 1% above the bank rate for every 1% drop in the net liquidity ratio. In 1975, however the system was abandoned.

3. **Open Market Operations**

Through the technique of open market operations, the central bank seeks to influence the excess reserves position of the banks by purchasing and selling of government securities, commercial papers, etc.

When the central bank purchases securities from the banks, it increases their cash reserve position, and hence their credit creation capacity. On the other hand, when the central bank sells securities to the banks, it reduces their cash reserves and the credit creation capacity.

Sections (178) and 17(2)(a) of Reserve Bank of India Act authorise the Reserve Bank to purchase and sell the government securities, treasury bills and other approved securities. However, due to underdeveloped security market, the open market operations of the Reserve Bank are restricted to government securities. These operations have also been used as a tool of public debt management.

They assist the Indian government in raising borrowings. Generally the Reserve Bank’s annual sales of securities have exceeded the annual purchases because of the reason that the financial institutions are required to invest some portion of their funds in government and approved securities.

In India, the open market operations policy of the Reserve Bank has not been so effective because of the following reasons:

(a) Open market operations are restricted to government securities.

(b) Gilt-edged market is narrow.

(c) Most of the open market operations are in the nature of switch operations, i.e., purchasing one loan against the other.

4. **Cash-Reserve Requirement (CRR)**

The central bank of a country can change the cash-reserve requirement of the bank in order to affect their credit creation capacity. An increase in the cash-reserve ratio reduces the excess reserve of the bank and a decrease in the cash-reserve ratio increases their excess reserves.

Originally, the Reserve Bank of India Act of 1934 required the commercial banks to keep with the Reserve Bank a minimum cash reserve of 5% of their demand liabilities and 2% of time liabilities. The amendment of the Act in 1956 empowered the Reserve Banks to use the cash reserve ratio as an instrument of credit control by varying them between 2 and 20% on the demand liabilities and between 2 and 8% on the time liabilities- Further, amendment of the Act in

1962 removes the distinction between demand and time deposits and authorises the Reserve Bank to change cash-reserve ratio between 3 and 15%.

The Reserve Bank used the technique of variable cash-reserve ratio for the first time in June 1973 when it raised the ratio from 3% to 5% and further to 7% in September 1973. Since then, the Reserve Bank has raised or reduced the cash-reserve ratio many times.

It was raised to 9% on February 4, 1984, to 9.5% on February 28, 1987, to 10% with effect from October 24, 1987, to 10.5% effective from July 2, 1988 and further to 11% effective from July 30, 1988.

The CRR was raised to its existing maximum limit of 15 % with effect from July, 1989. The present CRR ratio is 11% w.e.f. August 29, 1998. This reduction is due to the new liberalised policy of the government.

The Narsimham Committee in its report submitted in November 1991, was of the view that a high Cash Reserve Ratio (CRR) adversely affects the bank profitability and thus puts pressure on banks to charge high interest rates on their commercial sector advances. The government therefore decided to reduce the CRR over a four year period to a level below 10%.

As a first step in the pursuit of this objective, CRR was reduced in two phases from 15% to 14.5% in April 1993 and further to 14% in May 1993. It was reduced to 13% in April 1996. Again in line with the monetary policy aimed at facilitating adequate availability of credit to support industrial recovery, the CRR was further reduced to 8% in April 2000, to 7.5% in May 2001, to 5.5% in October 2001, to 4.75% in November 2002, to 4.50% in June 2003.

5. **Statutory Liquidity Ratio (SLR)**

Under the original Banking Regulation Act 1949, banks were required to maintain liquid assets in the form of cash, gold and unencumbered approved securities equal to not less than 25% of their total demand and time deposits liabilities. This minimum statutory liquidity ratio is in addition to the statutory cash-reserve ratio. The Reserve Bank has been empowered to change the minimum liquidity ratio.

Accordingly, the liquidity ratio was raised from 25% to 30% in November 1972, to 32% in 1973, to 35% in October 1981, to 36% in September 1984, to 38% to in January 1988, and to 38.5% effective from September 1990.

There are two reasons for raising statutory liquidity requirements by the Reserve Bank of India:

(a) It reduces commercial banks' capacity to create credit and thus helps to check inflationary pressures.

(b) It makes larger resources available to the government. In view of the Narsimham Committee report, the government decided to reduce SLR in stages from 38.5% to 25%. The effective SLR on total outstanding net demand and time liabilities of the scheduled commercial banks come down to 27% by the end of December 1996.

6. **Selective Credit Controls**

Selective credit controls are qualitative credit control measures undertaken by the central bank to divert the flow of credit from speculative and unproductive activities to productive and more urgent activities. Section 21 of the Banking Regulation Act 1949 empowers the Reserve Bank to issue directives to the banks regarding their advances.

These directives may relate to-

(a) The purpose for which advances may or may not be made.

(b) The margins to be maintained on the secured loans.

(c) The maximum amount of advances to any borrower.

(d) The maximum amount upto which guarantees may be given by the banking company.

(e) The rate of interest to be charged.

MPC (Monetary Policy Committee): Structure and Functions

The term '**Monetary Policy**' is the Reserve Bank of India's policy pertaining to the deployment of monetary resources under its control for the purpose of achieving GDP growth and lowering the inflation rate. The Reserve Bank of India Act 1934 empowers the RBI to make the monetary policy. We can say that the monetary policy stands for the control measures adopted by the Central Bank of a nation.

The Monetary Policy Committee is responsible for fixing the benchmark interest rate in India. The meetings of the Monetary Policy Committee are held at least 4 times a year (specifically, at least once every quarter) and it publishes its decisions after each such meeting.

Monetary Policy Committee (MPC) has been instituted by the Central Government of India under Section 45ZB of the RBI Act that was amended in 1934. MPC had its first meeting for two days on October 3 and October 4, 2016. The MPC is entrusted with the responsibility of deciding the different policy rates including MSF, Repo Rate, Reverse Repo Rate, and Liquidity Adjustment Facility. Monetary Policy Committee (MPC) has six members and the main objective of this body is to maintain the price stability and boosting up the growth rate of the country's economy.

The committee comprises six members, three officials of the Reserve Bank of India and three external members nominated by the Government of India. They need to observe a "silent period" seven days before and after the rate decision for "utmost confidentiality". The Governor of Reserve Bank of India is the chairperson ex officio of the committee. Decisions are taken by majority with the Governor having the casting vote in case of a tie. The current mandate of the committee is to maintain 4% annual inflation until 31 March 2021 with an upper tolerance of 6% and a lower tolerance of 2%.

The Reserve Bank of India Act, 1934 was amended by Finance Act (India), 2016 to constitute MPC which will bring more transparency and accountability in fixing India's Monetary Policy. The monetary policy are published after every meeting with each member explaining his opinions. The committee is answerable to the Government of India if the inflation exceeds the range prescribed for three consecutive quarters.

Functions:

The MPC is entrusted with the responsibility of deciding the different policy rates including MSF, Repo Rate, Reverse Repo Rate, and Liquidity Adjustment Facility.

Composition of MPC:

The committee will have six members. Of the six members, the government will nominate three. No government official will be nominated to the MPC.

The other three members would be from the RBI with the governor being the ex-officio chairperson. Deputy governor of RBI in charge of the monetary policy will be a member, as also an executive director of the central bank.

Objectives of the Monetary Policy:

The Chakravarty committee has emphasized that price stability, economic growth, equity, social justice, promoting and nurturing the new monetary and financial institutions have been important objectives of the monetary policy in India.

RBI tries always tries to reduce rate of inflation or keep it within a sustainable limit while on the other hand government of India focus to accelerate the GDP growth of the country.

Monetary Policy objectives

As per the suggestions made by Chakravarty Committee, aspects such as price stability, economic growth, equity, social justice, and encouraging the growth of new financial enterprises are some crucial roles connected to the monetary policy of India.

- While the Government of India tries to accelerate the GDP growth rate of India, the RBI keeps trying to bring down the rate of inflation within a sustainable limit.
- In order to achieve its main objectives, the Monetary Policy Committee determines the ideal policy interest rate that will help achieve the inflation target in front of the country.

FISCAL POLICY - MEANING, OBJECTIVES

Fiscal policy is an integral part or organ of public finance. In ordinary words, fiscal policy refers to a policy that affects macroeconomic variables, like national income, employment, savings, investment, price level, etc.

Fiscal policy is “a policy under which the government uses its expenditure and revenue programmes to produce desirable effects and avoid undesirable effects on the national income, production and employment.”

Fiscal policy means the use of taxation and public expenditure by the government for stabilization or growth of the economy. According to Culbarston, “By fiscal policy we refer to government actions affecting its receipts and expenditures which ordinarily as measured by the government’s receipts, its surplus or deficit.” The government may change undesirable variations in private consumption and investment by compensatory variations of public expenditures and taxes.

The use of such fiscal policy measures may be grouped into two:

(i) Those which operate automatically: Popularly known as automatic or built-in stabilizers

(ii) Those which are discretionary in the sense that the government takes deliberate action to manage aggregate demand popularly called discretionary fiscal policy.

- **Automatic or Built-in Fiscal Policy:**

Automatic fiscal policy is a change in fiscal policy that is triggered by the state of the economy. Note that this kind of fiscal policy adjusts automatically and, hence, no explicit action by the government is needed.

Under automatic fiscal policy stabilizers, there occurs an automatic change in tax receipts and expenditures with the changes in income. During depression, as unemployment rises, income declines. As a result, tax receipts of the government decline. On the other hand, government expenditures rise.

Thus, tax receipts and expenditures have certain stabilizing forces that are automatic. There does not occur any deliberate action on the part of the government to influence aggregate demand. Once the change in economic activity takes place, receipts and expenditures change automatically.

- **Discretionary Fiscal Policy:**

On the other hand, discretionary fiscal policy is a policy action that is initiated by the authority. This type of fiscal policy may be used by the government rather deliberately.

Deliberate policy changes to influence the level of economic activity may be called discretionary fiscal policy. Discretionary fiscal policy entails a change in the government budget. Government deliberately alters tax schedules and various expenditure programmes.

The fiscal policy is designed to achieve certain objectives as follows:

1. **Employment Generation**: The government is making every possible effort to increase employment in the country through effective fiscal measures. Investment in infrastructure has resulted in direct and indirect employment. Lower taxes and duties on small-scale industrial (SSI) units encourage more investment and consequently generate more employment. Various rural employment programmes have been undertaken by the Government of India to solve problems in rural areas. Similarly, self-employment scheme is taken to provide employment to technically qualified persons in the urban areas.

(a) To capture the excessive purchasing power and to curb private spending:

(b) Compensate the deficiency in private investment through public investment;

(c) Cheap money policy or lower interest rates to attract more and more private entrepreneurs.

2. **Development by effective Mobilization of Resources**: The principal objective of fiscal policy is to ensure rapid economic growth and development. This objective of economic growth and development can be achieved by Mobilisation of Financial Resources. The central and state governments in India have used fiscal policy to mobilise resources.

The financial resources can be mobilized by:

1. **Taxation**: Through effective fiscal policies, the government aims to mobilise resources by way of direct taxes as well as indirect taxes because most important source of resource mobilisation in India is taxation.
2. **Public Savings**: The resources can be mobilised through public savings by reducing government expenditure and increasing surpluses of public sector enterprises.

3. **Private Savings**: Through effective fiscal measures such as tax benefits, the government can raise resources from private sector and households. Resources can be mobilised through government borrowings by ways of treasury bills, issuance of government bonds, etc., loans from domestic and foreign parties and by deficit financing.
4. **Increases National Income**: it's the strength of the fiscal policy that is brings out the desired results in the economy. When the government want to increase the income of the country then it increases the direct and indirect taxes rates in the country. There are some other measures like, reduction in tax rate so that more peoples get motivated to deposit actual tax.
5. **Reduction in inequalities of Income and Wealth**: Fiscal policy aims at achieving equity or social justice by reducing income inequalities among different sections of the society. The direct taxes such as income tax are charged more on the rich people as compared to lower income groups. Indirect taxes are also more in the case of semi-luxury and luxury items which are mostly consumed by the upper middle class and the upper class. The government invests a significant proportion of its tax revenue in the implementation of Poverty Alleviation Programmes to improve the conditions of poor people in society.

(i) Direct physical control.

(ii) Increasing the rate of existing taxes.

(iii) Introduction of new taxes,

(iv) Public borrowing of non-inflationary nature,

(v) Deficit financing.

5. **Price Stability and Control of Inflation**: One of the main objectives of fiscal policy is to control inflation and stabilize price. Therefore, the government always aims to control the inflation by reducing fiscal deficits, introducing tax savings schemes, productive use of financial resources, etc.
6. **Balanced Regional Development**: there are various projects like building up dams on rivers, electricity, schools, roads, industrial projects etc run by the government to mitigate the regional imbalances in the country. This is done with the help of public expenditure
7. **Reducing the Deficit in the Balance of Payment**: some time government gives export incentives to the exporters to boost up the export from the country. In the same way import curbing measures are also adopted to check import. Hence the combine impact of these measures is improvement in the balance of payment of the country.

8. **Development of Infrastructure**: when the government of the concerned country spends money on the projects like railways, schools, dams, electricity, roads etc to increase the welfare of the citizens, it improves the infrastructure of the country. A improved infrastructure is the key to further speed up the economic growth of the country.
9. **Foreign Exchange Earnings**: when the central government of the country gives incentives like, exemption in custom duty, concession in excise duty while producing things in the domestic markets, it motivates the foreign investors to increase the investment in the domestic country.

INSTRUMENTS OF FISCAL POLICY

A Contra cyclical Budgetary Policy:

The policy of managed budgets implies changing expenditures with constant tax rates or changing tax rates with constant expenditures or a combination of the two. Budget management may be used to tackle depression and inflationary situations. Deliberate attempts are made under this policy to adjust revenues, expenditures and public debt to eliminate unemployment during depression and to achieve price stability in inflation.

Contra cyclical policy implies unbalanced budgets. An unbalanced budget during depression implies deficit spending. To make it more effective, the government may finance its deficits by borrowing from the banks. During periods of inflation, the policy is to have a budget surplus by curtailing government outlays.

The government may partly utilize the budget surplus to retire the outstanding government debt. The belief is that a surplus budget has deflationary effect on national income while a deficit budget tends to be expansionary. During depression when we need an increase in the flow of income, deficit budgets are desired. Conversely, in inflation when we need to check the overflow of income, surplus budgets are favoured.

However, following a contra cyclical budgetary policy is not an easy task. Predicting a recession or an inflationary boom is a difficult job. Adjusting the budget to the fast changing economic conditions is still more difficult especially when budget is a political decision to be taken after a good deal of delay and discussion. Therefore, emphasis has also to be laid on adjustment of individual items of the budget in order to make it more effective as a contra cyclical fiscal policy weapon.

Public Expenditure:

Public expenditure can be used to stimulate production, income and employment. Government expenditure forms a highly significant part of the total expenditure in the economy. A reduction or expansion in it causes significant variations in the total income. It can be instrumental in adjusting consumption and investment to achieve full employment.

During inflation, the best policy is to reduce government expenditure in order to control inflation by giving up such schemes as are justified only during deflation. While expenditures are reduced, attempts are made to increase public revenues to generate a budget surplus.

Though it is true that there is a limit beyond which it may not be possible to reduce government spending (say on account of political, and military considerations), yet the government can vary its expenditure to some extent to reduce inflationary pressures.

It is during depression that public spending assumes greater importance. A distinction is made between the concepts of public spending during depression, that is, the concepts of pump priming and the 'compensatory spending'. Pump priming means that a certain volume of public spending will help to revive the economy which will gradually reach satisfactory levels of employment and output. What this volume of spending may be is not specific. The idea is that, when private spending becomes deficient, then a small dose of public spending may prove to be a good starter.

Compensatory spending, on the other hand, means that public spending is undertaken with the clear view to compensating for the decline in private investment. The idea is that when private investment declines, public expenditure should expand and as long as private investment is below normal, public compensatory spending should go on. These expenditures will have multiplier effects of raising the level of income, output and employment.

The compensatory public expenditure may take the forms of relief expenditure, subsidies, social insurance payments, public works etc.

<u>Essential requisites of compensatory public spending are:</u>

(1) It must have the maximum possible leverage effects;
(2) It must not be mutually offsetting;

(3) It must create economically and socially desirable assets. But pump priming expenditures are of limited relevance in advanced economies where the deficiency of investment is not merely cyclical but also secular.

Built-in-Stabilizers:

The fact that both taxes and transfer payments automatically vary with changes in income level is the basis of the belief in built-in-stabilizers. The term 'stabilizers' is used because they operate in a manner as counteracts fluctuations in economic activity. They are called 'built-in', because these come into play automatically as the income-level changes.

Taxes may act as a stabilizing influence upon the economic system if the tax structure is such that the amount of taxes collected by the government rises automatically with increases in national income, for in this case the effect will be to reduce the expansion of disposable income. From the stabilizing point of view, it means a slower rise in induced consumptions.

If the tax system is such that only the absolute amount of tax revenue but also the percentage of income paid in taxes increases with an increase in income, its stabilizing impact will be greater. That will happen if the rate structure of the tax system is progressive, that is, the effective rates rise as the level of income increases.

Similarly, the various forms of transfer payments also operate in a countercyclical fashion. Only such transfer payments have a stabilising effect as decrease in amount when income increases and increase when income declines.

For example, when employment is falling, payments to the unemployed automatically increase, thereby increasing the disposable income and vice-versa. It would be too much to presume that these stabilizers by themselves can smoothen fluctuations in income but most would agree that these are effective complements to discretionary actions aimed at stabilising the economy.

Taxation Policy:

The structure of tax rates has to be varied in the context of conditions prevailing in an economy. Taxes determine the size of disposable income in the hands of general public and therefore, the quantum of inflationary and deflationary gaps. During depression tax policy has to be such as to encourage private consumption and investment; while during inflation, tax policy must curtail consumption and investment.

During depression, a general reduction in corporate and income taxation has been favoured by economists like Prof. A H. Hansen, M. Kalecki, and R.A. Musgrave on the ground that this leaves higher disposable incomes with people inducing higher consumption while low corporate taxation encourages ‘venture capital’, thereby promoting more investment.

But there are others who express grave doubts about the supposed stimulating effect of taxation reliefs on investment. It has been argued that even a heavy reduction in taxes does not alter an entrepreneur’s decisions.

Mr. Kalecki expressed the view that the policy of reducing taxes for increasing consumption and stimulating private investment is not a practical solution of the unemployment problem because income-tax cannot be changed so often. The government will have to evolve a long-term fiscal policy.

Built-in-Flexibility:

One practical difficulty of public finance is of making the fiscal tools flexible enough for prompt and effective use. For example, the tempo of business activity may change suddenly manifesting itself in booms and slumps but fiscal tools cannot be geared all at once to meet such situations. To overcome such practical difficulties, built-in-flexibility has to be ensured in the fiscal tools.

A fiscal system has built-in-flexibility if a change in employment in the economy brings about a marked compensating change in the government's revenues and expenditures. Unemployment insurance schemes have built-in-flexibility on both the spending and taxing sides.

As employment increases, the money spent on dolls is automatically reduced. Price support programmes, some kinds of excise duties, especially those levied on luxuries, also have built-in-flexibility to some extent.

However, built-in-flexibility may prove inadequate to cope with strong deflationary and inflationary pressures. Therefore, formula flexibility (or flexibility by way of executive discretion) is required.

A system of formula flexibility provides for specific changes in the tax structure and the volume of government spending as necessitated by certain clearly-recognised problems in business activity. It requires decision making on the part of the administration about the necessary changes which must be given effect to without delay.

Executive discretion implies the delegation to the chief executive the authority to order whatever changes he thinks fit in government spending and tax structure. These measures are required to supplement the built-in-flexibility of some schemes.

Public Works:

Public expenditures meant for stabilisation are classified into two types:

(i) Expenditures on public works such as roads, schools, parks, buildings, airports, post-offices, hospitals, canals and other projects.

(ii) Transfer payments, such as interest on public debt, pensions, subsidies, relief payment, unemployment insurance, social security benefits etc.

The expenditure on building up of capital assets is called capital expenditure and transfer payments are called current expenditure. It has been recommended that governments should keep ready with them a list of public works which may be taken up when the economy shows signs of recession.

Such a programme of public investment will tone up the general morale of businessmen for investing. The primary employment in public works programmes will induce secondary and tertiary employment. As soon as the economy is put on the expansion track, such programmes may be slackened and may be given up completely so that at any time public investment does not compete with private investment.

Public works programmes suffer from a few limitations and practical difficulties. It is unrealistic to expect that public works will fill all the investment gaps of the private sector of the economy. To be genuinely effective in promoting investment during depression, public works require proper timing, proper financing and general approval of business and investing opportunities.

Public Debt:

A sound programme of public borrowing and debt repayment is a potent weapon to fight inflation and deflation. Government borrowing can be in the form of borrowing from non-bank financial intermediaries, borrowing from commercial banking system, drawings from the central bank or printing of new money.

Borrowing from the public through the sale of bonds and securities which curtails consumption and private investment is anti-inflationary in effect. Borrowing from the banking system is effective during depression if banks have got excess cash reserves.

Thus, if unused cash lying with banks can be lent to the government, it will cause a net addition to the national income stream. Withdrawals of balances from treasury are inflationary in nature but these balances are likely to be so small as to be of little importance in the economic system. However, the printing of new money is highly inflationary.

During war, borrowing becomes necessary when inflationary pressures become strong. In a period of inflation, therefore, public debt has to be managed in such a way as reduces the money supply in the economy and curtails credit. The government will do well to retire debt through a budget surplus.

During depression, on the opposite, taxes are reduced and public expenditures are increased. Deficits are financed by borrowings from the public, commercial banks or the central bank of the country. The public borrowing of otherwise idle funds will have no adverse effect on consumption or on investment. When budgets are deficit, it is very difficult to retire debts.

Actually, it pays to accumulate debt during depression and redeem it during a period of expansion. Along with this, the monetary authority (the central bank) must aim at a low bank rate to keep the burden of debt low. Thus, ‘public debt becomes an important tool of anti-cyclical policy.

INTERNATIONAL BUSINESS ENVIRONMENT

International Business Environment In the context of a business firm, environment can be defined as various external actors and forces that surround the firm and influence its decisions and operations. The two major characteristics of the environment as pointed out by this definition are: these actors and forces are external to the firm these are essentially uncontrollable. The firm can do little to change them.

The International Business Environment concentration provides a “macro” view of markets and institutions in the global economy. It will prepare students for careers involving international market analysis such as international commercial and investment banking, portfolio analysis and risk assessment, new market development, international business consulting, and international business law. The foundational courses focus on an understanding of global markets and institutions. The concentration will allow the student to combine courses in broader areas of economic development, regional business environment, and/or international law, management, marketing, trade, and finance. The student will be encouraged to combine the core courses with supplemental coursework in related international subjects such as language, history, politics, and culture.

Exports boost the economic development of a country, reduce poverty and raise the standard of living. The world’s strongest economies are heavily involved in international trade and have the highest living standards, according to the Operation for Economic Co-operation and Development (OECD).

Countries like Switzerland, Germany, Japan and the Scandinavian countries have high volumes of imports and exports relative to their gross domestic product and offer high standards of living. Nations with lower ratios of international trade, such as Greece, Italy, Spain and Portugal, face serious economic problems and challenges to their living standards. Even with low wages, less developed countries can use this advantage to create jobs related to exports that add currency to their economy and improve their living conditions.

Importance of the International Business Environment

1. *Exports Increase Sales*

Exporting opens new markets for a company to increase its sales. Economies rise and fall, and a company that has a good export market is in a better position to weather an economic downturn. Furthermore, businesses that export are less likely to fail. It’s not only the exporting companies that increase sales;

the companies that supply materials to the exporters also see their revenues go up, leading to more jobs.

2. *Exports Create Jobs*

A company that increases its exports needs to hire more people to handle the higher workload. Businesses that export have a job growth 2 to 4 percent higher than companies that don't; these export-related jobs pay about 16 percent more than jobs in companies with fewer exports. The workers in these export-related jobs spend their earnings in the local economy, leading to a demand for other products and creating more jobs.

3. *Imports Benefit Consumers*

Imported products result in lower prices and expand the number of product choices for consumers. Lower prices have a significant effect, particularly for modest and low-income households. Studies show that lower import prices save the average American family of four around $10,000 per year.

Besides lower prices, imports give consumers a wider choice of products with better quality. As a result, domestic manufacturers are forced to lower their prices and increase product lines to meet the competition from imports. Even further, domestic vendors may have to import more components of their products to stay price competitive.

4. *Improved International Relations*

International business removes rivalry between different countries and promotes international peace and harmony. Mutual trade creates a dependence on each other, improves confidence and fosters good faith.

A good example of co-dependency of nations is the relationship between the United States and China. Even though these countries have significant political differences, they try to get along because of the huge amount of trade between them.

Their relationship evolved and changed a lot over the past decades. Not too long ago, it was characterized by mutual tolerance, intensifying diplomacy and bilateral economic relationships. This was a win-win for both parties.

In July 2016, more than 800 hundred Chinese products became subject to a 25 percent import tax. The new tariff policy is expected to affect U.S.-China relations. Financial experts believe that there’s no going back to how things were.

A policy of a free international trade environment strengthens the economies of all countries. The competition from imports and exports leads to lower prices, better quality of products, wider selections and improved standards of living. While international trade may lead to the loss of some jobs, it has a stronger synergistic effect on the creation of new jobs and improved economic conditions.

SCOPE OF INTERNATIONAL BUSINESS

International business is the process of implying business across the boundary of the country at a global level. It focuses on the resources of the globe and objectives of the organization on the global business.

International business refers to the global trade of goods/services outside the boundaries of a country. International business conducts business transactions all over the world, it is also known as Global Business. It includes transaction between the parties in different global location.

If you are making a transaction with the International e-commerce websites i.e, AliExpress, Amazon, E-bay than you are making an International transaction. The trade allows a country to specialize in producing and exporting the most efficient products that can be produced in that country. International business consists of the movement to other countries of goods, products, technology, experience of management and resources.

Scope of International Business

1. *Foreign Investments*

Foreign investment is an important part of international business. Foreign investment contain investments of funds from the abroad in exchange for financial return. Foreign investment is done through investment in foreign countries through international business. Foreign investments are two types which are direct investment and portfolio investment.

2. *Exports and Imports of Merchandise*

Merchandise are the goods which are tangible. (those goods which can be seen and touched.) As mentioned above merchandise export means sending the home country's goods to other countries which are tangible and merchandise imports means bringing tangible goods to the home country.

3. *Licensing and Franchising*

Franchising means giving permission to the new party of the foreign country in order to produce and sell goods under your trademarks, patents or copyrights in exchange of some fee is also the way to enter into the international business. Licensing system refers to the companies like Pepsi and Coca-Cola which are produced and sold by local bottlers in foreign countries.

4. ***Service Exports and Imports***

Services exports and imports consist of the intangible items which cannot be seen and touched. The trade between the countries of the services is also known as invisible trade. There is a variety of services like tourism, travel, boarding, lodging, constructing, training, educational, financial services etc. Tourism and travel are major components of world trade in services.

5. ***Growth Opportunities***

There are lots of growth opportunities for both of the countries, developing and under-developing countries by trading with each other at a global level. The imports and exports of the countries grow their profits and help them to grow at a global level.

6. ***Benefiting from Currency Exchange***

International business also plays an important role while the currency exchange rate as one can take advantage of the currency fluctuations. For example, when the U.S. dollar is down, you might be able to export more as foreign customers benefit from the favourable currency exchange rate.

7. ***Limitations of the Domestic Market***

If the domestic market of a country is small then the international business is a good option for the growth of the business in the host country. Depression of domestic market firms will force to explore foreign markets.

Recent World Trade Scenario of Trading

The global economy has been on a subdued growth path since the advent of 'Financial Crisis' of 2008, and has now started to show signs of global recovery. In October 2017, the IMF projected world GDP growth to pick up from 3.2% in 2016 to 3.6% in 2017, and further to 3.7% in 2018. Economic activity has also picked up in developed market economies such as the US, UK, and Europe. There is a rise in global demand, which is expected to remain buoyant. The developing and emerging market economies have seen mixed economic performance. The pickup in momentum of global demand has been led by investment demand. More specifically, production of both consumer durables and capital goods have rebounded since the second half of 2016. Some factors that have contributed to these developments include global recovery in investments, led by infrastructure and real estate investment in China; firming global commodity prices; and end of an inventory cycle in US.

On the back of this global recovery, the world is witnessing a pickup in global trade. The Asian Development Bank, in its recent update1, noted that most of the emerging economies (excluding China) are witnessing a rebound in manufacturing exports, "particularly in electronics, where foreign direct investment has been strengthening". The economies of south-east Asia are also gaining from increased activity along cross-border manufacturing supply chains. The World Trade Organization (WTO), has recently in its September 2017 press release upgraded the growth forecast for global trade in the year 2017, from 2.4% to 3.6%. Particularly, in the first half of 2017, world trade rose by a robust 4.2% (year on year), driven by exports of developing economies which grew by 5.9 percent as compared to a growth of 3.1 percent witnessed in exports of developed economies. Imports by developed and developing economies also increased by 2.1% and 6.9%, respectively. Moreover, the ratio of trade growth to world GDP growth is also set to recover and reach around 1.3, which will be at a highest level in last 5 years.

This pickup in global growth which has boosted demand for imports, spurred intra-Asia-trade as demand was transmitted through global value chains. In this current scenario, even though India is witnessing a mild rebound in its exports, there are concerns that merchandise exports in Asia's second largest economy are lagging behind other major Asian economies. Today global attention is riveted on emerging and developing economies and especially Asia, driven by the continent's growing appetite for industrial investment, burgeoning infrastructural requirements and its quest for expanding trade.

Indian economy and its trade scenario

India's growth story, especially since the start of the 21st century has been remarkable. The Indian economy has come a long way since its economic liberalisation, and is amongst the fastest growing major economies of the world today. While India witnessed a relatively moderate growth during the period 2011-12 to 2013-14, on account of the global economic slowdown, the economy recorded a robust growth averaging 7.5 percent during the period 2014-15 to 2016-17, much above the growth rate of other emerging and developing economies. In the last one year, it has seen major economic policy developments with the introduction of Goods and Services Tax (GST) and demonetization of higher currency notes.

Even though the GDP growth in the first quarter of current fiscal has fallen down to a low of 5.7%, its lowest since March 2014, it is widely believed that the economy has bottomed out and it can only rise from here. According to the IMF, India is expected to grow at 7.2% in this fiscal year, aided by higher government spending and a pickup in the service sector performance.

Fueling India's growth through international trade

In recent years, India's robust growth has been driven by the dynamic private sector. An encouraging phenomenon that has been witnessed has been the emergence of a large number of investment driven small and medium enterprises with immense potential for growth. A large number of such enterprises have also endeavoured to expand their business operations overseas. The Indian economy is more globalized than we could imagine. As a result, India's foreign trade has seen a multi-fold increase, since liberalization of the economy.

Accordingly, there have been significant structural shifts not only in the product basket, but also in the geographical composition of India's foreign trade. The opening up of Indian economy led to a massive increase in the foreign trade, which aided in sustained GDP growth over last two decades. During the last 25 years Indian exports have increased by 17 times and imports by 19 times. India's share in global merchandise exports has risen from 0.6 percent in early 1990s to 1.7 percent in 2016, and similarly the share of imports has risen from 0.6 percent to 2.4 percent during the same period. India's trade to GDP ratio, a measure of an economy's openness and integration into the global economy, has witnessed a phenomenal increase over the last few decades. Foreign trade which constituted around 13-15 percent of India's GDP in the early nineties, peaked at 55 percent in 2012- 13 and today accounts for around 40 percent in 2016-17. India also, ranked as the 20th largest exporter and 14th largest importer in the world in 2016.

Concomitantly, India's engagement with Global Value Chains (GVCs), which have become dominant feature of world trade, has increased significantly since 1990s. In manufacturing sector, especially for electrical and optical equipment, India is more integrated with the south east Asian region, while for services the integration in GVCs is with western countries like the US and UK. According to an OECD estimate, developing economies with fastest growing GVC participation have experienced a GDP per capita growth rate percent above average.

India has set an ambitious target of achieving exports worth US $ 900 billion by 2020, while accounting for a share of 3.5 percent of global exports4. In the current global macroeconomic scenario, while it seems like a challenging task, concerted efforts would need to be made for India to be able to achieve its trade target and realign its foreign trade policy with the new global trading system.

While the global economic scenario is crucial, the domestic factors are no less important, when it comes to trade. India's overall trade policy faces certain challenges viz. inadequate export diversification in terms of products and geographical distribution; insignificant involvement of a majority of states in exports; rationalisation of the tariff regime and export promotion schemes; and factor market reforms which are critically linked with export performance. These challenges not only affect the productivity and competitiveness of domestic firms but also restrict them from participating in global production networks.

(i) Integrating into and moving up the value chain

Most manufactured products, often high technology manufactured products, that are part of GVCs are infrastructure critical products whose parts are manufactured in several countries. A robust transport and connectivity network supported by fast entry/exit through port/customs is a precondition to making such products as delay may disrupt the entire value chain. There is a need for India to focus on expanding production capacity along with value addition, and moving up the value chain,while creating an enabling environment to account for a sizeable share in major leading global exports. This gain seven more significance given that India's labour force is projected to swell by about 110 mn by 2020. The biggest challenge is to employ the surplus labour coming out of agriculture into industry and services.

(ii) Upscaling Manufacturing

The Make in India initiative is an important initiative of the Government of India, which envisages to promote India as a manufacturing hub and investment destination. There is need for highlighting the potential and stimulating the manufacturing sector through supporting mechanisms and conducive policy measures, including support for R&D, technology orientation and investment incentives. A Higher expenditure on R&D generally correlates with increase in high-technology exports, and increased local value addition. R&D expenditure as a percentage share of GDP in India has remained extremely low at less than1 percent, much lower even in comparison to other developing economies. Also, while we lay emphasis on the manufacturing sector and thereby on manufactured exports, it is also important to ensure an enabling environment and improving our competitiveness by investing in infrastructure such as better connectivity through roads and ports, coal availability, labour reforms and flexibility in factor markets.

(iii) Aligning India's Export Capability in-Line with Global Import Demand

With regard to India's exports, while merchandise exports have more than doubled over the period 2006-07 to 2016-17 from US$ 126 billion to more than US$276 billion, there remains huge potential for exports of select products to select countries in line with India's export capability and import demand. There is need for identifying and aligning India's export capability vis-à-vis global import demand. Such in-depth analysis has been the focus of research studies in Exim Bank. Comparative analyses of global trends in trade, undertaken in such studies have yielded interesting results.

To Conclude --

All in all, a pick-up in global growth is expected to contribute to the revival of international trade, but the downside risks such as the possible adoption of protectionist trade policies by especially developed market economies, around the world weigh on the recovery of trade. As a result, there is an increasing need for India and other emerging market economies, relying on export led economic growth, to take a proactive stand for globalization and international trade.

There is a need to shift our focus from exporting what we can (or supply based), to items that are globally demanded. A demand-based export basket diversification approach could give a big push to exports. While India has made remarkable progress in the recent past, it facesan even more challenging global environment today. Itis certainly a daunting, yet possible, task to ensure that India repositions itself as an important driver of global economic growth.

Recent trends in India's Foreign Trade

1. Huge Growth in the Value of Trade

Table 7.1 reveals that the total value of foreign trade which was Rs. 1,972 crore in 1950-51, gradually increased to Rs. 2,835 crore in 1960-61 and then to Rs. 3,487 crore in 1965-66. After that the value of trade increased at a quicker pace from Rs. 3,169 crore in 1970-71 to Rs. 9,301 crore in 1975.-76 and then rose significantly to Rs. 19,260 crore in 1980-81.

Thereafter, the total value of trade rose significantly to Rs. 30,553 crore in 1985-86 to Rs. 63,097 crore in 1989-90 and to Rs. 91,893 crore in 1991-92 and then to Rs. 1,17,063 crore in 1992-93 and finally to Rs. 22.15,191 crore in 2008-09.

Value of India's Foreign Trade

Year	Imports (Rs. crore)	Exports (Rs. crore)	Total (Rs. crore)	Balance of Trade (Rs. crore)
1950-51	1,025	947	1.972	(–) 78
1960-61	2.795	1.040	2.835	(–) 755
1965-66	2.218	1.269	3.487	(–) 949
1970-71	1.634	1.535	3.169	(–) 99
1975-76	5.265	4.036	9.301	(–) 1.229
1976-77	5.074	5.142	10.216	(+) 68
1980-81	12.549	6.711	19.260	(–) 5.838
1985-86	19.658	10.895	30.553	(–) 8.763
1986-87	20,096	12.452	32.548	(–) 7.644
1987-88	22,244	15.674	37.918	(–) 6.570
1988-89	28.235	20.232	48.467	(–) 8.003
1989-90	35.416	27.681	63.097	(–) 7.735
1990-91	43.193	32.553	75.746	(–) 10.640
1991-92	47.851	44.042	91.893	(–) 3.809
1992-93	63.375	53.688	1.17.063	(–) 9.687
1993-94	73.101	69.751	1.42.852	(–) 3.350
1994-95	89.971	82.674	1.72.645	(–) 7.297
1995-96	1.22,678	1.06.353	2.29.031	(–) 16.325
1996-97	1.38.920	1.18.817	2.57.737	(–) 20.103
1997-98	1.54.176	1.30.101	2.84.277	(–) 24.075
1998-99	1.78.332	1.39.752	3.18.085	(–) 38.599
1999-2000	2.15.236	1.59.561	3.74.797	(–) 55.675
2000-2001	2.30.873	2.03.571	4.34.444	(–) 27,302
2001-2002	2,45.200	2.09.018	4.54.218	(–) 36.182
2002-03	2.97.206	2.56.137	5.53.343	(–) 41.069
2003-04	3.59.108	2.93.367	6.52.475	(–) 65.741
2004-05	5.01.065	3.75.340	8.76.405	(–)1.25.725
2005-06	6.60.409	4.56.418	11.16.827	(–)1.03.991
2006-07	8.40.506	5.71.779	14.12.285	(–)2.68.727
2007-08	10.12.312	6.55.864	16.68.176	(–)3.56.448
2008-09	13.74.436	8.40.755	22.15.191	(–)5.53.681

Thus during the period from 1950-51 to 1970-71 total value of trade rose by only 60.9 percent. Again during the period 1970-71 to 1980-81, total value of foreign trade rose significantly by 597 per cent, i.e., by nearly 6 times. But during the period 1980-81 to 1990-91, total value of trade rose by 293.3 per cent, i.e., by nearly 4 times. In 2008-09 the value of trade recorded an increase of 32.79 per cent over the previous year.

2. **Higher Growth of Imports**

Another peculiarity that can be seen from this trend is that there has been consequential higher growth in respect of imports of the country since 1951. Thus the total value of imports which was Rs. 1,025 crore in 1950-51 gradually rose to Rs. 1,634 crore in 1970- 71, i.e., by only 59 per cent. Since then the value of imports started to rise at a very faster pace and thus reached the level of Rs. 12,549 crore in 1980-81 and then to Rs. 43,193 crore in 1990-91 showing an increase of 667 per cent and 244 per cent during the last two decades respectively.

The factors which were largely responsible for this phenomenal increase in imports include: huge import of industrial inputs, regular import of food grains under P.L. 480 rising anti-inflationary imports, liberal imports of non-essential items, periodic hike on oil prices and the initiation of liberal import policy by the government during 1985-86 to 1991-92. In 2008-09, the value of imports rose significantly to Rs. 13,74,436 crore, showing a growth rate of 33.77 per cent over the previous year.

3. **Inadequate Growth of Exports**

Another very peculiar situation that the country has been facing is a very slow growth in respect of its exports. In the initial period, total value of exports in India rose marginally from Rs. 947 crore in 1950-51 to Rs. 1,535 crore in 1970-71, showing an increase of only 62 per cent. But since then the growth of exports in the country could not keep pace with the growth in imports.

Total value of exports rose gradually to Rs. 6,711 crore in 1980-81 showing an increase of 337 per cent over 1970-71 and then to Rs. 32,553 crore in 1990-91, showing an increase of 385 per cent over the value of 1980-81. In 1993-94, the value of exports rose considerably to Rs. 69,751 crore showing a growth of 29.9 per cent over the previous year.

In 2008-2009, the value of exports rose to Rs. 8,40,755 crore showing a growth rate of 28.2 per cent over the previous year. Again in 2009-2010 (Apr.-Jan.) the value of exports stood at Rs. 3,72,096 crore showing a negative growth of 19.9 per cent over the previous year. Due to the introduction of various export promotion measures since the devaluation of rupee in 1966, the value of Indian exports recorded some increase but this increase in exports was totally inadequate considering the sizeable growth in the value of imports.

This has resulted in a persistent and widening trade deficit in the country. The factors which were mostly responsible for this low growth of exports include un-favourable terms of trade for Indian primary (agro-based) goods, inadequate export surplus, adoption of the policy of protectionism by developed countries and long period of business recession in developed country in recent years.

Reasons of Slow Export growth

Survey Findings. Recently a survey conducted by the Delhi School of Business on 150 export organizations revealed that the main reasons for the slow growth of exports in India were that 65 per cent of the export establishments were not using ITPO, MMTC and other such institutions.

Moreover, a majority of the establishments were not inclined to make use of training and education in international marketing. Clearly, lack of adequate professionally trained manpower in export organizations is one of the important reasons for slow growth of exports in the country and failure to compete effectively in global markets.

Some of the important factors which were found responsible for reduction in growth of exports from 20 per cent to a mere four per cent during the last two years (1996-98) were Government policies, quality of production, tariffs, quality control and management, institutional finance, banks, export procedures and participation in trade fairs.

It was also observed that as many as 47 per cent of the exporters would not like to avail of the services of personnel trained in export and would manage their operations through family members or others not professionally trained. The study also highlighted an attitudinal disinclination towards professionalism. Thereby, as many as 56 per cent of the respondents were not inclined to sponsor a candidate for training international marketing.

As per this survey, the most dominant constraints and problems faced by the exporters were lack of export marketing information, inadequate infrastructural facilities, procedural complications, monetary loss due to low export prices and delay in clearance in ports. Therefore, immediate improvement or upgrading was required in port handling facilities, road transportation, rail transport and power sectors.

Regarding shipments, the biggest constraints were high incidence of warehousing cost, delay in customs clearance, inadequate warehousing facilities, low frequency of sailing, high incidence of port expenses and inadequate shipping space.

It is quite disturbing to note that India's share in world trade was 1.78 per cent in 1950 and in-spite of all the efforts made it has come down to 0.61 per cent in 1994. Immediately after liberalization, there were positive signs up to 1995 but in 1996 and 1997 there had been a reversal of the trend. But during the current period, i.e., in 2001-02 and 2002-03, the export has recorded a growth rate of 19.7 per cent respectively. In-spite of the constraints and inadequacies faced by the exporters it was heartening to note that the exporting community, as observed by the survey, was optimistic about the future scenario.

4. **Mounting Trade Deficit: Deficit in the Balance of Trade**

As a result of higher growth of imports and slow growth of exports the country has been experiencing a mounting trade deficit since 1980-81. During the last 45 years period, the country has recorded a small surplus in its trade only in two years (viz., in 1972-73 and in 1976-77).

Due to adverse balance of trade situation, the extent of trade deficit in India gradually rose from Rs. 78 crore in 1950-51 to Rs. 949 crores in 1965-66. Recording a decline to Rs. 99 crore in 1970-71, the extent of trade deficit rose from Rs. 1,229 crore in 1975-76 to Rs. 5,838 crore in 1980-81 and then considerably to Rs. 10,640 crores in 1990-91. But after the introduction of some changes in the trade policy and due to considerable import compression the extent of trade deficit declined remarkably to Rs. 3,809 crore in 1991-92.

Accordingly, the annual average deficit in balance of trade which was Rs. 108 cu.re during the First Plan gradually rose to Rs 747 crore during the Third Plan. But due to import compression and boosting exports, the annual average trade deficit declined to Rs. 167 crore during the Fourth Plan. But since then the annual average deficit in balance of trade rose significantly from Rs. 810 crore during the Fifth Plan to Rs. 5,716 crore during the Sixth Plan and then to Rs. 7,720 crore during the Seventh Plan.

In 1992- 93 the extent of trade deficit again rose to Rs. 9,687 crore due to huge increase in import. But during 1993-94, the extent of trade deficit declined to Rs. 3,350 crore due to considerable increase in exports. But during 2008-2009, the extent of trade deficit again rose to Rs. 5,33,681 crore. Again during 2009-2010, the extent of trade deficit further rose to Rs. 2,31,110 crore (April-Sept.).

EXIM Policy

The Export-Import Policy (EXIM Policy), announced under the Foreign Trade (Development and Regulation Act), 1992, would reflect the extent of regulations or liberalization of foreign trade and indicate the measures for export promotion. Although the EXIM Policy is announced for a five- year period, announcing a Policy on March 31st of every year, within the broad frame of the Five Year Policy, for the ensuring year.

A very important feature of the EXIM policy since 1992 is freedom. Licensing, quantitative restrictions and other regulatory and discretionary controls have been substantially eliminated.

The Union Commerce Ministry, Government of India announces the integrated Foreign Trade Policy FTP in every five year. This is also called EXIM policy. This policy is updated every year with some modifications and new schemes. New schemes come into effect on the first day of financial year, i.e., April 1, every year. The Foreign Trade Policy which was announced on August 28, 2009 is an integrated policy for the period 2009-14.

Export-Import (EXIM) Policy frames rules and regulations for exports and imports of a country. This policy is also known as Foreign Trade Policy. It provides policy and strategy of the government to be followed for promoting exports and regulating imports. This policy is periodically reviewed to incorporate necessary changes as per changing domestic and international environment. In this policy, approach of government towards various types of exports and imports is conveyed to different exporters and importers.

Export refers to selling goods and services to other countries, while import means buying goods and services from other countries. Now in the era of globalization, no economy in the world can remain cut-off from rest of the world. Export and import play a significant role in the economic development of all the developed and developing economies. With the growth of international organisations like WTO, UNCTAD, ASEAN, etc., world trade is growing at a very fast rate.

Objectives of EXIM Policy

- To facilitate sustained growth in exports to attain a share of at least 1 % of global merchandise trade.
- To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods required for augmenting production and providing services.

- To enhance the technological strength and efficiency of Indian agriculture, industry and services, thereby improving their competitive strength while generating new employment opportunities, and to encourage the attainment of internationally accepted standards of quality.
- To provide consumers with good quality goods and services at internationally competitive prices while at the same time creating a level playing field for the domestic produce.

Governing Body of Exim Policy

The Government of India notifies the Exim Policy for a period of five years (1997-2002) under Section 5 of the Foreign Trade (Development and Regulation Act), 1992. The current Export Import Policy covers the period 2002-2007. The Exim Policy is updated every year on the 31st of March and the modifications, improvements and new schemes became effective from 1st April of every year.

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

Exim Policy 1992 -1997

In order to liberalize imports and boost exports, the Government of India for the first time introduced the Indian Exim Policy on April I, 1992. In order to bring stability and continuity, the Export Import Policy was made for the duration of 5 years. However, the Central Government reserves the right in public interest to make any amendments to the trade Policy in exercise of the powers conferred by Section-5 of the Act. Such amendment shall be made by means of a Notification published in the Gazette of India.

Export Import Policy is believed to be an important step towards the economic reforms of India.

Exim Policy 1997 -2002

New Export Import Policy was need for the smooth functioning of the Indian export import trade. Hence, the Government of India introduced a new Exim Policy for the year 1997-2002. This policy has further simplified the procedures and educed the interface between exporters and the Director General of Foreign Trade (DGFT) by reducing the number of documents required for export by half. Import has been further liberalized and better efforts have been made to promote Indian exports in international trade.

Objectives of the Exim Policy 1997 -2002

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

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

Highlights of the Exim Policy 1997-2002

1. Period of the Exim Policy

This policy is valid for five years instead of three years as in the case of earlier policies. It is effective from 1st April 1997 to 31st March 2002.

2. Liberalization

A very important feature of the policy is liberalization.

It has substantially eliminated licensing, quantitative restrictions and other regulatory and discretionary controls. All goods, except those coming under negative list, may be freely imported or exported.

3. Imports Liberalization

Of 542 items from the restricted list 150 items have been transferred to Special Import Licence (SIL) list and remaining 392 items have been transferred to Open General Licence (OGL) List.

4. Export Promotion Capital Goods (EPCG) Scheme

The duty on imported capital goods under EPCG Scheme has been reduced from 15% to 10%.Under the zero duty EPCG Scheme, the threshold limit has been reduced from Rs. 20 crore to Rs. 5 crore for agricultural and allied Sectors5. Advance Licence Scheme Under Advance License Scheme, the period for export obligation has been extended from 12 months to 18 months.

- A further extension for six months can be given on payment of 1 % of the value of unfulfilled exports.

Duty Entitlement Pass Book (DEPB) Scheme

- Under the DEPB
- Scheme an exporter may apply for credit, as a specified percentage of FOB value of exports, made in freely convertible currency.

Such credit can be can be

Utilized for import of raw materials, intermediates, components, parts, packaging materials, etc. for export purpose.

Impact of Exim Policy 1997 –2002

(a) Globalization of Indian Economy

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

(b) Impact on the Indian Industry

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

(c) Impact on Agriculture

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

(d) Impact on Foreign Investment

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

(e) Impact on Quality up gradation

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

(f) Impact on Self-Reliance

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

Institutions Connected With EXIM Trade

The primary aim to set up machinery for consultation is to create the required forum and environment for consulting various quarters interested and engaged in foreign trade.

It facilitates to develop a dialogue between Government, industry and the entrepreneurs, at various levels, to discuss varied problems faced by the enterprises and suggest necessary measures to solve the problems. Export is a dynamic industry and faces stiff international competition. It requires innovation, flexible approach and expeditious action to catch the swift changes that emerge as new opportunities. Further, orientation in attitude has to be developed to visualize and anticipate the changes that may overtake the scene. Equally, appropriate Government policies are important to support for rapid growth in international trade. To gear up with the changes, exporter needs guidance and assistance at different stages of export effort. For this purpose, Government has set up several institutions whose function is to support exporter in his endeavors. Institutions that are engaged in expo falls in six distinct tiers. The set-up is:

Department of Commerce

Primary Government agency responsible for formulating and directing Foreign Trade Policy and programs including establishing relations with other countries where needed

Board of Trade

Mechanism to maintain continuous dialogue with trade and industry for appropriate policy measures and corrective action by Government

Commodity specific organizations

Tackling problems connected with individual commodities and groups of commodities Service Institutions Assist exporters to expand their operations to reach world markets more effectively Government Trading organizations

Handling export/import of specified commodities & supplementing efforts of private enterprises in export promotion and import management

Government Policy Making and Consultations

The following bodies are involved in policy making and consultation process:

1. ***Department of Commerce***

Ministry of Commerce is the apex ministry at the central level to formulate and execute India’s foreign trade policy and to initiate various exports promotional measures. e main functions of the Ministry are formulation of international commercial policy, negotiation of trade agreements, formulation of export-import policy and their implementation. has created a network of commercial sections in Indian embassies and high commissions various countries for export-import trade flows. It has set up an “Exporters’ Grievances dressal Cell” to assist exports in quick redressal of grievances. The department of Commerce, in the Ministry of Commerce, has been made responsible for India’s external trade and all matters connected with the same. This is the main organization to formulate and guide India’s foreign trade, formed with the responsibility of promoting India’s interest in international market. The Department of Commerce has six divisions and their functions are as under:

- **Trade Policy Division**: To keep abreast of the developments in the International organizations like UNCTAD, WTO, the Economic Commissions for Europe, Africa, Latin America and Asia and Far East
- **Foreign Trade Territorial**: Development of trade with different countries and regions of the world

- **Export Products Division**: Problems connected with production, generation of surplus and development of markets for the various products under its jurisdiction
- **Export Industries Division**: Development and Regulation of tobacco, Rubber and cardamom.
- **Export Services Division**: Export promotion activities relating to handlooms, textiles, woolens, readymade garments, silks, jute and jute products, handicrafts, coir and coir products Problems of Export Assistance
- **Economic Division**: Formulation of exports strategies, Export planning, Periodic appraisal and Review of policies

2. Board of Trade

It has been set up on May 5, 1989 with a view to provide an effective mechanism to maintain continuous dialogue with trade and industry in respect of major developments in the field of international trade. It provides regular consultation, monitoring and review of India's foreign trade policies and operations. The board has the representatives from commerce and other important Ministries, Trade and Industry Associations and Export Services Organizations. It is an important national platform for a regular dialogue between the Government and trade and industry. The deliberations in the Board of Trade provide guidelines to the Government for appropriate policy measures for corrective action.

The Minister of Commerce is the chairman of the Board of Trade. The official membership includes Secretaries of the Ministries of Commerce and Industry, Finance (Revenue), External Affairs (ER), Textiles, Chairman of ITPO, Chairman/MD of ECGC, MD of Exim Bank and Deputy Governor of Reserve Bank of India. The non-official members are President of FICCI, ASSOCHAM, CH, FIEO, All India Handloom Weavers Marketing Co-operative Society.

Cabinet Committee regular and effective monitoring of India's foreign trade performance and related policies

3. Empowered Committee of Secretaries

For speedier and quicker decision making, an Empowered Committee of Secretaries has been set up to assist the Cabinet Committee on Exports.

4. Grievances Cell

Grievances Cell has been established to entertain and monitor disposal of grievances and suggestions received. The purpose is to redress the genuine grievances, at the earliest. The grievance committee is headed by the Director

General of Foreign. Trade. At the State level, the head of the concerned Regional Licensing authority heads the grievances committee. The committee also includes representatives of FIEO, concerned Export Promotion Council/ Commodity Board and other departments and organisations. The grievances may be addressed to the Grievances Cell, in the prescribed proforma.

5. Director General of Foreign Trade (DGFT)

DGFT is an important office of the Ministry of Commerce to help formulation of India’s Export4mport formulation policy and implementation thereof. It has set up regional offices in almost all the states and Union territories. These offices are known as Regional Licensing Authorities. The Regional Licensing offices also act as Export facilitation centres.

6. Ministry of Textiles

This is another ministry of Government of India which is responsible for policy formulation, development, regulation and export promotion of textile sector including sericulture, jute and handicrafts etc. It has a separate Export Promotion Division, advisory boards, development corporations, Export Promotion Councils and Commodity Boards. The advisory hoards have been set up to advise the government in the formulation of the overall development programmes in the concerned sector. It also devises strategy for expanding markets in India and abroad. The four advisory boards are as under:

(a) All India Hand loom Board

(b) All India Handicrafts Board

(c) All India Power loom Board

(d) Wool Development Board.

There are Development Commissioners, Handicrafts and Handlooms who advise on matters relating to development and exports of these sectors. There are Textile Commissioner and Jute commissioner who advise on the matters relating to growth of exports of these sectors. Textile committee has also been set up for ensuring textile machinery indigenously, especially for exports.

7. Institutional Framework

Export Promotion Councils and Commodity Boards have been established with the objective of promoting and strengthening commodity specialization. They are the key institutions in the institutional framework, established in India for export promotion.

Export Promotion Councils: There are 19 Councils covering different products. These Councils advise the Government the measures necessary to facilitate future exports growth, assist manufacturers and exporters to overcome various constraints and extend them full range of services for the development of overseas market. The councils also have certain regulatory functions such as the power to de-register errant and defaulting exporters. An idea of the functions of the Export Promotion Council can be had from understanding some of the functions of the Engineering Export Promotion Council. Some of their functions are:

(a) To apprise the Government of exporters' problems;

(b) To keep its members posted with regard to trade inquiries and opportunities;

(c) To help in exploration of overseas markets and identification of items with export potential;

(d) To render assistance on specific problems confronting individual exporters;

(e) To help resolve amicably disputes between exporters and importers of Indian engineering goods and (f) to offer various facilities to engineering exporters in line with other exporting countries.

Over the years, the role of Export Promotion Councils has reduced to traditional liaison work and has lost their importance. Now, the procedures connected with the foreign trade are more simplified. So, they have to redefine their role to offer concrete market promotional and consolidation programmes and services to their members.

Commodity Boards: There are 9 statutory Boards. These Boards deal with the entire range of problems of production, development, marketing etc. In respect of these commodities concerned, they act themselves as if they are the Export Promotion Councils. These Boards take promotional measures by opening foreign offices abroad, participating in trade fairs and exhibitions, conducting market surveys, sponsoring trade delegations etc.

8. States' Cell

This has been created under Ministry of Commerce. Its functions are to act as a nodel agency for interacting with state government or Union territories on matters concerning export or import from the state or Union territories. It provides guidance to state level export organizations. It assists them in the formulation of export plans for each state.

9. Development Commissioner, Small Scale industries Organization

The Directorate has the headquarter in New Delhi and Extension Centres are located in almost all the States and Union Territories. They provide export promotion services almost at the door steps of small-scale industries and cottage units. The important functions are:

- To help the small scale industries to develop their export capacities
- To organize export training programmes
- To collect and disseminate information
- To help such units in developing their export markets
- To take up the problems and other issues related to small-scale indus Corporation tries Besides, there are Directorates of Industries, National Small Scale Industries exports from small-scale industries.

“WTO” – WORLD TRADE ORGANIZATION

During great depression of 1930s the international trade was badly affected and various countries imposed import restriction for safeguarding their economies. This resulted in a sharp decline in the world trade in 1945. USA put forward many proposals for extending international trade and employment. On October 30, 1947, 23 countries at Geneva, signed an agreement related to tariffs imposed on trade.

This agreement is known as General Agreement on Tariffs and Trade (GATT). It came into force on January 1, 1948. Initially GATT was established in the form of a temporary arrangement but later on it took the shape of a permanent agreement. GATT’s headquarter was in Geneva. On December 12, 1995, GATT was abolished and replaced by World Trade Organisation (WTO), which came into existence on January 1, 1995.

The WTO was established on January 1, 1995. The WTO is the embodiment of the Uruguay Round results and the successor to GATT. 76 Governments became members of the WTO on its first day. As of September 1999, there are 134 members of the WTO and 34 countries have an observer status. There is a waiting list of 31 members. They account for more than 90 percent of the world trade.

Functions of WTO:

i)The WTO shall facilitate the implementation, administration and operation, and further the objectives of the Multilateral Trade Agreements, and shall also provide the framework for the implementation, administration and operation of Plurilateral Trade Agreements.

ii)The WTO shall provide the forum for negotiations among its members concerning their multilateral trade relations in matters dealt with under the Agreements.

iii) The WTO shall administer the ‘Understanding on Rules and Procedures Governing the Settlement of Disputes’.

iv)The WTO shall administer the ‘Trade Review Mechanism’.

v)With a view to achieve greater coherence in global economic policy making, the WTO shall co-operate, as appropriate, with the IMF and IBRD and its affiliated agencies.

The General Council will serve four main functions:

i) To supervise on a regular basis the operation of the revised agreements and ministerial declarations relating to: Goods, services, and TRIPs.

ii) To act as a Dispute Settlement Body,

iii) To serve as a Trade Review Mechanism,

iv) To establish Goods Council, Services Council and TRIPs Council, as subsidiary bodies.

The WTO is a more powerful body with enlarged functions than the GATT and is envisaged to play a major role in the world economic affairs. To become a member of the WTO, a country must completely accept the results of the Uruguay Round.

WTO DISPUTE PANELS AND THE BALANCE BETWEEN TRADES

Agreements and National Policy

Since the various agreements that constitute the WTO cover such a wide range of topics, dispute settlement panelists find that a number of subjects come under their authority. This places WTO dispute panels in a delicate position. On the one hand they must identify cases where nations are failing to comply with international trade agreements; on the other, they must be cautious when making recommendations that reverse the preferences of national governments.

Thus far, in the decisions of the panels and the Appellate Body, there has been a tendency to write decisions in a way that minimizes the burden on nations to change their regulations and laws in order to comply with their WTO trade obligations. This does not mean that dispute settlement panels have not found nations in violation of the trade agreements. When they have, however, they have left national governments with a variety of options in order to come into compliance.

Two cases in which panel reports were adopted reflect the WTO's tendency to avoid becoming overly involved in the internal regulatory affairs of nations. These cases have been selected as examples because they have received a lot of attention, but the trend described can be found in each case where a panel report has been issued. Both examples are complaints by the United States, one against the European Union (EU) regarding restrictions on import of hormone treated meat, and the other against Japan regarding the photographic film industry. In the first case the United States won the concessions it sought;

in the second case the panel found no evidence of violation of the trade agreements.

European Hormone Case

In the European Hormone Case the panel found the scientific evidence for the import restrictions on beef treated with growth hormones to be insufficient to justify the restriction on trade, but, in effect, left open a wide variety of ways for the EU to comply. The EU is conducting further studies in the hopes of justifying the ban. This was a case where the WTO panel clearly confronted the democratic will of the people, as expressed through their national legislatures and the European Parliament, since the hormone restrictions were initially adopted under intense public pressure. The panel sided with the United States by finding that the provisions were arbitrary and had the effect of restricting trade, but left options for the EU as well by suggesting that more complete scientific evidence would justify the ban. Alternatively, the panel indicated that technical changes in the way the policy is implemented could reduce the policy's negative impact on trade. Still, the panel was firm in ruling that the current policy is inconsistent with the SPS Agreement, and the EU will have to make substantive changes to come into compliance. If it does not, the EU will be required to offer other trading concessions to compensate for losses, some $200 million per year according to the United States. The EU has until 1999 to comply.

Japan Alcohol Case

A U.S. complaint against Japan that resulted in a dispute settlement panel decision adopted in July of 1996 will require a 40 per cent reduction of the Japanese tax on alcohol imports, which will add tens of millions of dollars in exports to U.S. producers. The panel agreed with U.S. claims that the Japanese Liquor Tax Law that provided for lower taxes on a Japanese produced liquor called shochu, versus a higher one on whiskey, cognac and wine spirits, was a violation of the GATT Article III, Section 2, national treatment provisions.

WTO DISPUTE SETTLEMENT AND U.S. LAW

Legal Effect of WTO Decisions

The adoption by the WTO Dispute Settlement Body of a panel or Appellate Body report finding that a U.S. law, regulation, or practice violates a WTO agreement does not give the report direct legal effect in this country. Thus, federal law is not affected until Congress or the executive branch, as the case may be, changes the law or administrative measure at issue.22 Procedures for executive branch compliance with adverse decisions are set out in §§ 123(g) and 129 of the Uruguay Round Agreements Act, P.L. 103-465, 19 U.S.C. §§

3533(g), 3538. Only the federal government may bring suit against a state or locality to declare a state or local law invalid because of inconsistency with a WTO agreement; private remedies based on WTO obligations are also precluded.23 Federal courts have held that WTO panel and Appellate Body reports are not binding on the judiciary24 and have treated determinations involving “whether, when, and how” to

comply with a WTO decision as falling within the province of the executive rather than the judicial branch.

Section 301: Unilateral Sanctions and the Japan Auto Dispute

The second argument that raised vis a vis the WTO dispute settlement mechanism and U.S. sovereignty regards the question of whether or not the United States can employ unilateral sanctions to punish trading partners who do not cooperate with U.S. wishes. In the Japan auto parts dispute, the United States insisted that the WTO does not cover the anti-competitive policy issue, therefore unilateral action was permissible. However, the language of the DSU implies that unilateral sanctions without authorization by the WTO violate WTO rules. For example, Article III and Article XXII of the DSU, which emphasize multilateral dispute settlement; and Article I of the GATT, which addresses MFN status, as well as Article II of the GATT, which deals with excessive tariffs, can all be interpreted as prohibiting unilateral punitive sanctions.(99) Other WTO member-states also opposed the United States’ unilateral action, with the European Union and Canada going so far as to reserve their third party rights in the dispute because of this issue.

The DSU does not affect application of Section 301 if it is used against non-WTO members, however. The DSU does not demand any significant modification in Section 301 investigations if those investigations include alleged breaches of Uruguay Round Agreements or the impairment of U.S. benefits under the Agreements. The United States could always decide to use Section 301 trade sanctions without WTO authorization against a fellow member-state. In this case, the member-country subjected to the use of Section 301 may seek counter-retaliation against the United States by arguing that the United States has violated its obligations under the DSU. While the United States clearly retains the practical ability to apply Section 301, doing so would probably undo the delicate world trade regime that the United States has sought to promote.

Since the United States and Japan settled the auto-parts dispute before a WTO panel was formed, the issue of the legality of unilateral sanctions was not formally decided by the WTO. Both the threat of sanctions by the United States and the existence of the possibility of a binding settlement by the DSU panel brought pressure on the parties to come to a negotiated settlement. Since the issue was not formerly resolved, the United States has quietly maintained the legal position that it could use unilateral sanctions in the future, even before a panel found that a U.S. complaint was justified. The Clinton Administration has not chosen to force the issue.

On balance, the record of the first three years suggests that the WTO's dispute settlement provisions are not a significant threat to the sovereignty of the United States. Instead, the United States maintains enough practical power to move issues out of the venue of the WTO when it sees fit, as illustrated by Helms Burton case and the Japan auto parts conflict. Since dispute settlement panels are only authorized to consider whether laws and regulations are consistent with trade agreements, there is a tendency for their decisions to place a preponderance of importance on trade issues. Ultimately, the United States may face the need to exercise its sovereignty by violating a WTO recommendation on environmental, health and safety, and/or national security grounds. The United States, or any other member-country, should carefully consider the consequences of such an action for long-term trade stability before doing so. The option to maintain the controversial regulation always remains, while compensating trading partners in another realm.

The existence of the WTO regime offers the United States a valuable opportunity to extend its global influence. Through minor adjustments in policy, the United States has demonstrated its willingness to abide by the dispute settlement process. By setting an example of compliance, the United States further promotes its vision of a stable, law-based international trading system.

Pros of World Trade Organization

1. ***Raises Monetary Progress***

The World Trade Organization is such an international firm that looks after all the trade-related concerns of the member nations. Thus, for confirming that people have enough to choose from, it inspires countries to vary their product to simulate monetary progress.

2. ***Simplifies Businesses***

The World Trade Organization is committed to laying down guidelines aimed at making business simpler. The WTO establishes these laws and regulations and guarantees that all nations comply with the trade regulations set down by them, thus simplifying businesses.

3. ***Productively Knobs Quarrels***

Responsibility of the World Trade Organization is also to knob the quarrels that might arise among the nations when conducting trade amid themselves. Hence, the WTO makes sure that each dispute is heard clearly and correct jurisdiction is passed for resolving it productively.

4. Endorses Harmony

One of the prime objectives of the WTO is to endorse trade between the member nations and guarantee that each nation continues to abide by the provisions of the trade treaty set by it so as to maintain harmony and peace in trade within the member nations.

5. Lessens the Lifestyle Cost

As long as the matter is related to trade, WTO confirms that the nations remain fruitful which eventually raises their profiles. The countries try to maintain that profile by continuing the trade following the WTO guidelines which then improves their lifestyle by lowering the living cost.

6. Heightens Nations' Net Income

The basic aim of WTO is to embolden trade between the nations and ensure smooth trade flow. This allows nations to do business with other nations and ensures the flow of the economy which eventually then leads to the diversification of the capital and increasing of the nations' net income.

Cons of World Trade Organization

- However, the WTO has often been criticised for trade rules which are still unfavourable towards developing countries. Many developed countries went through a period of tariff protection; this enabled them to protect new, emerging domestic industries. Ha Joon Chang argues WTO trade rules are like 'pulling away the ladder they used themselves to climb up' (Kicking away the ladder at Amazon)
- Free trade may prevent developing economies develop their infant industries. For example, if a developing economy was trying to diversify their economy to develop a new manufacturing industry, they may be unable to do it without some tariff protection.
- WTO is being overshadowed by new TIPP trade deals. These deals are negotiated away from WTO and focuses mainly on US and EU. It excludes China, Russia, India, Brazil and South Africa. It threatens to diminish the global importance of WTO
- Difficulty of making progress. WTO trade deals have been quite difficult to form consensus. Various rounds have taken many years to slowly progress. It results in countries seeking alternatives such as TIPP or local bilateral deals.

- WTO trade deals still encompass a lot of protectionism in areas like agriculture. Protectionist tariffs which primarily benefit richer nations, such as the EU and US.
- WTO has implemented strong defense of TRIPs 'Trade Related Intellectual Property' rights These allow firms to implement patents and copyrights. In areas, such as life-saving drugs, it has raised the price and made it less affordable for developing countries.
- WTO has rules which favour multinationals. For example, 'most favoured nation' principle means countries should trade without discrimination. This has advantages but can mean developing countires cannot give preference to local contractors, but may have to choose foreign multinationals whatever their history in repatriation of profit, investment in area.

Some of the criticisms of the WTO

- Free Trade benefits developed countries more than developing countries. It is argued, developing countries need some trade protection to be able to develop new industries; this is important to be able to diversify the economy. It is known as the infant industry argument. Many developed economies used a degree of tariff protection in their development phase. Economist Ha Joon Chang argues WTO trade rules are like 'pulling away the ladder they used themselves to climb up' (Kicking away the ladder at Amazon)
- Most favoured nation principle. This is a core tenant of WTO rules – countries should trade without discrimination. It means a local firm is not allowed to favour local contractors. It is argued this gives an unfair advantage to multinational companies and can have costs for local firms and the right of developing economies to favour their own emerging industries.
- Failure to reduce tariffs on agriculture. Free trade is not equally sought across different industries. Both the US and EU retain high tariffs on agriculture, this hurts farmers in developing economies who face tariff protection
- Arguably developing countries who specialise in primary products (e.g. agricultural products) need to diversify into other sectors. To diversify they may need some tariff protection, at least in the short term. Many of the existing industrialised nations used tariff protection when they were developing. Therefore, the WTO has been criticised for being unfair and ignoring the needs of developing countries.
- Free trade has often ignored environmental considerations. e.g. Free trade has enabled imports to be made from countries with the least environmental protection. Many criticise the WTO's philosophy that the most important economic objective is the maximisation of GDP. In an era of global warming and potential environmental disaster, increasing GDP

may be the least important. Arguably the WTO should do more to promote environmental considerations.

- Free trade ignores cultural and social factors. Arguably a reasonable argument for restricting free trade is that it enables countries to maintain cultural diversity. Some criticise the WTO for enabling the domination of multinational companies which reduce cultural diversity and tend to swamp local industries and firms.
- The WTO is criticised for being undemocratic. It is argued that its structure enables the richer countries to win what they desire; arguably they benefit the most.
- Slow progress. Trade rounds have been notoriously slow and difficult to reach an agreement.
- WTO becoming overshadowed by TIPP agreements which fall outside the purvey of WTO rules.

WTO Structure, Functions and Roles in the Current International Business Scenario..

The establishment of the World Trade Organization (WTO) as the successor to ,the GATT on 1 January 1995 under the Marrakesh Agreement places the global trading system on a firm constitutional footing with the evolution of international economic legislation resulted through the Uruguay Round of GATT negotiations.

A remarkable feature of the Uruguay Round was that it paved the way for further liberalization of international trade with the fundamental shift from the negotiation approach to the institutional framework envisaged through transition from GATT to WTO Agreement.

The GATT 1947 and the WTO co-existed for the transitional period of one year in 1994. In January 1995, however, the WTO completely replaced the GATT. The membership of the WTO increased from 77 in 1995 to 127 by the end of 1996.

Structure of the World Trade Organization (WTO)

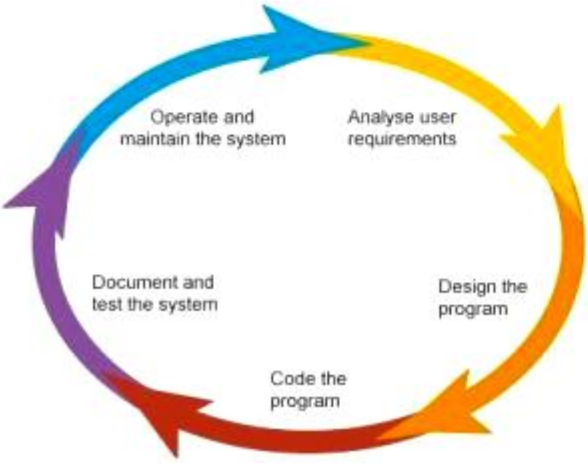
The organizational structure of the WTO is outlined in the Chart 1.

The Ministerial Conference (MC) is at the top of the structural organization of the WTO. It is the supreme governing body which takes ultimate decisions on all matters. It is constituted by representatives of (usually, Ministers of Trade) all the member countries.

The General Council (GC) is composed of the representatives of all the members. It is the real engine of the WTO which acts on behalf of the MC. It also acts as the Dispute Settlement Body as well as the Trade Policy Review Body.

There are three councils, viz.: the Council for Trade in Services and the Council for Trade-Related Aspects of Intellectual Property Rights (TRIPS) operating under the GC. These councils with their subsidiary bodies carry out their specific responsibilities

Further, there are three committees, viz., the Committee on Trade and Development (CTD), the Committee on Balance of Payments Restrictions (CBOPR), and the Committee on Budget, Finance and Administration (CF A) which execute the functions assigned to them by e WTO Agreement and the GC.



The administration of the WTO is conducted by the Secretariat which is headed by the Director General (DG) appointed by the MC for the tenure of four years. He is assisted by the four Deputy Directors from different member countries. The annual budget estimates and financial statement of the WTO are presented by the DG to the CBFA for review and recommendations for the final approval by the GC.

Functions of the World Trade Organization (WTO)

The WTO consisting a multi-faced normative framework: comprising institutional substantive and implementation aspects.

The major functions of the WTO are as follows:

1. To lay-down a substantive code of conduct aiming at reducing trade barriers including tariffs and eliminating discrimination in international trade relations.
2. To provide the institutional framework for the administration of the substantive code which encompasses a spectrum of norms governing the conduct of member countries in the arena of global trade.
3. To provide an integrated structure of the administration, thus, to facilitate the implementation, administration and fulfillment of the objectives of the WTO Agreement and other Multilateral Trade Agreements.
4. To ensure the implementation of the substantive code.

5. To act as a forum for the negotiation of further trade liberalization.
6. To cooperate with the IMF and WB and its associates for establishing a coherence in trade policy-making.
7. To settle the trade-related disputes.

Features of the WTO

The distinctive features of the WTO are:

(i) It is a legal entity

(ii) World Bank (WB) it is not an agent of the United Nations.

(iii) Unlike the IMF and the World Bank, there is no weighted voting, but all the WTO members have equal rights.

(iv) Unlike the GATT, the agreements under the WTO are permanent and binding to the member countries.

(v) Unlike the GATT, the WTO dispute settlement system is based not on dilatory but automatic mechanism. It is also quicker and binding on the members. As such, the WTO is a powerful body.

(vi) Unlike the GATT, the WTOs approach is rule- based and time-bound.

(vii) Unlike the GATT, the WTOs have a wider coverage. It covers trade in goods as well as services.

(viii) Unlike the GATT, the WTOs have a focus on trade-related aspects of intellectual property rights and several other issues of agreements.

(ix) Above all, the WTO is a huge organizational body with a large secretariat.

Objectives of the WTO

The purposes and objectives of the WTO are spelled out in the preamble to the Marrakesh Agreement.

In a nutshell, these are:

1. To ensure the reduction of tariffs and other barriers to trade.
2. To eliminate discriminatory treatment in international trade relations.
3. To facilitate higher standards of living, full employment, a growing volume of real income and effective demand, and an increase in production and trade in goods and services of the member nations.
4. To make positive effect, which ensures developing countries, especially the least developed secure a level of share in the growth of international trade that reflects the needs of their economic development.
5. To facilitate the optimal use of the world’s resources for sustainable development.

6. To promote an integrated, more viable and durable trading system incorporating all the resolutions of the Uruguay Round's multilateral trade negotiations.

Above all, to ensure that linkages trade policies, environmental policies with sustainable growth and development are taken care of by the member countries in evolving a new economic order.