

PREFACE

In a bid to standardise higher education in the country, the University Grants Commission (UGC) has introduced Choice Based Credit System (CBCS) based on five types of courses: core, generic discipline specific elective, and ability/ skill enhancement for graduate students of all programmes at Elective/ Honours level. This brings in the semester pattern, which finds efficacy in tandem with credit system, credit transfer, comprehensive and continuous assessments and a graded pattern of evaluation. The objective is to offer learners ample flexibility to choose from a wide gamut of courses, as also to provide them lateral mobility between various educational institutions in the country where they can carry acquired credits. I am happy to note that the University has been recently accredited by National Assessment and Accreditation Council of India (NAAC) with grade “A”.

UGC Open and Distance Learning (ODL) Regulations, 2017 have mandated compliance with CBCS for U.G. programmes for all the HEIs in this mode. Welcoming this paradigm shift in higher education, Netaji Subhas Open University (NSOU) has resolved to adopt CBCS from the academic session 2021-22 at the Under Graduate Degree Programme level. The present syllabus, framed in the spirit of syllabi recommended by UGC, lays due stress on all aspects envisaged in the curricular framework of the apex body on higher education. It will be imparted to learners over the six semesters of the Programme.

Self Learning Materials (SLMs) are the mainstay of Student Support Services (SSS) of an Open University. From a logistic point of view, NSOU has embarked upon CBCS presently with SLMs in English. Eventually, these will be translated into Bengali too, for the benefit of learners. As always, we have requisitioned the services of the best academics in each domain for the preparation of new SLMs, and I am sure they will be of commendable academic support. We look forward to proactive feedback from all stake-holders who will participate in the teaching-learning of these study materials. It has been a very challenging task well executed, and I congratulate all concerned in the preparation of these SLMs.

I wish the venture a grand success.

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Vice-Chancellor

Netaji Subhas Open University
Post Graduate Degree Programme
Subject : Commerce (M.Com)
Course : Business Environment
Course Code : PGCO-IV

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**Netaji Subhas
Open University**

**PG : Commerce
(M. Com)
(New Syllabus)**

Business Environment

PGCO-IV

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Unit-1 □ Business Environment

Structure

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- 1.7 Summary
- 1.8 Questions
- 1.9 Further Readings

1.0 Objectives

After going through the unit, you will be able to understand the—

- Concept of business environment
- Significance of business environment
- Elements of business environment

1.1 Introduction

Business Environment is a combination of two words - Business and Environment. It varies in size (measured by the number of employees/sales volume/investment), location (local-national-international, rural-urban), mode of distribution channel (wholesaler-retailer), ownership (Public Ltd., Private Ltd., Family Business and Partnership), orientation (profit-seeking, non-profit seeking), economic activities (production, trade, banking, insurance, finance, agency, advertising, packaging) etc. Business activities are to be performed under legal restrictions, government requirement to fulfil the demands of all interested parties like consumers, employees, owners and others having stakes in

business directly and indirectly. This Unit throws light on the conceptual framework, nature, significance, types-elements of business environment, competitive business environment and the factors in coping up with the challenges of business environment.

1.2 Concept of Business Environment

The first wing of business environment i.e. business is accepted as the organised effort of enterprises to supply consumers with goods and services for a profit. In its activities, business should consider the people as the focal point around whom, by whom and for whom it is to be run. Apart from the manufacturing business having physical conversation process, there are service organisations (IT firms, software developer, banks, risk absorbers, malls, etc.) which run without any physical conversation process. Besides, principles and practices of managing a business can be found in NGO, hospital or a B-school too. In this regard, as social being, business should adopt social activities and therefore, to survive successfully in environment, business should balance between commercialisation and socialisation. Nevertheless, business sometimes accepts profitability aspects more preferably than enduring values such as honesty, truth, justice, love, devoutness, aesthetic merit and respect for nature. Likewise, if business exploits workers, harms interests of consumers, degrades nature and the environment, destroys handicraft and renders artisans jobless, causes scams and scandals, multiplies needs and makes people greedy and avaricious etc., it will destroy social forum.

The other wing of Business Environment i.e. environment refers to all internal (employees, shareholders, unions, managers, support activities, core competences, value creation and synergy) and external forces (political-legal-economic, technological, social-cultural, global and natural) which would have impact on the function of business. Environment forces businesses to operate around and within it irrespective of any movement in isolation.

With the above discussed concepts, it can be framed that Business Environment is "the aggregate of all the forces, factors and institutions which are external to and beyond the control of an individual business enterprise but which exercise a significant influence on the functioning and growth of individual enterprises". It is basically "the aggregate of all conditions, events and influences that surround and affect business" (Keith Davis). Additionally, it can be regarded as "the total of all things external to firms and industries which affect their business firm and operation" (Bayard O. Wheeler). Thus "business environment encompasses the climate or set of conditions, economic,

social, political or institutional in which business operations conducted" (Arthur M. Weimer).

1.3 Nature and Significance of Business Environment

1.3.1 Nature of Business Environment

Business environment would have multi-faceted natures which vary country-to-country. Figure - 1.1 reflects the nature of business environment.

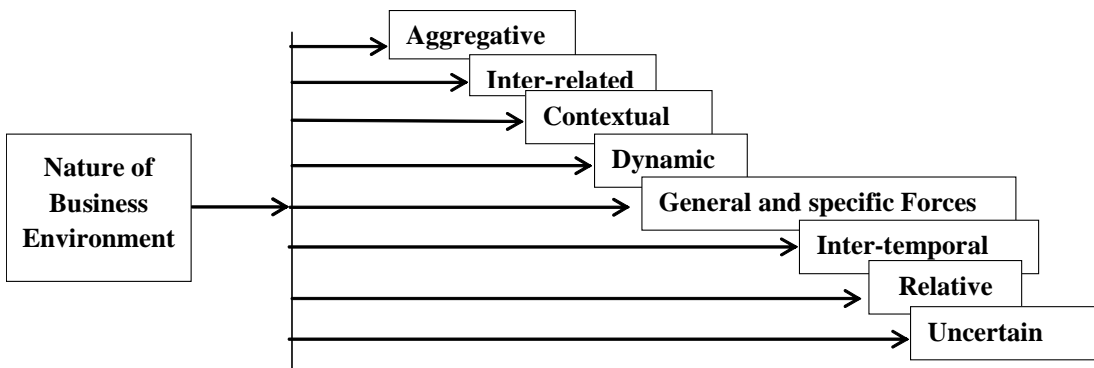


Figure 1.1 The nature of business environment

Business environment is the aggregate of inter-related and interdependent internal and external forces having influence on the working and decision-making of an enterprise where one factor (e.g. economic environment) would have high impact on other (e.g. non-economic environment like economic conditions). It accepts contextual perspective as it provides macro framework within which the business firm (a micro unit) operates and has to follow the legal formalities. It deals with dynamic forces of general (economic, social, political, legal, natural and technological conditions) and specific kinds (investors, customers, competitors, suppliers etc.) which is inter-temporal also i.e. changes over time. It seems to be a relative concept as depending on the political-economic-social-cultural environment of a country. As business environmental issues are highly dependent on future context it has to deal with uncertainty.

Business environment thus would have high impact on the performance of business concern and success of business firms where a factor that has a favourable impact on one firm may adversely affect another firm. Therefore, management of a business enterprise must have a deep understanding and appreciation of the environment.

1.3.2 Significance of Business Environment

It is very important for business firms to understand their environment and changes occurring in it. Business enterprises which know their environment and are ready to adapt to environmental changes would be successful and vice versa. A business can obtain this knowledge through environmental scanning which is a process by which business firm can monitor their relevant environment to detect opportunities and threats. Significance of business environment and its knowledge to cope up with the challenges can be listed below in Figure 1.2.

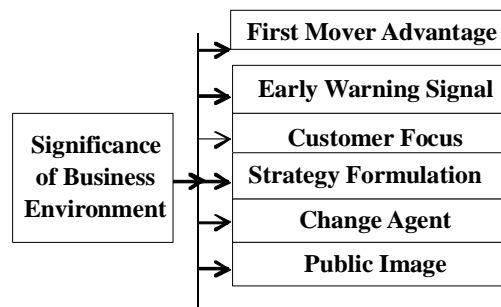


Figure 1.2: Significance of Business Environment

Enterprises with environmental awareness can opt for the opportunities of the market and do not let their competitors to adopt these. Thus they can enjoy first mover advantage in the market. Environmental awareness also offers the enterprises early warning signal of the threat or crisis in the market and thus would help them to minimise the adverse effect, if there be any in the market. With the concerned understanding, the enterprises would get proper customer focus or orientation with which they can satisfy the changing demands of the customers and offer services/products as per their requirements. Without environmental understanding enterprises cannot formulate strategy based on the strength, weakness, opportunity and threat of the environment. Likewise, they cannot have any information regarding the strategy of their competitors which would not allow them to counter attack their competitors. Environmental scanning would help the business leader to understand the aspiration of people and other environmental forces which would help the business leader to take steps towards strategy alteration as change agent. Considering all relevant environmental issues in due course and time, therefore, can establish public image of

the business leaders in market, indulge them to keep continuous learning on environment in view of getting awareness of every change in environment.

Box:1.1 Case Studies on significance of understanding business environment

- ☞ Environmental awareness offers business leaders to enjoy 'First Mover Advantage' which can be found for Maruti Suzuki who became the leader in small car market because it was the first to recognise the need for small car on account of adjusting with rising petroleum prices and opting for large middle class customers.
- ☞ Environmental understanding would also help Maruti Udyog to face the threatening of the market when new firms entered in the mid segment cars (threat), Maruti Udyog increased the production of its Esteem threefold. Increase in production enabled the company to make faster delivery. As a result, the company captured a substantial share of the market and became a leader in this segment.
- ☞ Environmental knowledge helps business leaders to formulate strategy as experienced by ITC which realised that there was vast scope for growth in the travel and tourism industry in India and the Government was keen to promote this industry because of its employment potential. With the help of this knowledge, ITC planned new hotels both in India and abroad. Likewise, Hindustan Unilever promoted small sachets of shampoo and other products considering the affordability of middle class customers which was customer focus also.

Source: Gupta, C.B. (2019), Sultan Chand & Sons, New Delhi.

1.4 Types and Elements of Business Environment

Business environment can be segregated into two - Internal Environment and External Environment. Internal Environment refers to all the factors (business firm structure, policies and programmes, personnel, physical facilities and marketing mix) existing within a business firm which the firm can alter or control. Internal environment imparts strength (an inherent capability of an enterprise which can be used to gain strategic advantage over its competitors) and weakness (an inherent limitation or constraint of an enterprise which creates a strategic disadvantage). External Environment consists of forces and factors which are found as uncontrollable to the firm (national

income, social forces, government policies, population etc.). External environment creates favourable (opportunity) or unfavourable (threat) condition to the business.

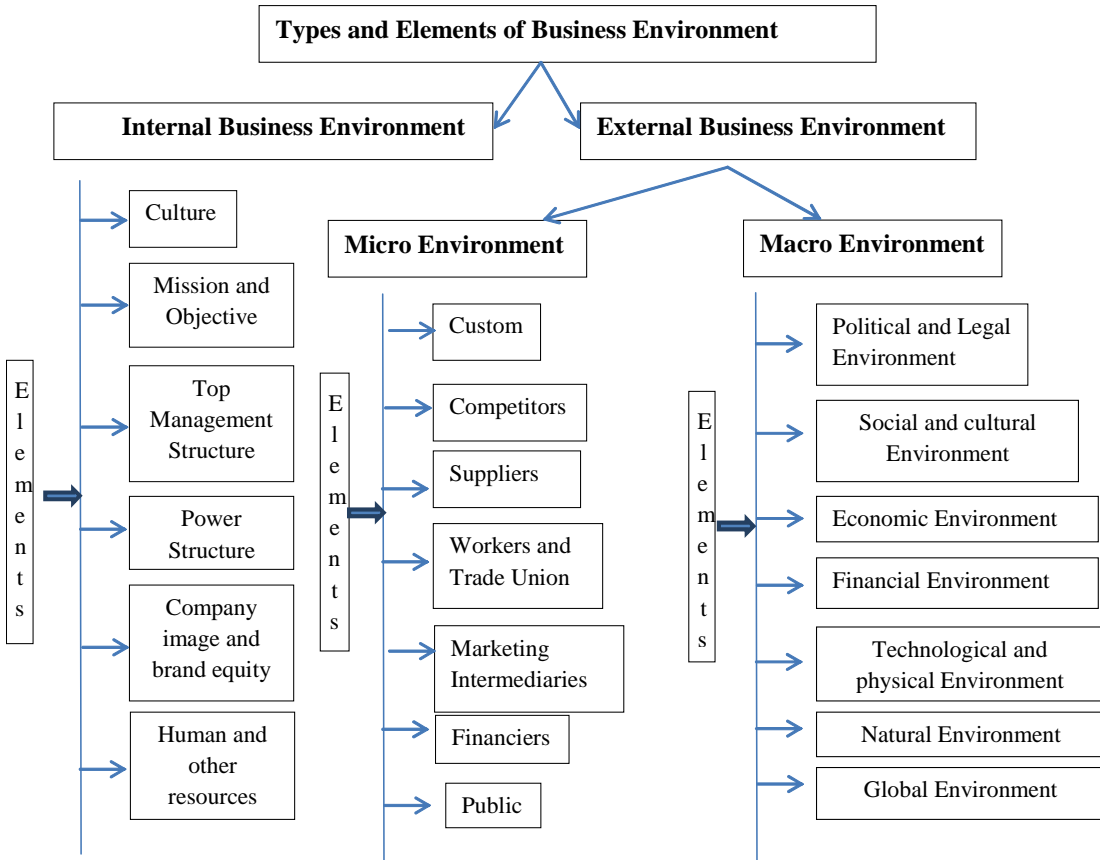


Figure: 1.3 - Types and Elements of Business Environment

Internal Environment:

Culture of a company with values, beliefs and attitudes of the founders and top management of a company, exercises a strong influence on what the company stands for, how it does things and what it considers important. To become successful, the value system of a company should be shared by all the employees. Mission and objectives of the company control its priorities, strategies, product market thrust area and development process. Business decision is related to the management and business firm structure and the degree of professionalization of management. In this regard, qualified, experienced board and sound formal management structure facilitate decision

making process. The power structure in connection with the internal relationship between Board of Directors and Chief Executive is accepted as an important factor. In this regard, the top management can enjoy relationship with shareholders and employees to take all important decision smoothly in proper way. Image and brand equity would play as important assistance while taking finance, entering into new markets, communicating with suppliers-dealers, forming alliances etc. The employees of the company i.e. the human resource, if is motivated properly, can be proved as the precious asset which can carry on the values and morale of the company. Besides the other resources (financial position, capital structure, distribution system and marketing competence, R&D and technological capability, physical assets, facilities, production capacity, technology etc.) management information system etc. would also influence on the performance of the company.

External Environment: Micro

Micro or Task Environment consists of the actors in the immediate environment of the company which affect the performance of it (Philip Kotler). Business firms must put their primary effort in managing the relationships among all the Micro Environmental elements efficiently (Customers, Competitors, Suppliers, Workers and Trade Union, Marketing Intermediaries, Financiers and Public) and understanding their requirements following which they should perform. It is also recommended as Direct Action Environment or specific forces or Stakeholders considering the groups in the company's immediate operating environment having stake in the company. So these are the individuals, groups and agencies with which the business firms come into direct contact. Therefore, the success of the business firms is based on the capacity of it to deal with the micro forces effectively even though the micro environmental issues are common for all the business firms.

Among the Micro Environmental factors, customers (individuals, households, Government department, commercial establishments etc.) are found globally and play crucial roles as they are that group of stakeholders whose satisfaction makes successful existence of the business firm. Hence, the target group of customers or market segment can be selected based on the profitability, elasticity of demand, dependability, degree of competition and growth prospects. Customer view point helps the business firm to get knowledge regarding full range of competition in market or about the scope of competitors who are also important stakeholders of the business firm. Company may have direct competitors (who offer same or similar products or services e.g. LG

Washing Machine vs. IFB Washing Machine) and/or indirect competitors (in entertainment industry, Television has to face competition from Radio). Competitors carry full range of domestic and multinational sources due to economic liberalisation and globalisation. The other stakeholder of Micro Environment, Suppliers, also influence the successful performance of the business firm as they would control the quality of the input of the products and uninterrupted operation to minimise inventory carrying costs. Business firm, in this regard, should consider multiple supplier base which depends on the relationship with the suppliers and connects with power equation i.e. the extent to which each of them is dependent on the other (e.g. Maruti Suzuki undertook vendor development to ensure timely and regular supply of materials and parts). In a business firm, workers and trade union play an important role as production and other operations are related to efficient performance of the workers, while a conducive environment regulates relationship with the business firm and the trade unions. Through Marketing Intermediaries like middlemen (agents, wholesalers and retailers link between the company and its customers), transportation firms and warehouses (assistance in physical distribution of products), advertising agencies, marketing research agencies etc. (help in promoting, selling and distributing products to consumers). Apart from the financiers play a vital role in providing finance to the business firm without which the company cannot survive. On the other side, Public [media group, environmentalists, non-government business firm (NGOs), consumer associations and local community] imposes pressure on business activities in favour of social norm, ethics and customer orientation by disclosing irregularity (if any) in front of all of its stakeholders

External Environment: Macro

Macro Environment refers to the remote/general environment where a business firm does not interact with the elements regularly and thus it is recognised as Indirect Action Environment. The elements of Macro Environment create both opportunity and threatening and are less controllable factors forcing the business firm to adapt the environmental changes like production within the country instead of importing this due to internal price hike of raw material, etc. In Macro Environment, Political and Legal Element is another one which relates to Government affairs and comprises of (i) The constitution of the country, (ii) Political Business firm (business firm and philosophy of political parties; ideology of the Government, nature and extent of bureaucracy, influence of primary groups, business donations to political parties, political consciousness etc.; (iii) Political stability (structure of military and police force, election

system, law and order situation, President's Rule, Foreign infiltrations, Secessionist activities, etc.; (iv) Image of the country and its leaders, (v) Foreign policy (alignment or non-alignment, relations with neighbouring countries); (vi) Defence and military policy; (vii) Laws governing business and legal system, serves as the regulatory framework of business; (viii) Flexibility and adaptability of laws (constitutional amendments and direction of public policies) and (ix) The judicial system (implementation and effectiveness of laws). Besides, the another important element of Macro Environment, Social and Cultural carries characteristics of society and consists of (i) Demographic forces (size, composition, mobility and geographical dispersal of population), (ii) Social institutions and groups, (iii) Caste structure and family business firm, (iv) Educational system and literacy rates, (v) Customs, attitudes, beliefs, values and life styles and (vi) Tastes, preferences of people and their buying behaviour. From apart, Macro Environment also is influenced by Economic environment like (i) The nature of economic system (capitalist, socialist or mixed economy), (ii) Economic structure (occupational distribution of labour force, structure of natural output, capital formation, investment pattern, composition of trade, balance/imbalance between different sectors, five year plans, (iii) Economic policies (industrial policy, import-export policy, monetary policy, fiscal policy, foreign investment and technology policy), (iv) Business firm and development of the capital market (banking system, securities market etc.), (v) Economic indices (gross national product, per capita income, rate of savings and investment, price level, balance of payments position, interest rates etc.), (vi) Economic infrastructure and stage of development of the economy and (vii) Product markets and factor markets (degree of competition, market size etc.). Moreover, the business firm deals with Technological and Physical Environment (sources and types of technology, rate of technological change, approaches to production of goods and services, new processes and equipment, research and development (R&D) systems). Natural Environment, in this regard, also plays a significant role having climate and geographical conditions; ecological system, levels of pollution and agricultural, commercial and other natural resources. Global Environment also contains a significant role in Macro environment of a business firm having (i) International Agencies (World Bank, IMF, WTO, EEC etc.), (ii) International Conventions, (iii) Treaties and agreements, (iv) Economic and business condition (v) Development in information and communication technology, (vi) International Political factors, (vii) The state of the world economy and distribution of world output, (viii) International economic co-operation, (ix) International market structure and competition, (x) barriers to

international trade and investment, (xi) National economic policies of different countries, (xii) Role of multilateral economic institution, (xiii) Cultural factors of different countries, (ix) Growth and transfer of technology and (x)Growth and Spread of multinationals. Figure- 1.4 exhibits business environment and its different elements.

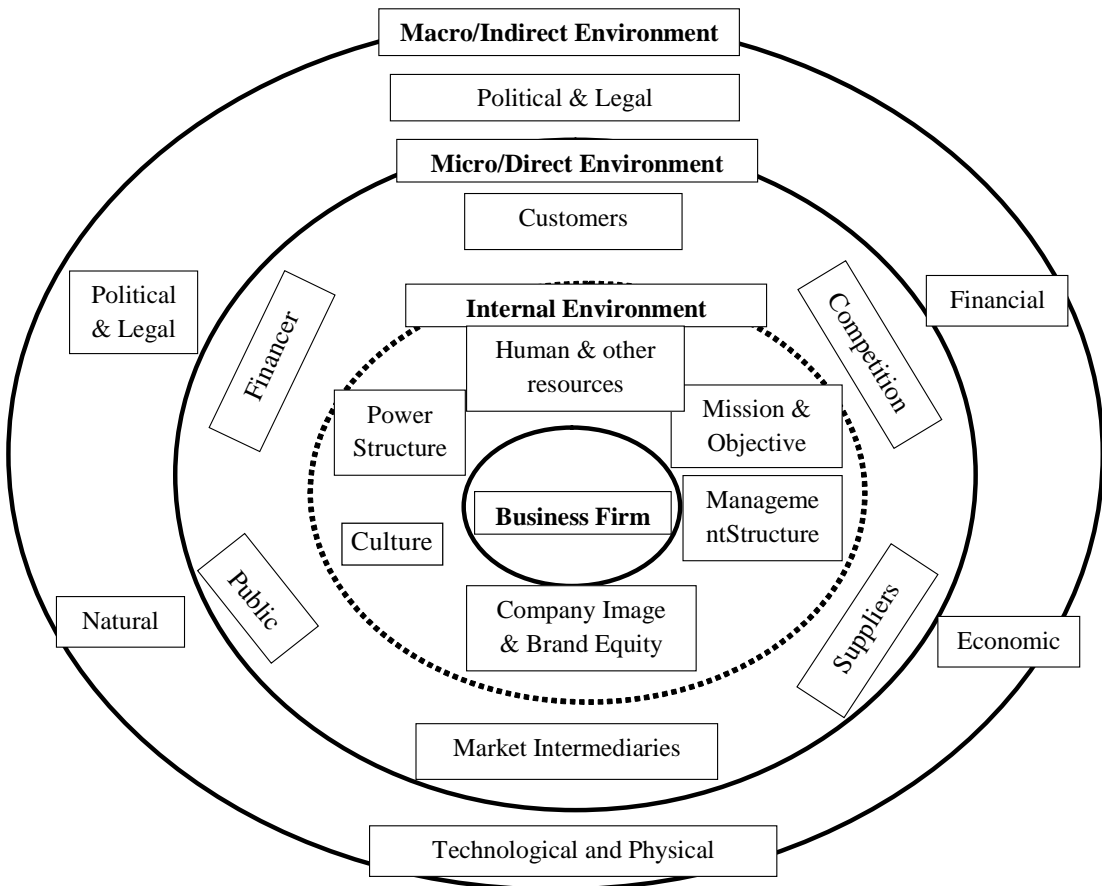


Figure: 1.4 Business Environment and its different elements

1.5 Competitive Business Environment

A system where different businesses compete with each other by using various marketing channels, promotional strategies, pricing methods, etc. can be recommended as competitive environment. Business firm in this regard should follow the regulations within this system. Competition and competitors would reshape the marketing principles

and business decisions of the business firms. From apart, customers do have high impact on business decision as business confirms high-quality goods at affordable price to satisfy customers' demand. This would somehow encourage the business firm to invest more time on research and development to improve the product quality. Changes in technological application in production process or the way, customers would buy their products can influence on the structure of market condition (e.g. Amazon changed products' distribution channel to meet the expectations of wide range customers). Therefore, innovations motivate the consumer goods companies and open up markets for small firms that previously had no opportunity to compete with bigger companies.

In competitive scenario, concerned business may reduce the price of the product than that of the others which somehow would give pressure on other companies. In market competitive framework, business firm can find four basic types of competition - Pure competition [(i) many business firms produce similar products, (ii) many consumers buy them (iii) manufacturers cannot influence the price of the product and (iv) price is defined by supply and product demand]; Monopolistic competition [(i) many business firms produce products slightly differ from each other. Customers can distinguish the products because of the differences in quality, features, etc., (ii) businesses actively will use advertising to promote their products and convince consumers that their products have better quality and (iii) business firms improve the quality of products or add some extra features to the products and thus can easily manipulate the price of the products. So, business firms can play as the price makers (have the power to influence the price of products)]; Oligopoly [(i) small number of businesses (usually two or more); (ii) businesses don't compete but collude to obtain high market returns. They set and keep prices high together or under the leadership of one particular business firm; (iii) profit margins are comparatively higher than in a more competitive environment and (iv) businesses often face a prisoner's dilemma, an incentive to cheat and act in their interests at the expense of other companies]; Monopoly [(i) only one business firm produces a unique product; (ii) the firm would not face any competition as the product would not have any substitutes and thus the firm would decide the price of the product and set barriers for new companies to enter].

Business firms would have to develop knowledge regarding different market conditions and degree of competition therein according to which the same can take business strategy. Business firm should develop a market competitive analysis to determine the business strategy of its competitors in market. The factors to be determined to develop the business strategy model can be discussed as under (Table: 1.1)

Table: 1.1 - Competitive Analysis of Business Environment

SWOT Analysis	Strategic Group Analysis	Porter's Five Forces	Growth Share Matrix	Perceptual Mapping
<p><i>The external and internal factors that influence a business firm can be divided into Strength (S), Weakness (W), Opportunity (O) and Threat (T). SWOT helps business firm to identify the competitive advantage of business firm in market by comparing the strength and weakness (ST) of the competitors which can define the further marketing strategy and steps to lead the market.</i></p>	<p><i>This analysis would assist the business firm to identify the factors bringing profitability in market and the position of competitors' in competitive environment. With this analysis, business firm can have idea regarding the strategies of all strong competitors in various strategic dimensions.</i></p>	<p><i>The five forces [Threat of new entry, Buyers' Power, Supplier' Power, Threat of Substitute, Competitive Rivalry] explores competitive market forces in the industry and helps define the industry's strengths and weaknesses influencing industrial level of competition.</i></p>	<p><i>With this analysis, business firm mainly the large one, would have detailed idea on the products which should be invested in accordance with their competitiveness and attractiveness within the market. Likewise, the business firm can detect the products which are worthing than that of the others which are not so.</i></p>	<p><i>The position of the firm's product against that of its competitors can be known with this analysis which would also enable the firm to understand whether the respective firm's positioning strategy matches its target audience and also the gaps which are to be resolved.</i></p>

1.6 Coping with the challenges of Business Environment

Business firm is influenced by several environmental factors which shape up the strength, weakness, opportunity and threat. Therefore, environment is considered as multi-dimensional and very complex in nature. In a specific geographic condition, industries and business have to change their business related policies as people of a particular area have similar tastes, preferences and requirements which may differ region-to-region and state-to-state. Likewise, the ecological factors (availability of natural resources) are also related to the performance of business firm in respect of its production quality and variety. In the same manner, business firm should consider environmental protection i.e. controlling of environmental pollution (any unfavorable alteration of this natural environment is called environmental pollution) [Environment (Protection) Act, 1986; Air (Prevention and Control of Pollution) Act, 1981; Water (Prevention and Control of Pollution) Act, 1974]. From apart, business environment is highly influenced by demographic environment which includes some sub-factors like Size, Growth, Age and Sex compositions of population, Educational levels, Languages, Caste, Religion etc. Business environment has to absorb also the challenge for economic environment having three important factors - (i) economic systems, (ii) economic policies and (iii) economic conditions with more direct and deliberate impact than other factors. Political and Legal Environment are connected with the laws and regulations within which the business firms should conduct their affairs in a specific country (e.g. in India, the business firms would have to maintain comprehensive labour legislation under which they have to pay minimum wages to workers in specific industries with statutory bonus payment). In the same way, Social and Cultural factors containing society as a whole with an aggregate of all sub-cultures each with distinct concepts, beliefs and faith, pose a serious challenge to the business concern and to the business managers while formulating business strategies and policies. The Physical (weather, climatic conditions etc.) and Technological (knowledge of how to do things) factors would have high impact on business environmental policies and practices. Several researchers (Joseph Schumpeter, Richard Eelles and Prof. Kahn and Wiener) time-to-time considered the terms like 'Innovation', 'Revolution', 'Break Through', the output of technical application in operation of business firm which implies the importance of the factors for survival of the firms in competitive scenario. Besides, emphasis is also given on prompt application of technology in operation after its invention which genuinely increases the potentiality of the business firms in competition.

To cope up with the situation, some factors should be taken into consideration as reflected in Figure:1.5

n

Figure - 1.5 Factors to cope up with environmental challenges.

Buffering techniques (stocking material, preventive maintenance, employee training, building inventory) are used to soften the impact of environment on business firm i.e. to avoid damage due to changes in environment. Likewise, levelling takes attempts to reduce fluctuations in the environment e.g. special air fares for night flights. Anticipation, acquiring information about probable changes in the environment, helps the business firm to foresee the customer needs, competition, technology and availability of human resources. Rationing, allocating organisational resources according to system of priorities, is taken into account when an organisation is unable to meet all demands. Business firms may take creative approach to environment facing the challenges and converting threats into opportunities. It can create suppliers' group with which dependence on sole supplier can be avoided. Sometimes, the business firms may collaborate with others and may enter into contract (Public relation, lobbying etc.). Often the business firm adopts change in its production process to meet customer's requirements. But while changing the product line or any other operations, the interrelationship between various elements of environment and their likely impact should be understood. Business firms may also take the option of Contracting wherein it can overcome uncertainty regarding the supply of inputs and sale of finished products. Sometimes, to cope up with the environmental challenges, the firm may be attached with Coalescing where it can merge with its mother firm. E.g Hindustan Unilever

Limited took over Tata Oil Mills to acquire greater control over the market. From apart, in order to increase its competitive power, a firm may acquire key personnel from other firms. This will provide information about the market to the company.

1.7 Summary

Business Environment is the aggregate of all the forces, factors and institutions which are external to and beyond the control of an individual business enterprise but which exercise a significant influence on the functioning and growth of individual enterprises. It is a/an (a) aggregate of inter-related and interdependent internal and external forces, (b) a contextual perspective, (c) dynamic force of general and specific kinds and (d) inter-temporal and uncertain factor. Enterprises with environmental awareness can opt for the opportunities of the market and does not let their competitors to adopt these. Thus they can enjoy getting - first mover advantage, early warning signal, customer focus, strategy formulation, changing agent, public image and continuous learning. Business environment can be segregated into two - Internal Environment (Culture, Mission and objectives, management and business firm structure, power structure, Image and brand equity, human resource of the company) and External Environment [Micro/Task Environment having individual impact (Customers, Competitors, Suppliers, Workers and Trade Union, Marketing Intermediaries, Financiers and Public) and Macro (Political and Legal Environment, Social and Cultural Environment, Economic environment, Technological and Physical Environment, Natural Environment, Global Environment)]. In this context, business firm should have detail knowledge regarding the market competition in different shapes and degrees through SWOT Analysis, Strategic Group Analysis, Porter's Five Forces, Growth Share Matrix and Perceptual Mapping. In business environment, basically 6 factors force the firms to change their policies - Geographical/Ecological or Natural, Demographic, economic, Political/Legal, Social and Cultural and Physical and Technological factors. Hence, to deal with the competitive situation, business firms can adopt Buffering, Levelling, Anticipation, Rationing, Dominating, Changing, Contracting, Coalescing and Procuring Key Personnel.

1.8 Questions

Objective Type:

1. Business Environment refers (a) Only Internal Environment, (b) Only Internal

Environment, (c) Both Internal and External Environment, (d) None of the above.

2. Element of business environment 'competitor' is under (a) Micro Environment, (b) Macro Environment, (C) Both Micro and Macro Environment, (d) None of the above.

Short Answer type:

1. Define Business Environment. What is its significance in today's world?
2. What environmental factors do give impact on the business firm to change its policy?

Long Answer type:

1. What are the different types of business environment? Or Specify the Micro and Macro environmental factors
2. Explain competitive environment of a business firm.

1.9 Further Readings

Aswathappa, K. (2019). Essentials of Business Environment (15th Revised Edition), Himalaya Publishing House.

Cherunilam, F. (2012). Business Environment - Text and Cases (21st Revised Edition), Himalaya Publishing House.

Fernando, A.C. (2011). Business Environment, Pearson.

Gupta, C.B. (2019). Business Environment (10th revised reprinted edition), Sultan Chand & Sons.

Unit 2 □ Environmental Analysis

Structure

2.0 Objectives

2.1 Introduction

2.2 Concept and features of Environmental Analysis

2.3 Importance of Environmental Analysis

2.4 Benefits and uses of Environmental Analysis

2.5 Process of Environmental Analysis

2.6 Business Environmental Forecasting—Concept, Limitations

2.7 Linkages between Environmental Analysis and Strategic Management

2.8 Limitations of Environmental Analysis

2.9 Summary

2.10 Questions

2.11 Further Readings

2.0 Objectives

After going through the unit you will be able to understand the—

- Concept of environmental analysis
 - Importance of environmental analysis
 - Process of environmental analysis
 - Limitations of environmental analysis
-

2.1 Introduction

Business firms should have detailed knowledge regarding the environmental changes as they have to capture the changing demands of customer base. It should comprehend various environmental forces for determining the opportunity and threatening in the environment through environmental scanning or environmental appraisal. Environmental monitoring and forecasting in this regard is very significant to make the business firms know about the environment through the data base and good analytical skill. Business firms that are able to read the early warning signals contained in the environmental changes and make appropriate adjustments in their policies, can reduce risk and

uncertainty. Environmental search leads to the identification of various sources influencing the enterprise. Through diagnosing, the positive and negative impact of environment can be known. This Unit throws light on the concepts, features, importance, benefits and process of environmental analysis, concepts and limitations of environmental forecasting, linkage between environmental analysis and strategic management and limitations of environmental analysis.

2.2 Concept and features of Environmental Analysis

Environmental Analysis can cover two broad issues - Environmental Search or Monitoring the Environment and Environmental Diagnosis or identifying opportunities and threats. It contains features like (i) Holistic Exercise, (ii) Continuous Process and (iii) Exploratory Process. Holistic exercise considers total view of environment rather than a selective part. Here, business firm must scan the circumference of its environment in order to maximise its utility and minimise the chances of surprise due to uncertainty in volatile movement of customer's demand. Environmental Analysis is confirmed as a continuous process instead of being an intermittent scanning system. This can assist the business firm to maintain track of the rapid pace of development taking all interconnected items of environment. Through Environmental Analysis, a large part of the process seeks to explore the unknown dimensions of the possible future where environment is concerned with present development through monitoring. It would emphasise on "What could happen" and not necessarily on "What will happen."

2.3 Importance of Environmental Analysis

In an uncertain business environment, business firms would have to get a vision of the business and a system of environmental analysis. The role of environmental analysis in this regard can be compared with the radar in a ship which shows signal for existence of rock, reefs and clear water in the unchartered sea. Environmental Analysis keeps the Business firms alert and informed regarding the business environment and makes them aware of the linkage between organisation and its environment. With this analysis, early warning signals of environmental threats and opportunities for business firms can be highlighted on. Environmental Analysis makes the business firms know about the transformation of business environment and the causes of disequilibrium. It will help the business policy planners to sketch relevant planning in view of avoiding irrelevant alternatives or options. Therefore, it will help the business firm to formulate right strategies and to modify the existing ones. Figure-2.1 reflects the factors showing the importance of environmental analysis.

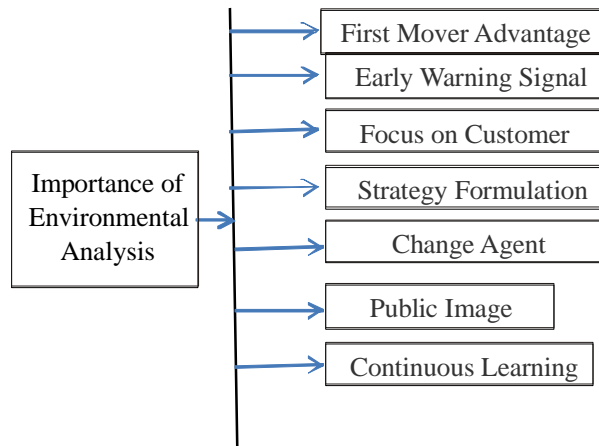


Figure 2.1: Importance of Environmental Analysis

Environmental Analysis offers environmental awareness to business firm with which the firm can have accessibility of early opportunities instead of losing them to competitors. Therefore, environmental analysis assists the business firms to get the first mover advantage (e.g. Maruti Udyog became the leader in the small car market because it was the first to recognize the need for small cars on account of rising Middle class). Besides, the business firm can have early warning signal of external environmental threats and opportunities which helps it to take appropriate course of action in due time. One of the threatening which business firms generally face in environment is the changing demand of customer. With environmental analysis the business firm can focus on customer and thus can take action in advance. It basically assists the business planners to formulate strategy to combat competition in market and also guides the firm to diversify its business to other sectors following the demands of the sector (e.g. focusing on the vast scope of travel and tourism in India, ITC planned hotels here apart from its other businesses). Therefore, Environmental Analysis and its wings like Environmental Monitoring and Scanning help the business firms to act as change agent depending on the current aspirations of people and other environmental forces. All these efforts establish public image of the business firms in market as they obey the environmental structure change properly through Environmental Analysis. Hence, to carry on regular environmental scanning and analysis in view of making business firms aware of the environmental changes, it would be very wise to keep on continuous learning by the same.

2.4 Benefits and uses of Environmental Analysis

Environmental Analysis explained the process through which all the internal (Strength and Weakness) and external (Opportunities and Threats) components having influence on the firms' activities, can be examined. Environmental Analysis requires a constant stream of information to find out the best course of action. Strategic planners use the information gathered from the environmental analysis for forecasting trends for future advance under which whether the organisational goal can successfully be achieved is tested. If the organisational goal cannot be achieved, it is suggested to develop a new strategy or modify the old one. The benefits and uses of Environmental Analysis can be structured below in Figure - 2.2.

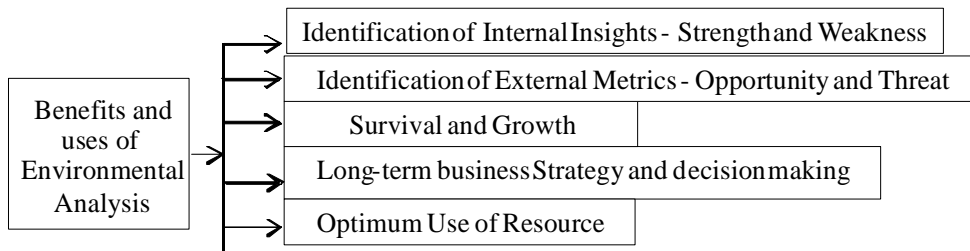


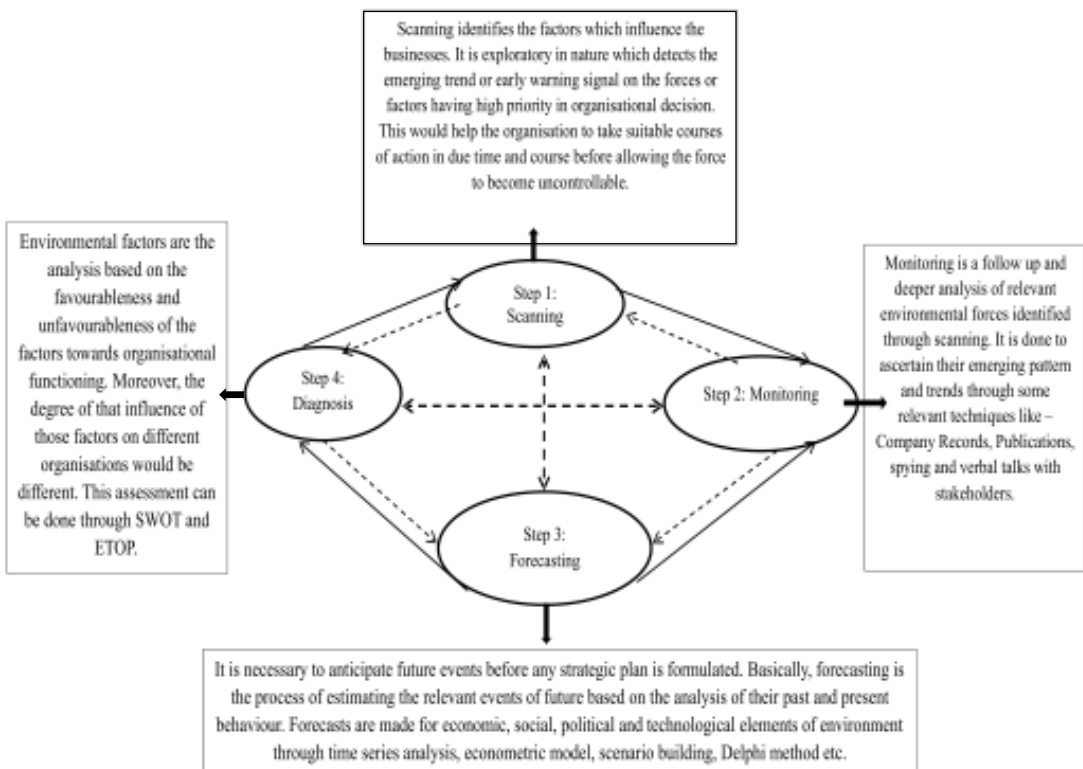
Figure 2.2 - Benefits and Uses of Environmental Analysis

Environmental Analysis can provide internal insights (Strength and Weakness) to the organisation to assess employee's performance, customer satisfaction, maintenance cost etc. and to take corrective action whenever required. Likewise, the external metrics would help the business firm to respond to the environment in a positive manner and to align the strategies according to the objectives of the organisation. It can sketch threats at an early stage assisting the organisation in developing strategies for its survival. Additionally, it identifies opportunities like the prospective customers, new product, segment and technology to occupy a maximum share of the market than its competitors. Therefore, the knowledge on environmental strength, weakness, opportunity and threat helps the business firm to survive and grow in the competitive business world. Moreover, systematic analysis of business environment helps the firm to reduce wastage and make optimum use of available resources. Therefore, proper analyses of environmental factors help the business firm to frame long-term plans and policies that could help in easy accomplishment of the organisational objectives. Thus

environmental analysis assures optimum utilisation of scarce human, natural and capital resources. Hence, Environmental Analysis enables the firm to select the best option for the success and growth of the firm and thus helps the firms to frame precise decision. In all these issues, it assures optimum utilisation of scarce human, natural and capital resources to the best option to fulfil organisational objectives.

2.5 Process of Environmental Analysis

Environmental Analysis examines all the components - internal (strengths and weakness of the business entity) and external (opportunities and threats outside the organization) having influence on the performance of the organization. These evaluations are later translated into the decision-making process and helps align strategies with the firm's environment. The process of Environmental Analysis is based on four steps. Step 1: environmental Scanning, Step 2: Environmental Monitoring, Step 3: Environmental Forecasting and Step 4: Diagnosis. The process of Environmental Analysis is structured as under in Figure 2.3.



2.6 Business Environmental Forecasting - Concept, Limitations

Forecasting is a process of analyzing the past and present movements and trends to obtain some idea or clues regarding future trends in any event. It is a systematic approach with well thought-out, scientific methods and procedures and proper analysis of data and facts with the help of both quantitative and qualitative techniques. Through Environmental forecasting, managers of business firms attempt to predict the future characteristics of the organizational environment and hence make decisions today that will help the firm deal with the environment of tomorrow. Therefore, Environmental Forecasting can estimate the future events which would have a major impact on the enterprises by estimating the intensity, nature and timing of the external forces that may affect the performance of a firm, disrupt its plans, or force a change in its strategies.

Forecasting follows specific steps to measure the trends of future like: (i) Identification of relevant environmental variables; (ii) collection of information, (iii) Selection of forecasting technique and (iv) Monitoring.

Managers should formulate an effective strategy with critical examination of firm's environment where different variables do exist to give influence on firm's performances. Environmental Forecasting assists to identify the most relevant variables depending on the strategic situation through analyzing the environmental situation where omission of critical variables or inclusion of non-relevant variables could have misleading effects. After detecting the relevant variables, Environmental Forecasting would identify the sources of information, determine the type of information and collect the required information to analyze the variables for prediction. Based on the nature of forecast decision, the amount and accuracy of the available information, availability of time, importance of the forecast and the cost required to be borne to collect the information, the forecasting technique would be chosen. Environmental Forecasting will work properly if the characteristics of the variables or their trends can be monitored regularly which will include some new variables and decline some existing ones. The strategic manager in this regard should understand the current state of environment and also the future state. Hence, after implementation, managers should continuously evaluate this to have further improvement.

In this regard, though, sometimes forecasting may falsely determine the future, to

become successful, business firms should adopt proper forecasting which can be continued through some significant techniques both qualitative and quantitative. Qualitative Forecasting Technique considers the views of individuals on future trends of an event with the application of (i) Sales Force Composite (combining the sales predictions of experienced sales people), (ii) Customer Evaluation (individual customer's estimate of purchase based on one's choice would be pooled), (iii) Executive Opinion (managers get together and devise a forecast based on their pooled opinions), (iv) Delphi Technique (a consensus of expert opinion with a panel of experts unknown to each other can choose to study a particular question), (v) Anticipatory Surveys (a form of sampling where mailed questionnaires, telephone interviews, or personal interviews are used to target larger population). In Quantitative Forecasting Technique, the business firms would adopt figures and data to quantify the trends and movements of any events in market with (i) Time-Series Analysis (fit a trend line to past data and then to extrapolate this trend line into the future), (ii) Regression Modelling (a mathematical forecasting technique in which an equation with one or more input variables i.e. independent is derived to predict another variable i.e. dependent variable), (iii) Econometric Modelling: (the sophisticated methods of forecasting that attempts to describe the relationships between the different sectors of the economy), (iv) Environmental Scanning (a process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business).

Environmental Forecasting assists a business firm to get an idea regarding present and future position of events in competitive market. Applying this, the business firms would get some advantages like:

- ❖ Forecasting enables the manager to plan for the future of the business firm. Without adequate environmental information regarding the movements of different events, business firms cannot sketch its future plan.
- ❖ A true Environmental Forecasts can easily point out the environmental changes where from the firm can have benefit (expand/grow) if the change sounds favourable to it or can get preparation for protection if the change sounds unfavourable to it.
- ❖ Environmental Forecasting would help the business firm to detect the weak spots, or ignored areas that the firm can recover with effective control and planning techniques.

- ❖ As Environmental Forecasting requires collecting information or data on relevant events in market, it can build up better communication and coordination amongst them.

But Environmental Forecasting cannot avoid limitations in its application as disclosed under.

- ❖ Forecasting is only an estimate and here, as future is very uncertain, even if the use of best forecasting techniques, the business firm cannot predict the future events with 100% success.
- ❖ Forecasting is based on assumption, approximations, normal conditions etc. which would make the forecast unreliable.
- ❖ The data and information required to make formal forecasts would involve a lot of time and money. Additionally, if the qualitative data are to be converted into quantitative data, it would also consume huge amount of cost.

But all these issues will not prove lesser importance of Environmental Forecasting which if timely is being made, can give proper idea regarding the environment avoiding the uncertainties in environment.

2.7 Linkages between Environmental Analysis and Strategic Management

Strategy is the means to achieve ends. It is a unified, comprehensive and integrated plan which carries out the activities relating to the strategic advantages of the firm to the challenges of the environment (William Glueck). Strategy is an art and science of directing military forces and the plan of action to defend oneself or to defeat rivals and is designed to ensure that the basic objectives of the enterprise are achieved. It fits drives for both competitive advantage and sustainability. Managers have to fit core competence, critical resources and key success factors (Porter). When 'Strategy' is combined with management (man manages men tactfully), we can achieve 'Strategic Management', a process of identifying, choosing and implementing activities that will enhance the long term performance of a company by setting direction and by creating ongoing compatibility between the internal skill and resources of a company and the changing external environment within which it operates. It considers (i) determination of long-term goals and objectives of an enterprise, (ii) adoption of the course of

action and (iii) allocation of resources necessary to carry out these goals as important issues (Chandler).

Environmental Analysis adopts as a vital role in a process of Strategic Management which consists of the following steps:

Step 1: Identifying and defining business mission and objectives:

Strategic Management process begins with the formulation of mission (the fundamental unique purpose that sets an organisation apart from other organisations and identifies the scope of its operations in terms of products and markets which can establish company image in market) and objectives (the end results which are to be realised for achieving the mission which should be modified or redefined with changes in the external and internal environment). Mission and objectives lay down the foundation for strategic management to answer some basic questions like (i) What business the company is on? (ii) What should the company's business be? (iii) Who are the company's customers?

Step 2: Strength, Weakness, Opportunity and Threat (SWOT) Analysis:

Environmental Analysis reveals the organisation's opportunities and threat in external environment, while corporate appraisal focuses on the strength and weakness. In this regard, sometimes due to not having adequate strength, business firms may not be able to exploit opportunities or have to face threatening. In this context, Environmental Analysis assists the firm to focus on the core competent arena where the firm enjoys maximum competitive advantage. Therefore, firm should invest maximum to the most promising sector disinvesting the lesser competitive places. E.g. Parle sold its soft drink business (Thumpsup) to concentrate mineral water (Bisleri).

Step 3: Strategic Alternatives and Choice of Strategy:

Generation of strategic alternatives and the choice of the most appropriate strategy would be considered as the third step of Strategic Management where Environmental Analysis would help the business firm to detect SWOT and likewise, assists them to choose the most promising alternatives out of the several ones on the basis of the mission and objectives of the business firms. The chosen alternatives, therefore, are considered as the most potential business strategy to fight against the competition.

Step 4: Implementation of Strategy:

Only formulation without implementation cannot build up any proper strategy for

the business firm to fight against the competition. In this regard, detailed planning and necessary system (sound organisational structure, effective leadership, functional policies, effective information system, control system and resource allocation) is important to make a chosen strategy successfully implemented.

Step 5: Evaluation and Control of Strategy:

Strategic Management is treated as a dynamic process where continuous evaluation is required to test the viability of the chosen strategy to meet the objectives and mission which would specify the requirement to adopt necessary changes whenever something goes wrong. The chosen strategy in this regard may fail to meet the objectives due to poor implementation, unforeseen changes in the environment or inappropriate strategic choice. The corrective actions (more effective implementation of strategy, better analysis of internal and external environment and changes in the organisational mission and objectives etc.) in this context would be based on the cause of failure.

Therefore, without Environmental Analysis, strategy of business firms would not be possible to sketch successfully as the analysis considers SWOT and also proper accessibility of objectives and mission by the business firms

2.8 Limitations of Environmental Analysis

Environmental Analysis though is proved as a scientific technique with which business firms can have detail idea regarding the factors having impact on the business performance, some limitations may reduce its potentialities.

- ❖ Environmental Analysis assumes that forecasting does not change haphazardly and an orderly pattern can be found in its behavior. Therefore, the forecast based on which the analysis is made may be unreliable.
- ❖ Forecasts may not be fully true as it indicates the trend of future events. The forecasting techniques only can forecast about the trend in environment where it cannot assure that the trend will definitely be happened. So, faulty forecasting is evenly found with varied degrees in different situations.
- ❖ Forecasting involves a lot of time and money in collecting, analysis and interpretation of data. It should assure that benefits arrived from it should be more than the costs involved here.

- ❖ Forecasting does not guarantee organization effectiveness and too much dependence on environmental analysis may be harmful to the organization.

Now, it is obvious that the assumptions of forecasting are objective in kind, based on the relevant facts. Managers should undertake precaution while making forecasting and in this regard, sufficient data must be collected and used to improve the forecasting quality as much as possible. Plans must be kept flexible through contingency planning and other means.

2.9 Summary

Environmental Analysis can cover two broad issues - Environmental Search or Monitoring the Environment and Environmental Diagnosis or identifying opportunities and threats. It contains some features like (i) Holistic View, (ii) Continuous Process and (iii) Exploratory Process. Environmental analysis assists the business firms to get the first mover advantage, early warning signal, focus on customer and to formulate strategy. Environmental Analysis and its wings like Environmental Monitoring and Scanning help the business firms to act as change agent and to build up public image of the business firms in market. Hence, to carry on regular environmental scanning and analysis, it would be very wise to keep on continuous learning by the same. Environmental Analysis can provide internal insight and external metrics. The knowledge on environmental strength, weakness, opportunity and threat helps the business firm to survive and grow in the competitive business world. Proper analyses of environmental factors help the business firm to (i) frame long-term plans and policies and to get optimum utilisation of scarce human, natural and capital resources. Environmental Analysis enables the firm to select the best option for the success and growth of the firm and assures optimum utilisation of scarce human, natural and capital resources to the best option to fulfil organisational objectives. Environmental Analysis examines all the components - internal (strengths and weakness of the business entity) and external (opportunities and threats outside the organization) having influence on the performance of the organization. These evaluations are later translated into the decision-making process and helps align strategies with the firm's environment. In Environmental Forecasting, the managers of business firms attempt to predict the future characteristics of the organizational environment and hence make decisions today that will help the firm deal with the environment of tomorrow. Though the forecasting always cannot give accurate estimate of the environmental issues, it would

be better to adopt the forecasting techniques - qualitative and quantitative in due time and course. The process of Environmental Analysis is based on four steps. Step 1: environmental Scanning, Step 2: Environmental Monitoring, Step 3: Environmental Forecasting and Step 4: Diagnosis. Environmental Analysis adopts as a vital role in a process of Strategic Management, a process of identifying, choosing and implementing activities that will enhance the long term performance of a company by setting direction and by creating ongoing compatibility between the internal skill and resources of a company and the changing external environment within which it operates. Strategic Management adopts five steps while formulating and implementing strategies - Step 1: Identifying and defining business mission and objectives, Step 2: Strength, Weakness, Opportunity and Threat (SWOT) Analysis, Step 3: Strategic Alternatives and Choice of Strategy, Step 4: Implementation of Strategy and Step 5: Evaluation and Control of Strategy. But Environmental Analysis is having some limitations as sometimes it is based on unreliable, untrue and lengthy forecasting.

2.10 Questions

Objective type:

1. Environment Analysis covers (a) Environmental Search or Monitoring the Environment and Environmental Diagnosis or identifying opportunities and threats, (b) only Environmental Search or Monitoring the Environment, (c) Only Environmental Diagnosis or identifying opportunities and threats, (d) None of the above.
2. Steps of Environmental Analysis (a) 1: environmental Scanning, 2: Environmental Monitoring, 3: Environmental Forecasting and 4: Diagnosis, (b) 1: Environmental Scanning, 2:Environmental Monitoring, 3: Diagnosis, 4: Environmental Forecasting, (c) 1: environmental Scanning, 2: Environmental Forecasting and 3: Diagnosis,4: Environmental Monitoring, (d) None of the above,

Short Answer type:

1. Define Environmental Analysis. What are features of Environmental Analysis?
2. Narrate the importance and uses of Environmental Analysis.
3. State the limitations of Environmental Analysis

Long Answer type

1. How can Environmental Analysis be processed?
2. Define Business Environmental Forecasting and discuss the limitations of it.
3. Explain how can Environmental Analysis be linked with Strategic Management?

2.11 Further Readings

Aswathappa, K. (2019). *Essentials of Business Environment* (15th Revised Edition), Himalaya Publishing House.

Cherunilam, F. (2012). *Business Environment - Text and Cases* (21st Revised Edition), Himalaya Publishing House.

Fernando, A.C. (2011). *Business Environment*, Pearson.

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Unit-3 □ Socio-cultural Environment of Business

Structure

3.0 Objectives

3.1 Introduction

3.2 Concept and importance of socio-cultural environment of business

3.3 Elements of culture in India

3.4 Cultural Resources

3.5 Societal Culture and Organizational Culture

3.6 Business and Society

3.7 Changing Objectives of Business

3.8 Summary

3.9 Questions

3.10 Further Readings

3.0 Objectives

After going through the unit, you will be able to understand the—

- Concept of Socio-cultural environment
 - Elements of Culture
 - Cultural resources
 - Changing objectives of business
-

3.1 Introduction

Business firms are recognised as the social units which being not set up in vacuum, should be aware of all environmental alternatives in which these have to work. Among all the environmental factors, socio-cultural factors are considered as the important ones dealing with the social functions and attitudes of all social components which offer modifications and re-modifications of business operations. This Unit throws light on the concept and importance of socio-cultural environment of business, elements of culture in India, cultural resources, societal and organisational culture, business and society and changing objectives of business.

3.2 Concept and importance of socio-cultural environment of business

Business socio-cultural environment is supposed to hold the customs, values, attitudes, beliefs, habits, languages, demographic characteristics and other forms of interaction between the members of the society and consumerism. This directs the business to practice and can be reflected by its vision and mission statement. In socio-cultural environment, three aspects can be pointed out - Changes in our life-styles and social values (changing role of women, emphasis on quality of goods instead quantity of goods, greater reliance on government, greater preference for recreation activities), Major social problems (concern for pollution of environment, demand for socially responsible marketing policies, head for safety in occupations and products, etc.), Growing consumerism (consumer dissatisfaction on a large scale against unfair trade practices).

Different countries contain different socio-cultural factors and thus would control the operation of business firms differently. Below mentioned Box - 3.1 expresses the different dimensions of socio-cultural factors in India and Japan.

Box: 3.1 Comparative Assessments of Socio-Cultural Factors of Japan and India

The socio-economic factors are different for different countries depending on the cultural, language, religion, demography etc. Below mentioned Table shows the different factors of socio-cultural aspects of India and Japan.

Socio-cultural factors between Japan and India

Social /Cultural Factors	Japan	India
Principles of government/ administration	Emphasis on government by the virtuous and abrogation of coercion, mutual trust between employer and employee and acceptance of basic goodness of human nature. Results in minimum control from above, high level of delegation, highly motivated workforce	Prevalence of impersonal bureaucratic social relations, mistrust of fellow beings based on assumption of human nature as evil. Results in highly centralized administration, overemphasis of hierarchical status in decision-making, bureaucratic delays, low levels of delegation, dissatisfied workforce, and accentuation of apathy in individuals and groups

Attitude towards work and goals	High result-oriented and directed towards perfection and growth through dedicated effort	General and deep-seated apathy, dissociation of work from its results based on the belief that the results are pre-ordained. Tasks are performed without any interest, dedication or pride
Discipline and order	Highly disciplined, respect for superiors and respect for authority	Lack of discipline at all levels, basic mistrust of authority, poor superior-subordinate relationships
Group harmony	Very high based on informal affiliative patten of behaviour	Assumption of inequality of human beings, nagging suspicion of fellow beings and highly self-centered behaviour resulting in a lack of cooperation and teamwork
Emphasis on education	Very high	Generally indifferent and highly ambivalent

Importance of socio-cultural environment in business firms can be explained as under.

- ❖ Society and culture control the business management process like production and sale of goods, managerial and operational patterns and the determination of the success or failure of foreign subsidiaries. Any business firm which aims at entering any market for its products and services must develop complete understanding of socio-cultural environment where it is involved in and thus adapt its strategies.
- ❖ Social environment in many countries is responsible for emphasizing social responsibility of business and customer oriented marketing approach. For instance, McDonald's started opening stores in India and changed its menu of burger (without beef or sometimes veg) considering the socio-cultural environment of the country where most of its proposed customers did not eat beef and might be vegetarians too.
- ❖ Employees' behaviour additionally would also be shaped for different socio-cultural aspects of the country. In this regard, a people-oriented business concern would like to consider more emphasis on business value creation

through employee focused policies like granting flexible time, maternity leave, day-care services etc.

- ❖ In any competitive business environment, the changing preferences of customers for products and services are accepted as significant socio-cultural factors influencing business and business decisions.
- ❖ Society and culture have an impact on every aspect of the overseas business of multinational companies mainly since the era of globalisation where the firms are crossing the limits of boundaries of their domestic countries and going to the other parts of the world accepting different degrees of work motivation, profit motivation, business goals, negotiating styles, attitudes towards the development of business relationships, gift-giving customs, greetings, significance of body gestures, meaning of colours and numbers. Multinational companies should be aware of predominant attitudes, values, and beliefs in each host country where they decide to expand their business activities. Differences in attitudes and values among management of a parent company and expatriate managers at the subsidiary level, on the one hand, and managers and employees in host countries, on the other, can contribute to serious functional problems.

3.3 Elements of culture in India

Culture of civilisation is that complex whole which includes knowledge, belief, cult, morales, law, custom and other capabilities and habits acquired by a man as a member of society (E. B. Taylor). It is the basic determinant of human personality which is meaningful to people due to its symbolic quality. Culture is the software of the mind - the social programme that runs the way we think, act and perceive ourselves and others. Our brain is simply the hardware that runs the cultural programme (Geert Hofstede). It is a learned behaviour, independent of individuals or groups and is reflected through arts, literature and the way of life of the people. Cultural aspect is cumulative as it is passed on from generation to generation in a given society which would be reflected through social interaction among people over a period of time and would be taken as an acceptable patterns for meeting biological and social needs. It is of two types - Material (man-made things like telephone, television, automobile, internet etc.) and Non-material (language, belief, ideas attitudes, values and other similar factors).

The basic elements of culture can be designed as (i) Knowledge and Beliefs, (ii) Ideals, (iii) Preferences.

- ❖ **Knowledge and Beliefs:** People notions of reality i.e. knowledge and beliefs would include scientific realities as well as myths and metaphysical beliefs. Shared quality of belief system is an element of culture having a great sociological interest. In this context, people who share a particular culture tend to be holistic towards those who do not share their beliefs.
- ❖ **Ideals:** The social norms defining situational right/wrong, customary/expected can be defined as ideals i.e. folkways (guidelines enforced informally for proper behaviour e.g. respect for elders) and more (obligations treated vital for the welfare of the society - positive i.e. rewards for the right behaviour and negative i.e. punishment for wrong behaviour) sanctions are used to enforce ideals. Shared value is an important part of culture.
- ❖ **Preferences:** Society defines the attractive or unattractive things in life as objects of desire. Culture of a country lays down the life style of countrymen as per preference which may be attractive in one country, while unattractive in other.

The Global Leadership and Organisational Behaviour Effectiveness (GLOBE) research programme (1993), detected nine dimensions like (i) Assertiveness, (ii) Future Orientation, (iii) Gender Differentiation, (iv) Uncertainty Avoidance, (v) Power Distance, (vi) Individualism/Collectivism, (vii) In-Group Collectivism, (viii) Performance-Orientation and (ix) Human Orientation in socio-cultural aspect. Assertiveness is the extent to which a society encourages people to be tough, confrontational and competitive vs. modest and tender. Likewise, culture of a country can also be sketched on the basis of whether the country-men are futuristic/ planning-based or not. The extent to which a society maximises gender role differences as measured by how much status and decision-making responsibilities women have. Social reliance on norms and procedures to alleviate the unpredictability of future events would also define knowledge and belief of country-men. Culture can also be defined by the power distance i.e. the power to be shared among individuals equally/unequally. It can also be defined as the degree to which individuals are encouraged by societal institutions to be integrated into groups within organisations and society. On the contrary, culture will also be defined the extent to which members of society take pride in membership in small groups (family and circle of close friends) and the organisations in which they are employed. Culture can also be referred to the degree to which a society encourages and rewards group members for performance improvement and excellence and for being fair, generous, caring and kind to others.

3.4 Cultural Resources

Cultural resources are referred to the physical objects or places of past human activity i.e. historic site, object, landscape, structure or even a natural feature of significance to a group of people traditionally associated with it e.g. buildings or old roads, prehistoric village sites, rock inscriptions, objects of importance to a culture or community for scientific, traditional, religious. Therefore, maintenance and protection of cultural resources in compliance with laws is necessary. In these circumstances, decisions must be made to strike a balance between practical growth and the protection of cultural resources. As a result of this, federal and state agencies have created laws and regulations for the protection of cultural resources. It is important to note that the term historic property is defined as any cultural resource listed on or eligible for listing on the National Register of Historic Places (NRHP) (Section 106). These can include various resource types such as historic and prehistoric archaeological sites, houses, historic districts, engineering features such as roadbeds, railways, or bridges, battlefields, historic and cultural landscapes, and traditional cultural properties. However, not all cultural resources are by definition historic properties. They must be determined eligible for listing or must already be listed in the NRHP.

3.5 Societal Culture and Organizational Culture

Culture refers to the beliefs, values and behavior that together form a people's way of life. Organizational culture (the norms, shared values and expectations) determines the manner in which people interact as well as approach to the objective-oriented work. It is the unique personality of an organization that influences the behavior of the members in that organization. Societal culture is the norms, expectations, and shared values of a society or a group of people living in a particular place. It is the culture that a particular follows to interact in such a way to share a common interest. For any given organization to run well, there organizational culture and societal culture must be in harmony.

A favourable working environment in an organization makes employees feel unity among their peer with healthy competition and loyal to their employer. Likewise, organizational culture would also help to structure out business strategy, production process, productivity, organizational environment and effectiveness. Organisation is accepted as an integral part of social system. Therefore, it is a social institution,

performing a social mission and having a broad influence on the way people live and work together. It is recognized that the direction of business is important to the public welfare that business perform a social function.

In any organization, culture is rooted in the organizational activities and practiced consistently in all operations. It focuses on a conditional relationship among the individuals within the organization who would like to socialize into it. Though it accepts a shared behavior, it would find less impact on the individuals as culture is not inculcated in their lives and they have to learn about it after being members of that organization. On the contrary, culture within a society is inbuilt in individuals at early stage of their lives with deep acceptance without frequent change in the norms. Therefore, societal culture holds values which should be practiced consistently in society in assurance of maintenance social norm which are being shared with all individuals with great impact in their lives. Box 3.1 reflects how societal culture affects management approaches and organisational behavior

Box 3.1 Effect of Societal culture on organisational behavior.

Hodgetts and Luthans highlighted on the effect of societal culture on organisational behaviour in (i) Centralised and Decentralised Decision Making, (ii) Safety Vs. Risk, (iii) Individual Vs. Group Rewards, (iv) Informal Vs. Formal Procedure, (v) High Vs. Low Organisational Loyalty, (vi) Co-operation Vs. Co-ordination, (vii) Short-term Vs. Long-term Horizon, (viii) Stability Vs. Innovation.

Sometimes, in some companies, employees are not allowed to take part in decision making process, while in some other, the middle and lower levels take part in decision making. This practice in an organisation reflects the centralisation and decentralisation principle in decision making process found in an organisation as reflected by the social norms. In some societies, organisational decision makers are risk-averse and would face great difficulties with conditions of uncertainty where in some other societies, organisations deal with risk-taking attitude of it where decision making under uncertainty is common. As per societal culture, some organisations prefer individual reward for his/her outstanding performance there, while in other organisations, group effort is only recognised and rewarded which reflects the other norms of societal culture. In some societies, informal means are used to accomplish any organisational activity,

while formal way of activity is the major means of activities in some other societies. As per societal culture, in some organisations, individuals identify very strongly with their organisation or employers, while in other organisations, they identify with their occupational groups (mechanic, engineer etc.) which shows high and low organisational loyalty respectively. In an organisation, whether performances of individuals are found in cooperative or competitive environment can be determined as per the societal norm within which the same is operating. Some organisations focus most heavily on short-term horizons or goals (profit and efficiencies), while others are more interested in long-range goals (market share and technological development). The culture of some organisations as per the societal culture would encourage stability and resistance to change, while others may give indulgences to innovation and change.

Source: Cherunilam, F. (2012). *Business Environment - Text and Cases* (21st Revised Edition), Himalaya Publishing House.

3.6 Business and Society

Business is influenced by socio-demographic factors like age, sex composition of population, family size, habitant, attitude towards employment, occupational pattern etc. Social environment of different markets differ vastly. Even within nation, cultural diversity may vary significantly. It is very essential to understand these differences to formulate successful business strategies. Hence, culture is (i) related to socially acceptable patterns for meeting biological and social needs, (ii) characteristically the human product and social interaction, (iii) cumulative, for it is handed down from generation to generation in a given society, (iv) meaningful to human beings of its symbolic quality, (v) learned by each person in the course of his development in a particular society, (vi) therefore, a basic determinant of personality and (vii) dependent on continuous functioning of society but independent of any individual or group.

The failure of managers to comprehend fully these disparities has led to most international business blunders. It consists of both material culture [man-made things (e.g. automobile, television, telephone, etc. and man-made alternatives in the environment) and non-material (language, ideals, belief, values, music etc.). The integrated culture does not mean that every single item of each culture is neatly and precisely integrated with everything else. It means rather that it is normal for the parts

to be somewhat organized and that culture traits receive their significance and meaning out of their relation to the rest of the culture.

Many multinational businessmen agree that cultural differences are the most significant and troublesome variables where culture is that complex whole which includes knowledge, belief, art, morals, law, custom and other capabilities and habits acquired by man as a member of society. Differentiation based on criteria such as age, sex, caste, occupation, education income and so on, is an important aspect of social structure and cultural organization. Each stratum is assigned or supposed/expected to have a certain rank or position, role or limitations etc. in the societal set-up which would be very important to recognize.

Institutions are clusters of norms organized and established for the pursuit of some needs or activities of a social group supported by the group's knowledge, beliefs and values, as well as by the meaningful aspects of material culture. Such institutions have been established to meet society's common needs of a biological, sociological, psychological, economic and political nature - the type and nature of institutions reflect the common goals, aspirations and the ways of achieving them, definition and regulation of roles, positions, inter-relationships etc. of the individuals and sub-groups and groups and the overall organization of the culture. The organization of culture may, thus, be looked upon from the point of view a meaningful integration of different traits into integrated complexes and complexes in turn into patterns.

The cultural impact on international management is reflected by several basic believes and behavior. Culture of society directly affects management approaches and organizational behavior (Hodgetts and Luthans) which can be exhibited as below in Table 3.2.

Table: 3.2 Social Cultural impact on Business Performances

Centralised	Vs. Decentralised
In some countries, all important organizational decisions are made by top managers	In some countries, decisions are diffused throughout the enterprise and middle and lower level managers actively participate in and make key decision.

Safety Vs. Risk	
Organisational decision makers are risk-aversive and have great difficulty with condition of uncertainty in some countries.	Risk-taking is encouraged and decision making under uncertainty is common in some countries.
Individual Reward Vs. Group Reward	
In some countries, personnel performing outstanding work are given individual reward in the form of bonus and commissions.	In some countries, cultural norms required group reward and individual rewards are frowned on.
Informal Procedure Vs. Formal Procedure	
Work is accomplished through informal procedure in some countries.	Formal procedure is followed rigidly in some countries.
High Organisational Loyalty Vs. Low Organisational Loyalty	
In some countries, people identify very strongly with their organization or employer.	In some countries, people identify with their occupational group such as engineer or mechanic.
Cooperation Vs. Competition	
Some societies encourage cooperation between their people	Some societies encourage competition between their people
Short-term Horizon Vs. Long-term Horizon	
Some nations focus most heavily on short-term horizons, such as short range goals of profit and efficiency.	Some nations are more interested in long-range goals such as market share and technological development
Stability Vs. Innovation	
The culture of some countries encourages stability and resistance to change.	The culture of other countries put high value on innovation and change.

Based on these cultural differences, international organisations should be managed and conducted.

3.7 Changing Objectives of Business

Business, industry or commerce is referred to as commercial activities which aim at making profit, while as per modern outlook the non-profit objective i.e. social responsibility of the business should be taken as one of the main objective of the business concern. Therefore, business is a social institution, performing a social mission and having a broad influence on the way people live and work together (Davis and Blomstorm). Calkins in this context showed that business is recognized as the direction of business important to public welfare that businessmen perform a social function. Therefore, business is the development and processing of economic values in society. The Private (non-Government) portion of the economy holds its primary purpose as to provide goods and services to customers at a price, but the lines of distinction are getting hazy as business and government overlap their functions in organizations (Communications, Satellite Corporation etc.). Business is, therefore, the economic and commercial activities of institutions having other purposes and the business enterprises which do not aim at making any profit (charitable hospital, public relation organisations etc.) invest capital, price and market their products, services or ideas, manage their human resources and so on. Business connects with whole society which is regarded as ecology (the mutual relation of human population or system with their environment).

Now, both the economic objectives (survival, profitability, innovation, market share and growth) and social objectives (services to customers, employees and community) are complementary to each other and cannot be separated in long run, while conflict between these objectives is found in short run. Therefore, reconciliation should be maintained between these two objectives considering the overall business objectives - Primary Objectives [(i) to extend, develop and improve the company's business and build up its financial independence; (ii) to pay fair and regular dividends to the shareholders; (iii) to pay fair wages under the best possible conditions to the workers; (iv) to reduce prices to consumers] and Secondary Objectives [(i) to provide bonus for the workers; (ii) to assist in promoting amenities for the locality; (iii) to assist in developing the industry in which the firm operates; (iv) to promote education, research and development in the techniques of the industry or any other purpose

which the directors and members in general meeting have approved.

Davis and Blomstorm pointed out that in taking an ecological view of business in a system relationship with society, three ideas - Values, Viability and Public Visibility should be considered. Values are the guidelines for employee's decisions in the interface of business and strong motivators for people in a business. These are the sources of institutional drive. Like other social institutions, business develops certain believes, systems and values for which they stand. Values derive from a multitude of sources, such as the mission of business as a social institution, the nation in which a business is located, the type of industry in which it is active and the nature of its employees. Viability is the drive to live and grow, to accomplish the potential not yet reached and to achieve all that a living system is capable of becoming a viable, vigorous institution in society. A viable institution must initiate its share of forces in its own environment rather than merely adjust to outside forces as a bucket of quicksand does. Every business needs a drive and spirit all its own to make it a positive actor on the social stage rather than a reactor or a reflector. Public Visibility can be regarded as the extent to which an organisation's activities are known to persons outside the organization. It is different from the idea of public image (what people think about an organisation's act). The importance of public visibility is that it subjects business activities to public examination, discussion and judgment, while business activities cannot be judged without knowing the acts.

Therefore, it can be declared that business is an integral part of the social system. It is the social organ to help accomplish the social goals.

3.8 Summary

Socio-cultural factors are important in dealing with the social functions and attitudes of all social components which would offer modifications and re-modifications of business operations. Business socio-cultural environment is supposed to hold the customs, values, attitudes, beliefs, habits, languages, demographic characteristics and other forms of interaction between the members of the society and consumerism. Culture of civilisation is that complex whole which includes knowledge, belief, cult, morales, law, custom and other capabilities and habits acquired by a man as a member of society. It is the software of mind and the basic determinant of human personality which is meaningful to people due to its symbolic quality. Societal culture is the norms, expectations, and shared values of a society or a group of people living in a

particular place. It is the culture that a particular follows to interact in such a way to share a common interest. For any given organization to run well, there organizational culture and societal culture must be in harmony. Business should take proper attention on different categories of culture - Centralised - Decentralised Decision making, Safety - Risk, Individual - Group Reward, Informal - Formal Procedure, High - Low Organisational Loyalty, Cooperation - Competition, Short-term- Long-term Horizon and Stability- Innovative. While highlighting on changing objectives of business, an ecological view of it in a system relationship with society should be taken based on three ideas - Values (guidelines for employee's decisions in the interface of business and strong motivators for people in a business), Viability (the drive to live and grow, to accomplish the potential not yet reached and to achieve all that a living system is capable of becoming a viable, vigorous institution in society) and Public Visibility (the extent to which an organisation's activities are known to persons outside the organization) should be considered. Here, Cultural resources, the physical objects or places of past human activity i.e. historic site, object, landscape, structure or even a natural feature of significance to a group of people traditionally associated with it, should properly be taken care of as per legislation.

3.9 Questions

Objective type:

1. Culture refers to (a) beliefs, values and behaviour, (b) beliefs and values, (c) Only Vales, (d) None of the above.
2. Statement: (1) Assertiveness is the extent to which a society encourages people to be tough, confrontational and competitive vs. modest and tender. (2) ulture of a country can also be sketched on the basis of whether the country-men are futuristic/ planning-based or not.
(a) Only (1) is true, (b) Only (2) is true, (c) Both (1) and (2) are true, (d) Both (1) and (2) are false.

Short Answer type:

1. What do you mean be socio-cultural environment of business? What is its importance in business world?
2. Write a short note on Cultural Resources.

3. Discuss the changing objectives of business in today's world.

Long Answer type:

1. What are the different elements of culture in India?
2. Explain briefly the societal and organisational culture in business environment.

3.10 Further Readings

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Unit 4 □ Economic Environment of Business

Structure

4.0 Objectives

4.1 Introduction

4.2 Social Responsibility of Business

4.3 Economic Environment of Business - Importance and Factors

4.4 Economic Role of the Government of India

4.5 Economic Reforms in India

4.5.1 Liberalization

4.5.2 Privatisation

4.5.3 Globalisation

4.6 Summary

4.7 Questions

4.8 Further Readings

4.0 Objectives

After going through the unit, you will be able to understand the—

- Social responsibility of business
 - Importance of economic environment
 - Economic reforms in India
-

4.1 Introduction

It is well said that “a business firm and its environment are mutually interdependent, interacting with one another continuously. Environment is the supra-system of which the firm is only a small sub-unit. It can survive and thrive only when the environment desires its output of goods and services and is prepared to approved of and endorse its activities”. Business, the one unit of the total economy, transacts with all other

sectors of the economy which constitutes economic environment. This Unit throws light on the social responsibility of business, economic environment and its importance and factors, economic role of the Government of India and economic reforms in India.

4.2 Social Responsibility of Business

"Social Responsibility requires managers to consider whether their action is likely to promote the public good, to advance the basic beliefs of our society, to contribute to its stability, strength and harmony" (P. F. Drucker). The concept of social responsibility, therefore, needs to be differentiated from social obligation (the typical activities of an organization directed in response to market forces and internal aspirations) and social responsiveness (anticipate in changing or emerging social problems and respond to them). Social responsibility is much broader as it requires an organisation to meet the expectations, norms and values of the society. It implies responsibility to society beyond the basic economic responsibility of efficiency and profitability. As an economic agent of society, business must use its economic power to protect and promote public interest and social values. Keith Davis (1973) described social responsibility as the obligation of the decision-makers to take decisions which protect and improve the welfare of the society as a whole along with their own interests". It is the intelligent and objective concern for the welfare of the society that restrains individual and corporate behavior from ultimately destructive activities, no matter how immediately profitable and leads in the direction of positive contribution to human betterment variously as the latter may be defined (Andrews, 1971).

Social Responsibility contains some implications:

- ❖ An organization can discharge its social responsibility only through the individuals who manage and control social obligation which relates with personal attitude.
- ❖ Social Responsibility would develop attitude and policies in favor of the business concern. It is an interpersonal and reciprocal relationship where the company owes responsibility towards social groups and every social group in exchange of that would perform for the society.
- ❖ Social responsibility of a manager needs to be commensurate with his social power (power to influence the society).
- ❖ The standard of social obligations can be fixed keeping in view social norms

and expectations. Therefore, the extent of these obligations may differ from society to society.

- ❖ The concept of social responsibility is not inconsistent with the profit objective. An organization cannot fulfill its social obligations unless it survives and grows. Business organization cannot survive without profit and also without fulfilling social responsibility in long run.
- ❖ Social responsibility is a continuing obligation. Any business enterprise remains responsible to society throughout its continued existence. Every business organization should ensure that its activities should fulfill social interest.

4.3 Economic Environment of Business - Importance and Factors

Business environment is influenced by the economic environment consisting of the economic system, macroeconomic scenario, financial system, economic policies, legislations, planning, degree of competition, nature of demand for goods and services, lifestyles, consumer attitudes and behavior, market segments and so on. Economic environment itself is influenced by the nature of economic system (nature of property rights, ownership of means of production, production relation, role of planning, functioning of market and price mechanism etc. where the structural anatomy consists of the economic parameter - the structure of national output, the occupational distribution of labour force employed, the capital formation, trade composition etc.). The Government of the country also plays its role by influencing the business economic environment through its own activities and policies (economic planning, annual budget, fiscal policies, industrial regulations, business law, controls of price and wage and affecting the external sector such as EXIM Policy). The formulation and implementation of the Acts and policies of the Government would determine economic growth which along with the business/trade cycle significantly would affect the economic environment.

Importance:

Economic environment shapes up the overall business activities and holds the important aspects like (i) referring to all those economic factors which have a bearing on the functioning of a business unit, (ii) a complex phenomenon that embodies the macroeconomic system, its structure, the various sectors of the economy, policies, rules and regulations administered by the government, central planning, availability of

resources and their exploitation, the level and stage of development etc. (iii) proper assessment of economic environment-related issues, the managers can forecast market trends and therefore, can make better investment choices and competitive strategies, (iv) assisting the managers of the foreign companies and markets to predict events that might affect the company's future performance etc.

Factors:

Economic environment is a complex phenomenon that embodies the macroeconomic system, its structure, the various sectors of the economy, policies, rules and regulations administered by the Government, central planning, availability of resources and their exploitation, the level and stage of development etc. The macro and micro economic factors have considerable influence on business and pose opportunity as well as threat to a firm. The factors are (i) Growth Strategy, (ii) Economic System, (iii) Economic Planning, (iv) Industry, (v) Agriculture, (vi) Infrastructure, (vii) Financial and fiscal sectors, (viii) Removal of regional imbalances, (ix) Price and distribution controls, (x) Economic Reforms, (xi) Human Development, (xii) Human Development and (xiii) Per capita and national income.

- ⊛ The economic environment which now prevails in our country is the result of the economic growth strategy relentlessly pursued during the past five decades by the Government of India. It was believed that the savings rate in the economy and the growth rate can be increased if India invested heavily in capital goods and heavy industry sectors at the expense of the consumer goods sector. Since the investments in these sectors were high, largely beyond the capability of the private sector and profitability was low, it followed that such investments would have to be undertaken by the state.

As for policies to achieve these objectives, the Plan went on to state that: "In some cases, fiscal or price incentives may have to be relied on, in others, a licensing system may be essential, in still others, fixation of profit margins, allocation of scarce raw materials or other regulatory devices may be necessary. If the targets of planned investment are to be achieved, means have to be found to secure that the necessary resources do in fact, become available and are not devoted to consumption".

The State emerged both as the mobiliser of savings as well as important investor and owner of capital. Since State was to be the primary agent of economic

change, it followed that private sector activities had to be strictly regulated and controlled to conform to the objectives of the state policy.

Under the policy, foreign trade had a relatively small role, partly because of the believe that trade was biased against developing countries and primary producers and partly because if the intellectual conviction that export prospects were severely limited.

The growth strategy also meant, in the early years of planning, a relative neglect of public investment in agriculture. This negligence of agriculture was supported by the prevailing view that a growing labour force in the developing countries could only be absorbed in industry, and that in the early stages of industrialisation, it was necessary for agriculture to contribute to the building up of modern industry by providing cheap labour. A faster development of industry was the central objective of planning.

The present growth strategy of India can be a benchmark for other countries both developing and developed. The features of the strategy are:

- (i) India has strong democracy which offers several strategies to economic growth.
 - (ii) Economy has been bottom-up driven and not imposed by State.
 - (iii) Economic growth has been propelled by domestic demand and not anchored on exports.
 - (iv) Growth owes largely to manufacturing and not surely dependent on services.
 - (v) Growth has been inclusive. Several welfare measures to benefit poor people have been part of the path towards prosperity.
- ✿ There are three distinct economic philosophies - Capitalism, Socialism and Communism. The system of Capitalism stresses on the philosophy of individualism believing in private ownership of all agents of production, in private sharing of distribution processes that determine the functional rewards of each participant and in the individual expression of consumer choice through a free marketplace. In this regard, the Welfare State concept, the modification of modern capitalism, provides an increasing degree of State regulation when certain deficiencies appear in the economy. Some argue that the acceptance of certain welfare State objectives is necessary to provide flexibility for capitalism, otherwise it might become static and be destroyed because of certain faults. Under Socialism, the tools of production

are to be organised, managed and owned by the Government with the benefits accruing to the public. A strong public sector, agrarian reforms, control over private wealth and investment and national self-reliance are the other plans of socialism which do not involve an equal division of existing wealth among the people but advocates the egalitarian principle. It believes in providing employment to all and emphasises suitable rewards to the efforts put in by every worker. Also called Fabian socialism, this philosophy is followed in our country and other social democratic countries in the world. Communism goes further to abolish all private property and property rights to income. The State would own and direct all instruments of production. Sharing in the distributive process would have no relationship to private property since this right would not exist. Alternatively called Marxism, communism was followed in Russia, China and East European countries.

In this regard, a midway between capitalism and communism, Mixed economy is accepted as the economic philosophy of India. Closely resembling socialism, the concept of mixed economy admits the existence of private enterprises along with public ownership. The economic set-up under the philosophy is split up into three parts - (i) Sector in which both production and distribution are entirely managed and controlled by the State the complete exclusion of private enterprise, (ii) Sectors in which the State and private enterprise jointly participate in production as well as in distribution and (iii) Sector in which the private enterprise has complete access subject only to the general control and regulation of the State. The Industrial Policy of 1956 has clearly demarcated the areas meant for each of these sectors of economy. The concept of mixed economy has guided our economy for the past three and the half decades.

- ⊛ Economic planning is a major component of macro business environment. It spells out priorities of the economy, sets targets, decides on budget allocation and monitors the progress - all within a time frame of five years. After the expiry of a five year period, the exercise is repeated for the next five years and so on. Obviously, planning is an on-going process not being encouraged or disrupted by the economic philosophy a country pursues. India is the best example of successful launch of five yearly plans and their successful implementation.

The Government of India has created a separate agency - Planning Commission - to formulate and implement plans. Economic planning, as is being practised in India, essentially involves the following steps - (i) A survey and diagnosis of the

present economic environment, (ii) Identifying objectives which need to be attained within a plan period, (iii) specifying strategies by which the objectives should be achieved, (iv) identifying resources and decide on different allocations to various sectors, (v) implement the strategies and evaluate to identify progress/gaps.

As stated earlier, planning assumes relevance when resources are limited but priorities are many. Specifically, planning is justified on the following grounds: (i) Increase in production to the maximum possible extent so as to achieve higher levels of national and per capita incomes, (ii) Achieve full employment, social justice and equality, (iii) Improving quality of life of people, (iv) Pushing up the role of investment on all sectors of the economy, (v) Achieve sustainable development.

- ⊗ Various administrative controls have held the country back in its road towards industrialisation. Industrial licensing, product reservation for public sector and small-scale industries, MRTP and asset classification of companies, foreign exchange regulation, tariffs and quotas, labour market rigidities are some measures hampering the country's progress. Though some of them have been lifted with the advent of new economic policy, several of them are still in force.

According to a study conducted by McKinsey and Co., a second and much bigger wave of manufacturing outsourcing is due to arrive. The first wave was \$460 billion and consisted of low-tech items like toys and garments. The second wave could reach \$1.6 trillion and will comprise high-tech areas like automotive, engineering and chemicals. In second wave, India and China will be benefitted. India has large low-cost and skilled workforce. The country has one of the world's largest labour pools. This large labour pool will limit increase in wage rates for the next 20 years. India has vast raw materials supply base. The country has abundant raw material, e.g. cotton (India is the third largest producer of cotton accounting for 3% of world output), ferrous raw materials (India has 5% of world iron-ore deposits and produces 3% of the world's steel) and non-ferrous raw materials. India has emerged as the second largest small car market in the world, the biggest diamond cutting and polishing centre worldwide and the largest producer of tea, milk and pulses.¹

The intrinsic advantages offered by India have led to the entry of MNCs and to

¹ Fernando, A.C. (2011). Business Environment, Pearson.

scale up the operations of domestic companies. Several global majors are moving out of the centres if economic meltdown by investing into the fresher pastures that the Indian market offers. All the car makers have manufacturing centres in the country. Therefore, there is enough scope for making globally competitive manufacturing carried out in India. In diverse sections - pharmaceuticals, chemicals, textiles, metals, refining, cement, auto and ancillaries, Indian firms are performing competitively and are exporting major chunks of outputs. Any new plant coming up in any industry can be designed to become globally competitive. Several MNCs are willing to export out of India. Suzuki, Hyundai, e.g. view India as a car hub. ABB plans to make India a global sourcing base for some of its products.

- ⊗ Every sector of the economy employs natural, human and material resources and contributes to the aggregate flow of goods and services during a time period, usually specified as one year. This aggregate flow of goods and services represents a total income earned by factors of production employed during the year and is popularly called national income or national product.

However, it must be admitted that our growth rates have been less than the plan target and below the required growth rate of about 10% p.a. The primary reason for low growth levels in the national income is the deficiency in investment, high capital-output ratio, low agricultural and industrial growth and population explosion.

- ⊗ Industrial growth cannot happen without strong agriculture base. Three ways demonstrate the dependence of industry on agriculture: production linkages, demand linkages and savings and investment linkages. Production linkages occur because agriculture is both a recipient and a supplier to industry. Agriculture offers jute, cotton and sugarcane to agriculture-based industries and receives, in turn, fertilisers, machinery and electricity from industry. This interdependence is age-old and is family entrenched. It is also pointed out by economists that a 10% growth in agriculture would increase industrial output by 5%.

Demand linkages between agriculture and industry are equally strong. Urban income and industrialisation have impacted demand for food and agricultural raw materials considerably. Likewise, rural income has changed consumption pattern of people. More significant are the savings and investment linkages that have developed between agriculture and industry. The relative terms of trade between the two sectors not only influence the level of private savings and investment, they also manifest themselves into governmental saving and expenditure.

Agriculture contributes to capital formation in at least two ways: (i) Capital-output ratio is low in agriculture and (ii) Consumption pattern of farm population does not change with in change in income level.

India has a few competitive advantages in agriculture. These strengths need to be leveraged to make the primary sector more vibrant. With inherent advantages in biotechnology, IT, energy, input-output ratios and labour costs, Indian agriculture has tremendous potential that can be unlocked through new opportunities thrown up by the current global food crisis which is shifting the terms of trade in favour of agriculture.

On the achievement side, the claims made relate to industry, agriculture, infrastructure, foreign trade, growth rate, control of inflation and the standard of living of the people. It is asserted that significant progress has been made in all these and many more during the last five decades of economic planning

4.4 Economic Role of the Government of India

In any country, Government plays its economic role by ensuring the economic growth, stability and thus development through applying rules and regulations. Many early post-independence leaders, in view of achieving high and balanced economic development with attention to poor through appropriate programs and measures, were influenced by socialist ideas and advocated government intervention to guide the economy, including state ownership of key industries. Moreover, due to country's large size, substantial natural resources and desire to develop its own defence industries, Indian leaders focused industrialization as the key to economic development. Government of India in its promotional practice introduces Industrial Progress, Nationalisation, Antipoverty Program, Planning Development etc.

- ❖ In Industrial regime, Government of India started its promotion in 1948 where it found monopoly in some sectors (armaments, atomic energy, and railroads) and exclusive rights in some other (minerals, iron and steel industries, aircraft manufacturing, shipbuilding, and manufacturing of telephone and telegraph equipment). Private companies operating in those fields were guaranteed at least ten years more of ownership before the government could take them over. Government (Public sector) felt more extended presence in its 1956 policy wherein seventeen industries were found under public sector

exclusively. Moreover, to maintain the resolution for industries producing capital and intermediate goods, public sector took twelve industries. Private sector was relegated primarily to production of consumer goods.

Government of India additionally introduced nationalisation of the life insurance business (1956), the general insurance business (1973) and large commercial banks (1969). Over the years, the Central and State Governments formed agencies, and companies engaged in finance, trading, mineral exploitation, manufacturing, utilities and transportation. The public sector was extensive and influential throughout the economy, although the value of its assets was small relative to the private sector.

Moreover, Government of India framed The Industries (Development and Regulation) Act of 1951 and the Essential Commodities Act of 1955 (with subsequent additions) legislation to extend price controls on some products (steel, cement, drugs, nonferrous metals, chemicals, fertilizer, coal, automobiles, tires and tubes, cotton textiles, food grains, bread, butter, vegetable oils etc.). From apart, to strengthen the licensing system in order to decrease the concentration of private economic power and to place restraints on certain business practices which are contrary to public interest, The Monopolies and Restrictive Practices Act (1970) was designed.

In 1985, Government of India abolished some of its licensing regulations, while in 1991, it introduced "new economic policies" covering (i) reduction of quantitative restrictions on imports, import duties on capital goods, (ii) decreases in subsidies, (iii) liberalized interest rates, (iv) sale of shares in selected public enterprises and (v) tax reforms. With increase in liberalisation and privatisation in 1991, the number of sectors reserved for public ownership was slashed and except in defence industry, the private-sector investment was encouraged in energy, steel, oil refining and exploration, road building, air transportation and telecommunications. Foreign-exchange regulations were liberalized, foreign investment was encouraged, and import regulations were simplified.

Despite these changes, the economy remained highly regulated by international standards. The import of many consumer goods was banned, and the production of 838 items, mostly consumer goods, was reserved for some companies. Import controls and tariff policy stimulated local manufacturers toward

production of import-substitution goods. But the growing dependence of the economy on imports, greater vulnerability of its balance of payments, reliance on debt, and the consequent susceptibility to outside pressures on economic policy directions caused concern. From apart, Government's extensive controls and pervasive licensing requirements created imbalances and structural problems in many parts of the economy. Further, extensive Government controls on large public sector called for inefficient bureaucratic performances that took inordinate time to process applications and forms.

- ❖ India has had a number of antipoverty programs since the early 1960s like the National Rural Employment Programme and the Rural Landless Employment Guarantee Programme to help the poor attain self-sufficiency in food production and to access food throughout the country at controlled prices, a major determinant of wage scales. After the late 1970s, the central government, by holding reserve stocks and importing grain adequately and early could maintain sufficient supplies to meet the increased demand. The government has supplied water by financing well digging and, since the early 1980s, by power-assisted well drilling; rescinded land taxes for drought areas; tried to maintain stable food prices; and provided food through a food-for-work program. In the 1980s and early 1990s, Indian government attempted to provide basic needs at stable, low prices(i) to increase income through pricing and regulations like supplying water from irrigation works, fertilizer, and other inputs; (ii) to foster location of industry in backward areas; to increase access to basic social services (education, health, and potable water supply) and (iii) to help needy groups and deprived areas. State Governments are important participants in antipoverty programmes. The constitution assigns responsibility to the states in a number of matters, including ownership, redistribution, improvement, and taxation of land (The Constitutional Framework, chapter 8). State Governments implement most Central Government programs concerned with land reform and the situation of small landless farmers. The Central Government tries to establish programs and norms among the states and union territories, but implementation has often remained at the lower bureaucratic levels. In some matters concerning subsoil rights and irrigation projects, the Central Government exerts political and financial leverage to obtain its objectives, but the states sometimes modify or retard the impact of Central Government policies and programs.
- ❖ Indian leaders adopted the principle of formal economic planning soon after

the independence as an effective way to intervene in the economy to foster growth and social justice. In the First Five-Year Plan (FY 1951-55) attempt was taken to stimulate balanced economic development while correcting imbalances caused by World War II and partition with placing priority on Agriculture, irrigation and power generation. In the Second Five-Year Plan (FY 1956-61), emphasise was on industrialization, particularly basic, heavy industries in the public sector and on infrastructure with social goals like equal distribution of income and extension of the benefits of economic development to the large number of disadvantaged people. The Third Five-Year Plan (FY 1961-66) aimed at implementing a substantial rise in national and per capita income while expanding the industrial base and rectifying negligence in agriculture in the previous plan. Due to some political issues (was with China and Pakistan), three annual plans guided development between FY 1966 and FY 1969 while plan policies and strategies were re-evaluated. The Fourth Five-Year Plan (FY 1969-74) called for a 24 per cent increase over the third plan in real terms of public development expenditures. The Fifth Five-Year Plan (FY 1974-78) was subsequently approved in late 1976 but was terminated at the end of FY 1977 because a new government wanted different priorities and programs. The economy operated under annual plans in FY 1978 and FY 1979. The Sixth Five-Year Plan (FY 1980-85) was intended to be flexible and was based on the principle of annual "rolling" plans. Public-sector development spending would be concentrated in energy (29 per cent); agriculture and irrigation (24 per cent); industry including mining (16 per cent); transportation (16 per cent); and social services (14 per cent). In practice, slightly more was spent on social services at the expense of transportation and energy where the main objective was to increase employment, especially in rural areas, in order to reduce the level of poverty. The Seventh Five-Year Plan (FY 1985-90) envisioned a greater emphasis on the allocation of resources to energy and social spending at the expense of industry and agriculture. The planners assumed that public savings would increase and help finance government spending which did not occur instead of the government relied on foreign borrowing for a greater share of resources than expected. After Annual plans (1990-1992), the schedule for the Eighth Five-Year Plan (FY 1992-97) was framed and affected by changes of government and by growing uncertainty over what role planning could usefully

perform in a more liberal economy with three general goals - (i) to cut back the public sector by selling off failing and inessential industries while encouraging private investment in such sectors as power, steel, and transport, (ii) to propose that agriculture and rural development have priority and (iii) to renew the assault on illiteracy and improve other aspects of social infrastructure, such as the provision of fresh drinking water. The Ninth Five-Year Plan (1997-2002) came after 50 years of Indian Independence with primarily focus on the use of latent and unexplored economic potential of the country to promote economic and social growth. It offered strong support to the social spheres of the country in an effort to achieve the complete elimination of poverty. The Tenth Five-Year Plan (2002-2007) was expected to follow a regional approach to bring down inequalities with main objectives like to (i) attain 8% GDP growth per year, (ii) reduce poverty rate by 5% by 2007, (iii) provide gainful and high-quality employment at least to the addition to the labour force, (iv) reduce in gender gaps in literacy and wage rates by at least 50% by 2007, (v) introduce 20-point program, (vi) achieve the target growth (8.1%) expenditure of ₹43,825 crore (US\$6.1 billion) for tenth five years. The Eleventh Five Year Plan (2007-2012) aimed at (i) increasing the enrolment in higher education of 18-23 years of age group by 2011-12, (ii) focusing on distant education, convergence of formal, non-formal, distant and IT education institutions, (iii) reducing poverty, gender inequality (iv) emphasising social sector and delivery of service therein, (v) ensuring empowerment through education and skill development, (vi) ensuring rapid, inclusive growth and environmental sustainability, (vii) increasing growth rate in agriculture, industry and services to 4%, 10% and 9% respectively, (viii) reducing total fertility rate to 2.1, (ix) providing clean drinking water for all by 2009 and (x) increasing agriculture growth to 4%. In the Twelfth Five-Year Plan (2012-2017), the Government of India took the main objectives like (i) to create 50 million new work opportunities in the non-farm sector, (ii) to remove gender and social gap in school enrolment, (iii) to enhance access to higher education, (iv) to reduce malnutrition among children aged 0-3 years, (v) to provide electricity to all villages, (vi) to ensure that 50% of the rural population have access to proper drinking water, (vii) to increase green cover by 1 million hectare every year and (viii) to provide access to banking services to 90% of households. The on-going Thirteenth Five Year Plan (2017-2022) envisages

an allocation of Rs. 26,83,924 crore for the armed forces which includes Rs.13,95,271 crore under the revenue segment and the remainder for defraying the capital expenditure. Given the secrecy surrounding the plans, it is unlikely that much will be known about the outcomes intended to be achieved.

Therefore, it can be taken that Indian economy, a mix of public and private enterprise, is too large and diverse to be wholly predictable or responsive to directions of the planning authorities. Major shortcomings include insufficient improvement in income distribution and alleviation of poverty, delayed completions and cost overruns on many public-sector projects, and far too small a return on many public-sector investments. In all these aspects, our Government performs its level best to meet up all targets and thus to make out country a flourished one.

4.5 Economic Reforms in India

The neo-liberal policies of Economic Reforms were introduced by the Narsimha Rao Government in India in 1991 in forms of LPG (Liberalisation, Privatisation and Globalization) to curb the severe economic crisis due to external debt, decreasing motion of foreign currency reserve, balance of payment crisis, decline in export, reduction in revenue and inefficiency in economic management in the 1980s. The reforms categorised into two groups - stabilisation measures (short-term in nature and attempt to control the crisis situation by maintaining sufficient foreign exchange reserves) and structural reform policies (long-term policies that attempt to improve the overall economic condition by increasing the international competitiveness and removing the rigidities and other restraining obstacles).

Liberalization

Several economic reforms that were imposed under Liberalization include expansion of production capacity, de-servicing producing areas, abolishing industrial licensing by the Government, and freedom to import goods in view of curbing the regulations or restrictions that were imposed on free trade. Liberalisation allowed opening up the economic borders for foreign investments and Multinational Companies where many changes in licensing and procedures, import of technology, import of capital goods coupled with a reasonable rate of public investment, total protection to domestic industries from international competition through quantitative restrictions on imports as well as high tariff rates were found. In liberalisation, the industrial licensing system was almost abolished except for in cigarettes, alcohol, hazardous chemicals, electronics,

aerospace, drugs and pharmaceuticals and industrial explosives. Additionally, defence equipment, atomic energy generation, and railway were kept exclusively under the public sector while some industries were provided the liberty to fix the prices for their products by the government. Financial sector (banks, stock exchange operations, and foreign exchange market) in this respect enjoyed liberty to take some of major financial decisions on their own though in under control of Reserve Bank of India (RBI). Moreover, Foreign Institutional Investors (FII) (merchant bankers, pension funds, mutual funds, etc.) were allowed to invest in the Indian financial market. Additionally, Quantitative restrictions were completely abolished from April 2001, import licensing and export duties were removed to increase the competitive position of Indian goods in the international market.

Privatisation

Privatization, the selling the government-owned enterprises to private companies or Government withdrawal from management, deals with opening of doors to the sectors or industries which were once preserved for Government. It seems to give more opportunities to private sector in regulating different services and restricts Government strict intervention there. Government encourages privatisation to improve the efficiency of certain public sector industries some of which are highly regarded as Maharatnas (Oil Corporation Limited and Steel Authority of India Limited), Navratnas (Hindustan Aeronautics Limited and Mahanagar Telephone Nigam Limited) and Miniratnas (Bharat Sanchar Nigam Limited, Airport Authority of India, and Indian Railway Catering and Tourism Corporation Limited). With privatization, FDI (Foreign Direct Investment) was introduced in India giving healthy competition to the Indian goods and services.

Globalisation

Globalisation was a result of the integration of world economy and trade interdependence. It helps to promote outsourcing in business operation like in Business Process Outsourcing (BPO), Voice-based business process, Record keeping, Banking services etc. Basically, Globalisation is the way out through which any Indian company can open its branches in Foreign companies e.g. ONGC Videsh operates in 16 countries, Tata Steel operates in 26 countries etc.

In India, the economic environment after reform in 1991 experienced a drastic change like (i) agriculture sector witnessed a decline, (ii) there was a fluctuation in

the industrial sector, and the service sector experienced a significant growth, (ii) Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII) have increased from about USD 100 million (in 1990-91) to USD 467 (billion in 2012-13).

Though under the policy of globalisation, international market is open for all, it is more beneficial for the developed countries. Local industries of developing countries are also facing lot of problems, as they now have to compete with the companies in foreign countries and the countries still have no access to developed countries' local markets.

4.6 Summary

The concept of social responsibility needs to be differentiated from social obligation and social responsiveness. Social responsibility is much broader as it requires an organisation to meet the expectations, norms and values of the society. Economic environment itself is influenced by the nature of economic system. It holds the importance as (i) it refers to all those economic factors which have a bearing on the functioning of a business unit, (ii) it is a complex phenomenon that embodies the macroeconomic system, its structure, the various sectors of the economy, policies, rules and regulations administered by the government, central planning if there is one, availability of resources and their exploitation, the level and stage of development etc. (iii) with proper assessment of economic environment-related issues, the managers can forecast market trends and therefore, can make better investment choices and competitive strategies, (iv) economic environment would assist the managers of the foreign companies and markets to predict events that might affect the company's future performance etc. Economic environment holds the factors like (i) Growth Strategy, (ii) Economic System, (iii) Economic Planning, (iv) Industry, (v) Agriculture, (vi) Infrastructure, (vii) Financial and fiscal sectors, (viii) Removal of regional imbalances, (ix) Price and distribution controls, (x) Economic Reforms, (xi) Human Development, (xii) Human Development and (xiii) Per capita and national income. The economic environment which now prevails in our country is the result of the economic growth strategy relentlessly pursued during the past five decades by the Government of India. The neo-liberal policies of Economic Reforms were introduced by the Narsimha Rao government in India in 1991 in forms of LPG (Liberalisation, Privatisation & Globalization) to curb the severe economic crisis due to external debt, decreasing motion of foreign currency reserve, balance of payment crisis, decline in

export, reduction in revenue and inefficiency in economic management in the 1980s. Government of India in its promotional practice introduces Industrial Progress, Nationalisation, Antipoverty Program, Planning Development etc.

4.7 Questions

Objective type:

1. First Five Year plan was for the period of (a) FY 1940-44, (b) FY1947-51, (c) FY 1959-63, (d) FY1951-55
2. The neo-liberal policies of Economic Reforms were introduced by the (a) Rajiv Gandhi Government, (b) Narsimha Rao Government, (c) Narendra Modi Government, (d) None of the above

Short Answer type:

1. Write Short Note on Economic Reforms in India
2. Explain the importance and factors of economic environment of business.

Long Answer type:

1. Narrate social responsibility of business firm.
2. Describe the Economic Role of the Government of India.

4.8 Further Readings

Aswathappa, K. (2019). *Essentials of Business Environment* (15th Revised Edition), Himalaya Publishing House.

Cherunilam, F. (2012). *Business Environment - Text and Cases* (21st Revised Edition), Himalaya Publishing House.

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Unit 5 □ Demographic Environment

Structure

5.0 Objectives

5.1 Introduction

5.2 Demographic Environment - Concept, Features and Importance

5.3 Components of Demographic Environment

5.4 Linkages between Demographic Environment and Business Environment

5.5 Summary

5.6 Questions

5.7 Further Readings

5.0 Objectives

After going through the unit, you will be able to understand the—

- Concept of Demographic environment
 - Components of demographic environment
 - Relation between demographic environmental and business environment
-

5.1 Introduction

Demography is related with the science of people or population which is a product of the number of births, deaths, and migrations having features like size, age, sex, life expectancy, work participation rate, employment status, rural-urban divide, levels of education, casts, ethnicity, language and religion. Demography does have a huge impact on business activities. This unit is concerned about the concept, feature and importance of demographic environment, components of demographic environment and its linkage with business environment.

² <https://worldsustainable.org/demographic-characteristics/>

5.2 Demographic Environment - Concept, Feature and Importance

The word 'demographic' originates from Greek which contains two meanings of Demos i.e. people or population and Grafein i.e. writing. Different researchers and organisations time-to-time have declared the definition of demography.²

- ❖ Demography is the name given to the study and interaction of the population, and the influence of changes in composition and population growth. Demography is the scientific study of human population, primarily with respect to their size, structure and development. (United Nations, 1958:3)
- ❖ Demography is the statistical and mathematical study of the size, composition, and spatial distribution of human populations and of changes over time in these aspects through the operation of five processes of fertility, mortality, marriage, migration, and social mobility (Bogue, 1962:1-2).

Different countries hold different demographic cultural aspects. From this view point, demography in India holds the features like (i) High population density, (ii) Overwhelming proportion of rural population (iii) Fast rate of population growth, (iv) Declining proportion of women, (v) High percentage of non-workers, (vi) Ethnic diversity, (vi) Lop-sided age structure.³

Being one of the most populous countries in the world, occupying the second place after China and accounting for 16.7% of the world population, India contains only 2.42% of the total world area. Amongst the total population in India, about 72% lives rural area indicating massive dependence on agriculture and other rural industries. The average annual exponential growth rate dropped gradually from 2.22% in 1971-81 to 2.14% in 1981-1991 and again 1.9% in 1991-2001. This was happened because of the expansion of urban centres. The urban centres encroached upon the surrounding villages as people continue to pour into there in search of jobs and better living. Our country, additionally, is found as male dominated, attributed more to the sociological factors like low preference for the female child in the family. Here, in absence of proper attention, the female child falls sick for malnutrition. A large number of women also die during childbirth. In India, only 40 per cent can be classified as workers-this includes the population below 15 years also (i.e., child labour), while participation of

³ <https://www.yourarticlelibrary.com/geography/7-striking-features-of-indian-demography/42397>

women in this context is very low. From apart, ethnic diversity has divested the Indian society. Above all, the concentration of religious minorities in the strategically located peripheral areas and less than 20 years of age of about half of overall population would have social, economic and political implications.

Demographic environment is considered as an interdisciplinary science connecting with statistics, geography, economics, health and others. Therefore, it contains special attention to all the academicians. Below mentioned points can establish importance of Demography.

- ❖ Learning the quantity, quality and distribution of residents in a region.
- ❖ Explaining population conditions in the present or past.
- ❖ Knowing the causal relationship of variables that affect population growth.
- ❖ Predicting the future population growth.
- ❖ The basis of appropriate policy-making in the field of population.

Demographic characteristics help us learn about the conditions of the population in a region like education, health, etc. which can offer more important information about the population if can properly be connected like size, distribution, structure, change in population with economic, health, education, etc. From apart, some factors like birth, death, migration, or social changes would have causal relationship that cannot be separated. Therefore, the differences and growth for each group of population can be observed with time series data. Demographic characteristics make it easy for us to identify the relationships among the factors in a structured and systematic manner with which population growth in the future can be predicted considering fertility, mortality and migration as the main causes of change in population (size and distribution). Demographic characteristic is one of the most contributing factors in decision making as almost every Government decision and policy considers demography as the basic element to make it fair.

5.3 Components of Demographic Environment

Demographic composition refers to the proportion or number of people which can be identified according to a certain characteristics. The demographic composition provides a mathematical description of the people living in a specific area. Some of the most common and important demographic components can be Density (the relation between the area covered by the city and the number of residents, typically expressed as the number of inhabitants per square mile), Gender (the male-female ratio of a population used to examine the income of women versus that of men), Age (information about the number of people in a certain age range like babies, within 18-24 years or seniors providing information preferences and trends among age groups and helps

policymakers to orient social programme like healthcare or child support), Social Class (characteristics like average income, level of education, occupation and size of home providing information about socio-economic condition), Ethnicity (information about the national or racial background of the population to identify possible vulnerabilities among minority groups)etc.

In World population, an exponential increase is found which invites some questions like - How quickly will we increase from the present number of population? How will that population be distributed? Where is population the highest? Where is it slowing down? Where will people live? The study of population or demography, therefore, reveals three most important components which can answer these questions - fertility, mortality and migration. These three components would be called as demographic process and thus determine the elements of population change because they affect the situation of population. In this regard, fertility is related to the population growth, mortality to the population decrease and migration is related to the population change due to the incoming and outgoing migration where marriage also is included causing migration of women. Demographic measures are the actual changes in size, composition and distribution due to changes in demographic components.

Fertility

Fertility, the reproductive function, refers to the ability to bear offspring and is related to the live birth which starts when a women gives the first birth (within 15-49 years). It can be measured by the actual number of birth having four measures - Crude Birth Rate (CBR) (the simplest way of measuring fertility defined as the number of live births occurring in that area in a given period of time, usually, a year, divided by the total population of that area as estimated at the middle of the year. It is expressed in terms of 'per 1000 of population'); General Fertility Rate (GFR) (it gives the number of births occurring within a given population during a specified year per 1000 women aged 15 to 49 in the population at mid-year); Age-Specified Fertility Rate (ASFR) (this may be computed for each age from 15-49 years); Total Fertility Rate (TFR) (it is referred to the number of children of a women which would bear during her childbearing age under on-going age-specific fertility rate. It can be measured with sum of age-specific fertility rates calculated for the same single year).

Mortality

WHO mentioned that "Death is the permanent disappearance of all evidence of life at any time after birth has taken place". It is a natural process of birth and death goes on incessantly. It is a perpetual process causing decline in population. All-cause mortality rates by age and sex for WHO Member States are developed from available

death registration data, sample registration systems and data on child and adult mortality from censuses and surveys. Cause-of-death distributions are estimated from death registration data, and data from population-based epidemiological studies, disease registers and notification systems for selected specific causes of death. Causes of death for populations without useable death-registration data were estimated using cause-of-death models together with data from population-based epidemiological studies, disease registers and notification systems for 21 specific causes of death. Deaths per 1,00,000 population are measured as unit.

Migration

Migration means the movements of people from place to place where movement of people inside the country is called national migration and movement of people from one country to another is called international migration. Migration shifted from the original place is called out-migrants and those people who live in their destination called in-migrants. Likewise, people who shift from one country to another are called emigrants for departure and immigrants for the destination. The difference in the number of people due to immigration and emigration in a country is called gross migration. National migration can be estimated by comparing: "place of residence one year prior to the census with the place of residence during the census enumeration, and/or " place of residence five years prior to the census with the place of residence during the census enumeration, and/or " place of birth with the place of residence during the census enumeration.

Demographic composition, therefore, would assist the planner to make policies for different groups of people.

5.4 Linkages between of Demographic Environment and Business Environment

The demographic environment differs from country to country and from place to place within the same country or region. Demographic factors such as size of population and growth of population rates, age composition, ethnic composition, density of population, rural-urban distribution, family size, nature of the family income levels etc. have very significant implications for business. In business environment, the growth and success of a business would highly be dependent on the targeted demographic variables of interest. Therefore, any strategy i.e. any commitment of present resources to the future expectations, has to start with demographics (P. F. Drucker) having tremendous economic and business implications.

The size of population is an important determinant of demand for many products. There are countries with less than a lakh of people on the one hand and those with over a thousand million on the other hand. Poor countries with small population do not attract big businesses while at the same time can create promising niches for small firms. In this context, advanced countries with large population attract business with high cut-throat competition.

Population Growth Rate, the another section having high impact on demography can also alter business-related decision e.g. declining birth rate and consequent fall in the size of the baby population, the market for baby products of some companies (Johnson & Johnson) has been limited for which they have to switch over to other businesses. On the contrary, the declining birth rate can make prosperity to some companies like hotel, restaurants for serving the childless couples or couples having small families. Therefore, it is obvious that business should necessarily ponder over whether the falling birth rate and the shrinkage in the number of young people and also people under eighteen is a threat or opportunity. Hence, the collapsing birth rate may be an opportunity where having fewer children means the child becomes precious and large amount of disposable income would be spent on him. A developing country with steady increase in income with high population growth rate but with decreasing birth rate can drive fast growth of the markets. Likewise, a poor country with high population can enjoy a sizeable market for luxurious goods and services (e.g. if just 5 per cent of the Indian population is well to do, the absolute number is larger than the total population of many of the high income economies).

High population growth rate also implies an enormous increase in labour supply. Cheap labour and a growing market have encouraged many multinationals to invest in developing countries. Moreover, the occupational and spatial mobility of population have implications for business. The labour who can enjoy mobility between regions and occupations, would offer lower problem than otherwise. On the other hand, a heterogeneous group of labour with different languages, preferences, tastes, beliefs etc. would generate different human resources strategies in business.

The changes in age structure has lot of implication in business like pharmaceutical, insurance companies etc. which are very much inclined with aged group of people. Likewise, the job preference of each group of people would differ.

Ethnicity can be considered as another demographic issue influencing business operation. In this regard, each specific group would have certain specific buying habit and demand. Though marketers should not over generalise ethnic group, within each group different consumers can be found with different demands.

Demographic structure would also attract international marketer and it would be accepted that larger is the population, larger with the demand e.g. India has around sixteen per cent of the world's population and is second to China. Also, India has a relatively younger population compared to China. A large number of people in middle income group (280 and 300 million) can also attract market for consumer durables. Additionally, 25 million approximate baby births can emerge a large market for baby products. The sex and age composition have their own corresponding impacts on goods and services. Moreover, a large market created by an ever increasing population offers an incentive to the use of division of labour, mechanisation and large scale production. Additionally, large labour force limits the use of technology. Availability of cheap labour and their wage limit would be determined with the present position of demographic environment of the country.

5.5 Summary

The word 'demographic' is related with the science of people or population which is a product of the number of births, deaths, and migrations having features like size, age, sex, life expectancy, work participation rate, employment status, rural-urban divide, levels of education, casts, ethnicity, language and religion. Different countries hold different demographic cultures. From this view point, demography in India holds the feature like (i) Population Too Large for Area, (ii) Overwhelming Proportion of Rural Population (iii) Fast Rate of Population Growth, (iv) Declining Proportion of Women, (v) High Percentage of Non-workers, (vi) Ethnic Diversity, (vi) Lop-sided Age Structure. Demographic environment is considered as an interdisciplinary science connecting with statistics, geography, economics, health and others. Demographic characteristics help us learn about the conditions of the population in a region like education, health, etc. which can offer more important information about the population. From apart, some factors like birth, death, migration, or social changes would have causal relationship that cannot be separated and with time series data, the differences and growth for each group of population can be observed. The demographic composition provides a mathematical description of the people living in a specific area. Some of the most common and important demographic components can be Density, Gender, Age, Social Class, Ethnicity etc. The study of population or demography, therefore, reveals three most important components which can answer these questions - fertility, mortality and migration. Demographic factors such as size of population and growth of population rates, age composition, ethnic composition, density of population, rural-urban distribution, family size, nature of the family income levels etc. have very significant implications for business. In business environment, the

growth and success of a business would highly be dependent on the targeted demographic variables of interest. Therefore, any strategy i.e. any commitment of present resources to the future expectations, has to start with demographics having tremendous economic and business implications.

5.6 Questions

Objective type:

1. The study of population or demography reveals the components like (a) fertility, mortality and migration, (b) fertility, mortality, (c) mortality and migration, (d) fertility and migration.
2. Statement: 1. Demographic environment is considered as an interdisciplinary science connecting with statistics, geography, economics, health and others.
2 Demographic Environment contains special attention to all the academicians. Below mentioned points can establish importance of Demography.
(a) Both (1) and (2) are true, (b) Only (1) is true, (c) Only (2) is true, (d) None is true.

Short Answer type:

1. Define Demographic Environment
- 2 State the features and importance of Demographic Environment

Long Answer type:

1. What are the Components of Demographic Environment?
2. Explain the linkages between of Demographic Environment and Business Environment

5.7 Further Readings

Aswathappa, K. (2019). Essentials of Business Environment (15th Revised Edition), Himalaya Publishing House.

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Unit 6 □ Political and Legal Environment

Structure

6.0 Objectives

6.1 Introduction

6.2 Political and legal environment of business in India - Concept and Scope

6.3 Intellectual Property Rights

6.3.1 The Patents Act, 1970

6.3.2 Copyright Act, 1957

6.3.3 Trade Mark Act, 1999

6.4 Consumer Protection Act, 1986

6.4.1 Modified Consumer's Protection Act, 2019

6.5 Summary

6.6 Questions

6.7 Further Readings

6.0 Objectives

After going through the unit, you will be able to understand the—

- Meaning of political environment
 - Meaning of legal environment
 - Meaning of IPR
-

6.1 Introduction

In business environment, political and legal environment deal with the factors which affect a business concern indirectly with lot of factors such as the current political party in power, the degree of politicization of trade and industry, the efficiency of the current government, government policies, current legal framework, the public attitude towards the economy, etc. All enterprises should take concern about different environmental factors (political, legal, demographic, economic, social and technological)

for taking better decisions on firm's progress. The political factors of any country introduce a risk factor in the industry which can suffer losses, or it can reduce profitability. There could be many reasons due to which political environment may change, and it depends on country to country. This unit throws light on the concept and scope of political and legal environment of business in India; Intellectual Property Rights (The Patent Act, 1970, The Copyright Act, 1957; Trade Mark Act, 1999) and Consumer Protection Act, 1986.

6.2 Political and Legal Environment of business in India - Concept and Scope

The political structure of a country is one of the important considerations that a business should give before entering the country. There could be many political ideologies that could be present in their society. Therefore, it is suggested that before entering the country for business, the business should understand the country. It is perhaps the least predictable elements amongst all factors of the business environment. This external element of business includes the effects of pressure groups. The country's population democratically elects open government system. In totalitarian systems, government's power derives from a select group. Political factors mainly affect the business organizations with showing (i) Impact on economy (The political situation of a country affects its economic setting and affects the business performance), (ii) Changes in regulation (Governments could alter their rules and regulations which could in turn have an effect on a business), (iii) Political stability (Lack of political stability in a country effects business operations) and (iv) Mitigation of risk (Buying political risk insurance is a way to manage political risk. Companies that have international operations use such insurance to reduce their risk exposure).

It could add a risk factor and lead to a major loss basically containing the non-market factors combining current political party in power, the degree of politicization of trade and industry, the efficiency of the current government, government policies, current legal framework, the public attitude towards the economy etc. Government, in this regard, would circulate different policies like fiscal policies, taxation policies, monetary policies under which the business concern would have to operate. Moreover, the nature of Government in power has huge impact on the economy and the firms that operate and compete in the economy (e.g. the current government has the Make in India initiative which is good for the manufacturing sector). It would have the

power to change results and can affect government policies at local to federal level (e.g. new GST laws are going to have a significant effect on the businesses). Firms should track their political environment as it can affect business strategy for various reasons like (i) the stability of a political system can affect the appeal of a particular local market, (ii) Governments view business organizations as a critical vehicle for social reform, (iii) Governments pass legislation having impact on the relationship between the firm and its customers, suppliers, and other companies, (iv) Government is liable for protecting the public interest, (v) Government actions influence the economic environment, (vi) Government is a major consumer of goods and services. Political decision of a country would affect/influence economic environment, socio-cultural environment, emergence and acceptance of new technologies.

The legal environment addresses the necessity to use or not the Sharia Law and the issue of standardisation and certification. A sound and functional legal system would always be accepted with laws that equally protect both consumers and manufacturers. There are various other matters like company law, royalty law, Patent law, intellectual property rights. Sometimes legislation would create new business opportunities (e.g. mandatory recycling laws have boosted the recycling industry and launched dozens of new companies making new products).

6.3 Intellectual Property Right - Concept and Importance

Intellectual Property Rights (IPRs) are common types of legal Intellectual Property protection for those who create. These rights have actually contributed enormously to the world, in particular economically. Many companies as well as their consumers can have knowledge regarding the Patents, Trade Marks, and Copyrights of the IP-backed products. IP refers to creation of the mind (inventions, literary and artistic works, designs and symbols, names and images) used in commerce. Legal protection of IP, therefore, would enable people to earn recognition or financial benefit from what they invent or create. IP system aims at fostering an environment in which creativity and innovation can flourish by maintaining a right balance between the interests of innovators and the wider public interest.

IPR encourages new creations, including technology, artwork, and inventions, that might increase economic growth. Intellectual property rights increase the incentives for individuals to continue to produce things that further create job opportunities and new technologies, while enabling our world to improve and evolve even faster.

It can be found in practice through The Patent Act, 1970, The Copy Right Act, 1957; The Trade Mark Act, 1999.

6.3.1 The Patents Act, 1970

Concepts:

The Patent Act, 1970 amended and consolidated the law related to Patent. As per Patent Act, 1970, Patent is a legal protection for a new, non-obvious and useful invention. Patent gives the Patent holder the exclusive right to make, use or sell the products or process. The main purpose of it is to benefit the society. Patent may be granted to protect a new, non-obvious and useful invention subject to the provision of the Act. Invention means a new product or process involving an inventive step and capable of industrial application. Feature of an invention that involves technical advance as compared to the existing knowledge or having economic significance or both and that makes the invention non-obvious to a person skilled in the art. Patent will be granted in respect of any improvement in or modification of an invention which is Patented. It provides an opportunity to recoup the cost of invention and to make profit out of invention, to encourage research and development, to enjoy monopoly, to secure that the inventions on a commercial scale and to the fullest which is practical enough without undue delay and thereby to contribute to the wellbeing of the society.

The Indian Patent Act, 1970, as amended and effective from 01.01.2005, lays down—

- (i) Eligibility, procedures and conditions for grant of Patent,
- (ii) Inventions and other subjects not Patentable,
- (iii) Rights and obligations of Patentee,
- (iv) Grounds for revocation of Patents,
- (v) Matters related to working of the Patent and compulsory licensing.

Definitions:

In this Act, unless the context otherwise requires,

- (a) "Appellate Board" means the Appellate Board referred to in section 116;
- (ab) "assignee" includes an assignee of the assignee and the legal representative of a deceased assignee and references to the assignee of any person include references to the assignee of the legal representative or assignee of that person;

- (aba) "Budapest Treaty" means the Budapest Treaty on the International Recognition of the Deposit of Micro-organisms for the purposes of Patent Procedure done at Budapest on 28th day of April, 1977, as amended and modified from time to time;
- (ac) "capable of industrial application", in relation to an invention, means that the invention is capable of being made or used in an industry;
- (b) "Controller" means the Controller General of Patents, Designs and Trade Marks referred to in section 73;
- (c) "convention application" means an application for a Patent made by virtue of section 135;
- (d) "convention country" means a country or a country which is member of a group of countries or a union of countries or an Intergovernmental organization referred to as a convention country in section 133;
- (e) "district court" has the meaning assigned to that expression by the Code of Civil Procedure, 1908 (5 of 1908);
- (f) "exclusive licence" means a licence from a Patentee which confers on the licensee, on the licensee and persons authorised by him, to the exclusion of all other persons (including the Patentee), any right in respect of the Patented invention, and exclusive licensee shall be construed accordingly.
- (g)⁴
- (h) "Government undertaking" means any industrial undertaking carried on- (i) by a department of the Government, or (ii) by a corporation established by a Central, Provincial or State Act, which is owned or controlled by the Government, or (iii) by a Government company as defined in section 617 of the Companies Act, 1956 (1 of 1956), or (iv) by an institution wholly or substantially financed by the Government;
- (i) "High Court", in relation to a State or Union territory, means the High Court having territorial jurisdiction in that State or Union territory, as the case may be;
- (ia) "international application" means an application for Patent made in accordance with the Patent Cooperation Treaty;

- (j) "invention" means a new product or process involving an inventive step and capable of industrial application;
 - (ja) "inventive step" means a feature of an invention that involves technical advance as compared to the existing knowledge or having economic significance or both and that makes the invention not obvious to a person skilled in the art;
- (k) "legal representative" means a person who in law represents the estate of a deceased person;
- (l) "new invention" means any invention or technology which has not been anticipated by publication in any document or used in the country or elsewhere in the world before the date of filing of Patent application with complete specification, i.e., the subject matter has not fallen in public domain or that it does not form part of the state of the art;
 - (la) "Opposition Board" means an Opposition Board constituted under subsection (3) of section 25;
- (m) "Patent" means a Patent for any invention granted under this Act;
- (n) "Patent agent" means a person for the time being registered under this Act as a Patent agent;
- (o) "Patented article" and "Patented process" means respectively an article or process in respect of which a Patent is in force;
 - (oa) "Patent Cooperation Treaty" means the Patent Cooperation Treaty done at Washington on the 19th day of June, 1970 as amended and modified from time to time;
- (p) "Patentee" means the person for the time being entered on the register as the grantee or proprietor of the Patent;
- (q) "Patent of addition" means a Patent granted in accordance with section 54;
- (r) "Patent office" means the Patent office referred to in section 74;
- (s) "person" includes the Government;
- (t) "person interested" includes a person engaged in, or in promoting, research in the same field as that to which the invention relates;

- (ta) "pharmaceutical substance" means any new entity involving one or more inventive steps;
- (u) "prescribed" means— (A) in relation to proceedings before a High Court, prescribed by rules made by the High Court; (B) in relation to proceedings before the Appellate Board, prescribed by rules made by the Appellate Board; and (C) in other cases, prescribed by rules made under this Act;
- (v) "prescribed manner" includes the payment of the prescribed fee;
- (w) "priority date" has the meaning assigned to it by section 11;
- (x) "register" means the register of Patents referred to in section 67;
- (y) "true and first inventor" does not include either the first importer of an invention into India, or a person to whom an invention is first communicated from outside India.
- (2) In this Act, unless the context otherwise requires, any reference- (a) to the Controller shall be construed as including a reference to any officer discharging the functions of the Controller in pursuance of section 73; (b) to the Patent office shall be construed as including a reference to any branch office of the Patent office.
- (z) "Patented article" includes any article made by a Patented process; and "Patentee" includes an exclusive licensee.

Grant of Patents:

Persons entitled to apply for Patent

- (1) Subject to the provisions contained in section 134, an application for a Patent for an invention may be made by any of the following persons, that is to say,-
- (a) by any person claiming to be the true and first inventor of the invention;
- (b) by any person being the assignee of the person claiming to be the true and first inventor in respect of the right to make such an application; (c) by the legal representative of any deceased person who immediately before his death was entitled to make such an application.
- (2) An application under sub-section (1) may be made by any of the persons referred to therein either alone or jointly with any other person.

Box - 6.1 reflects the Grant of Patent.**Box - 6.1 Grant of Patent**

- (1) Where an application for a patent has been found to be in order for grant of the patent and either- (a) the application has not been refused by the Controller by virtue of any power vested in him by this Act; or (b) the application has not been found to be in contravention of any of the provisions of this Act, the patent shall be granted as expeditiously as possible to the applicant or, in the case of a joint application, to the applicants jointly, with the seal of the patent office and the date on which the patent is granted shall be entered in the register. On the grant of patent, the Controller shall publish the fact that the patent has been granted and thereupon the application, specification and other documents related thereto shall be open for public inspection.
- (2) Amendment of patent granted to deceased applicant:
Where, at any time after a patent has been granted in pursuance of an application under this Act, the Controller is satisfied that the person to whom the patent was granted had died, or, in the case of a body corporate, had ceased to exist, before the patent was granted, the Controller may amend the patent by substituting for the name of that person to whom the patent ought to have been granted, and the patent shall have effect, and shall be deemed always to have had effect, accordingly.
- (3) Grant of patents to be subject to certain conditions: The grant of a patent under this Act shall be subject to the condition that- (1) any machine, apparatus or other article in respect of which the patent is granted or any article made by using a process in respect of which the patent is granted, may be imported or made by or on behalf of the Government for the purpose merely of its own use; (2) any process in respect of which the patent is granted may be used by or on behalf of the Government for the purpose merely of its own use; (3) any machine, apparatus or other article in respect of which the patent is granted or any article made by the use of the process in respect of which the patent is granted, may be made or used, and any process in respect of which the patent is granted may be used, by any person, for the purpose merely of experiment or research including the imparting of instructions to pupils; and (4) in the case of a patent in respect of any medicine or drug, the medicine

or drug may be imported by the Government for the purpose merely of its own use or for distribution in any dispensary, hospital or other medical institution maintained by or on behalf of the Government or any other dispensary, hospital or other medical institution which the Central Government may, having regard to the public service that such dispensary, hospital or medical institution renders, specify in this behalf by notification in the Official Gazette.

General principles applicable to working of Patented inventions.-Without prejudice to the other provisions contained in this Act, in exercising the powers, regard shall be had to the following general considerations, namely;-

- (a) that Patents are granted to encourage inventions and to secure that the inventions are worked in India on a commercial scale and to the fullest extent that is reasonably practicable without undue delay;

Compulsory licences—

- (1) At any time after the expiration of three years from the date of the grant of a Patent, any person interested may make an application to the Controller for grant of compulsory licence on Patent on any of the following grounds, namely—
 - (a) that the reasonable requirements of the public with respect to the Patented invention have not been satisfied, or (b) that the Patented invention is not available to the public at a reasonably affordable price, or (c) that the Patented invention is not worked in the territory of India.
- (2) An application under this section may be made by any person notwithstanding that he is already the holder of a licence under the Patent and no person shall be estopped from alleging that the reasonable requirements of the public with respect to the Patented invention are not satisfied or that the Patented invention is not worked in the territory of India or that the Patented invention is not available to the public at a reasonably affordable price by reason of any admission made by him, whether in such a licence or otherwise or by reason of his having acceptance of such licence.
- (3) Every application under sub-section (1) shall contain a statement setting out the nature of the applicant's interest together with such particulars as may be prescribed and the facts upon which the application is based.
- (4) The Controller, if satisfied that the reasonable requirements of the public with respect to the Patented invention have not been satisfied or that the Patented invention is not worked in the territory of India or that the Patented invention

is not available to the public at a reasonably affordable price, may grant a licence upon such terms as he may deem fit.

- (5) Where the Controller directs the Patentee to grant a licence he may, as incidental thereto, exercise the powers set out in section 88.
- (6) In considering the application filed under this section, the Controller shall take into account,-
 - (i) the nature of the invention, the time which has elapsed since the sealing of the Patent and the measures already taken by the Patentee or any licensee to make full use of the invention;
 - (ii) the ability of the applicant to work the invention to the public advantage;
 - (iii) the capacity of the applicant to undertake the risk in providing capital and working the invention, if the applications were granted;
 - (iv) as to whether the applicant has made efforts to obtain a licence from the Patentee on reasonable terms and conditions and such efforts have not been successful within a reasonable period as the Controller may deem fit.

Provided that this clause shall not be applicable in case of national emergency or other circumstances of extreme urgency or in case of public non-commercial use or on establishment of a ground of anticompetitive practices adopted by the Patentee, but shall not be required to take into account matters subsequent to the making of the application.

(7) The reasonable requirements of the public shall be deemed not to have been satisfied—

- (a) if, by reason of the refusal of the Patentee to grant a licence or licences on reasonable terms,-
 - (i) an existing trade or industry or the development thereof or the establishment of any new trade or industry in India or the trade or industry of any person or class of persons trading or manufacturing in India is prejudiced; or
 - (ii) the demand for the Patented article has not been met to an adequate extent or on reasonable terms; or

- (iii) a market for export of the Patented article manufactured in India is not being supplied or developed; or
- (iv) the establishment or development of commercial activities in India is prejudiced; or
- (b) if, by reason of conditions imposed by the Patentee upon the grant of licences under the Patent or upon the purchase, hire or use of the Patented article or process, the manufacture, use or sale of materials not protected by the Patent, or the establishment or development of any trade or industry in India, is prejudiced; or
- (c) if the Patentee imposes a condition upon the grant of licences under the Patent to provide exclusive grant back, prevention to challenges to the validity of Patent or coercive package licensing; or
- (d) if the Patented invention is not being worked in the territory of India on a commercial scale to an adequate extent or is not being so worked to the fullest extent that is reasonably practicable; or
- (e) if the working of the Patented invention in the territory of India on a commercial scale is being prevented or hindered by the importation from abroad of the Patented article by—
 - (i) the Patentee or persons claiming under him or (ii) persons directly or indirectly purchasing from him; or (iii) other persons against whom the Patentee is not taking or has not taken proceedings for infringement.

Surrender of Patents.—

- (1) A Patentee may, at any time by giving notice in the prescribed manner to the Controller, offer to surrender his Patent.
- (2) Where such an offer is made, the Controller shall publish the offer in the prescribed manner, and also notify every person other than the Patentee whose name appears in the register as having an interest in the Patent.
- (3) Any person interested may, within the prescribed period after such publication, give notice to the Controller of opposition to the surrender, and where any such notice is given the Controller shall notify the Patentee.
- (4) If the Controller is satisfied after hearing the Patentee and any opponent, if desirous of being heard, that the Patent may properly be surrendered, he may accept the offer and, by order, revoke the Patent.

Revocation of Patent:

Any claim made for the grant of Patent, has been found invalid or the Central Government feels that a Patent of the mode in which it is exercised is mischievous to the state or generally prejudicial to the public interest. Government has declared the following as not inventions within the meaning of Patent Act, 1970.

- (a) an invention which is frivolous or which claims anything obviously contrary to well established natural laws;
- (b) an invention the primary or intended use or commercial exploitation of which could be contrary to public order or morality or which causes serious prejudice to human, animal or plant life or health or to the environment;
- (c) the mere discovery of a scientific principle or the formulation of an abstract theory or discovery of any living thing or non-living substance occurring in nature;
- (d) the mere discovery of a new form of a known substance which does not result in the enhancement of the known efficacy of that substance or the mere discovery of any new property or new use for a known substance or of the mere use of a known process, machine or apparatus unless such known process results in a new product or employs at least one new reactant. Explanation.-For the purposes of this clause, salts, esters, ethers, polymorphs, metabolites, pure form, particle size, isomers, mixtures of isomers, complexes, combinations and other derivatives of known substance shall be considered to be the same substance, unless they differ significantly in properties with regard to efficacy;
- (e) a substance obtained by a mere admixture resulting only in the aggregation of the properties of the components thereof or a process for producing such substance;
- (f) the mere arrangement or re-arrangement or duplication of known devices each functioning independently of one another in a known way; [Omitted by the Patents (Amendment) Act, 2002]
- (h) a method of agriculture or horticulture;
- (i) any process for the medicinal, surgical, curative, prophylactic diagnostic, therapeutic or other treatment of human beings or any process for a similar

treatment of animals to render them free of disease or to increase their economic value or that of their products.

- (j) plants and animals in whole or any part thereof other than micro-organisms but including seeds, varieties and species and essentially biological processes for production or propagation of plants and animals;
- (k) a mathematical or business method or a computer programme per se or algorithms;
- (l) a literary, dramatic, musical or artistic work or any other aesthetic creation whatsoever including cinematographic works and television productions;
- (m) a mere scheme or rule or method of performing mental act or method of playing game; (n) a presentation of information;
- (o) topography of integrated circuits;
- (p) an invention which in effect, is traditional knowledge or which is an aggregation or duplication of known properties of traditionally known component or components.
- (q) No Patent shall be granted in respect of an invention relating to atomic energy falling within sub section (1) of section 20 of the Atomic Energy Act, 1962 (33 of 1962).
- (r) Inventions where only methods or processes of manufacture Patentable: [Omitted by the Patents (Amendment) Act, 2005].

Exceptions:

- Patented Product or process may be made, imported or used by or on behalf of the Government for its own use or purpose,
- Any Patented medicine may be imported by Government for the purpose of it or for distribution in any dispensary, hospital or other medical institutions, maintained by or on behalf of the Government or any other specified medical institution specified by the Government in public interest,
- Any Patented process or product may be used or made by any person for the purpose merely of experiment or research including the imparting of instructions to pupils.

Rights of Patentees

Subject to the other provisions contained in this Act and the conditions specified in section 47, a Patent granted under this Act shall confer upon the Patentee- (a) where the subject matter of the Patent is a product, the exclusive right to prevent third parties, who do not have his consent, from the act of making, using, offering for sale, selling or importing for those purposes that product in India; (b) where the subject matter of the Patent is a process, the exclusive right to prevent third parties, who do not have his consent, from the act of using that process, and from the act of using, offering for sale, selling or importing for those purposes the product obtained directly by that process in India: 49. Patent rights not infringed when used on foreign vessels etc., temporarily or accidentally in India.-(1) Where a vessel or aircraft registered in a foreign country or a land vehicle owned by a person ordinarily resident in such country comes into India (including the territorial water thereof) temporarily or accidentally only, the rights conferred by a Patent for an invention shall not be deemed to be infringed by the use of the invention- (a) in the body of the vessel or in the machinery, tackle, apparatus or other accessories thereof, so far as the invention is used on board the vessel and for its actual needs only; or (b) in the construction or working of the aircraft or land vehicle or of the accessories thereof, as the case may be. (2) This section shall not extend to vessels, aircrafts or land vehicles owned by persons ordinarily resident in a foreign country the laws of which do not confer corresponding rights with respect to the use of inventions in vessels, aircraft or land vehicles owned by persons ordinarily resident in India while in the ports or within the territorial waters of that foreign country or otherwise within the jurisdiction of its courts.

Rights of co-owners of Patents.

- Where a Patent is granted to two or more persons, each of those persons shall, unless an agreement to the contrary is in force, be entitled to an equal undivided share in the Patent.
- Subject to the provisions contained in this section and in section 51, where two or more persons are registered as grantee or proprietor of a Patent, then, unless an agreement to the contrary is in force, each of those persons shall be entitled, by himself or his agents, to rights conferred by section 48 for his own benefit without accounting to the other person or persons. -Subject to the provisions contained in this section and in section 51 and to any agreement

for the time being in force, where two or more persons are registered as grantee or proprietor of a Patent, then, a licence under the Patent shall not be granted and share in the Patent shall not be assigned by one of such persons except with the consent of the other person or persons. Where a Patented article is sold by one of two or more persons registered as grantee or proprietor of a Patent, the purchaser and any person claiming through him shall be entitled to deal with the article in the same manner as if the article had been sold by a sole Patentee.

- Subject to the provisions contained in this section, the rules of law applicable to the ownership and devolution of movable property generally shall apply in relation to Patents; and nothing contained in sub-section (1) or subsection (2) shall affect the mutual rights or obligations of trustees or of the legal representatives of a deceased person or their rights or obligations as such.
- Nothing in this section shall affect the rights of the assignees of a partial interest in a Patent created before the commencement of this Act.

Power of Controller to give directions to co-owners.-

- Where two or more persons are registered as grantee or proprietor of a Patent, the Controller may, upon application made to him in the prescribed manner by any of those persons, give such directions in accordance with the application as to the sale or lease of the Patent or any interest therein, the grant of licenses under the Patent, or the exercise of any right under section 50 in relation thereto, as he thinks fit.
- If any person registered as grantee or proprietor of a Patent fails to execute any instrument or to do any other thing required for the carrying out of any direction given under this section within fourteen days after being requested in writing so to do by any of the other persons so registered, the Controller may, upon application made to him in the prescribed manner by any such other person, give directions empowering any person to execute that instrument or to do that thing in the name and on behalf of the person in default.
- Before giving any directions in pursuance of an application under this section, the Controller shall give an opportunity to be heard- (a) in the case of an application under sub-section (1) to the other person or persons registered as grantee or proprietor of the Patent; (b) in the case of an application under

sub-section (2), to the person in default.

- No direction shall be given under this section so as to affect the mutual rights or obligations of trustees or of the legal representatives of a deceased person or of their rights or obligations as such, or which is inconsistent with the terms of any agreement between persons registered as grantee or proprietor of the Patent.

Grant of Patent to true and first inventor where it has been obtained by another in fraud of him:

- Where the Patent has been revoked under section 64 on the ground that the Patent was obtained wrongfully and in contravention of the rights of the petitioner or any person under or through whom he claims, or, where in a petition for revocation, the Appellate Board or court, instead of revoking the Patent, directs the complete specification to be amended by the exclusion of a claim or claims in consequence of a finding that the invention covered by such claim or claims had been obtained from the petitioner, the Appellate Board or court may, by order passed in the same proceeding, permit the grant to the petitioner of the whole or such part of the invention which the Appellate Board or court finds has been wrongfully obtained by the Patentee, in lieu of the Patent so revoked or is excluded by amendment.
- Where any such order is passed, the Controller shall, on request by the petitioner made in the prescribed manner grant to him— (i) in cases where the Appellate Board or court permits the whole of the Patent to be granted, a new Patent bearing the same date and number as the Patent revoked; (ii) in cases where the Appellate Board or court permits a part only of the Patent to be granted, a new Patent for such part bearing the same date as the Patent revoked and numbered in such manner as may be prescribed provided that the Controller may, as a condition of such grant, require the petitioner to file a new and complete specification to the satisfaction of the Controller describing and claiming that part of the invention for which the Patent is to be granted.
- No suit shall be brought for any infringement of a Patent granted under this section committed before the actual date on which such Patent was granted.

Term of Patent:

- Subject to the provisions of this Act, the term of every Patent granted, after the commencement of the Patents (Amendment) Act, 2002, and the term of every Patent which has not expired and has not ceased to have effect, on the date of such commencement, under this Act, shall be twenty years from the date of filing of the application for the Patent. Explanation:
- For the purposes of this sub-section, the term of Patent in case of International applications filed under the Patent Cooperation Treaty designating India, shall be twenty years from the international filing date accorded under the Patent Cooperation Treaty.
- A Patent shall cease to have effect notwithstanding anything therein or in this Act on the expiration of the period prescribed for the payment of any renewal fee, if that fee is not paid within the prescribed period or within such extended period as may be prescribed.
- Notwithstanding anything contained in any other law for the time being in force, on cessation of the Patent right due to non-payment of renewal fee or on expiry of the term of Patent, the subject matter covered by the said Patent shall not be entitled to any protection.

Penalties:**Contravention of secrecy provisions relating to certain inventions:**

- If any person fails to comply with any direction given under section 35 or makes or causes to be made an application for the grant of a Patent in contravention of section 39 he shall be punishable with imprisonment for a term which may extend to two years, or with fine, or with both.

Falsification of entries in register etc.:

- If any person makes, or causes to be made, a false entry in any register kept under this Act, or a writing falsely purporting to be a copy of an entry in such a register, or produces or tenders, or causes to be produced or tendered, in evidence any such writing knowing the entry or writing to be false, he shall be punishable with imprisonment for a term which may extend to two years, or with fine, or with both.

Unauthorised claim of Patent rights

- If any person falsely represents that any article sold by him is Patented in

India or is the subject of an application for a Patent in India, he shall be punishable with fine which may extend to one lakh rupees.

Wrongful use of words "Patent office"

- If any person uses on his place of business or any document issued by him or otherwise the words "Patent office" or any other words which would reasonably lead to the belief that his place of business is, or is officially connected with, the Patent office, he shall be punishable with imprisonment for a term which may extend to six months, or with fine, or with both.

Refusal or failure to supply information

- (1) If any person refuses or fails to furnish (a) to the Central Government any information which he is required to furnish under sub-section (5) of section 100; (b) to the Controller any information or statement which he is required to furnish by or under section 146.

He shall be punishable with fine which may extend to ten lakh rupees.

- (2) If any person, being required to furnish any such information as is referred to in sub-section (1), furnishes information or statement which is false, and which he either knows or has reason to believe to be false or does not believe to be true, he shall be punishable with imprisonment which may extend to six months, or with fine, or with both.

Practice by non-registered Patent agents.-If any person contravenes the provisions of section 129, he shall be punishable with fine which may extend to one lakh rupees in the case of a first offence and five lakh rupees in the case of a second or subsequent offence.

Offences by Companies

1. If the person committing an offence under this Act is a company, the company as well as every person in charge of, and responsible to, the company for the conduct of its business at the time of the commission of the offence shall be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly. Provided that nothing contained in this sub-section shall render any such person liable to any punishment if he proves that the offence was committed without his knowledge or that he exercised all due diligence to prevent the commission of such offence.

2. Notwithstanding anything contained in sub-section (1), where an offence under this Act has been committed by a company and it is proved that the offence has been committed with the consent or connivance of, or that the commission of the offence is attributable to any neglect on the part of any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall also be deemed to be guilty of that offence and shall be liable to be proceeded against and punished accordingly.
- (1) Explanation.-For the purposes of this section,-
- (a) "company" means anybody corporate and includes a firm or other association of individuals; and
- (b) "director", in relation to a firm, means a partner in the firm.⁵

6.3.2 Copyright Act, 1957

Concepts:

Works in which Copyright subsists.-

- (1) Subject to the provisions of this section and the other provisions of this Act, Copyright shall subsist throughout India in the following classes of works, that is to say,- (a) original literary, dramatic, musical and artistic works; (b) cinematograph films; and (c) sound recording.
- (2) Copyright shall not subsist in any work specified in sub-section (1), other than a work to which the provisions of section 40 or section 41 apply, unless,- (i) in the case of a published work, the work is first published in India, or where the work is first published outside India, the author is at the date of such publication, or in a case where the author was dead at that date, was at the time of his death, a citizen of India; (ii) in the case of an unpublished work other than a work of architecture, the author is at the date of the making of the work a citizen of India or domiciled in India; and (iii) in the case of work of architecture, the work is located in India. Explanation- In the case of a work of joint authorship, the conditions conferring Copyright specified in this sub-section shall be satisfied by all the authors of the work.

⁵ The Patent Act, 1970, Intellectual Property India.

- (3) Copyright shall not subsist- (a) in any cinematograph film if a substantial part of the film is an infringement of the Copyright in any other work; (b) in any sound recording made in respect of a literary, dramatic or musical work, if in making the sound recording, Copyright in such work has been infringed.
- (4) The Copyright in a cinematograph film or a sound recording shall not affect the separate Copyright in any work in respect of which or a substantial part of which, the film, or, as the case may be, the sound recording is made.
- (5) In the case of work of architecture, Copyright shall subsist only in the artistic character and design and shall not extend to processes or methods of construction.

Interpretation - In this Act, unless the context otherwise requires,-

(a) "adaptation" means,-

- (i) in relation to a dramatic work, the conversion of the work into a non-dramatic work;
- (ii) in relation to a literary work or an artistic work, the conversion of the work into a dramatic work by way of performance in public or otherwise;
- (iii) in relation to a literary or dramatic work, any abridgement of the work or any version of the work in which the story or action is conveyed wholly or mainly by means of pictures in a form suitable for reproduction in a book, or in a newspaper, magazine or similar periodical; and
- (iv) in relation to a musical work, any arrangement or transcription of the work;

(b) "architectural work of art" means any building or structure having an artistic character or design, or any model for such building or structure;

(c) "artistic work" means

- (i) a painting, a sculpture, a drawing (including a diagram, map, chart or plan), a photograph, whether or not any such work possesses artistic quality;

(d) "author" means,-

- (i) in relation to literary or dramatic work, the author of the work;
- (ii) in relation to a musical work, the composer;

- (iii) in relation to an artistic work other than a photograph, the artist;
 - (iv) in relation to a photograph, the person taking the photograph;
 - (v) in relation to a cinematograph film, the owner of the film at the time of its completion; and
 - (vi) in relation to a record, the owner of the original plate from which the record is made, at the time of the making of the plate;
- (e) "calendar year" means the year commencing on the 1st day of January;
 - (f) "cinematograph film" includes the sound track, if any, and "cinematograph" shall be construed as including any work produced by any mechanical instrument or by radio-diffusion;
 - (g) "delivery", in relation to a lecture, includes delivery by means of any mechanical instrument or by radio-diffusion;
 - (h) "dramatic work" includes any piece for recitation, choreographic work or entertainment in dumb show or acting form of which is fixed in writing or otherwise but does not include a cinematograph film;
 - (i) "engravings" include wood-cuts, prints and other similar works, not being photographs;
 - (j) "exclusive licence" means a licence which confers on the licensee or on the licensee and persons authorised by him, to the exclusion of all other persons (including the owner of the Copyright) any right comprised in the Copyright in a work, and "exclusive licensee" shall be construed accordingly;
 - (k) "Government work" means a work which is made or published by or under the direction or control of—
 - (i) the government or any department of the Government;
 - (ii) any Legislature in India;
 - (iii) any court, tribunal or other judicial authority in India;
 - (l) "Indian work" means a literary, dramatic or musical work, the author of which is a citizen of India;
 - (m) "infringing copy" means,—

- (i) in relation to a literary, dramatic, musical or artistic work, a reproduction thereof otherwise than in the form of a cinematograph film;
- (ii) in relation to a cinematograph film, a copy of the film or a record embodying the recording in any part of the sound track associated with the film;
- (iii) in relation to a record, any such record embodying the same recording; and
- (iv) in relation to a programme, if such reproduction, copy or record is made or imported in contravention of the provisions of this Act;

First owner of Copyright- Subject to the provisions of this Act, the author of a work shall be the first owner of the Copyright therein: Provided that- (a) in the case of a literary, dramatic or artistic work made by the author in the course of his employment by the proprietor of a newspaper, magazine or similar periodical under a contract of service or apprenticeship, for the purpose of publication in a newspaper, magazine or similar periodical, the said proprietor shall, in the absence of any agreement to the contrary, be the first owner of the Copyright in the work in so far as the Copyright relates to the publication of the work in any newspaper, magazine or similar periodical, or to the reproduction of the work for the purpose of its being so published, but in all other respects the author shall be the first owner of the Copyright in the work; (b) subject to the provisions of clause (a), in the case of a photograph taken, or a painting or portrait drawn, or an engraving or a cinematograph film made, for valuable consideration at the instance of any person, such person shall, in the absence of any agreement to the contrary, be the first owner of the Copyright therein; (c) in the case of a work made in the course of the author's employment under a contract of service or apprenticeship, to which clause (a) or clause (b) does not apply, the employer shall, in the absence of any agreement to the contrary, be the first owner of the Copyright therein; 1 [(cc) in the case of any address or speech delivered in public, the person who has delivered such address or speech or if such person has delivered such address or speech on behalf of any other person, such other person shall be the first owner of the Copyright therein notwithstanding that the person who delivers such address or speech, or, as the case may be, the person on whose behalf such address or speech is delivered, is employed by any other person who arranges such address or speech or on whose behalf or premises such address or speech is delivered;] (d) in the case of a Government work, Government shall, in the absence

of any agreement to the contrary, be the first owner of the Copyright therein; 2 [(dd) in the case of a work made or first published by or under the direction or control of any public undertaking, such public undertaking shall, in the absence of any agreement to the contrary, be the first owner of the Copyright therein. Explanation.- For the purposes of this clause and section 28A, "public undertaking" means- (i) an undertaking owned or controlled by Government; or (ii) a Government company as defined in section 617 of the Companies Act, 1956 (1 of 1956); or (iii) a body corporate established by or under any Central, Provincial or State Act;] (e) in the case of a work to which the provisions of section 41 apply, the international organization concerned shall be the first owner of the Copyright therein. [Provided that in case of any work incorporated in a cinematograph work, nothing contained in clauses (b) and (c) shall affect the right of the author in the work referred to in clause (a) of sub-section (1) of section 13.]

Registration of Copyright: There shall be kept at the Copyright Office a register in the prescribed form to be called the Register of Copyrights in which the names or titles of works and the names and addresses of authors, publishers and owners of Copyright and such other particulars as may be prescribed may be entered.

Entries in Register of Copyrights.- (1) The author or publisher of, or the owner of or other person interested in the Copyright in, any work may make an application in the prescribed form accompanied by the prescribed fee to the Registrar of Copyrights for entering particulars of the work in the Register of Copyrights provided that in respect of an artistic work which is used or is capable of being used in relation to any goods or services, the application shall include a statement to that effect and shall be accompanied by a certificate from the Registrar of Trade Marks referred to in section 3 of the Trade Marks Act, 1999 (47 of 1999), to the effect that no trade mark identical with or deceptively similar to such artistic work has been registered under that Act in the name of, or that no application has been made under that Act for such registration by, any person other than the applicant.

(2) On receipt of an application in respect of any work under sub-section (1), the Registrar of Copyrights may, after holding such inquiry as he may deem fit, enter the particulars of the work in the Register of Copyrights.

Indexes - There shall be also kept at the Copyright Office such indexes of the Register of Copyrights as may be prescribed.

Form and inspection of register - The Register of Copyrights and indexes thereof kept under this Act shall at all reasonable times be open to inspection, and any

person shall be entitled to take copies of, or make extracts from, such register or indexes on payment of such fee and subject to such conditions as may be prescribed.

Register of Copyrights to be prima facie evidence of particulars entered therein - The Register of Copyrights shall be prima facie evidence of the particulars entered therein and documents purporting to be copies of any entries therein, or extracts therefrom, certified by the Registrar of Copyrights and sealed with the seal of the Copyright Office shall be admissible in evidence in all courts without further proof or production of the original.

Correction of entries in the Register of Copyrights.- The Registrar of Copyrights may, in the prescribed cases and subject to the prescribed conditions, amend or alter the Register of Copyrights by- (a) correcting any error in any name, address or particulars; or (b) correcting any other error which may have arisen therein by accidental slip or omission.

Rectification of Register by 1 [Appellate Board] - The [Appellate Board], on application of the Registrar of Copyrights or of any person aggrieved, shall order the rectification of the Register of Copyrights by- (a) the making of any entry wrongly omitted to be made in the register, or (b) the expunging of any entry wrongly made in, or remaining on, the register, or (c) the correction of any error or defect in the register.

Entries in the Register of Copyrights, etc., to be published - Every entry made in the Register of Copyrights or the particulars of any work entered under section 45, the correction of every entry made in such register under section 49, and every rectification ordered under section 50, shall be published by the Registrar of Copyrights in the Official Gazette or in such other manner as he may deem fit.

Infringement of Copyright

When Copyright infringed - Copyright in a work shall be deemed to be infringed- (a) when any person, without a licence granted by the owner of the Copyright or the Registrar of Copyrights under this Act or in contravention of the conditions of a licence so granted or of any condition imposed by a competent authority under this Act- (i) does anything, the exclusive right to do which is by this Act conferred upon the owner of the Copyright, or (ii) permits for profit any place to be used for the communication of the work to the public where such communication constitutes an infringement of the Copyright in the work, unless he was not aware and had no

reasonable ground for believing that such communication to the public would be an infringement of Copyright; or (b) when any person- (i) makes for sale or hire, or sells or lets for hire, or by way of trade displays or offers for sale or hire, or (ii) distributes either for the purpose of trade or to such an extent as to affect prejudicially the owner of the Copyright, or (iii) by way of trade exhibits in public, or (iv) imports into India, any infringing copies of the work provided that nothing in sub-clause (iv) shall apply to the import of one copy of any work for the private and domestic use of the importer. Explanation- For the purposes of this section, the reproduction of a literary, dramatic, musical or artistic work in the form of a cinematograph film shall be deemed to be an "infringing copy".

Certain acts not to be infringement of Copyright- (1) The following acts shall not constitute an infringement of Copyright, namely- (a) a fair dealing with any work, not being a computer programme, for the purposes of- (i) private or personal use, including research; (ii) criticism or review, whether of that work or of any other work; (iii) the reporting of current events and current affairs, including the reporting of a lecture delivered in public. Explanation.- The storing of any work in any electronic medium for the purposes mentioned in this clause, including the incidental storage of any computer programme which is not itself an infringing copy for the said purposes, shall not constitute infringement of Copyright. [(aa) the making of copies or adaptation of a computer programme by the lawful possessor of a copy of such computer programme, from such copy- (i) in order to utilise the computer programme for the purpose for which it was supplied; or (ii) to make back-up copies purely as a temporary protection against loss, destruction or damage in order only to utilise the computer programme for the purpose for which it was supplied; (ab) the doing of any act necessary to obtain information essential for operating inter-operability of an independently created computer programme with other programmes by a lawful possessor of a computer programme provided that such information is not otherwise readily available; (ac) the observation, study or test of functioning of the computer programme in order to determine the ideas and principles which underline any elements of the programme while performing such acts necessary for the functions for which the computer programme was supplied; (ad) the making of copies or adaptation of the computer programme from a personally legally obtained copy for non-commercial personal use; (b) the transient or incidental storage of a work or performance purely in the technical process of electronic transmission or communication to the public; (c) transient or incidental storage of a work or performance for the purpose of providing electronic

links, access or integration, where such links, access or integration has not been expressly prohibited by the right holder, unless the person responsible is aware or has reasonable grounds for believing that such storage is of an infringing copy: Provided that if the person responsible for the storage of the copy has received a written complaint from the owner of Copyright in the work, complaining that such transient or incidental storage is an infringement, such person responsible for the storage shall refrain from facilitating such access for a period of twenty-one days or till he receives an order from the competent court refraining from facilitation access and in case no such order is received before the expiry of such period of twenty-one days, he may continue to provide the facility of such access; (d) the reproduction of any work for the purpose of a judicial proceeding or for the purpose of a report of a judicial proceeding; (e) the reproduction or publication of any work prepared by the Secretariat of a Legislature or, where the legislature consists of two Houses, by the Secretariat of either House of the Legislature, exclusively for the use of the members of that Legislature; (f) the reproduction of any work in a certified copy made or supplied in accordance with any law for the time being in force; (g) the reading or recitation in public of reasonable extracts from a published literary or dramatic work; (h) the publication in a collection, mainly composed of non-Copyright matter, bona fide intended for instructional use, and so described in the title and in any advertisement issued by or on behalf of the publisher, of short passages from published literary or dramatic works, not themselves published for such use in which Copyright subsists: Provided that not more than two such passages from works by the same author are published by the same publisher during any period of five years. Explanation- In the case of a work of joint authorship, references in this clause to passages from works shall include references to passages from works by any one or more of the authors of those passages or by any one or more of those authors in collaboration with any other person; (i) the reproduction of any work- (i) by a teacher or a pupil in the course of instruction; or (ii) as part of the question to be answered in an examination; or (iii) in answers to such questions; (j) the performance, in the course of the activities of an educational institution, of a literary, dramatic or musical work by the staff and students of the institution, or of a cinematograph film or a sound recording if the audience is limited to such staff and students, the parents and guardians of the students and persons connected with the activities of the institution or the communication to such an audience of a cinematograph film or sound recording; (k) the causing of a recording to be heard in public by utilising it,- (i) in an enclosed room or hall meant

for the common use of residents in any residential premises (not being a hotel or similar commercial establishment) as part of the amenities provided exclusively or mainly for residents therein; or (ii) as part of the activities of a club or similar organisation which is not established or conducted for profit; (l) the performance of a literary, dramatic or musical work by an amateur club or society, if the performance is given to a non-paying audience, or for the benefit of a religious institution; (m) the reproduction in a newspaper, magazine or other periodical of an article on current economic, political, social or religious topics, unless the author of such article has expressly reserved to himself the right of such reproduction; (n) the storing of a work in any medium by electronic means by a non-commercial public library, for preservation if the library already possesses a non-digital copy of the work; (o) the making of not more than three copies of a book (including a pamphlet, sheet of music, map, chart or plan) by or under the direction of the person in charge of a non-commercial public library for the use of the library if such book is not available for sale in India; (p) the reproduction, for the purpose of research or private study or with a view to publication, of an unpublished literary, dramatic or musical work kept in a library, museum or other institution to which the public has access: Provided that where the identity of the author of any such work or, in the case of a work of joint authorship, of any of the authors is known to the library, museum or other institution, as the case may be, the provisions of this clause shall apply only if such reproduction is made at a time more than 3 [sixty years] from the date of the death of the author or, in the case of a work of joint authorship, from the death of the author whose identity is known or, if the identity of more authors than one is known from the death of such of those authors who dies last; (q) the reproduction or publication of- (i) any matter which has been published in any Official Gazette except an Act of a Legislature; (ii) any Act of a Legislature subject to the condition that such Act is reproduced or published together with any commentary thereon or any other original matter; (iii) the report of any committee, commission, council, board or other like body appointed by the Government if such report has been laid on the Table of the Legislature, unless the reproduction or publication of such report is prohibited by the Government; (iv) any judgment or order of a court, tribunal or other judicial authority, unless the reproduction or publication of such judgment or order is prohibited by the court, the tribunal or other judicial authority, as the case may be; (r) the production or publication of a translation in any Indian language of an Act of a Legislature and of any rules or orders made thereunder- (v) if no translation of such Act or rules or orders in that language has

been previously been produced or published by the Government; or (vi) where a translation of such Act or rules or orders in that language has been produced or published by the Government, if the translation is not available for sale to the public: Provided that such translation contains a statement at a prominent place to the effect that the translation has not been authorised or accepted as authentic by the Government;

(s) the making or publishing of a painting, drawing, engraving or photograph of a work of architecture or the display of a work of architecture; (t) the making or publishing of a painting, drawing, engraving or photograph of a sculpture, or other artistic work falling under sub-clause (iii) of clause (c) of section 2, if such work is permanently situate in a public place or any premises to which the public has access;

(u) the inclusion in a cinematograph film of- (i) any artistic work permanently situate in a public place or any premises to which the public has access; or (ii) any other artistic work, if such inclusion is only by way of background or is otherwise incidental to the principal matters represented in the film; (v) the use by the author of an artistic work, where the author of such work is not the owner of the Copyright therein, of any mould, cast, sketch, plan, model or study made by him for the purpose of the work: Provided that he does not thereby repeat or imitate the main design of the work; (w) the making of a three-dimensional object from a two-dimensional artistic work, such as a technical drawing, for the purposes of industrial application of any purely functional part of a useful device; (x) the reconstruction of a building or structure in accordance with the architectural drawings or plans by reference to which the building or structure was originally constructed: Provided that the original construction was made with the consent or licence of the owner of the Copyright in such drawings and plans; (y) in relation to a literary, dramatic, artistic or musical work recorded or reproduced in any cinematograph film, the exhibition of such film after the expiration of the term of Copyright therein provided that the provisions of sub-clause (ii) of clause (a), sub-clause (i) of clause (b) and clauses (d), (f), (g), (m) and (p) shall not apply as respects any act unless that act is accompanied by an acknowledgment- (i) identifying the work by its title or other description; and (ii) unless the work is anonymous or the author of the work has previously agreed or required that no acknowledgment of his name should be made, also identifying the author; (z) the making of an ephemeral recording, by a broadcasting organisation using its own facilities for its own broadcast by a broadcasting organisation of a work which it has the right to broadcast; and the retention of such recording for archival purposes on the ground of its exceptional documentary character; (za) the performance

of a literary, dramatic or musical work or the communication to the public of such work or of a sound recording in the course of any bona fide religious ceremony or an official ceremony held by the Central Government or the State Government or any local authority. Explanation - For the purpose of this clause, religious ceremony including a marriage procession and other social festivities associated with a marriage; (zb) the adaptation, reproduction, issue of copies or communication to the public of any work in any accessible format, by- (i) any person to facilitate persons with disability to access to works including sharing with any person with disability of such accessible format for private or personal use, educational purpose or research; or (ii) any organisation working for the benefit of the persons with disabilities in case the normal format prevents the enjoyment of such works by such persons: Provided that the copies of the works in such accessible format are made available to the persons with disabilities on a non-profit basis but to recover only the cost of production: Provided further that the organisation shall ensure that the copies of works in such accessible format are used only by persons with disabilities and takes reasonable steps to prevent its entry into ordinary channels of business. Explanation - For the purposes of this sub-clause, "any organisation" includes an organisation registered under section 12A of the Income-tax Act, 1961 (43 of 1961) and working for the benefit of persons with disability or recognised under Chapter X of the Persons with Disabilities (Equal Opportunities, Protection of Rights and full Participation) Act, 1995 (1 of 1996) or receiving grants from the Government for facilitating access to persons with disabilities or an educational institution or library or archives recognised by the Government; (zc) the importation of copies of any literary or artistic work, such as labels, company logos or promotional or explanatory material, that is purely incidental to other goods or products being imported lawfully, (2) The provisions of sub-section (1) shall apply to the doing of any act in relation to the translation of a literary, dramatic or musical work or the adaptation of a literary, dramatic, musical or artistic work as they apply in relation to the work itself.

Particulars to be included in sound recording and video films- (1) No person shall publish a sound recording in respect of any work unless the following particulars are displayed on the sound recording and on any container thereof, namely - (a) the name and address of the person who has made the sound recording; (b) the name and address of the owner of the Copyright in such work; and (c) the year of its first publication. (2) No person shall publish a video film in respect of any work unless the following particulars are displayed in the video film, when exhibited, and on the video

cassette or other container thereof, namely:- (a) if such work is a cinematograph film required to be certified for exhibition under the provisions of the Cinematograph Act, 1952 (37 of 1952), a copy of the certificate granted by the Board of Film Certification under section 5A of that Act in respect of such work; (b) the name and address of the person who has made the video film and a declaration by him that he has obtained the necessary licence or consent from the owner of the Copyright in such work for making such video film; and (c) the name and address of the owner for the Copyright in such work.

Omitted by the Copyright Act, 2012 (27 of 2012), s. 33 (w.e.f. 21-6-2012). 1 Ins. by Act 27 of 2012, s. 32 (w.e.f. 21-6-2012). 2 Ins. by Act 65 of 1984, s. 4 (w.e.f. 8-10-1984). 3 Subs. by Act 38 of 1994, s. 2, for "record" (w.e.f. 10-5-1995).

Importation of infringing copies- (1) The owner of any right conferred by this Act in respect of any work or any performance embodied in such work, or his duly authorised agent, may give notice in writing to the Commissioner of Customs, or to any other officer authorised in this behalf by the Central Board of Excise and Customs,- (a) that he is the owner of the said right, with proof thereof; and (b) that he requests the Commissioner for a period specified in the notice, which shall not exceed one year, to treat infringing copies of the work as prohibited goods, and that infringing copies of the work are expected to arrive in India at a time and a place specified in the notice. (2) The Commissioner, after scrutiny of the evidence furnished by the owner of the right and on being satisfied may, subject to the provisions of sub-section (3), treat infringing copies of the work as prohibited goods that have been imported into India, excluding goods in transit: Provided that the owner of the work deposits such amount as the Commissioner may require as security having regard to the likely expenses on demurrage, cost of storage and compensation to the importer in case it is found that the works are not infringing copies. (3) When any goods treated as prohibited under sub-section (2) have been detained, the Customs Officer detaining them shall inform the importer as well as the person who gave notice under sub-section (1) of the detention of such goods within forty-eight hours of their detention. (4) The Customs Officer shall release the goods, and they shall no longer be treated as prohibited goods, if the person who gave notice under sub-section (1) does not produce any order from a court having jurisdiction as to the temporary or permanent disposal of such goods within fourteen days from the date of their detention.

Resale share right in original copies- (1) In the case of resale for a price exceeding ten thousand rupees, of the original copy of a painting, sculpture or drawing, or of the original manuscript of a literary or dramatic work or musical work, the author of such work if he was the first owner of rights under section 17 or his legal heirs shall, notwithstanding any assignment of Copyright in such work, have a right to share in the resale price of such original copy or manuscript in accordance with the provisions of this section: Provided that such right shall cease to exist on the expiration of the term of Copyright in the work. (2) The share referred to in subsection (1) shall be such as the 3 [Appellate Board] may fix and the decision of the 2 [Appellate Board] in this behalf shall be final: 1 Subs. by Act 27 of 2012, s. 34, for section 53 (w.e.f. 21-6-2012). 2 Ins. by Act 38 of 1994, s. 19 (w.e.f. 10-5-1995). 3 Subs. by Act 7 of 2017, s.160, for "Copyright Board" (w.e.f. 26-5-2017).

Provided that the 2 [Appellate Board] may fix different shares for different classes of work: Provided further that in no case shall the share exceed 10% of the resale price. (3) If any dispute arises regarding the right conferred by this section, it shall be referred to the 1 [Appellate Board] whose decision shall be final.]⁶

6.3.3 Trade Mark Act, 1999

Concept:

Trade and Merchandise Marks Act, 1958 was replaced by a new Act - Trade Mark Act, 1999, so as to provide for the protection of service marks also.

According to the Trade Mark Act, 1999 -

Trade Mark means a mark capable of being represented graphically and which is capable of distinguishing the goods or services of one person from those of others and may include shape of goods, their packaging and combination of colour and (i) in relation to chapter XII (other than Section, 107), a registered Trade Mark or a Mark used in relation to goods or service for the purpose of indicating or as to indicate a connection in the course of Trade between the goods or services, as the case may be and some person having the right as proprietor to use the mark.(ii) In relation to other provisions of this Act, a mark used in relation to goods or services for the purpose

⁶ <https://Copyright.gov.in/Documents/CopyrightRules1957.pdf>
https://www.indiacode.nic.in/bitstream/123456789/1993/1/A1999_47.pdf

of indicating or as to indicate a connection in the course of Trade between the goods or services, as the case may be and some perform having the right, either as proprietor or by way of permitted user, to use the mark whether with or without any indication of the identity of that person and includes a Certification Trade Mark or Collective Mark.

Certification Trade Mark

It means a mark capable of distinguishing the goods or services in connection with which it is used in the course of trade which are certified by the proprietor of the mark in respect of origin, material, mode of manufacture of goods or performance of services, quality, accuracy or other characteristics from goods or services not so certified and registered.

Collective Trade Mark

As per Trade Mark Act, Collective Mark means a Trade Mark distinguishing the goods or services of members of an association of persons, not being a partnership within the meaning of the Indian Partnership Act, 1932 (9 of 1932), which is the proprietor of the mark from those of others.

Objective - (i) The registration and better protection of Trade Mark for goods and services, (ii) The prevention of the use of fundamental marks.

Definitions and interpretation

(1) In this Act, unless the context otherwise requires,-

- (a) ‘Appellate Board’ means the Appellate Board established under section 83;
- (b) ‘assignment’ means an assignment in writing by act of the parties concerned;
- (c) ‘associated Trade Marks’ means Trade Marks deemed to be, or required to be, registered as associated Trade Marks under this Act;
- (d) ‘Bench’ means a Bench of the Appellate Board;
- (e) ‘certification trade mark’ means a mark capable of distinguishing the goods or services in connection with which it is used in the course of trade which are certified by the proprietor of the mark in respect of origin, material, mode of manufacture of goods or performance of services,

quality, accuracy or other characteristics from goods or services not so certified and able to be registered as such under Chapter IX in respect of those goods or services in the name, as proprietor of the certification trade mark, of that person;

- (f) 'Chairperson' means the Chairperson of the Appellate Board;
- (g) 'collective mark' means a trade mark distinguishing the goods or services of members of an association of persons (not being a partnership within the meaning of the Indian Partnership Act, 1932 (9 of 1932) which is the proprietor of the mark from those of others;
- (h) 'deceptively similar' A mark shall be deemed to be deceptively similar to another mark if it so nearly resembles that other mark as to be likely to deceive or cause confusion;
- (i) 'false trade description' means (I) a trade description which is untrue or misleading in a material respect as regards the goods or services to which it is applied; or (II) any alteration of a trade description as regards the goods or services to which it is applied, whether by way of addition, effacement or otherwise, where that alteration makes the description untrue or misleading in a material respect [15th September, 2003, vide notification No. S.O. 1048(E), dated 15th September, 2003, see Gazette of India, Extraordinary, Part II, sec. 3(ii). Subs. by Act 7 of 2017, s. 161, for 'Chairman' (w.e.f. 26-5-2017)], (III) any trade description which denotes or implies that there are contained, as regards the goods to which it is applied, more yards or metres than there are contained therein standard yards or standard metres; or (IV) any marks or arrangement or combination thereof when applied- (a) to goods in such a manner as to be likely to lead persons to believe that the goods are the manufacture or merchandise of some person other than the person whose merchandise or manufacture they really are; (b) in relation to services in such a manner as to be likely to lead persons to believe that the services are provided or rendered by some person other than the person whose services they really are; or (V) any false name or initials of a person applied to goods or services in such manner as if such name or initials were a trade description in any case where the name or initials- (a) is or are not a trade mark or part of a trade mark; and (b) is or are identical with or

deceptively similar to the name or initials of a person carrying on business in connection with goods or services of the same description or both and who has not authorised the use of such name or initials; and (c) is or are either the name or initials of a fictitious person or some person not bona fide carrying on business in connection with such goods or services, and the fact that a trade description is a trade mark or part of a trade mark shall not prevent such trade description being a false trade description within the meaning of this Act;

- (j) 'goods' means anything which is the subject of trade or manufacture;
- (k) 'Judicial Member' means a Member of the Appellate Board appointed as such under this Act, and includes the Chairperson and the Vice-Chairperson;
- (l) 'limitations' (with its grammatical variations) means any limitation of the exclusive right to the use of a trade mark given by the registration of a person as proprietor thereof, including limitations of that right as to mode or area of use within India or outside India;
- (m) 'mark' includes a device, brand, heading, label, ticket, name, signature, word, letter, numeral, shape of goods, packaging or combination of colours or any combination thereof;
- (n) 'Member' means a Judicial Member or a Technical Member of the Appellate Board and includes the Chairperson and the Vice-Chairperson;
- (o) 'name' includes any abbreviation of a name;
- (p) 'notify' means to notify in the Trade Mark Journal published by the Registrar;
- (q) 'package' includes any case, box, container, covering, folder, receptacle, vessel, casket, bottle, wrapper, label, band, ticket, reel, frame, capsule, cap, lid, stopper and cork;
- (r) 'permitted' use, in relation to a registered trade mark, means the use of trade mark—(i) by a registered user of the trade mark in relation to goods or services—(a) with which he is connected in the course of trade; and (b) in respect of which the trade mark remains registered for the time being; and (c) for which he is registered as registered user; and (d)

which complies with any conditions or limitations to which the registration of registered user is subject; or Subs. by Act 7 of 2017, s. 161, for ?Chairman (w.e.f. 26-5-2017), Subs. by s. 161, *ibid.*, for ?Vice-Chairman (w.e.f. 26-5-2017). (ii) by a person other than the registered proprietor and registered user in relation to goods or services- (a) with which he is connected in the course of trade; and (b) in respect of which the trade mark remains registered for the time being; and (c) by consent of such registered proprietor in a written agreement; and (d) which complies with any conditions or limitations to which such user is subject and to which the registration of the trade mark is subject;

- (s) 'prescribed' means prescribed by rules made under this Act;
- (t) 'register' means the Register of Trade Marks referred to in sub-section (1) of section 6;
- (u) 'registered' (with its grammatical variations) means registered under this Act;
- (v) 'registered proprietor' in relation to a trade mark, means the person for the time being entered in the register as proprietor of the trade mark;
- (w) 'registered trade mark' means a trade mark which is actually on the register and remaining in force;
- (x) 'registered user' means a person who is for the time being registered as such under section 49;
- (y) 'Registrar' means the Registrar of Trade Marks referred to in section 3;
- (z) 'Service' means service of any description which is made available to potential users and includes the provision of services in connection with business of any industrial or commercial matters such as banking, communication, education, financing, insurance, chit funds, real estate, transport, storage, material treatment, processing, supply of electrical or other energy, boarding, lodging, entertainment, amusement, construction, repair, conveying of news or information and advertising;
- (za) 'trade description' means any description, statement or other indication, direct or indirect,- (i) as to the number, quantity, measure, gauge or weight of any goods; or (ii) as to the standard of quality of any goods

or services according to a classification commonly used or recognised in the trade; or (iii) as to fitness for the purpose, strength, performance or behaviour of any goods, being 'drug' as defined in the Drugs and Cosmetics Act, 1940 (23 of 1940), or 'food' as defined in the Prevention of Food Adulteration Act, 1954 (37 of 1954); or (iv) as to the place or country in which or the time at which any goods or services were made, produced or provided, as the case may be; or (v) as to the name and address or other indication of the identity of the manufacturer or of the person providing the services or of the person for whom the goods are manufactured or services are provided; or (vi) as to the mode of manufacture or producing any goods or providing services; or (vii) as to the material of which any goods are composed; or (viii) as to any goods being the subject of an existing Patent, privilege or Copyright, and includes- (a) any description as to the use of any mark which according to the custom of the trade is commonly taken to be an indication of any of the above matters; (b) the description as to any imported goods contained in any bill of entry or shipping bill; (c) any other description which is likely to be misunderstood or mistaken for all or any of the said matters;

- (zb) 'trade mark' means a mark capable of being represented graphically and which is capable of distinguishing the goods or services of one person from those of others and may include shape of goods, their packaging and combination of colours; and- (i) in relation to Chapter XII (other than section 107), a registered trade mark or a mark used in relation to goods or services for the purpose of indicating or so as to indicate a connection in the course of trade between the goods or services, as the case may be, and some person having the right as proprietor to use the mark; and (ii) in relation to other provisions of this Act, a mark used or proposed to be used in relation to goods or services for the purpose of indicating or so as to indicate a connection in the course of trade between the goods or services, as the case may be, and some person having the right, either as proprietor or by way of permitted user, to use the mark whether with or without any indication of the identity of that person, and includes a certification trade mark or collective mark;

- (zc) 'transmission' means transmission by operation of law, devolution on the personal representative of a deceased person and any other mode of transfer, not being assignment;
- (zd) 'Technical Member' means a Member who is not a Judicial Member;
- (ze) 'tribunal' means the Registrar or, as the case may be, the Appellate Board, before which the proceeding concerned is pending;
- (zf) 'Vice-Chairperson' means a Vice-Chairperson of the Appellate Board;
- (zg) 'well known trade mark' in relation to any goods or services, means a mark which has become so to the substantial segment of the public which uses such goods or receives such services that the use of such mark in relation to other goods or services would be likely to be taken as indicating a connection in the course of trade or rendering of services between those goods or services and a person using the mark in relation to the first-mentioned goods or services. (2) In this Act, unless the context otherwise requires, any reference— (a) to 'trade mark' shall include reference to 'collective mark' or 'certification trade mark'; (b) to the use of a mark shall be construed as a reference to the use of printed or other visual representation of the mark; (c) to the use of a mark,- (i) in relation to goods, shall be construed as a reference to the use of the mark upon, or in any physical or in any other relation whatsoever, to such goods; (ii) in relation to services, shall be construed as a reference to the use of the mark as or as part of any statement about the availability, provision or performance of such services; (d) to the Registrar shall be construed as including a reference to any officer when discharging the functions of the Registrar in pursuance of sub-section (2) of section 3; (e) to the Trade Marks Registry shall be construed as including a reference to any office of the Trade Marks Registry. (3) For the purposes of this Act, goods and services are associated with each other if it is likely that those goods might be sold or otherwise traded in and those services might be provided by the same business and so with descriptions of goods and descriptions of services. (4) For the purposes of this Act, 'existing registered trade mark' means a trade mark registered under the Trade and Merchandise Marks Act, 1958 (43 of 1958) immediately before the commencement of this Act.

Appointment of Registrar and other officers-(1) The Central Government may, by notification in the Official Gazette, appoint a person to be known as the Controller-General of Patents, Designs and Trade Marks, who shall be the Registrar of Trade Marks for the purposes of this Act. (2) The Central Government may appoint such other officers with such designations as it thinks fit for the purpose of discharging, under the superintendence and direction of the Registrar, such functions of the Registrar under this Act as he may from time to time authorise them to discharge.

Power of Registrar to withdraw or transfer cases, etc.- Without prejudice to the generality of the provisions of sub-section (2) of section 3, the Registrar may, by order in writing and for reasons to be recorded therein, withdraw any matter pending before an officer appointed under the said sub-section (2) and deal with such matter himself either de novo or from the stage it was so withdrawn or transfer the same to another officer so appointed who may, subject to special directions in the order of transfer, proceed with the matter either de novo or from the stage it was so transferred.

Trade Marks Registry and offices thereof.- (1) For the purposes of this Act, there shall be a trade marks registry and the Trade Marks Registry established under the Trade and Merchandise Marks Act, 1958 (43 of 1958) shall be the Trade Marks Registry under this Act. (2) The head office of the Trade Marks Registry shall be at such place as the Central Government may specify, and for the purpose of facilitating the registration of Trade Marks, there may be established at such places as the Central Government may think fit branch offices of the Trade Marks Registry. (3) The Central Government may, by notification in the Official Gazette, define the territorial limits within which an office of the Trade Marks Registry may exercise its functions. (4) There shall be a seal of the Trade Marks Registry.

The Register of Trade Marks- (1) For the purposes of this Act, a record called the Register of Trade Marks shall be kept at the head office of the Trade Marks Registry, wherein shall be entered all registered Trade Marks with the names, addresses and description of the proprietors, notifications of assignment and transmissions, the names, addresses and descriptions of registered users, conditions, limitations and such other matter relating to registered Trade Marks as may be prescribed. (2) Notwithstanding anything contained in sub-section (1), it shall be lawful for the Registrar to keep the records wholly or partly in computer floppies diskettes or in any other electronic form subject to such safeguards as may be prescribed. (3) Where such register is maintained wholly or partly on computer under sub-section (2) any reference

in this Act to entry in the Register shall be construed as the reference to any entry as maintained on computer or in any other electronic form. (4) No notice of any trust, express or implied or constructive, shall be entered in the register and no such notice shall be receivable by the Registrar. (5) The register shall be kept under the control and management of the Registrar. (6) There shall be kept at each branch office of the Trade Marks Registry a copy of the register and such of the other documents mentioned in section 148 as the Central Government may, by notification in the Official Gazette, direct. (7) The Register of Trade Marks, both Part A and Part B, existing at the commencement of this Act, shall be incorporated in and form part of the register under this Act.

Registration of parts of Trade Marks and of Trade Marks as a series.-

(1) Where the proprietor of a trade mark claims to be entitled to the exclusive use of any part thereof separately, he may apply to register the whole and the part as separate Trade Marks. (2) Each such separate trade mark shall satisfy all the conditions applying to and have all the incidents of, an independent trade mark. (3) Where a person claiming to be the proprietor of several trade marks in respect of the same or similar goods or services or description of goods or description of services, which, while resembling each other in the material particulars thereof, yet differ in respect of— (a) statement of the goods or services in relation to which they are respectively used or proposed to be used; or (b) statement of number, price, quality or names of places; or (c) other matter of a non-distinctive character which does not substantially affect the identity of the trade mark; or (d) colour, seeks to register those Trade Marks, they may be registered as a series in one registration.

Registration of Trade Marks as associated Trade Marks.-(1) Where a trade mark which is registered, or is the subject of an application for registration, in respect of any goods or services is identical with another trade mark which is registered, or is the subject of an application for registration, in the name of the same proprietor in respect of the same goods or description of goods or same services or description of services or so nearly resembles it as to be likely to deceive or cause confusion if used by a person other than the proprietor, the Registrar may, at any time, require that the trade marks shall be entered on the register as associated Trade Marks. (2) Where there is an identity or near resemblance of marks that are registered, or are the subject of applications for registration in the name of the same proprietor, in respect of goods and services which are associated with those goods or services, or goods or services

of that description, sub-section (1) shall apply as it applies as where there is an identity or near resemblance of marks that are registered, or are the subject of applications for registration, in the name of the same proprietor in respect of the same goods or description of goods or same services or description of services. (3) Where a trade mark and any part thereof are, in accordance with the provisions of sub-section (1) of section 15, registered as separate trade marks in the name of the same proprietor, they shall be deemed to be, and shall be registered as, associated Trade Marks. (4) All Trade Marks registered in accordance with the provisions of sub-section (3) of section 15 as a series in one registration shall be deemed to be, and shall be registered as, associated Trade Marks. (5) On application made in the prescribed manner by the registered proprietor of two or more Trade Marks registered as associated Trade Marks, the Registrar may dissolve the association as respects any of them if he is satisfied that there would be no likelihood of deception or confusion being caused if that Trade Mark were used by any other person in relation to any of the goods or services or both in respect of which it is registered, and may amend the register accordingly.

Effect of registration of parts of a mark- (1) When a trade mark consists of several matters, its registration shall confer on the proprietor exclusive right to the use of the trade mark taken as a whole. (2) Notwithstanding anything contained in sub-section (1), when a trade mark- (a) contains any part- (i) which is not the subject of a separate application by the proprietor for registration as a trade mark; or 15 (ii) which is not separately registered by the proprietor as a trade mark; or (b) contains any matter which is common to the trade or is otherwise of a non-distinctive character, the registration thereof shall not confer any exclusive right in the matter forming only a part of the whole of the trade mark so registered. Duration, renewal, removal and restoration of registration.- (1) The registration of a trade mark, after the commencement of this Act, shall be for a period of ten years, but may be renewed from time to time in accordance with the provisions of this section. (2) The Registrar shall, on application made by the registered proprietor of a trade mark in the prescribed manner and within the prescribed period and subject to payment of the prescribed fee, renew the registration of the trade mark for a period of ten years from the date of expiration of the original registration or of the last renewal of registration, as the case may be (which date is in this section referred to as the expiration of the last registration). (3) At the prescribed time before the expiration of the last registration of a trade mark the Registrar shall send notice in the prescribed manner to the registered proprietor of the date of

expiration and the conditions as to payment of fees and otherwise upon which a renewal of registration may be obtained, and, if at the expiration of the time prescribed in that behalf those conditions have not been duly complied with the Registrar may remove the trade mark from the register provided that the Registrar shall not remove the trade mark from the register if an application is made in the prescribed form and the prescribed fee and surcharge is paid within six months from the expiration of the last registration of the trade mark and shall renew the registration of the trade mark for a period of ten years under sub-section (2). (4) Where a trade mark has been removed from the register for non-payment of the prescribed fee, the Registrar shall, after six months and within one year from the expiration of the last registration of the trade mark, on receipt of an application in the prescribed form and on payment of the prescribed fee, if satisfied that it is just so to do, restore the trade mark to the register and renew the registration of the trade mark either generally or subject to such conditions or limitations as he thinks fit to impose, for a period of ten years from the expiration of the last registration.

Absolute grounds for refusal of registration.-(1) The trade marks- (a) which are devoid of any distinctive character, that is to say, not capable of distinguishing the goods or services of one person from those of another person; (b) which consist exclusively of marks or indications which may serve in trade to designate the kind, quality, quantity, intended purpose, values, geographical origin or the time of production of the goods or rendering of the service or other characteristics of the goods or service; (c) which consist exclusively of marks or indications which have become customary in the current language or in the bona fide and established practices of the trade, shall not be registered: Provided that a trade mark shall not be refused registration if before the date of application for registration it has acquired a distinctive character as a result of the use made of it or is a well-known trade mark. (2) A mark shall not be registered as a trade mark if- (a) it is of such nature as to deceive the public or cause confusion; (b) it contains or comprises of any matter likely to hurt the religious susceptibilities of any class or section of the citizens of India; (c) it comprises or contains scandalous or obscene matter; (d) its use is prohibited under the Emblems and Names (Prevention of Improper Use) Act, 1950 (12 of 1950). (3) A mark shall not be registered as a trade mark if it consists exclusively of- (a) the shape of goods which results from the nature of the goods themselves; or (b) the shape of goods which is necessary to obtain a technical result; or (c) the shape which gives substantial value to the goods. Explanation.-For the purposes of this section, the nature of goods

or services in relation to which the trade mark is used or proposed to be used shall not be a ground for refusal of registration.

Limitation as to colour-(1) A trade mark may be limited wholly or in part to any combination of colours and any such limitation shall be taken into consideration by the tribunal having to decide on the distinctive character of the trade mark. (2) So far as a trade mark is registered without limitation of colour, it shall be deemed to be registered for all colours.

Relative grounds for refusal of registration.-

Save as provided in section 12, a trade mark shall not be registered if, because of- (a) its identity with an earlier trade mark and similarity of goods or services covered by the trade mark; or (b) its similarity to an earlier trade mark and the identity or similarity of the goods or services covered by the trade mark, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association with the earlier trade mark.

A trade mark which- (a) is identical with or similar to an earlier trade mark; and (b) is to be registered for goods or services which are not similar to those for which the earlier trade mark is registered in the name of a different proprietor, shall not be registered if or to the extent the earlier trade mark is a well-known trade mark in India and the use of the later mark without due cause would take unfair advantage of or be detrimental to the distinctive character or repute of the earlier trade mark. A trade mark shall not be registered if, or to the extent that, its use in India is liable to be prevented- (a) by virtue of any law in particular the law of passing off protecting an unregistered trade mark used in the course of trade; or (b) by virtue of law of Copyright. Nothing in this section shall prevent the registration of a trade mark where the proprietor of the earlier trade mark or other earlier right consents to the registration, and in such case the Registrar may register the mark under special circumstances under section 12. Explanation.-For the purposes of this section, earlier trade mark means- (a) a registered trade mark or an application under section 18 bearing an earlier date of filing or an international registration referred to in section 36E or convention application referred to in section 154 which has a date of application earlier than that of the trade mark in question, taking account, where appropriate, of the priorities claimed in respect of the Trade Marks; (b) a trade mark which, on the date of the application for registration of the trade mark in question, or where

appropriate, of the priority claimed in respect of the application, was entitled to protection as a well-known trade mark. (5) A trade mark shall not be refused registration on the grounds specified in sub-sections (2) and (3), unless objection on any one or more of those grounds is raised in opposition proceedings by the proprietor of the earlier trade mark. (6) The Registrar shall, while determining whether a trade mark is a well-known trade mark, take into account any fact which he considers relevant for determining a trade mark as a well-known trade mark including- (i) the knowledge or recognition of that trade mark in the relevant section of the public including knowledge in India obtained as a result of promotion of the trade mark; (ii) the duration, extent and geographical area of any use of that trade mark; (iii) the duration, extent and geographical area of any promotion of the trade mark, including advertising or publicity and presentation, at fairs or exhibition of the goods or services to which the trade mark applies; (iv) the duration and geographical area of any registration of or any application for registration of that trade mark under this Act to the extent that they reflect the use or recognition of the trade mark; (v) the record of successful enforcement of the rights in that trade mark, in particular the extent to which the trade mark has been recognised as a well-known trade mark by any court or Registrar under that record.

The Registrar shall, while determining as to whether a trade mark is known or recognised in a relevant section of the public for the purposes of sub-section (6), take into account- (i) the number of actual or potential consumers of the goods or services; (ii) the number of persons involved in the channels of distribution of the goods or services; Subs. by Act 40 of 2010, s. 2, for clause (a) (w.e.f. 8-7-2013). (iii) the business circles dealing with the goods or services, to which that trade mark applies. Where a trade mark has been determined to be well known in at least one relevant section of the public in India by any court or Registrar, the Registrar shall consider that trade mark as a well-known trade mark for registration under this Act.

The Registrar shall not require as a condition, for determining whether a trade mark is a well-known trade mark, any of the following, namely:- (i) that the trade mark has been used in India; (ii) that the trade mark has been registered; (iii) that the application for registration of the trade mark has been filed in India; (iv) that the trade mark- (a) is well-known in; or (b) has been registered in; or (c) in respect of which an application for registration has been filed in, any jurisdiction other than India, or (v) that the trade mark is well-known to the public at large in India.

While considering an application for registration of a trade mark and opposition filed in respect thereof, the Registrar shall- (i) protect a well-known trade mark against the identical or similar Trade Marks; (ii) take into consideration the bad faith involved either of the applicant or the opponent affecting the right relating to the trade mark. Where a trade mark has been registered in good faith disclosing the material information to the Registrar or where right to a trade mark has been acquired through use in good faith before the commencement of this Act, then, nothing in this Act shall prejudice the validity of the registration of that trade mark or right to use that trade mark on the ground that such trade mark is identical with or similar to a well-known trade mark.

Registration in the case of honest concurrent use, etc.-In the case of honest concurrent use or of other special circumstances which in the opinion of the Registrar, make it proper so to do, he may permit the registration by more than one proprietor of the trade marks which are identical or similar (whether any such trade mark is already registered or not) in respect of the same or similar goods or services, subject to such conditions and limitations, if any, as the Registrar may think fit to impose.

Prohibition of registration of names of chemical elements or international non-proprietary names-No word- (a) which is the commonly used and accepted name of any single chemical element or any single chemical compound (as distinguished from a mixture) in respect of a chemical substance or preparation, or (b) which is declared by the World Health Organisation and notified in the prescribed manner by the Registrar from time to time, as an international non-proprietary name or which is deceptively similar to such name, shall be registered as a trade mark and any such registration shall be deemed for the purpose of section 57 to be an entry made in the register without sufficient cause or an entry wrongly remaining on the register, as the circumstances may require.

Use of names and representations of living persons or persons recently dead- Where an application is made for the registration of a trade mark which falsely suggests a connection with any living person, or a person whose death took place within twenty years prior to the date of application for registration of the trade mark, the Registrar may, before he proceeds with the application, require the applicant to furnish him with the consent in writing of such living person or, as the case may be, of the legal representative of the deceased person to the connection appearing on the trade mark, and may refuse to proceed with the application unless the applicant furnishes the Registrar with such consent.

Penalty

Meaning of applying Trade Marks and trade descriptions-(1) A person shall be deemed to apply a trade mark or mark or trade description to goods or services who- (a) applies it to the goods themselves or uses it in relation to services; or (b) applies it to any package in or with which the goods are sold, or exposed for sale, or had in possession for sale or for any purpose of trade or manufacture; or (c) places, encloses or annexes any goods which are sold, or exposed for sale, or had in possession for sale or for any purpose of trade or manufacture, in or with any package or other thing to which a trade mark or mark or trade description has been applied; or (d) uses a trade mark or mark or trade description in any manner reasonably likely to lead to the belief that the goods or services in connection with which it is used are designated or described by that trade mark or mark or trade description; or (e) in relation to the goods or services uses a trade mark or trade description in any sign, advertisement, invoice, catalogue, business letter, business paper, price list or other commercial document and goods are delivered or services are rendered to a person in pursuance of a request or order made by reference to the trade mark or trade description as so used. (2) A trade mark or mark or trade description shall be deemed to be applied to goods whether it is woven in, impressed on, or otherwise worked into, or annexed or affixed to, the goods or to any package or other thing.

Falsifying and falsely applying Trade Marks-(1) A person shall be deemed to falsify a Trade Mark who either,- (a) without the assent of the proprietor of the Trade Mark makes that trade mark or a deceptively similar mark; or (b) falsifies any genuine trade mark, whether by alteration, addition, effacement or otherwise. (2) A person shall be deemed to falsely apply to goods or services a trade mark who, without the assent of the proprietor of the trade mark,- (a) applies such trade mark or a deceptively similar mark to goods or services or any package containing goods; (b) uses any package bearing a mark which is identical with or deceptively similar to the trade mark of such proprietor, for the purpose of packing, filling or wrapping therein any goods other than the genuine goods of the proprietor of the trade mark. (3) Any trade mark falsified as mentioned in sub-section (1) or falsely applied as mentioned in sub-section (2), is in this Act referred to as a false trade mark. [6th October, 2003, vide Notification No. S.O. 1150 (E), dated 1st October, 2003, Gazette of India, Extraordinary Part II, sec. 3(ii)]. 40 (4) In any prosecution for falsifying a trade mark

or falsely applying a trade mark to goods or services, the burden of proving the assent of the proprietor shall lie on the accused.

Penalty for applying false Trade Marks, trade descriptions, etc.-Any person who- (a) falsifies any trade mark; or (b) falsely applies to goods or services any trade mark; or (c) makes, disposes of, or has in his possession, any die, block, machine, plate or other instrument for the purpose of falsifying or of being used for falsifying, a trade mark; or (d) applies any false trade description to goods or services; or (e) applies to any goods to which an indication of the country or place in which they were made or produced or the name and address of the manufacturer or person for whom the goods are manufactured is required to be applied under section 139, a false indication of such country, place, name or address; or (f) tampers with, alters or effaces an indication of origin which has been applied to any goods to which it is required to be applied under section 139; or (g) causes any of the things above mentioned in this section to be done, shall, unless he proves that he acted, without intent to defraud, be punishable with imprisonment for a term which shall not be less than 6 months but which may extend to three years and with fine which shall not be less than fifty thousand rupees but which may extend to two lakh rupees: Provided that the court may, for adequate and special reasons to be mentioned in the judgment, impose a sentence of imprisonment for a term of less than six months or a fine of less than fifty thousand rupees.

Penalty for selling goods or providing services to which false trade mark or false trade description is applied-Any person who sells, lets for hire or exposes for sale, or hires or has in his possession for sale, goods or things, or provides or hires services, to which any false trade mark or false trade description is applied or which, being required under section 139 to have applied to them an indication of the country or place in which they were made or produced or the name and address of the manufacturer, or person for whom the goods are manufactured or services provided, as the case may be, are without the indications so required, shall, unless he proves,- (a) that, having taken all reasonable precautions against committing an offence against this section, he had at the time of commission of the alleged offence no reason to suspect the genuineness of the trade mark or trade description or that any offence had been committed in respect of the goods or services; or (b) that, on demand by or on behalf of the prosecutor, he gave all the information in his power with respect to the person from whom he obtained such goods or things or services; or (c) that otherwise

he had acted innocently, be punishable with imprisonment for a term which shall not be less than six months but which may extend to three years and with fine which shall not be less than fifty thousand rupees but which may extend to two lakh rupees provided that the court may, for adequate and special reasons to be mentioned in the judgment, impose a sentence of imprisonment for a term of less than six months or a fine of less than fifty thousand rupees.

6.4 The Consumer Protection Act, 1986

The industrial revolution and the development in the international trade and commerce has led to the vast expansion of business and trade, as a result of which a variety of consumer goods have appeared in the market to cater to the needs of the consumers and a host of services have been made available to the consumers like insurance, transport, electricity, housing, entertainment, finance and banking. A well organised sector of manufacturers and traders with better knowledge of markets has come into existence, thereby affecting the relationship between the traders and the consumers making the principle of consumer sovereignty almost inapplicable. The advertisements of goods and services in television, newspapers and magazines influence the demand for the same by the consumers though there may be manufacturing defects or imperfections or short comings in the quality, quantity and the purity of the goods or there may be deficiency in the services rendered. In addition, the production of the same item by many firms has led the consumers, who have little time to make a selection, to think before they can purchase the best.

For the welfare of the public, the glut of adulterated and sub-standard articles in the market has to be checked. In spite of various provisions providing protection to the consumer and providing for stringent action against adulterated and sub-standard articles in the different enactments like Code of Civil Procedure, 1908, the Indian Contract Act, 1872, the Sale of Goods Act, 1930, the Indian Penal Code, 1860, the Standards of Weights and Measures Act, 1976 and the Motor Vehicles Act, 1988, very little could be achieved in the field of Consumer Protection. Though the Monopolies and Restrictive Trade Practices Act, 1969 and the Prevention of Food Adulteration Act, 1954 have provided relief to the consumers yet it became necessary to protect the consumers from the exploitation and to save them from adulterated and sub-standard goods and services and to safe guard the interests of the consumers. In order to provide for better protection of the interests of the consumer the Consumer

Protection Bill, 1986 was introduced in the Lok Sabha on 5th December, 1986. The Consumer Protection Bill, 1986 seeks to provide for better protection of the interests of consumers and for the purpose, to make provision for the establishment of Consumer councils and other authorities for the settlement of consumer disputes and for matter connected therewith. It seeks, inter alia, to promote and protect the rights of consumers such as- (a) the right to be protected against marketing of goods which are hazardous to life and property; (b) the right to be informed about the quality, quantity, potency, purity, standard and price of goods to protect the consumer against unfair trade practices; (c) the right to be assured, wherever possible, access to an authority of goods at competitive prices; (d) the right to be heard and to be assured that consumers interests will receive due consideration at appropriate forums; (e) the right to seek redressal against unfair trade practices or unscrupulous exploitation of consumers; and (f) right to consumer education.

These objects are sought to be promoted and protected by the Consumer Protection Council to be established at the Central and State level. To provide speedy and simple redressal to consumer disputes, quasi-judicial machinery is sought to be setup at the district, State and Central levels. These quasi-judicial bodies will observe the principles of natural justice and have been empowered to give relief of a specific nature and to award, wherever appropriate, compensation to consumers. Penalties for noncompliance of the orders given by the quasi-judicial bodies have also been provided.

The Central Consumer Protection Council

The Central Government shall, by notification, establish with effect from such date as it may specify in such notification, a Council to be known as the Central Consumer Protection Council (hereinafter referred to as the Central Council). The Central Council shall consist of the following members, namely:- (a) the Minister in charge of the consumer affairs in the Central Government, who shall be its Chairman, and (b) such number of other official or non-official members representing such interests as may be prescribed.

Procedure for meetings of the Central Council: The Central Council shall meet as and when necessary, but at least one meeting of the Council shall be held every year. The Central Council shall meet at such time and place as the Chairman may think fit and shall observe such procedure in regard to the transaction of its business as may be prescribed.

Objects of the Central Council : The objects of the Central Council shall be to promote and protect the rights of the consumers such as,- (a) the right to be protected against the marketing of goods and services which are hazardous to life and property; (b) the right to be informed about the quality, quantity, potency, purity, standard and price of goods or services, as the case may be so as to protect the consumer against, unfair trade practices; (c) the right to be 'assured, wherever possible, access to a variety of goods and services at competitive prices; (d) the right to be heard and to be assured that consumer's interests will receive due consideration at appropriate Fora; (e) the right to seek redressal against unfair trade practices 3[or restrictive trade practices or unscrupulous exploitation of consumers; and (f) the right to consumer education.

The State Consumer Protection Councils : (1) The State Government shall, by notification, establish with effect from such date as it may specify in such notification, a Council to be known as the Consumer Protection Council for (hereinafter referred to as the State Council).

[(2) **The State Council shall consist of the following members, namely :** (a) the Minister in-charge of consumer affairs in the State Government who shall be its Chairman; (b) such number of other official or non-official members representing such interests as may 'be prescribed by the State Government. (c) such number of other official or non-official members, not exceeding ten, as may be nominated by the Central Government.) (3) The State Council shall meet as and when necessary but not less than two meetings shall be held every year. Subs. by Act 50 of 1993, sec. 3 (w.e.f. 18-6-1993). 2. Subs. by Act 50 of 1993, sec. 4 (w.e.f. 18-6-1993). 3. Ins. by Act 50 of 1993, sec. 5 (w.e.f. 18-6-1993). 4. Subs. by Act 50 of 1993, sec. 6 (w.e.f. 18-6-1993). (4) The State Council shall meet at such time and place as the Chairman think fit and shall observe such procedure in regard to the transaction of its business as may be prescribed by the State Government.

Objects of the State Council : The objects of every State Council shall be to promote and protect within the State the rights of the consumers laid down in clauses (a) to (f) of section 6. The District Consumer Protection Council - (1) The State Government shall establish for every district, by notification, a council to be known as the District Consumer Protection Council with effect from such date as it may specify in such notification. (2) The District Consumer Protection Council (hereinafter referred to as the District Council) shall consist of the following members, namely -

(a) the Collector of the district (by whatever name called), who shall be its Chairman; and (b) such number of other official and non-official members representing such interests as may be prescribed by the State Government. (3) The District Council shall meet as and when necessary but not less than two meetings shall be held every year. (4) The District Council shall meet as such time and place within the district as the Chairman may think fit and shall observe such procedure in regard to the transaction of its business as may be prescribed by the State Government.)

Objects of the District Council : The objects of every District Council shall be to promote and protect within the district the rights of the consumers laid down in clauses (a) to (f) of section 6.)

Establishment of Consumer Disputes Redressal Agencies : There shall be established for the purposes of this Act, the following agencies, namely:- (a) a Consumer Disputes Redressal Forum to be known as the "District Forum" established by the State Government 1[* * *] in each district of the State by notification provided that the State Government may, if it deems fit, establish more than one District Forum in a district; (b) a Consumer Disputes Redressal Commission to be known as the "State Commission" established by the State Government in the State by notification; and (c) a National Consumer Disputes Redressal Commission established by the Central Government by notification.

Composition of the District Forum

(I) Each District Forum shall consist of,- (a) a person who is, or has been, or is qualified to be a District Judge, who shall be its President; (b) two other members, one of whom shall be a woman, who shall have the following qualifications, namely:- (i) be not less than thirty-five years of age, (ii) possess a bachelor's degree from a recognized university, (iii) be persons of ability, integrity and standing, and have adequate problems relating to economics, law, commerce, accountancy, industry public affairs or administration provided that a person shall be disqualified for appointment as a member, if he- (a) has been convicted and sentenced to imprisonment for an offence which, in the opinion of the State Government, involves moral turpitude; or (b) is not a discharged insolvent; or (c) is of unsound mind and stands so declared by a competent court; or (d) has been removed or dismissed from the service of the Government or a body corporate owned or controlled by the Government; or (e) has, in the opinion of the state Government, such financial or other interest as is likely to

affect prejudicially the discharge by him of his functions as a member; or (f) has such other disqualifications as may be prescribed by the State Government;)

Omitted by Act 50 of 1993, sec. 7 (w.e.f. 18-6-1993). 2. Ins. by Act 50 of 1993, sec. 7 (w.e.f. 18-6-1993). 3. Omitted by Act 50 of 1993, sec. 7 (w.e.f. 18-6-1993). 4. Subs. by Act 50 of 1993, sec. 8 (w.e.f. 18-6-1993).

(IA) Every appointment under sub-section (I) shall be made by the State Government on the recommendation of a selection committee consisting of the following, namely :- (i) the President of the State Commission - Chairman. (ii) Secretary, Law Department of the State - Member. (iii) Secretary, in-charge of the Department - Member dealing with consumer affairs in the State Provided that where the President of the state Commission is, by reason of absence or otherwise, unable to act as Chairman of the Selection Committee, the State Government may refer the matter to the Chief Justice of the High Court for nominating a sitting Judge of that High Court to act as Chairman) (2) Every member of the District Forum shall hold office for a term of five years or up to the age of 65 years, whichever is earlier. Provided that a member shall be eligible for re-appointment for another term of five years or up to the age of sixty-five years, whichever is earlier, subject to the condition that he fulfils the qualifications and other conditions for appointment mentioned in clause (b) of sub-section (1) and such re-appointment is also made on the basis of the recommendation of the Selection Committee. Provided further that a member may resign his office in writing under his hand addressed to the State Government and on such resignation being accepted, his office shall become vacant and may be filled by appointment of a person possessing any of the qualifications mentioned in sub-section (1) in relation to the category of the member who is required to be appointed under the provision of sub-section (1A) in place of the person who has resigned: Provided also that a person appointed as the President or as a member, before the commencement of the Consumer Protection (Amendment) Act, 2002, shall continue to hold such office as President or member, as the case may be, till the completion of his term. (3) The salary or honorarium and other allowances payable to, and the other terms and conditions of service of the members of the District Forum shall be such as may be prescribed by the State Government. (Provided that the appointment of a member on whole-time basis shall be made by the state Government on the recommendation of the President of the State Commission taking into consideration such factors as may be prescribed including the work load of the District Forum).

6.4.1 Modified Consumer's Protection Act, 2019

Proposed benefits :

Definition of the consumer to include e-commerce

- Enhancement of pecuniary jurisdiction
- A complaint can be filed where the consumer is located and not the opposite party
- Penalties enhanced
- Alternate Dispute Resolution (Mediation)
- E-filing of complaints (Rules to be framed)

Consumer Protection Act, 2019 was passed on 9th August, 2019. It is a repealing statute, thereby repealing more than three decade old law of Consumer Protection Act, 1986.

Objectives :

- Establishment of the Central Consumer Protection Authority (CCPA)
- Product Liability Option
- Establishment of the Mediation Centre
- Introduce Filing by Video Conferencing
- The imposition of higher penalties.
- E-commerce included within the ambit of Consumer Protection.

Comparative Analysis: Consumer protection act, 1986 (Old act) v. Consumer protection act, 2019 (New act)

Key points	Old act	New act
Pecuniary jurisdiction	District forum (upto 20 lacs) State commission (from 20 lacs to 1 crore) National commission (from 1 crore and above)	District forum (upto 1 crore) State commission (from 1 crore to 10 crore) National commission (from 10 crore and above)

Mrp/purchase price	Earlier MRP was a criteria to decide pecuniary jurisdiction	Now discounted price/ actual purchase price is criteria
Territorial jurisdiction	Where seller has office	Where complainant resides or works
Regulator	No such provision	Central Consumer protection authority to be formed
Mediation	No such provision	Court can refer for settlement through mediation (Section 80)
Appeal E-commerce	Earlier 30 days period for appeal against the order of District forum (Section 15) Earlier 50% or 25,000 whichever is less is to be deposited Earlier no specific mention	Now it is 45 days (Section 41) Now 50% of award amount Now all provision applicable to direct seller has been extended to e-commerce
Review	Earlier DCF did not have the power to review	Now DCF has power to review
Unfair terms and conditions	No such provision	Section 49(2) and 59(2) of the new act gives power to the State Commission and NCDRC respectively to declare any terms of contract, which is unfair to any consumer, to be null and void
Authority	District consumer forum State consumer forum National Consumer Dispute Redressal Commission	District commission State commission National Consumer Dispute Redressal Commission
Composition of state commission	President and 2 other members	President and 4 other members

Meditation under the Consumer Protection Act, 2019 (Section 74)

The State Governments shall establish a consumer mediation cell to be attached to each of District Commissions and State Commissions of state. (Section 74(1))

Central Government shall establish consumer mediation cell to be attached to the National Commission (Section 74(2))

Holding companies accountable for the default in service or manufacture is the essence of the Consumer Protection Act. The following is how a product manufacturer and service provider can be held liable—

Liability of product manufacturer under the Consumer Protection Act, 2019 (Section 84)

Product manufacturer will be liable for—

- (a) Manufacturing defect in the product
- (b) Defective design of the product or
- (c) Deviation from manufacturing specifications or
- (d) Product not conforming to express warranty or
- (e) No adequate instructions of correct usage contained (in order to prevent harm or warning)

Liability even if he proves that he was not negligent or fraudulent in making express warranty (Section 84(2)).

Liability of product service provider (Section 85)-

Product service provider will be liable if-

- (a) Service provided was faulty or imperfect or deficient or inadequate in quality, nature or manner of performance which is required by or under any law or pursuant to any contract
- (b) Act of omission or commission or negligence or conscious withholding information which caused harm
- (c) No adequate instructions or warnings issued to prevent harm
- (d) No conformity with express warranty or terms and conditions of the contract.

Liability of product service provider (Section 86)-

Product seller will be liable if—

- (a) Substantial control by him over designing, testing, manufacturing, packaging or labelling of product causing harm
- (b) he altered or modified the product (such alteration or modification being substantial factor in causing harm)
- (c) made express warranty independent of express warranty of manufacturer (and product failed to conform express warranty by product seller)
- (d) product sold by him and identity of manufacturer is now known or if known, service of notice or process cannot be effected
- (e) failed to exercise reasonable care in assembling, inspecting or maintaining product

Exceptions to product liability action (Section 87)

Product seller shall be exempted from liability if at time of harm, product was misused, altered or modified.

Product manufacturer not to be liable if- (where product liability action is based on failure to provide adequate warnings or instructions)

- (a) Product purchased by the employer to be used at the workplace & warnings or instructions were provided to the employer.
- (b) Product sold as component or material for another product and harm was caused by the end product
- (c) Product was legally meant to be used or dispensed by or under supervision of an expert and warnings or instructions for such usage were given
- (d) Complainant while using the product was under the influence of alcohol or prescription drug (excluding drugs prescribed by a medical practitioner)
- (f) No liability in case of danger which is obvious or commonly known to the user or consumer

Source: <https://lawcirca.com/consumer-protection-act-1986-v-consumer-protection-act-2019/>

6.5 Summary

In business environment, political and legal environment deal with the factors which affect a business concern indirectly with lot of factors such as the current political party in power, the degree of politicization of trade and industry, the efficiency of the current government, government policies, current legal framework, the public attitude towards the economy, etc.

All enterprises should take concern about different environmental factors (political, legal, demographic, economic, social and technological) for taking better decisions on firm's progress.

Intellectual Property Rights (IPRs) refers to creation of the mind (inventions, literary and artistic works, designs and symbols, names and images) used in commerce. Legal protection of IP, therefore, would enable people to earn recognition or financial benefit from what they invent or create. IPR encourages new creations, including technology, artwork, and inventions, that might increase economic growth. Intellectual property rights increase the incentives for individuals to continue to produce things that further create job opportunities and new technologies, while enabling our world to improve and evolve even faster. It can be found in practice through The Patents Act, 1970, The Copy Right Act, 1957; The Trade Mark Act, 1999.

Patent (The Patent Act, 1970) is a legal protection for a new, non-obvious and useful invention. It gives the Patent holder the exclusive right to make, use or sell the products or process. The main purpose of it is to benefit the society. Trade Mark means a mark capable of being represented graphically and which is capable of distinguishing the goods or services of one person from those of others and may include shape of goods, their packaging and combination of colours and (i) in relation to chapter XII (other than Section, 107), a registered Trade Mark or a Mark used in relation to goods or service for the purpose of indicating or as to indicate a connection in the course of Trade between the goods or services, as the case may be and some person having the right as proprietor to use the mark, (ii) In relation to other provisions of this Act, a mark used in relation to goods or services for the purpose of indicating or as to indicate a connection in the course of Trade between the goods or services, as the case may be and some perform having the right, either as proprietor or by way of permitted user, to use the mark whether with or without any indication of the identity of that person and includes a Certification Trade Mark or Collective Mark.

Copyright contains (a) original literary, dramatic, musical and artistic works; (b) cinematograph films; and (c) sound recording.

The industrial revolution and the development in the international trade and commerce has led to the vast expansion of business and trade, as a result of which a variety of consumer goods have appeared in the market to cater to the needs of the consumers and a host of services have been made available to the consumers like insurance, transport, electricity, housing, entertainment, finance and banking. A well organised sector of manufacturers and traders with better knowledge of markets has come into existence, thereby affecting the relationship between the traders and the consumers making the principle of consumer sovereignty almost inapplicable. The Consumer Protection Bill, 1986 seeks to provide for better protection of the interests of consumers and for the purpose, to make provision for the establishment of Consumer councils and other authorities for the settlement of consumer disputes and for matter connected therewith. It seeks, inter alia, to promote and protect the rights of consumers such as- (a) the right to be protected against marketing of goods which are hazardous to life and property; (b) the right to be informed about the quality, quantity, potency, purity, standard and price of goods to protect the consumer against unfair trade practices; (c) the right to be assured, wherever possible, access to an authority of goods at competitive prices; (d) the right to be heard and to be assured that consumers interests will receive due consideration at appropriate forums; (e) the right to seek redressal against unfair trade practices or unscrupulous exploitation of consumers; and (f) right to consumer education.

6.6 Questions

Objective type:

1. Patent Act Was declared in (a)1990, (b) 1988, (c) 1970, (d) 2020.\
2. Trade Mark Act was announced in (a) 2009, (b) 2019, (c) 1999, (d) 1990
3. Copyright Act was enacted in (a) 1947, (b) 1987, (c) 1957, (d) 1967.
4. Consumer Protection Act was declared in (a) 2000, (b) 1999, (c) 1986, (d) 1985

Short Answer type:

1. Define the term 'Patent' as per Patent Act, 1970.
2. Explain the concept of 'Copyright' under Copyright Act, 1957.

3. Discuss the concept of Trade Mark under Trade Mark Act, 1999. What are the objectives of this Act?
4. Narrate the theme and objectives of Consumer Protection Act, 1986.

Long Answer type:

1. Write notes on the following issues under Patent Act, 1970.
(a) Grant of Patents, (b) Compulsory licences, (c) Surrender of Patents, (d) Revocation of Patent, (e) Rights of Patentees.
2. **Write notes on the following issues under Copyright Act, 1957.**
(a) First owner of Copyright, (b) Registration of Copyright, (c) Infringement of Copyright.
3. **Write notes on the following issues under Trade Mark Act, 1999.**
(a) Certification Trade Mark, (b) Collective Trade Mark, (c) Appointment of Registrar and other officers, (d) Power of Registrar to withdraw or transfer cases, etc. (e) Trade Marks Registry and offices thereof, (f) The Register of Trade Marks, (g) Absolute grounds for refusal of registration, (h) Limitation as to colour, (i) Relative grounds for refusal of registration, (j) Penalty.
4. **Write notes on the following issues under Consumer Protection Act, 1986**
(a) The Central Consumer Protection Council, (b) Procedure for meetings of the Central Council, (c) The State Consumer Protection Councils, (e) Establishment of Consumer Disputes Redressal Agencies.

6.7 Further Readings

Cherunilam, F. (2012). Business Environment - Text and Cases (21st Revised Edition), Himalaya Publishing House.

The Patent Act, 1970, Intellectual Property India

<https://Copyright.gov.in/Documents/CopyrightRules1957.pdf>

https://www.indiacode.nic.in/bitstream/123456789/1993/1/A1999_47.pdf

Unit 7 □ Natural Environment

Structure

7.0 Objectives

7.1 Introduction

7.2 The Environmental Protection Act, 1986

7.3 Various pollution prevention laws in India

7.3.1 The Water (Prevention and Control of Pollution) Act, 1974

7.3.2 Air (Prevention and Control of Pollution) Act, 1981

7.4 Summary

7.5 Questions

7.6 Further Readings

7.0 Objectives

After going through the unit, you will be able to understand the—

- Various objectives of Environment Protection Act.
 - Various of provisions of pollution prevention laws.
-

7.1 Introduction

India in its constitution did not contain any provision for Natural Environmental protection. However, since 42nd Amendment to the Constitution, the Government prescribed the protection of environment i.e. forests, lakes, rivers and wildlife as a fundamental duty of the citizens of the country. This amendment also added new Directive Principles of State Policy, (Article 48A) which directed the State to protect and improve the environment and to safeguard forests and wildlife. This unit throws light on The Environmental Protection Act, 1986 and the various pollution prevention laws in India - The Water (Prevention and Control of Pollution) Act, 1974 and Air (Prevention and Control of Pollution) Act, 1981

7.2 The Environmental Protection Act, 1986

Government of India enacted Environment Protection Act (EPA) (1986) under Article 253 of the Constitution which came into force on 19th November, 1986 in response to Bhopal Disaster after Wildlife Protection Act, 1972; The Water (Prevention and Control of Pollution) Act, 1974 and Air (Prevention and Control of Pollution) Act, 1981. The Act as in the introduction reflects that it is "an Act to provide for the protection and improvement of environment and for matters connected therewith. Whereas the decisions were taken at the United Nations Conference on the Human Environment held at Stockholm in June, 1972, in which India participated, to take appropriate steps for the protection and improvement of human environment. Whereas it is considered necessary further to implement the decisions aforesaid in so far as they relate to the protection and improvement of environment and the prevention of hazards to human beings, other living creatures, plants and property".

Therefore, the Act takes its objective as to implement the decisions of the United Nations Conference on the Human Environment where attempt was taken to protect and improve human environment through preventing hazards to human beings, other living creatures, plants and property. The Act plays as an "umbrella" legislation designed to provide a framework for Central Government coordination of the activities of various central and state authorities.

Objectives of the Environmental Protection Act, 1986

The chief objectives of the Environmental Protection Act, 1986 are:

- ❖ To implement the decisions made at the United Nations Conference on Human Environment held in Stockholm.
- ❖ To create government authority to regulate industry that can issue direct orders including closure orders.
- ❖ To coordinate activities of different agencies operating under the existing laws and to create an authority or authorities for environment protection.
- ❖ To provide punishment to those who endanger human environment, safety and health.
- ❖ To enact sustainable development is also one of the goals of the EPA, 1986. If the act is not armed with the power to ensure sustainable development, it will become a barren shell.
- ❖ To enact general law on environmental protection which could cover uncovered

gaps in the areas of major environmental hazards as the existing laws generally focused on specific types of pollution or on specific categories of hazardous substances and some major areas of environmental were not covered.

- ❖ To attain protection of the right to life under Article 21 of the Constitution.

Definitions under the Environmental Protection Act, 1986

In this Act, unless the context otherwise requires,—

- (a) "environment" includes water, air and land and the inter- relationship which exists among and between water, air and land, and human beings, other living creatures, plants, micro-organism and property;
- (b) "environmental pollutant" means any solid, liquid or gaseous substance present in such concentration as may be, or tend to be, injurious to environment;
- (c) "environmental pollution" means the presence in the environment of any environmental pollutant;
- (d) "handling", in relation to any substance, means the manufacture, processing, treatment, package, storage, transportation, use, collection, destruction, conversion, offering for sale, transfer or the like of such substance;
- (e) "hazardous substance" means any substance or preparation which, by reason of its chemical or physico-chemical properties or handling, is liable to cause harm to human beings, other living creatures, plant, micro-organism, property or the environment;
- (f) "occupier", in relation to any factory or premises, means a person who has, control over the affairs of the factory or the premises and includes in relation to any substance, the person in possession of the substance;
- (g) "prescribed" means prescribed by rules made under this Act.

(Source:https://www.indiacode.nic.in/bitstream/123456789/4316/1/ep_act_1986.pdf)

Important Provisions under the Environmental Protection Act, 1986

In the domain of environmental protection, Environmental Protection Act, 1986 empowers the Centre to 'take all such measures as it deems necessary'. The Act can coordinate and execute nationwide programme and plan to further environmental

protection. With the provision of this Act, environmental quality standards, particularly those concerning the emission or discharge of environmental pollutants can be mandated. It would impose restrictions on the location of industries and side-by-side would ensure power of entry for examination, testing of equipment and analyse the sample of air, water, soil or any other substance from any place. The Act empowers any person, apart from authorised government officers, to file a complaint in a court regarding any contravention of the provisions of the Act. Box-7.1 shows the provision of Environmental Protection Act, 1986.

Box-7.1 Provisions under Environmental Protection Act, 1986

Power of the Central government for measures to protect and improve the Environment:

It is the power vested in the central government that they can take any reasonable and valid steps and measures for the purpose of the protection and improvement of the quality of the environment. These measures are taken for the prevention, control and abatement of environmental Pollution.

Such measures may include measures with respect to all namely as follows.

1. Laying down the standards for the quality of the standards of the environment.
2. Coordination of actions which are obliged to the state officers and other authorities under any law.
3. Execution and proper planning of the worldwide national programme for the prevention, controlling and the abatement of environmental pollution.
4. Restrictions to be applied in any of the industries, process and any operation shall be carried out.
5. It is the power and the duty of the government to lay down the procedure to carry forward safeguards for the prevention of many inevitable accidents which may inculcate in more environmental pollution.
6. Proposal of remedies should be put forward for the protection and prevention of further incidents.
7. Duty and power to lay down the procedures and safeguards to handle the hazardous substance.

8. Examination of manufacturing processes should be done, materials, substances which are likely to cause environmental pollution.
9. Power to inspect at various premises, equipment, material and the substances and power to direct the authorities for the prevention and control of environmental pollution.
10. To collect the dissemination in the respect of information related to environmental pollution.
11. Preparation of the manuals, codes, guides which are considered suitable enough for controlling environmental pollution.
12. One of the most important tasks is to establish the laboratories.
13. Serving other matters which are necessary for the central government to deal for the effective implementation of the Environmental Protection Act, 1986.

Under Section 3 of the following act, the central government has the power to authorize or constitute other authorities for the accurate implementation of powers and duties which are mentioned above.

Section 3 of the Environmental Protection Act holds importance due to the fact of a better regulatory mechanism.

In the case of *Vellore Citizens' Welfare Forum v Union of India*, the Supreme Court has directed the central government to constitute the 'authority' for the implementation of powers under section 3(3). Thus, the Court directed while keeping in the notice about the degrading quality of the environment that authorities should implement the 'precautionary principle' and 'pollution pay principle'.

Power to give direction

The central government in the exercise of powers designated by the Act can issue the directions in writing to any of the persons or any officer. They shall be bound to comply with these given directions.

The powers to issue directions will include the power to direct which are as follows:

- (i) The direction of closure, prohibition or the regulation of any industry and its operational process.

- (ii) Direction for the stoppage or regulation of the supply of electricity, including any other services.

The Environment (Protection) Rules, 1986

The rules of Environment protection came into force on 19th November 1986 and these rules provide for the following:

1. The standards of quality of air, soil and water for various areas and purposes of environment.
2. The standard set up to know about the limits of the environmental pollutants.
3. Rules include the procedure and safeguards needed to handle the hazardous substance.
4. Restrictions and some prohibitions on handling the hazardous substances in different areas and premise.
5. The procedures and safeguards required for the prevention of accidents which may cause environmental pollution and also the remedies for it.
6. The prohibition and restrictions possessed on the location of industries in different areas.

Prevention, Abatement and Control of Environmental Pollution

Section 7 of the Environment Protection Act 1986 suggest that no person in the country shall be carrying any of the activity or operation in which there is a large emission of gases or other substances which may lead to excess environmental pollution. It provides certain standards that ought to be maintained in which it is a must that no person is allowed to damage the environment and if a person is found guilty for causing damage to the environment by polluting the pollution pay principle. He can be asked for the 'exemplary damages' if he is found guilty of damaging the environment.

Section 8 provides that any person who is handling the hazardous substance needs to comply with the procedural safeguards.

If the emission is to a very large extent or is apprehended through an accident, the person responsible for it is obliged to mitigate from that place in order to reduce the environmental pollution.

He is also required to give intimation to the higher authorities regarding the same and for that one receipt of remedies shall be required to prevent or to mitigate the environmental pollution.

In subsection (1) it is also provided that if a person wilfully delays or obstructs the person designated by the central government, he will be charged guilty under this act.

Procedure to be followed for the legal proceedings under the Environmental Protection Act

The following procedure needs to be followed for the legal proceedings.

1. The notice must be delivered to the occupier or his agent and it must indicate the intention or the analysis of the issue of a particular case.
2. Samples of the extent of pollution to be checked must be taken in the presence of the occupier or the agent.
3. The sample should be sent directly to the laboratory without any delay in the process.
4. The sample should be kept in a container with a label on it and it should have the signature of both the occupier party and the person taking the sample.

The Central Government must recognise at least one or two laboratories under this act and the report of analysis can be used as evidence of the facts stated in any procedure done under this act.

Penalty for the Contravention of Rules and orders of this Act

The most important goal of the environmental protection act is to provide for the punishment of the offence of endangering the human environment, safety and health.

Section 15 states that any person who is not complying to the provisions stated in this act and its failure or contravention will make him liable and punishable as the following:

1. In terms of imprisonment up to the extension of the time span of five years.
2. With fine which may extend to the term of one lakh rupee.
3. Or the liable person has to deal with both of the punishments.
4. If the contravention of the offence that continues for one year, the punishment can extend up to seven years.

Section 24 states a provision that if any offence is punishable under the Environment Protection Act and also under other Act, then the person shall not be liable under the Environment Protection Act, 1986.

Offences by the Companies and the Governmental Departments

Section 16 of the Environmental Protection Act, 1986 explains the principle of vicarious liability of the In-charge person such as directors, Managers and secretary etc. for if the offence is committed by any company.

He is not held liable for the following:

1. If the offence is committed without his knowledge.
2. If he has taken diligent care to prevent the commission of the offence.

There cannot be a liability on his part if he proves the following.

1. That the offence was committed without his knowledge.
2. If he has exercised the diligent care to prevent the commission of any offence.

Who can make a complaint?

A complaint can be filed by two parties:

1. The Central Government or any authority associated with the Government.
2. Any person who has given the notice of complaint within the term of sixty days of the alleged offence or has the intention to make the complaint to Governmental authority or the Central Government.

Source:<https://blog.ipleaders.in/environment-protection-act-1986/>

Though many other Acts related to Environment have been introduced to the Indian legislature but the Environment Protection Act, 1986 has been drafted to cover all the aspects and problems of environment.

7.3 Various pollution prevention laws in India

In the following two sub-sections deal with the two important enactments like The Water (Prevention and Control of Pollution) Act, 1974 and Air (Prevention and Control of Pollution) Act, 1981.

7.3.1 The Water (Prevention and Control of Pollution) Act, 1974

The Water (Prevention and Control of Pollution) Act, 1974 was applied in the first instance to the whole of the States of Assam, Bihar, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Karnataka, Kerala, Madhya Pradesh, Rajasthan, Tripura and West Bengal and the Union Territories; and it shall apply to such other State which adopts this Act by resolution passed in that behalf under clause (1) of article 252 of the Constitution. It shall come into force, at once in the States of Assam, Bihar, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Karnataka, Kerala, Madhya Pradesh, Rajasthan, Tripura and West Bengal and in the Union territories, and in any other State which adopts this Act under clause (1) of article 252 of the Constitution on the date of such adoption and any reference in this Act to the commencement of this Act shall, in relation to any State or Union territory, mean the date on which this Act comes into force in such State or Union territory.

Objectives:

The Water (Prevention and Control of Pollution) Act, 1974 was established to provide for the prevention and control of water pollution and the maintaining or restoring of wholesomeness of water, for the establishment, with a view to carrying out the purposes aforesaid, of Boards for the prevention and control of water pollution, for conferring on and assigning to such Boards powers and functions relating thereto and for matters connected therewith. (<http://www.pcbassam.org/rules/WaterAct.pdf>)

Definitions:

In this Act, unless the context otherwise requires,-

- (a) "Board" means the Central Board or a State Board;
- (b) "Central Board" means the Central Pollution Control Board Constituted under section 3;]
- (c) "member" means a member of a Board and includes the chairman thereof;
- (d) "occupier", in relation to any factory or premises, means the person who has control over the affairs of the factory or the premises, and includes, in relation to any substance, the person in possession of the substance;]
- (dd) "outlet" includes any conduit pipe or channel, open or closed carrying sewage or trade effluent or any other holding arrangement which causes or is likely to cause, pollution;

- (e) "pollution" means such contamination of water or such alteration of the physical, chemical or biological properties of water or such discharge of any sewage or trade effluent or of any other liquid, gaseous or solid substance into water (whether directly or indirectly) as may, or is likely to, create a nuisance or render such water harmful or injurious to public health or safety, or to domestic, commercial, industrial, agricultural or other legitimate uses, or to the life and health of animals or plants or of aquatic organisms;
- (f) "prescribed" means prescribed by rules made under this Act by the Central Government or, as the case may be, the State Government;
- (g) "sewage effluent" means affluent from any sewerage system or sewage disposal works and includes sullage from open drains; 1 [(gg) "sewer" means any conduit pipe or channel, open or closed, carrying sewage or trade effluent;]
- (h) "State Board" means a State Pollution Control Board constituted under section 4];
- (i) "State Government" in relation to a Union territory means the Administrator thereof appointed under article 239 of the Constitution;
- (j) "stream" includes- (i) river; (ii) water course (whether flowing or for the time being dry); (iii) inland water (whether natural or artificial); (iv) sub-terranean waters; (v) sea or tidal waters to such extent or, as the case may be, to such point as the State Government may, by notification in the Official Gazette, specify in this behalf;
- (k) "trade effluent" includes any liquid, gaseous or solid substance which is discharged from any premises used for carrying on any 3 [Industry, operation or process, or treatment and disposal system], other than domestic sewage.

(<http://www.pcbassam.org/rules/WaterAct.pdf>)

Central Board and its functions as per the Water (Prevention and Control of Pollution) Act, 1974

The Central Board shall consist of the following members, namely:- (a) a full-time chairman, being a person having special knowledge or practical experience in respect of matters relating to environmental protection or a person having knowledge and experience in administering institutions dealing with the matters aforesaid, to be nominated by the Central Government; (b) such number of officials, not exceeding

five] to be nominated by the Central Government to represent that Government; (c) such number of persons, not exceeding five to be nominated by the Central Government, from amongst the members of the State Boards, of whom not exceeding two shall be from those referred to in clause (c) of sub-section (2) of section 4; (d) such number of non-officials, not exceeding three, to be nominated by the Central Government, to represent the interests of agriculture, fishery or industry or trade or any other interest which, in the opinion of the Central Government, ought to be represented; (e) two persons to represent the companies or corporations owned, controlled or managed by the Central Government, to be nominated by that Government; (f) a full-time member-secretary, possessing qualifications, knowledge and experience of scientific, engineering or management aspects of pollution control, to be appointed by the Central Government. The Central Board shall be a body corporate with the name aforesaid having perpetual succession and a common seal with power, subject to the provisions of this Act, to acquire, hold and dispose of property and to contract, and may, by the aforesaid name, sue or be sued.

Functions of Central Board:

- (1) Subject to the provisions of this Act, the main function of the Central Board shall be to promote cleanliness of streams and wells in different areas of the States.
- (2) In particular and without prejudice to the generality of the foregoing function, the Central Board may perform all or any of the following functions, namely:—
 - (a) advise the Central Government on any matter concerning the prevention and control of water pollution;
 - (b) co-ordinate the activities of the State Boards and resolve disputes among them;
 - (c) provide technical assistance and guidance to the State Boards, carry out and sponsor investigations and research relating to problems of water pollution and prevention, control or abatement of water pollution;
 - (d) plan and organise the training of persons engaged or to be engaged in programmes for the prevention, control or abatement of water pollution on such terms and conditions as the Central Board may specify;
 - (e) organise through mass media a comprehensive programme regarding the

prevention and control of water pollution [(ee) perform such of the functions of any State Board as may be specified in an order made under sub-section (2) of section 18];

- (f) collect, compile and publish technical and statistical data relating to water pollution and the measures devised for its effective prevention and control and prepare manuals, codes or guides relating to treatment and disposal of sewage and trade effluents and disseminate information connected therewith;
- (g) lay down, modify or annul, in consultation with the State Government concerned, the standards for a stream or well: Provided that different standards may be laid down for the same stream or well or for different streams or wells, having regard to the quality of water, flow characteristics of the stream or well and the nature of the use of the water in such stream or well or streams or wells; 1 Ins. by Act 53 of 1988, s. 8. [Act 6 of 1974] (h) plan and cause to be executed a nation-wide programme for the prevention, control or abatement of water pollution; (i) perform such other functions as may be prescribed. (3) The Board may establish or recognise a laboratory or laboratories to enable the Board to perform its functions under this section efficiently, including the analysis of samples of water from any stream or well or of samples of any sewage or trade effluents.

(<http://www.pcbassam.org/rules/WaterAct.pdf>)

State Board and its functions as per the Water (Prevention and Control of Pollution) Act, 1974

- (1) The State Government shall, with effect from such date as it may, by notification in the Official Gazette, appoint, constitute a State Pollution Control Board, under such name as may be specified in the notification, to exercise the powers conferred on and perform the functions assigned to that Board under this Act. A State Board shall consist of the following members, namely:-
 - (a) a chairman, being a person having special knowledge or practical experience in respect of matters relating to environmental protection or a person having knowledge and experience in administering institutions dealing with the matters aforesaid, to be nominated by the State

Government. Provided that the chairman may be either whole-time or part-time as the State Government may think fit;

- (b) such number of officials, not exceeding five, to be nominated by the State Government to represent that Government;
- (c) such number of persons, not exceeding five, to be nominated by the State Government from amongst the members of the local authorities functioning within the State;
- (d) such number of non-officials, not exceeding three to be nominated by the State Government to represent the interest of agriculture, fishery or industry or trade or any other interest which, in the opinion of the State Government, ought to be represented;
- (e) two persons to represent the companies or corporations owned, controlled or managed by the State Government, to be nominated by that Government;
- (f) a full-time member-secretary, possessing qualifications, knowledge and experience of scientific, engineering or management aspects of pollution control, to be appointed by the State Government. Every State Board shall be a body corporate with the name specified by the State Government in the notification under sub-section (1), having perpetual succession and a common seal with power, subject to the provisions of this Act, to acquire, hold and dispose of property and to contract, and may, by the said name, sue or be sued. Notwithstanding anything contained in this section, no State Board shall be constituted for a Union territory and in relation to a Union Territory; the Central Territory: Provided that in relation to an Union Territory the Central Board may delegate all or any of its powers and functions under this sub-section to such person or body of persons as the Central Government may specify

Function of State Board:

- (1) Subject to the provisions of this Act, the functions of a State Board shall be—
 - (a) to plan a comprehensive programme for the prevention, control or abatement of pollution of streams and wells in the State and to secure the execution thereof;

- (b) to advise the State Government on any matter concerning the prevention, control or abatement of water pollution;
- (c) to collect and disseminate information relating to water pollution and the prevention, control or abatement thereof;
- (d) to encourage, conduct and participate in investigations and research relating to problems of water pollution and prevention, control or abatement of water pollution;
- (e) to collaborate with the Central Board in organising the training of persons engaged or to be engaged in programmes relating to prevention, control or abatement of water pollution and to organise mass education programmes relating thereto;
- (f) to inspect sewage or trade effluents, works and plants for the treatment of sewage and trade effluents and to review plans, specifications or other data relating to plants set up for the treatment of water, works for the purification thereof and the system for the disposal of sewage or trade effluents or in connection with the grant of any consent as required by this Act;
- (g) lay down, modify or annul effluent standards for the sewage and trade effluents and for the quality of receiving waters (not being water in an inter State stream) resulting from the discharge of effluents and to classify waters of the State;
- (h) to evolve economical and reliable methods of treatment of sewage and trade effluents, having regard to the peculiar conditions of soils, climate and water resources of different regions and more especially the prevailing flow [Act 6 of 1974];
- (i) to evolve methods of utilisation of sewage and suitable trade effluents in agriculture;
- (j) to evolve efficient methods of disposal of sewage and trade effluents on land, as are necessary on account of the predominant conditions of scant stream flows that do not provide for major part of the year the minimum degree of dilution;
- (k) to lay down standards of treatment of sewage and trade effluents to be

discharged into any particular stream taking into account the minimum fair weather dilution available in that stream and the tolerance limits of pollution permissible in the water of the stream, after the discharge of such effluents;

- (l) to make, vary or revoke any order— (i) for the prevention, control or abatement of discharge of waste into streams or wells; (ii) requiring any person concerned to construct new systems for the disposal of sewage and trade effluents or to modify, alter or extend any such existing system or to adopt such remedial measures as are necessary to prevent control or abate water pollution;
- (m) to lay down effluent standards to be complied with by persons while causing discharge of sewage or sullage or both and to lay down, modify or annul effluent standards for the sewage and trade effluents;
- (n) to advise the State Government with respect to the location of any industry the carrying on of which is likely to pollute a stream or well;
- (o) to perform such other functions as may be prescribed or as may, from time to time be entrusted to it by the Central Board or the State Government. (2) The Board may establish or recognise a laboratory or laboratories to enable the Board to perform its functions under this section efficiently, including the analysis of samples of water from any stream or well or of samples of any sewage or trade effluents.

(<http://www.pcbassam.org/rules/WaterAct.pdf>)

Penalty for Contravention of certain provisions of the Act:

Whoever contravenes any of the provisions of this Act or fails to comply with any order or direction given under this Act, for which no penalty has been elsewhere provided in this Act, shall be punishable with imprisonment which may extend to three months or with fine which may extend to ten thousand rupees or with both and in the case of a continuing contravention or failure, with an additional fine which may extend to five thousand rupees for every day during which such contravention or failure continues after conviction for the first such contravention or failure.⁸

⁸ <http://www.pcbassam.org/rules/WaterAct.pdf>

7.3.2 The Air (Prevention and Control of Pollution) Act, 1981

This Act may be called the Air (Prevention and Control of Pollution) Act, 1981. It extends to the whole of India and shall come into force on such date¹ as the Central Government may, by notification in the Official Gazette, appoint.

Objectives:

An Act to provide for the prevention, control and abatement of air pollution, for the establishment, with a view to carrying out the aforesaid purposes, of Boards, for conferring on and assigning to such Boards powers and functions relating thereto and for matters connected therewith.

Definitions: In this Act, unless the context otherwise requires,-

- (a) "air pollutant" means any solid, liquid or gaseous substance (including noise) present in the atmosphere in such concentration as may be or tend to be injurious to human beings or other living creatures or plants or property or environment;
- (b) "air pollution" means the presence in the atmosphere of any air pollutant;
- (c) "approved appliances" means any equipment or gadget used for the bringing of any combustible material or for generating or consuming any fume, gas of particulate matter and approved by the State Board for the purpose of this Act;
- (d) "approved fuel" means any fuel approved by the State Board for the purposes of this Act; (e) "automobile" means any vehicle powered either by internal combustion engine or by any method of generating power to drive such vehicle by burning fuel;
- (f) "Board" means the Central Board or State Board;
- (g) "Central Board" means the Central Board for the Prevention and Control of Water Pollution constituted under section 3 of the Water (Prevention and Control of Pollution) Act, 1974;
- (h) "chimney" includes any structure with an opening or outlet from or through which any air pollutant may be emitted,
- (i) "control equipment" means any apparatus, device, equipment or system to

- control the quality and manner of emission of any air pollutant and includes any device used for securing the efficient operation of any industrial plant;
- (j) "emission" means any solid or liquid or gaseous substance coming out of any chimney, duct or flue or any other outlet;
 - (k) "industrial plant" means any plant used for any industrial or trade purposes and emitting any air pollutant into the atmosphere;
 - (l) "member" means a member of the Central Board or a State Board, as the case may be, and includes the Chairman thereof,
 - (m) "occupier", in relation to any factory or premises, means the person who has control over the affairs of the factory or the premises, and includes, in relation to any substance, the person in possession of the substance;
 - (n) "prescribed" means prescribed by rules made under this Act by the Central Government or as the case may be, the State Government;
 - (o) "State Board" means,- (i) in relation to a State in which the Water (Prevention and Control of Pollution) Act, 1974, is in force and the State Government has constituted for that State a State Board for the Prevention and Control of Water Pollution under section 4 of that Act, the said State Board; and (ii) in relation to any other State, the State Board for the Prevention and Control of Air Pollution constituted by the State Government under section 5 of this Act.⁹

Central Board and its functions as per the Air (Prevention and Control of Pollution) Act, 1981

The Central Board for the Prevention and Control of Water Pollution constituted under section 3 of the Water (Prevention and Control of Pollution) Act, 1974 (6 of 1974), shall, without prejudice to the exercise and performance of its powers and functions under this Act, exercise the powers and perform the functions of the Central Board for the Prevention and Control of Air Pollution under this Act.

Function of Central Board

- (1) Subject to the provisions of this Act and without prejudice to the

⁹ <http://www.pcbassam.org/rules/WaterAct.pdf>

performance, of its functions under the Water (Prevention and Control of Pollution) Act, 1974 (6 of 1974), the main functions of the Central Board shall be to improve the quality of air and to prevent, control or abate air pollution in the country.

- (2) In particular and without prejudice to the generality of the foregoing functions, the Central Board may-
- (a) advise the Central Government on any matter concerning the improvement of the quality of air and the prevention, control or abatement of air pollution;
 - (b) plan and cause to be executed a nation-wide programme for the prevention, control or abatement of air pollution;
 - (c) co-ordinate the activities of the State and resolve disputes among them;
 - (d) provide technical assistance and guidance to the State Boards, carry out and sponsor investigations and research relating to problems of air pollution and prevention, control or abatement of air pollution;
 - (e) advise the State Government on any matter concerning the prevention, control or abatement of air pollution;
 - (f) collect and disseminate information relating to air pollution;
 - (g) collaborate with the Central Board in organising the training of persons engaged or to be engaged in programmes relating to prevention, control or abatement of air pollution and to organise mass-education programme relating thereto;
 - (h) inspect, at all reasonable times, any control equipment, industrial plant or manufacturing process and to give, by order, such directions to such persons as it may consider necessary to take steps for the prevention, control or abatement of air pollution;
 - (i) inspect air pollution control areas at such intervals as it may think necessary, assess the quality of air therein and take steps for the prevention, control or abatement of air pollution in such areas;
 - (j) lay down, in consultation with the Central Board in regard to the standards for the quality of air laid down by the Central Board, standards for emission of air pollutants into the atmosphere from industrial plants and automobiles or for the discharge of any air pollutant into the atmosphere from any other source whatsoever not being a ship or an aircraft provided that different standards for emission may be laid down under this clause for different industrial plants having regard to the quantity and composition of emission of air pollutants into the atmosphere from such industrial plants;
 - (k) advise the State Government with respect to the suitability of any premises or location for carrying on any industry which is likely to cause air pollution;
 - (l) perform such other functions as may be prescribed or as may, from time to time, be

entrusted to it by the Central Board or the State Government; (m) to do such other things and to perform such other acts as it may think necessary for the proper discharge of its functions and generally for the purpose of carrying into effect the purposes of this Act.

State Board and its functions as per the Air (Prevention and Control of Pollution) Act, 1981

A State Board may establish or recognise a laboratory or laboratories to perform its functions under this section efficiently. - No State Board shall be constituted for a Union territory and in relation to a Union territory, the Central Board shall exercise the powers and perform the functions of a State Board under this Act for that Union territory provided that in relation to any Union territory the Central Board may delegate all or any of its power and functions under this section to such person or body of persons as the Central Government may specify.

In any State in which the Water (Prevention and Control of Pollution) Act, 1974 (6 of 1974), is in force and the State Government has constituted for that State, a State Board for the Prevention and Control of Water Pollution under section 4 of that Act, such State Board shall be deemed to be the State Board for the Prevention and Control of Air Pollution constituted under section 5 of this Act and accordingly that State Board for the Prevention and Control of Water Pollution shall, without prejudice to the exercise and performance of its powers and functions under that Act, exercise the powers and perform the functions of the State Board for the Prevention and Control of Air Pollution under this Act.

Constitution of State Board - (1) In any State in which the Water (Prevention and Control of Pollution) Act, 1974 (6 of 1974), is not in force, or that Act is in force but the State Government has not constituted a State Board for the Prevention and Control of Water Pollution under that Act, the State Government shall, with effect from such date as it may, by notification in the Official Gazette, appoint, constitute a State Board for the Prevention and Control of Air Pollution under such name as may be specified in the notification, to exercise the powers conferred on, and perform the functions assigned to, that Board under this Act.

(2) A State Board constituted under this Act shall consist of the following members, namely:-

(a) a Chairman, being a person, having a person having special knowledge

or practical experience in respect of matters relating to environmental protection, to be nominated by the State Government provided that the Chairman may be either whole-time or part-time as the State Government may think fit; (b) such number of officials, not exceeding five, as the State Government may think fit, to be nominated by the State Government to represent that Government; (c) such number of persons, not exceeding five, as the State Government may think fit, to be nominated by the State Government from amongst the members of the local authorities functioning within the State; (d) such number of non-officials, not exceeding three, as the State Government may think fit, to be nominated by the State Government to represent the interest of agriculture, fishery or industry or trade or labour or any other interest, which in the opinion of that government, ought to be represented; (e) two persons to represent the companies or corporations owned, controlled or managed by the State Government, to be nominated by that Government; (f) a full-time member-secretary having such qualifications knowledge and experience of scientific, engineering or management aspects of pollution control as may be prescribed, to be appointed by the State Government. Provided that the State Government shall ensure that not less than two of the members are persons having special knowledge or practical experience in, respect of matters relating to the improvement of the quality of air or the prevention, control or abatement of air pollution.

- (3) Every State Board constituted under this Act shall be a body corporate with the name specified by the State Government in the notification issued under sub-section (1), having perpetual succession and a common seal with power, subject to the provisions of this Act, to acquire and dispose of property and to contract, and may by the said name sue or be sued.

Penalty for Contravention of certain provisions of the Act

Whoever contravenes any of the provisions of this Act or any order or direction issued thereunder, for which no penalty has been elsewhere provided in this Act, shall be punishable with imprisonment for a term which may extend to three months or with fine which may extend to ten thousand rupees or with both, and in the case of continuing contravention, with an additional fine which may extend to five thousand

rupees for every day during which such Contravention continues after conviction for the first such contravention.¹⁰

7.4 Summary

The Government of India enacted the Environment Protection Act of 1986 under Article 253 of the Constitution which came into force on 19 November 1986 in response to Bhopal Disaster after Wildlife Protection Act, 1972; The Water (Prevention and Control of Pollution) Act, 1974 and Air (Prevention and Control of Pollution) Act, 1981. The Act as in the introduction reflects that it is "an Act to provide for the protection and improvement of environment and for matters connected therewith: Whereas the decisions were taken at the United Nations Conference on the Human Environment held at Stockholm in June, 1972, in which India participated, to take appropriate steps for the protection and improvement of human environment. Whereas it is considered necessary further to implement the decisions aforesaid in so far as they relate to the protection and improvement of environment and the prevention of hazards to human beings, other living creatures, plants and property".

The Water (Prevention and Control of Pollution) Act, 1974 was established to provide for the prevention and control of water pollution and the maintaining or restoring of wholesomeness of water, for the establishment, with a view to carrying out the purposes aforesaid, of Boards for the prevention and control of water pollution, for conferring on and assigning to such Boards powers and functions relating thereto and for matters connected therewith.

Air (Prevention and Control of Pollution) Act, 1981 extends to the whole of India and shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint. An Act to provide for the prevention, control and abatement of air pollution, for the establishment, with a view to carrying out the aforesaid purposes, of Boards, for conferring on and assigning to such Boards powers and functions relating thereto and for matters connected therewith.

¹⁰ <http://www.pcbassam.org/rules/WaterAct.pdf>

7.5 Questions

Objective type:

1. The Air (Prevention and Control of Pollution) Act was declared in (a) 1981, (b) 2001, (c) 2011, (d) 1971.
2. The Water (Prevention and Control of Pollution) Act was enacted in (a) 1971, (b) 2000, (c) 1974, (d) 1998.

Short Answer type:

1. Explain the principles of The Environmental Protection Act, 1986
2. What are the objectives of The Environmental Protection Act, 1986

Long Answer type:

1. Narrate the functions of Central and State Board under The Water (Prevention and Control of Pollution) Act, 1974
2. Discuss the different functions of Central and State Board under Air (Prevention and Control of Pollution) Act, 1981

7.6 Further Readings

Aswathappa, K. (2019). *Essentials of Business Environment* (15th Revised Edition), Himalaya Publishing House.

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Unit 8 □ International and Technological Environment

Structure

8.0 Objectives

8.1 Introduction

8.2 International Environment - Concept and Importance

8.3 Globalisation - Concept and Reason

8.4 Multinational Corporations

8.4.1 Multinational Corporations - Concept and Characteristics

8.4.2 Multinational Corporations - Benefits and Dangers

8.5 World Trade Organisation (WTO) - Origin and Function

8.5.1 Difference between GATT and WTO

8.5.2 WTO Agreements

8.6 Trading Blocs and India

8.7 Government Policy on Foreign Investment

8.8 Foreign Collaboration and Indian Experience

8.9 Summary

8.10 Question

8.11 Further Readings

8.0 Objectives

After going through the unit, you will be able to understand the—

- Concept of International business environment
- Meaning and benefits of MNCs
- Functions of WTO
- Concept of SEZ
- Need of foreign collaboration

8.1 Introduction

International Business (IB) is a multidimensional concept comprising of various risks and issues like exchange risks, political risks, cultural differences, legal and taxation issues, economic, socio-cultural and technological environmental factors. It is the business environment surrounding of which the international companies run their businesses. It connects only with those big enterprises having operating units outside their own country. It also relates with the institutional arrangements of managerial direction of economic activity in abroad for example joint ventures with locally owned business or with foreign governments. This unit throws light on the concept and importance of International Business, concept and reason of Globalisation, concepts, characteristics, benefits and dangers of Multinational Companies (MNCs), origin and function of World Trade Organisation (WTO), Trading blocs, Government policy on Foreign Investment and Foreign Collaboration and Indian Experience.

8.2 International Business Environment - Concept and Importance

IB includes any type of business activity that crosses national borders. Sometimes, IB is synonymously used for Foreign Business Operations (domestic operations within a foreign country) and Comparative Business (similarities and differences among countries) but these two fields do not put their interest on searching the facts related to the cross national boundaries activities. For example, the vital question of potential conflicts between the nation-state and the multinational firm, which receives major attention in IB, is not like to be centred or even peripheral in foreign operations and comparative business. IB relates massive in scale and deals with exercising a major influence over political, economic and social from many types of comparative business studies and from knowledge of many aspects of foreign business operations.

International competition may not be the matter of choice when survival is at stake. However, only firms with previously substantial market share and international experience could have stronger economies, better standard of living and steadier growth. As per Operational for Economic Co-Operation and Development (OECD), if a country deals with higher scale of international trade practices (Germany, Japan, Switzerland etc.), it can enjoy boosted standard of living of its countrymen, while the countries having lower ratios of international trade (Greece, Spain, Italy etc.) are facing some serious economic challenges and problems. Besides, exporting opens new markets for a company to increase its sales. Therefore, a company having a good

export market would be in a better position and the other companies supplying materials to the exporters also can get the flavour. Companies doing export can create job opportunities 2% to 4% higher than other companies do not involve in any export business (<https://bizfluent.com/about-6656701-trade-agreements-important-.html>). In the same line, the imported products result lower price and expands the choices for the customers of better quality products which would force the local companies to increase product lines at lower price and better quality. IB frames better international relationship among different countries by removing rivalry and promoting peace and harmony with confidence and good faith. For example, IB makes good trade relationship between United States and China even though having significant political differences. 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.

A policy of a free international trade environment when on the one hand strengthens the economies of all countries with imports and exports at lower price, better quality of products offering higher standard of living with employment generation, on the other hand, causes for loss of some jobs. Therefore, it has a stronger synergistic effect on the creation of new jobs and improved economic conditions.

8.3 Globalisation - Concept and Reason

Concepts: Globalisation is referred to as the integration of countries into world economy or one global market involving removal of all trade barriers between countries. It is the shift towards a more integrated and interdependent world economy with two main components - the globalization of market and the globalization of production.¹¹ Further, as per International Monetary Fund, Globalisation is the growing economic interdependence of countries world-wide through increasing volume and variety of cross broader transaction of goods and services and of international capital flows and also through the more rapid and widespread diffusion of technology. Therefore, it is a process of internationalization of products, markets, technologies, capital, human resources, information and culture and characterised by growing interdependence between the countries of the world with free flow of goods, services, capital technology and labour among different countries e.g. movement of semi-conductor industry to South Korea and Taiwan; movement of knowledge work and services to India etc.

¹¹ Hill, C. (1999). International Business - Competing in the Global Market Place, McGraw Hill, Boston.

Globalisation deals with five stages of internationalization (a) domestic companies export to foreign countries through their dealers/distributors, (b) domestic companies may export to foreign countries directly where an export department may be established for those purpose, (c) domestic company establishes production and marketing operations in key foreign countries, (d) domestic companies may set up a full-fledged company in the foreign country with all the facilities, (e) domestic companies become true transnational companies by serving the needs of foreign customers just like the host country's company serves. Therefore, to smoothen the process of Globalisation, there should be removal of quotas and tariffs; liberalization of Government rules and regulations; freedom to business and industry; removal of bureaucratic formalities and procedures; adequate infrastructure; incentives for research and development; administrative and government support to industry; development of money market and capital market; competition on the basis of quality, price, delivery and customer services.

Globalisation contains its features like (i) expansion of business operation throughout the world, (ii) abolition of differences between domestic and foreign market leading to integration of individual countries of the world into one global market, (iii) creating interdependency between nations, (iv) buying and selling of goods and services from/to any country in the world, (v) development of products based on the world market standard, (vi) availability of manufacturing and marketing facilities at anywhere in the world, (vii) global orientation of corporate strategies, organizational structure and managerial practices.

In the effort of adopting Globalisation, the best mode of process should be considered from the options like exporting, licensing and franchising, contract manufacturing, management contract, turnkey contract, third country location, joint venture and direct investment. Exporting is the simplest and traditional mode of entering foreign market. Domestic company may export its products directly or through intermediaries in foreign market. But it may not be the best alternative due to import barrier in foreign markets. Licensing and franchising is the easy way to get entered into foreign market because little involvement of efforts and commitments of resources are involved and in this context, a firm in one country permits a firm in another country to use its patents, trademarks, technology, copyright, technical know-how and marketing skill against royalty or fee. In contract manufacturing, the company enters into a contract with a firm in the foreign market to manufacture or assemble the product. The company, however, retains the responsibility of marketing the product. In management contract, a company contracts with a firm or government in a foreign country to manage the entire project or undertaking for a specified period. Under

turnkey contract, the company contracts with a foreign firm to design and build an entire operation. In third country location, a company may have to enter the foreign market from a third country when commercial transactions between two countries are not possible. Joint Venture in mode of Globalisation can be possible when local firm and foreign firm share ownership and management in a joint venture. The strategy which provides adomestic company complete control over production and quality with a fully owned manufacturing facilities abroad, can be considered as direct investment.

Reasons:

Globalisation offers several opportunities which prove its importance in international market. It attracts, wider market, rapid industrialization, greater specialization, competitive gains, higher production, price stabilization, increase in employment and income, higher standard of living, international economic cooperation and world peace.

Globalisation exhibits larger markets to domestic firms to export their surplus output there. It helps to make free flow of capital and technology between two countries with which the developing countries would be benefited to get all production amenities from developed countries and thus can boost up industrialization with job opportunities. This ultimately encourages better welfare facilities for the countrymen like education, health, sanitation etc. Moreover, Globalisation assists a company to flourish in a specific sector having competitive or comparative advantage as it increases competition for domestic firms through imports and Multinational Corporation (MNCs). Additionally, it leads to spread up of manufacturing facilities in different countries and let the countries enjoy free trade and international competition to equalize price levels in international markets with economic co-operation (trade agreement, investment treaties, standardisation of commercial procedures, avoidance of double taxation etc.). Furthermore, it promotes cultural exchange and mutual understanding among different nations.

But Globalisation sometimes involve certain risks, threats and costs like interdependence between nations of the world, threat to domestic industries, unemployment, drain of basic resources, alien culture to local values etc.

Therefore, the ability of a country to maximize these gains depends on country's size, macroeconomic policy, infrastructure, technology, socio-economic institutions, quality of human resources, good governance in public services as well as in the corporate sector.

8.4 Multinational Corporations

Multinational Corporation (MNC) accounts for a significant share of the world's investment, production, employment and trade. The next two sub-sections deal with concept, characteristics, benefits and danger of these.

8.4.1 Multinational Corporation - Concept and Characteristics

As per United Nations, Multinational Corporation is an enterprise which controls assets - factories, mines, sales offices and the like - in two or more countries. International Labour Organisation (ILO) opined that the essential nature of the MNC lies in the fact that its managerial headquarters (called parent company) are located in one country (known as home country) while the enterprise carries out operations in a number of other countries (known as host countries) as well. Therefore, MNC is an enterprise which carries on business operations in more than one company. It extends its investments, manufacturing, marketing activities in several countries through a network of branches and subsidiaries known as foreign affiliates. In MNCs, decisions are decentralized where it operates like domestic company of the country and responds to the specific needs of each country's market.

Here, the term Multinational Corporation is interchangeably used with the terms International Corporation (has a domestic country orientation in so far as the overseas operations are treated as appendages to the headquarters), Global Corporation (produces in home country/globally and market globally/at home), Transactional Corporation (invests, produces, markets, operates, across the world for global competitiveness).

MNC is found under three models - Centralised, Regional and Multinational. Under Centralised model, companies put up an executive headquarters in their home country and build various manufacturing plants and production facilities in other countries with which tariffs and import quota can be avoided and lower production costs can be enjoyed. Under Regional Model, the company keeps its headquarters in one country that supervises a collection of offices located in other countries. It includes subsidiaries and affiliates all report to headquarters. Under Multinational Model, a parent company operates in the home country and puts up subsidiaries in different countries where the subsidiaries and affiliates are more independent in their operations.

Characteristics:

A Multinational Corporation is characterized by decentralized federation of assets

and responsibilities (Bartlett and Ghoshal). Firms that participate in international business, however, large they may be solely be exporting or by hunting technology are not multinational enterprises. Therefore, MNC finds its characteristics as large size, world-wide operation, centralised ownership and control, sophisticated technology, professional management, international market, high brand equity etc. Basically, MNC has very high assets and turnover where it has to own a huge amount of physical and financial assets with high target and substantial profitability. Besides, MNC maintains network of branches with production and marketing operations in different countries, while the source of command is found in one country (home country). MNC adopts sophisticated capital-intensive technology in production and marketing activities to achieve substantial growth which should be continuous by conducting merger and acquisition. MNCs, therefore, use to spend a great deal of money on marketing and advertising to sale out products and brands which are internationally standardized and made by top quality managers.

There are various factors which help the MNC to reach at its goal like market expansion, market superiorities, financial superiorities, technical superiorities etc. Companies in developed economies would expand their operations overseas to exploit the market abroad. MNC would also enjoy marketing superiorities over the domestic market due to (a) availability of more reliable and up-to-date information about market conditions, (b) popular brands and image and so reputation in the market, (c) more effective sales promotion technique, (d) wide distribution network, (e) transportation and warehousing facilities etc. For MNC, it would be very beneficial to set up business in countries having target consumer market. MNC is also financially superior to the domestic companies for having huge financial resources, more effective and economic utilization of funds through transfer of excess funds from other countries, easy access and mobilisation of financial capital market and different types of resources etc. Moreover, due to having strong research and development departments, foreign exchange reserve to import raw material, capital equipment and technology, MNC can invent and innovate new products and processes more easily and frequently than the domestic companies.

8.4.2 Multinational Corporation - Benefits and Danger

MNC though ensures benefits to both home and host country where it incorporates and works, some disadvantageous facts are also attached with its operations to both home and host countries. Table - 8.1 shows the benefits and danger of MNC as given to home and host country.

Table - 8.1 Benefits and danger of MNCs to Host and Home countries

Benefits of MNC	
Host Country	Home Country
<ul style="list-style-type: none"> ❖ Investment, employment and income would be increased ❖ Industrialisation and economic development are ensured for having growth of ancillary and service industries. ❖ Advanced technology to the host country is available. ❖ Sophisticated management technique in business firms is found. ❖ Capability of innovation and invention is increased. ❖ Competition and breaking of monopoly is found. ❖ National economy is integrated economically and culturally. 	<ul style="list-style-type: none"> ❖ World-wide marketing of product in home country is possible. ❖ Increase in employment opportunity is enjoyed. ❖ Increasing industrial activities is found. ❖ Improving Balance of Payment position through inflows of dividend and interest is present.
Danger of MNC	
Host Country	Home Country
<ul style="list-style-type: none"> ❖ Capital intensive technique may not be appropriate to developing countries, ❖ Economic and political sovereignty of developing countries may be undermined. ❖ Acquiring monopoly over the market would hamper the existence of domestic firms. ❖ Lower employability of domestic people for employing of foreign staff. ❖ Deployment of natural and non-renewable resources due to indiscriminate use. ❖ Repatriation of profit, dividend and royalty reduces Balance of Payment. ❖ Distortion of consumption pattern, undermining local culture and promoting conspicuous consumption. ❖ Ignorance of high priorities by investing in high profit sector. 	<ul style="list-style-type: none"> ❖ Disturbing proper structure of Balance of Payment due to transfer of capital. ❖ Loss of employment due to location of manufacturing and marketing facilities in abroad. ❖ Underdeveloped industrial and economic activities. ❖ Distorting home country's culture.

Source: Gupta, C.B. (2019), Business Environment, Sultan Chand and Sons, New Delhi.

MNC offers (i) inflow of capital, (ii) reduces government aid dependencies in the developing world, (iii) allows countries to purchase imports, (iv) provides local employment, (v) improves the local infrastructure, (vi) diversifies local economies, (vii) creates consistent consumer experiences, (viii) encourages more innovation, (ix) enforces minimum quality standards and (x) increases cultural awareness. MNC plays a leading role of capital inflow to the developing world with building factories, investing in training centres and supporting educational facilities with intention of improving their productive capacities. It ensures more access to the import/export market, better goods, more opportunities and higher wage standard to build up standard of living for the country-men. MNC puts special importance on infrastructural and educational development for the country where it operates and countrymen with whom the operation would be carried on. MNC ensures more variety in local production level depending mainly on agriculture. It would thus reduce reliance on commodities having volatile prices. MNC is incredibly diverse giving it an added strength. It actually considers the necessity of local market thinking to include new perspectives.

Nevertheless, MNC (a) creates higher environmental loss, (b) does not always leave profits local, (c) imports skilled labour and thus destroys employment generation from local community, (d) supports 'sweatshop' labour (weak labour conditions allow multinationals to lower wages to the greatest extent possible to pad their own profit margins), (f) creates one-way raw material resource consumption, (g) encourages political corruption, (h) builds legal monopoly and (i) puts other companies out of business.¹²

8.5 World Trade Organisation (WTO) - Origin and Function

Origin: The successor to General Agreement on Tariffs and Trade (GATT), The World Trade Organisation was established on 1st January, 1995 with its Head Office located at Geneva, Switzerland. It is the embodiment of the Uruguay Round. The day-to-day work of WTO is entrusted to the General Council. The Ministerial Conference is the highest authority of WTO consisting of all representative member nations. It meets almost every three years and is empowered to take decisions on all matters under the multilateral trade agreements. India is one of the founder members among 146 members of WTO.

¹² <https://vittana.org/19-advantages-and-disadvantages-of-multinational-corporations>

Functions of WTO

WTO offers (i) raising of standard of living, (ii) ensuring full employment, (iii) expanding production, trade in goods and services, (iv) optimizing use of world's resources and (v) enjoying sustainable development. Additionally, it performs (a) administering and implementing the multilateral trade agreement, (b) providing a forum for multilateral trade negotiations among the members, (c) overseeing national trade policies, (d) facilitating settlement of trade disputes among members, (e) cooperating with other international institutions involved in global policy making.

8.5.1 Difference between GATT and WTO

The General Agreement on Tariffs and Trade (GATT) (1947) was formed as a result of Bretton Woods Agreement as an international trade treaty which was signed by 23 nations. It was enacted to bolster the economic recovery which aimed at expanding world trade, by abolishing those trade barriers, such as reducing tariff, quota, subsidies etc. GATT took three main provisions (a) all member nations are considered as equal about tariff, (b) restrictions on the number of import and export were prohibited subject to some exceptions, (c) provision to encourage trade of developing countries. GATT remained till 1994, after which it was replaced by the World Trade Organisation (WTO), the sole international body concerned with the provisions of cross-country trade. Basically, there is an agreement called WTO agreement, which is duly signed and negotiated by member nations of the world and confirmed in their parliaments. WTO is a place, where the governments of member countries attempt to resolve their trade problems, encountered by them during the trade with other countries. It aimed at liberalizing trade, for the benefit of all the nations, but it also imposes certain barriers, such as to provide protection to consumers or stop the spreading a disease.

- ❖ GATT refers to an international multilateral treaty, signed by 23 nations to promote international trade and remove cross-country trade barriers. On the contrary, WTO is a global body which deals with the rules of international trade between member nations.
- ❖ While GATT is a simple agreement, there is no institutional existence, but have a small secretariat. Conversely, WTO is a permanent institution along with a secretariat.

- ❖ The participating nations are called as contracting parties in GATT, whereas for WTO, they are called as member nations.
- ❖ GATT commitments are provisional in nature which the government can make a choice to treat it as a permanent commitment or not after 47 years. On the other hand, WTO commitments are permanent, since the very beginning.
- ❖ The scope of WTO is wider than that of GATT in the sense that the rules of GATT are applied only when the trade is made in goods. As opposed to, WTO rules are applicable to services and aspects of intellectual property along with the goods.
- ❖ GATT agreement is primarily multilateral, while plurilateral agreement is added to it later. In contrast, WTO agreements are purely multilateral.
- ❖ The domestic legislation is allowed to continue in GATT, while the same is not possible in the case of WTO.
- ❖ The dispute settlement system of GATT was slower, less automatic and susceptible to blockages. Unlike, the dispute settlement system of WTO is very effective.

8.5.2 WTO Agreements

Box - 8.1 shows the WTO Agreement

WTO Agreements comprise the Agreement Establishing the World Trade Organization and its Annexes. Annexes 1A to 3 are integral parts of the Agreement and are binding on all members of the WTO ("single undertaking" mentioned earlier). The members are 153 countries as of February 2010. In contrast, the agreements included in Annex 4 are independent agreements and, therefore, would give binding only on the members that have accepted them. Below, we briefly describe each agreement of the WTO. This is an agreement for implementing the results of the Uruguay Round and establishing the World Trade Organization, which will be a framework for future multilateral trade negotiations. The Agreement comprises general provisions on the WTO's organization, membership, decision-making, etc. The General Agreement consists of: (i) the provisions of GATT, 1947 (including those amended by the terms of legal instruments that have taken effect before the entry into force of the WTO Agreement); (ii) legal instruments, such as

protocols and certifications relating to tariff concessions, protocols of accession, etc., that have taken effect under the GATT 1947 before the entry into force of the WTO Agreement; and (iii) the six understandings that are deemed to be an integral part of the GATT 1994, such as Article II:1(b) and Article XVII.

Agreement on Agriculture: The Agreement on Agriculture includes specific and binding commitments made by WTO Member governments in the three areas of market access, domestic support and export subsidization for strengthening GATT disciplines and improving agricultural trade. These commitments were implemented over a six-year period. The Agreement also includes provisions on the implementation of these commitments.

Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures: This agreement establishes multilateral frameworks for the planning, adoption and implementation of sanitary and phytosanitary measures to prevent such measures from being used for arbitrary or unjustifiable discrimination or for camouflaged restraint on international trade and to minimize their adverse effects on trade (see Chapter 10 "Standard and Conformity Assessment Systems").

Agreement on Textiles and Clothing: Textile trade was governed by the Multi-Fiber Arrangement (MFA) since 1974. However, the GATT principles had been undermined by import protection policies, etc. The agreement provides that textile trade should be deregulated by gradually integrating it into GATT disciplines over a 10-year transition period, which expired at the end of 2004.

Agreement on Technical Barriers to Trade (TBT): Standards and conformity assessment systems, such as industrial standards and safety/environment regulations, may become trade barriers if they are excessive or abused. This agreement aims at preventing such systems from becoming unnecessary trade barriers by securing their transparency and harmonization with international standards.

Agreement on Trade-Related Investment Measures (TRIMs): In relation to cross-border investment, countries receiving foreign investment may take various measures, including imposing requirements, conditions and In the Uruguay Round, negotiations were initially conducted with an eye toward expanding disciplines governing investment measures. However, the Agreement on Trade-Related Measures, which was the result of the negotiations, banned only those investment measures inconsistent with the provisions of Article? (principle of national treatment)

and Article XI (general elimination of quantitative restrictions) which have direct adverse effects on trade in goods. As examples, the Agreement cited local content requirements (which require that certain components be domestically manufactured) and trade balancing requirements.

Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 (Anti-Dumping Agreement): This agreement aims at tightening and codifying disciplines for calculating dumping margins and conducting dumping investigations, etc. in order to prevent anti-dumping measures from being abused or misused to protect domestic industries.

Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994 (Customs Valuation Agreement): In order to implement GATT Article VII (customs valuation) in a more consistent and reliable manner, this agreement specifies rules for the application of the article and aims to harmonize customs valuation systems on an international basis by eliminating arbitrary valuation systems.

Agreement on Pre-shipment Inspection (PSI): This agreement aims to secure transparency of PSI and to provide a mechanism for the solution of disputes between PSI agencies and exporters.

Note: Pre-shipment Inspection is a system under which a pre-shipment inspection company i.e. importing country (mostly developing countries) conducts inspection of the quality, volume, price, tariff classification, customs valuation, etc. of merchandise in the territory of the exporting country on behalf of the importing country's custom office and issues certificates

Agreement on Rules of Origin: This agreement provides a program for the harmonization of rules of origin for application to all non-preferential commercial policy instruments. It also establishes disciplines that must be observed in instituting or operating rules and provides for dispute settlement procedures and creates the rules of origin committee. However, details on the harmonization of rules of origin are left for future negotiations.

Agreement on Import Licensing Procedures: In order to prevent import licensing procedures of different countries from becoming unnecessary trade barriers, this agreement aims at simplifying administrative procedures and ensuring their fair operation.

Agreement on Subsidies and Countervailing Measures: This agreement aim at clarifying definitions of subsidies, strengthening disciplines by subsidy type (extension of the range of prohibited subsidies, etc.), and clarifying procedures for adopting countervailing tariffs.

Agreement on Safeguards This agreement aims at clarifying disciplines for requirements and procedures for imposing safeguards, and related measures, etc. in relation to the application of safeguards (emergency measures to restrict imports) of GATT Article XIX.

General Agreement on Trade in Services (GATS): This agreement provides general obligations regarding trade in services, such as most- favored-nation treatment and transparency. In addition, it enumerates 155 service sectors and stipulates that a member country cannot maintain or introduce, in the service sectors for which it has made commitments, market access restriction measures and discriminatory measures that are severer than those on the commitment table (see Chapter 11 "Trade in Services").

Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS): This agreement stipulates most-favored-nation treatment and national treatment for intellectual properties, such as copyright, trademarks,

geographical indications, industrial designs, patents, IC layout designs and undisclosed information. In addition, it requires Member countries to maintain high levels of intellectual property protection and to administer a system of enforcement of such rights. It also stipulates procedures for the settlement of disputes related to the agreement (see Chapter 12 "Protection of Intellectual Property Rights").
Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU).

This agreement provides the common rules and procedures for the settlement of disputes related to the WTO Agreements. It aims at strengthening dispute settlement procedures by prohibiting unilateral measures, establishing dispute settlement panels whose reports are automatically adopted, setting time frames for dispute settlement, establishing the Appellate Body, etc.

Trade Policy Review Mechanism (TPRM) Annex 3 provides the procedures for the Trade Policy Review Mechanism to conduct periodical reviews of Members'

trade policies and practices conducted by the Trade Policy Review Body (TPRB). Plurilateral Trade Agreements 1 Agreement on Trade in Civil Aircraft Concurrently with the Uruguay Round, negotiations were under way to revise the civil aircraft agreement (an agreement from the Tokyo Round) and strengthen disciplines on subsidies. However, no agreement has yet been reached and the agreement reached under the Tokyo Round remains in effect.

Agreement on Government Procurement: This agreement requires national treatment and non-discriminatory treatment in the area of government procurement (purchase or lease of goods and services by governments) and calls for fair and transparent procurement procedures. It also stipulates complaint and dispute settlement procedures. The new Government Procurement Agreement is based on the Agreement of 1979 (an agreement from the Tokyo Round), but expands its scope. The new Agreement covers the procurement of services (in addition to goods) and the procurement by sub-central government entities and government-related agencies (in addition to central government).

Source: <https://www.meti.go.jp/english/report/downloadfiles/2011WTO/2-00Overview.pdf>

8.6 Trading Blocs and India

Trade bloc is an intergovernmental agreement or often part of a regional intergovernmental organization where regional barriers to trade (tariffs and non-tariff barriers) are reduced or eliminated among the participating states. It is basically a free-trade zone, or near-free-trade zone, formed by one or more tax, tariff and trade agreements between two or more countries within a geographic region that protect them from imports from non-members and thus defends its members against global competition. It is a form of economic integration and can increasingly shape the pattern of the world trade where defense against the global competition is obtained through established tariffs on goods produced by member states, import quotas, government subsidies, onerous bureaucratic import processes, technical and other non-tariff barriers. In regional trading bloc, the member states also cooperate in economic, political, security, climatic and other issues affecting the region like similar levels of per capita GNP, geographic proximity, similar or compatible trading regimes and political commitment to the regional organization. Advocates of the worldwide free trade are usually opposed to the trading blocs which they argue and encourage regional trade as opposed to the global free trade. Box 8.2 reflects different Regional Trading Blocs.

Box 8.2 Different types of Regional Trading Blocs

- ❖ **Preferential Trade Area:** Preferential Trade Areas (PTAs) exist when countries within a geographic region agree to reduce or eliminate tariff barriers on selected goods imported from other members of the area. This is often the first small step towards the creation of a trading bloc.
- ❖ **Free trade area:** Free Trade Areas (FTAs) are created when 2 or more countries in a region agree to reduce or eliminate barriers to trade on all the goods coming from other members. This is the most basic form of economic cooperation. Member countries remove all barriers to trade among themselves but are free to independently determine trade policies with non-member nations. An example is the North American Free Trade Agreement (NAFTA).
- ❖ **Customs union:** This type provides for economic cooperation as in a free-trade zone. Barriers to trade are removed between member countries. The primary difference from the free trade area is that members agree to treat trade with non-member countries in a similar manner. The customs union involves the removal of the tariff barriers among the members, as well as the acceptance of the common (unified) external tariff in contradiction to the non-members. This means that the members may negotiate as a single bloc with third parties, such as with other trading blocs, or with the WTO. The Gulf Cooperation Council (GCC) for the Arab States of the Gulf is an example.
- ❖ **Common market:** A 'common market' is the first significant step towards full economic integration and occurs when member countries trade freely in all economic resources, not just tangible goods. This means that all barriers to trade in goods, services, capital and labour are removed. In addition, as well as removing tariffs, non-tariff barriers are also reduced and eliminated. For a common market to be successful there must also be a significant level of harmonization of macroeconomic policies and common rules regarding monopoly power and other anti-competitive practices. There may also be common policies affecting key industries, such as the Common Agricultural Policy (CAP) and Common Fisheries Policy (CFP) of the European Single Market (ESM). This type allows for the creation of economically integrated markets between member countries. Trade barriers are removed, as are any restrictions on the movement of labour and capital between member countries. Like customs unions, there is a common

trade policy for trade with non-member nations. The primary advantage to the workers is that they no longer need the visa or work permit to work in another member country of the common market. An example is the Common Market for Eastern and Southern Africa (COMESA).

- ❖ **Economic and monetary union:** This type is created when countries enter into an economic agreement to remove barriers to trade and adopt common economic policies. An example is the European Union (EU). Monetary union is a type of trade bloc which is composed of an economic union (common market and customs union) with a monetary union. Monetary union is established through a currency-related trade pact. An intermediate step between pure monetary union and a complete economic integration is the fiscal union. Economic and Monetary Union of the European Union with the Euro for the Euro-zone members is the example of monetary union.
- ❖ **Political union:** In order to be successful the more advanced integration steps are typically accompanied by the unification of economic policies (tax, social welfare benefits etc.), reductions in the rest of the trade barriers, introduction of the supranational bodies and gradual moves towards the final stage, a "political union". Political union is a final stage in the economic integration with more formal political links among the countries. A limited form of the political union may exist when two or more countries share common decision-making bodies and have common policies. It is the unification of previously separate nations. The unification of West & East Germany in 1990 is an example of the total political union.

Source: <https://enterslice.com/learning/regional-trading-blocs/>

Trading Bloc offers advantages to its member countries like (i) Free trade within the bloc (free access to each other's markets, members are encouraged to specialize), (ii) Market access and trade creation (free trade enables high-cost domestic producers to be replaced by lower-cost and more efficient imports), (iii) Economies of scale (application of scale economies, which will lead to lower costs and lower prices for consumers), (iv) Jobs (By removing the restrictions on the labour movement, economic integration can help expand job opportunities), (v) Protection (firms inside the bloc are protected from cheaper imports from outside) and (vi) Consensus and cooperation (regional understanding and similarities may also facilitate closer political cooperation).

But side-by-side the Trading Bloc would also have to face some disadvantages like (i) loss of benefits (the benefits of free trade among the countries in different blocs is lost), (ii) Distortion of trade (Trading blocs are likely to distort world trade, and reduce the beneficial effects of specialization and the exploitation of comparative advantage) and (iii) Inefficiencies and trade diversion (inefficient producers within the bloc can be protected from more efficient ones outside the bloc). Table - 8.2 reflects the world-wide different Regional Trading Blocs.

Table- 8.2 Regional trading Blocs

Free Trade Area (FTA)	It is a designated group of countries that have agreed to eliminate tariffs, quotas and preferences on goods and services traded between them. A FTA is formed through a free trade agreement. Unlike a customs union, members of a free trade area do not have the same policies with respect to non-members, meaning different quotas and customs. Example: Asia-Pacific Trade Agreement (APTA), European Economic Area (EEA), South Asia Free Trade Agreement (SAFTA) etc.
European Common Market (ECM)	A common market is a customs union with common policies on product regulation and freedom of movement of the factors of production (capital and labour) and of enterprise. Example: Economic and Monetary Community of Central Africa (CEMAC), Arab Customs Union etc.
European Union (EU)	EU is one of the largest economic and political entities in the world. It is the single market with common trade policy and single currency (euro).
European Free Trade Association (EFTA)	EFTA (5th May, 1960) was set up by those European nations which could not join the EU. It provides for the liberalisation of trade among the member countries.
Latin American Free Trade Association (LAFTA)	Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay jointly set up LAFTA (2nd January, 1962) with its main goal as to eliminate all duties and restrictions so as to create a free trade zone in Latin America.

<p>South Asian Free Trade Area (SAFTA)</p>	<p>SAFTA (2006) aimed at abolition of all kinds of trade and tariff restrictions. Ultimately it will pave the way for the creation of common market with common currency. The SAFTA agreement allows any member country to pull out of the treaty at any time.</p>
<p>European Economic Community (EEC) or European Common Market (ECM)</p>	<p>The EEC (1st January, 1958) was set up by six European nations. It consists of 15 countries in Europe. The main objective of EEC is to promote a harmonious development by economic activities, a continuous and balanced expansion, increase in stability, accelerated raising of the standard of living and closer relations between the member states belonging to it.</p>
<p>North American Free Trade Agreement (NAFTA)</p>	<p>NAFTA (1st January, 1994) helped all the member countries in increasing industrial development, employment, income and living standards. However, this trade bloc is a major hurdle for the globalisation of business as two major developed countries are involved in this agreement.</p>
<p>Association of South-East Asian Nations (ASEAN)</p>	<p>ASEAN (set up in 1960s but started in 1970s), an important regional economic grouping which is emerging as major one in world trade having member countries like Brunei, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.</p>
<p>South Asian Association for Regional Cooperation (SAARC)</p>	<p>India, Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka established SAARC in December, 1985. In 2007, Afghanistan became its 8th member. The objectives of SAARC were to (i) improve the quality of life, (ii) develop the region economically, socially and culturally, (iii) provide opportunity to the people in the region to live in dignity and to exploit their potential. (iv) enhance jointly the self-reliance of the member countries, (v) extend cooperation to other trading blocs, (vi) create unity among the member countries on issues of common interest in the international forums etc.</p>

	SAARC members signed the SAARC preferential Trading Arrangement (SAPTA) (11th April, 1993) in order to (a) gradually liberalise the trade among member countries, (b) eliminate tariffs, (c) promote and sustain mutual trade and economic cooperation among the member countries.
The BRIC Alliance	BRIC, an acronym coined by Jim O'Neil, the Goldman Sachs group economist for a four countries alliance - Brazil, Russia, India and China was formally set up on 16th May, 2008. It aimed at promoting multilateral arrangements to challenge the US concept of unipolar world.
Economic and Social Commission for Asia and Pacific (ESCAP)	ESCAP, originally was ECAFE (Economic Commission for Asia and Far East) has 48 member countries and 10 associate members. The region of ESCAP is sub-divided into Pacific Island countries, ASEAN (4 countries), developing and developed ESCAP nations, China and the newly industrialising countries and South Asian countries. ESCAP promotes socio-economic development of the region.

Source: Gupta, C.V., Business Environment, Sultan Chand & Sons, New Delhi. 2019

Indian Experience:

India, the one of the notable country in Asia, recognised the effectiveness of the Export Processing Zone (EPZ) model in promoting exports and established Asia's first EPZ in Kandla in 1965 to overcome the shortcomings experienced on account of the multiplicity of controls and clearances; absence of world-class infrastructure, and an unstable fiscal regime with a view to attracting larger foreign investments. In India, Special Economic Zones (SEZs) Policy was announced in April 2000 in view of making SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level with the minimum possible regulations. Box-8.3 reflects SEZ and its related policies in India.

Box 8.3 - SEZs in India

SEZs in India functioned from 01.11.2000 to 09.02.2006 under the provisions of the Foreign Trade Policy. Fiscal incentives were made effective through the provisions of relevant statutes. To in-still confidence in investors and signal the Government's commitment to a stable SEZ policy regime i.e. greater economic activity and employment, a comprehensive draft of SEZ Bill prepared after extensive discussions with the stakeholders. A number of meetings were held in various parts of the country both by the Ministry of Commerce and Industry as well as senior officials for this purpose. The Special Economic Zones Act, was passed by Parliament in May, 2005 which received Presidential assent on the 23rd of June, 2005. The draft SEZ Rules were widely discussed and put on the website of the Department of Commerce offering suggestions/comments. Around 800 suggestions were received on the draft rules. After extensive consultations, the SEZ Act, 2005, supported by SEZ Rules, came into effect on 10th February, 2006, providing for drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments. The main objectives of the SEZ Act are: (i) generation of additional economic activity; (ii) promotion of exports of goods and services; (iii) promotion of investment from domestic and foreign sources; (iv) creation of employment opportunities and (v) development of infrastructure facilities.

- ❖ It is expected that this will trigger a large flow of foreign and domestic investment in SEZs in infrastructure and productive capacity, leading to generation of additional economic activity and creation of employment opportunities.
- ❖ The SEZ Act 2005 envisages key role for the State Governments in Export Promotion and creation of related infrastructure. A Single Window SEZ approval mechanism has been provided through a 19 member inter-ministerial SEZ Board of Approval (BoA). The applications duly recommended by the respective State Governments/UT Administration are considered by this BoA periodically. All decisions of the Board of approvals are with consensus.

The SEZ Rules provide for different minimum land requirement for different class of SEZs. Every SEZ is divided into a processing area where alone the SEZ units would come up and the non-processing area where the supporting infrastructure is to be created.

The SEZ Rules provide for:

- ❖ Simplified procedures for development, operation, and maintenance of the Special Economic Zones and for setting up units and conducting business in SEZs;
- ❖ Single window clearance for setting up of an SEZ;
- ❖ Single window clearance for setting up a unit in a Special Economic Zone;
- ❖ Single Window clearance on matters relating to Central as well as State Governments;
- ❖ Simplified compliance procedures and documentation with an emphasis on self-certification.

Source: <http://sezindia.nic.in/index.php>, Gupta, C.V., *Business Environment*, Sultan Chand & Sons, New Delhi. 2019

In Trading Block, the member countries may trade more with each other than with non-member nations. This practice would increase trade with less efficient or more expensive producer because it is in a member country. In this sense, weaker companies can be protected inadvertently with the block agreement acting as a trade barrier for which the regional agreements have formed new trade barriers with countries outside of the trading bloc.

8.7 Government Policy on Foreign Investment

Government of India eased restrictions on Foreign Direct Investment (FDI) in India with a view to promoting the 'Make in India' and 'Start up India' initiatives. The reforms are wide ranging. These aim at easing business performance, simplifying and rationalizing the process of FDI. The key highlight of the recent reforms is that more FDI proposals in more sectors will now be placed under the automatic route and not required the consent of the government. Of particular note is the liberalization in the Broadcasting, Construction, Defence and Single Brand Retailing sectors. Box- 8.4 reflects the Government policy on Foreign Investment in India.

Box- 8.4 Government Policy on Foreign Investment in India

Sectors liberalized set out below the key differences between the old FDI policy and the new FDI policy in each of sector of the economy (or transaction type) that has been further liberalized.

Manufacturing - At the outset, it should be noted that the definition of "Manufacture" in the FDI policy has been amended to mean: "a change in a non-living physical object or article or thing (a) resulting in transformation of the object or article or thing into a new and distinct object or article or thing, having a different names, characters and uses; or (b) bringing into existence of a new and distinct object or article or thing with a different chemical compositions or integral structures." Subject to the provisions of the FDI policy, FDI in the manufacturing sector is permitted and further, a manufacturer is permitted to sell its products manufactured in India through wholesale and/or retail, including through e-commerce without government approval. Previously, the position was that an Indian manufacturing company having FDI was not allowed to do retail trading in any manner whatsoever through e-commerce. This is a welcome change from the previous policy and is clearly designed to further encourage investors to 'Make in India'.

Construction - Under the old FDI policy, the minimum area to be developed was 20,000 square meters and a minimum amount of USD 5,000,000 had to be invested within 6 months of the commencement of business. The new FDI policy removes both of these requirements, which will allow foreign equity to access smaller developments. Previously, foreign investors were permitted to exit projects only upon completion or the development of trunk infrastructure and the repatriation of FDI or the transfer of equity before project completion by a non-resident investor to a non-resident investor required approval of the Foreign Investment Promotion Board (the "FIPB"). Under the new FDI policy, a foreign investor is permitted to exit and repatriate its foreign investment before the completion of a project without FIPB approval, provided that a lock-in period of three years (the "Lock In Period") has expired, calculated with reference to the date of each tranche of equity invested. The new FDI policy also treats each phase of a project as a separate project for the purposes of FDI. This means that a major construction development can be broken down into smaller phases and an investment relating to a particular stage of a project can be repatriated even though the larger project still continues to be under construction. The impact should be significant for larger developments like townships and large infrastructure construction projects, insulating foreign investors from the risk of delay to overall project completion. Under the new FDI policy, the sale of an equity stake from a non-resident to another non-resident, without repatriation of the investment, before the expiry of the Lock In Period is permitted without the consent of the FIPB and an exit is permitted at any time if the trunk infrastructure in relation to the project has been completed. The new FDI policy

goes on to clarify that any rental income or other income arising from the project (that does not amount to a transfer) will not amount to Real Estate Business.

The previous policy barred FDI in the Real Estate Business, defined to be the relevant portion of any business, "dealing in land and immoveable property with a view to earning profit or earning income therefrom" and the revised position is a welcome step to encouraging foreign real estate investors to invest in the construction sector. The new FDI policy further clarifies that the transfer of ownership of an investment vehicle from residents to a non-resident is also permitted following the expiry of the Lock In Period. While the previous FDI policy did not define transfer, the new FDI policy clarifies that it means: (i) the sale, exchange or relinquishment of the asset; (ii) the extinguishment of rights therein; (iii) its compulsory acquisition under law; (iv) any transaction allowing the possession of immoveable property of the nature referred to in section 53 A of the Transfer of Property Act 1882; and (v) any transaction involving the acquisition of shares in a company or any agreement or arrangement which has the effect of transferring, or the enabling of enjoyment of, any immoveable property. Hence under the new FDI policy, it is clear that the sale of shares in an offshore holding company, holding property through its Indian subsidiary, following the expiry of the Lock In Period will now be permitted.

Defence - Under the old FDI policy, foreign investment of up to 49 % in an Indian joint venture was permitted under the government approval route. Portfolio investment and investment by Foreign Venture Capital Investors ("FVCIs") was restricted to 24 %. Foreign investment above 49 % was permissible, but subject to approval by the Cabinet Committee on Security. The new FDI policy substantially improves the situation. Foreign investment up to 49 % will now be permitted under the automatic route and portfolio investment and investment by FVCIs is also permitted up to 49 % under the automatic route. Foreign investment above 49 % will be considered by the FIPB. Further, it should be noted that in the event of infusion of fresh foreign investment, within the permitted cap, resulting in a change in ownership or the transfer of a stake by an existing investor to a new foreign investor, government approval will be required.

Broadcasting previously, up to 26 % FDI was permitted under the approval route in the case of FM radio broadcasting, the up-linking of news and current affairs television channels. Also, FDI up to 100 % was permissible under the Government approval route for the up-linking of non-news and current affairs TV channels and the down-linking of TV channels. Now, up to 100 % FDI is permissible in the following broadcasting carriage services outlined in FDI Policy, namely

teleports, Direct-To-Home, Cable Networks, Mobile TV and 3 The provision basically refers to such contracts where the transferee has either taken steps or continues to be in possession of immovable property as a part performance of the contract. FDI of up to 49 % is permissible under the automatic route while acquiring anything more than 49 % would require Government approval. In relation to broadcasting content services, FDI up to 49 % is permissible under the government approval route in case of FM radio and the up-linking of news and current affairs TV channels. Further, FDI of up to 100 % is permissible under the automatic route in the case of up-linking of and current affairs TV channels as well as the down-linking of such TV channels. Where the sectorial cap is 49 %, new FDI policy further clarifies that the company would need to be owned and controlled by resident Indian citizens and Indian companies, which are owned and controlled by resident Indian citizens. Hence, the largest Indian investor should hold 51% of the total equity, excluding the equity held by Public Sector Banks and Public Financial Institutions.

Banking - The new FDI policy now permits full fungibility of foreign investment in the private banking sector.

Limited liability partnerships - Under the earlier FDI policy, Government approval was required for investment in LLPs. Further, the terms 'ownership' and 'control' with reference to LLPs had not been defined and downstream investments were not permitted by LLPs. Under the new FDI policy, 100% foreign investment is now permitted under the automatic route in LLPs operating in sectors or activities where 100% FDI is allowed under the automatic route and there is no FDI linked performance conditions. The term 'ownership' has also been defined and an LLP is considered to be owned by resident Indian citizens if more than 50% of the investment in it is contributed by resident Indian citizens or entities and such resident Indian entities have a majority of the profit share. 'Control' has been now defined to include the right to appoint a majority of the directors or to control the management or policy through their shareholding or management rights or otherwise through shareholders' agreement or other voting agreements. Further in case of LLPs, 'control' would mean the right to appoint a majority of the designated partners, where such designated partners have control over all the policies of the LLPs.

LLPs receiving foreign investment will also be permitted to make downstream investment in another company or LLPs in sectors in which 100% FDI is permitted under the automatic route and there is no FDI-linked performance condition.

However, the LLP must notify the Secretariat for Industrial Assistance, the Department for Industrial Policy and Promotion and the FIPB of its downstream investment in the prescribed format within 30 days of such investment. It should be noted that foreign direct investment in legal services is still prohibited.

FDI by way of share swaps - Under the previous FDI policy, Government approval was required for investment into a sector by way of swap of shares even in sectors where FDI was permitted under the automatic route. Now, Government approval will not be required for investment in sectors permitting foreign investment under the automatic route by way of swap of shares.

Threshold limit for FIPB approval - It should be noted that the threshold limit for FDI approval has been raised. Previously, it was INR 3,000Crore (approximately USD 450 million). Now, it has been increased to INR 5,000Crore (approximately USD 755 million).

Receipt of FDI in companies without operation - Indian companies having no operations and which do not have any downstream investment are now permitted to have infusion of foreign investment under the automatic route. However, such companies which intend to do business reserved under the Government approval route will have to take the approval of the Government prior to such infusion. Further, as and when such a company commences business or makes downstream investments, it will have to comply with the relevant sectorial conditions and caps.

The new FDI Policy has relaxed FDI in the above-mentioned sector from 74% to 100% under the Government approval route. According to the Department of Industrial Policy and Promotion, India has now thrown open 92.5 % of FDI through the automatic route, which is a welcome development. The recent reforms are a necessary change to the regulatory environment in India and another step closer to the goal of full convertibility. However, it will require some time to see whether these changes trigger a spurt in FDI. It should be noted that the reforms stop short of lifting curbs on multi-brand retailers, such as retail giant Wal-Mart, which to date has focused on its wholesale business in India. That segment was opened to foreign investment in 2012, but the limit remains at 51%. With the Delhi High Court ordering an Enforcement Directorate investigation into 21 e-commerce firms earlier this month for alleged FDI violations, there is a pressing need to rationalize the position in multi-brand retail through e-commerce for further progress to be made.

Source: <https://www.oecd.org/dev/2698620.pdf>

Accordingly, Foreign Institutional Investors, Foreign Portfolio Investors and Qualified Foreign Investors can now invest up to the sector limit of 74 % provided that there is no change of control and management of the investee company.

Plantations - Earlier, the FDI policy prevented foreign investment in the plantation sector other than in tea plantations. Under the new FDI Policy, in addition to tea, the government has decided to open up coffee, rubber, cardamom, palm oil and olive oil plantations to foreign investment of up to 100 % under the automatic route. However, it has been clarified that the prior approval of the state government concerned is required in case of any land use change.

Single brand retail - Under the earlier FDI policy, companies having FDI beyond 51 % had to comply with a local sourcing requirement of 30 % of the value of goods purchased, preferably from Micro, Small and Medium enterprises ("MSMEs") or similar entities. This requirement to source from MSMEs has been a particularly controversial requirement for foreign investors selling niche products and has to be fulfilled for a period of 5 years, beginning on 1st April of the year during which the first tranche of FDI is received. The new FDI policy now clarifies that the 30 % local sourcing rule applies from the date of first opening the store (as opposed to the date of receipt of FDI) and that in sectors involving 'state-of-the-art' and 'cutting-edge technology', this sourcing norm may be relaxed, subject to government approval. This is a welcome change and should be beneficial for all foreign investors selling niche products whose component parts cannot be sourced from the local market. More importantly, the previous prohibition on retail trading through e-commerce has been lifted. This is a welcome change since retailers were previously in the curious position of being able to sell through 'bricks and mortar', but unable to sell through 'clicks and mortar'. Also, under the new FDI policy, certain conditions of the FDI policy requiring products to be sold under the same brand internationally and the investment by the non-resident entity being the brand owner (or through legally binding agreement with the brand owner) have been lifted.

Duty-free - Under the new FDI policy, 100 % investment is now permissible under the automatic route, setting up duty-free shops located and operated in customs bonded areas at airports in India. Previously, the FDI policy was silent on this sector.

Wholesale trading - Earlier, it was not permissible for a single entity to undertake activities in both wholesale trading and single brand retailing. Now, a

single entity may undertake both wholesale trading and single brand retailing provided that they carry out such activities separately.

Civil aviation - Earlier, foreign investment of up to 49 % was permissible in Scheduled Air Transport Services and domestic scheduled passenger airline services. Now, Scheduled Regional Air Transport Services may receive foreign investment of up to 49 % under the automatic route. In relation to chartered services, the position used to be that foreign equity in non-scheduled air transport services and ground-handling services were capped at 74 % through the automatic route. The new FDI policy raises the bar, increasing foreign equity investment up to 100 % under the automatic route. Pursuant to the Aircraft Rules, 1937 Section (3)(49) "Scheduled Air Transport Service" means air transport services based on a published time-table so regular that they constitute a recognizable systematic series. Pursuant to a notification from the Director General of Civil Aviation dated August 23, 2007, "Scheduled Regional Air Transport Services" means services which operate primarily in a designated region and which on grounds of operational and commercial exigencies may be allowed to operate from its designated region to airports in other regions, except the metro airports of other regions.

<https://www.oecd.org/dev/2698620.pdf><https://www.oecd.org/dev/2698620.pdf>

8.8 Foreign Collaboration and Indian Experience

Indian and foreign companies make collaboration through its sale of technology, spare parts and use of foreign brand names for its final products. During 1980s, liberalization process resulted a considerable spurt in foreign collaborations. Accordingly, out of the total 12,760 foreign collaboration agreements approved during the period between 1948 and 1988, about 6,165 agreements (i.e., 48.3 per cent) were approved during the period between 1981 and 1988. Moreover, with the liberalization of foreign investment policy announced during the post-1991 period, the number of foreign collaborations in India increased considerably. During the period from August 1991 to November 1993, total number of foreign collaboration proposals approved by the Government was 3,467, including 1,565 proposals of foreign equity valued as Rs.122.9 billion. Again during the period 1991 to September 1998, total actual inflow of Foreign Direct Investments was to the extent of \$11.96 billion (Rs.42,173Crore)¹³. Box-8.5 reflects various facts of foreign collaboration in India.

Box - 8.5 Facts of Foreign collaboration in India

Foreign collaborations in Indian industry helped diversifying production spectrum into steel, light and heavy engineering, petroleum refinery, man-made fibre manufacture, automobile, chemical, pharmaceuticals and several other types of industrial products. The development of the basic industries would have been possible with the support of technical know-how and skills made available from foreign companies through such foreign collaborations approvals. Therefore, the gain from foreign collaboration in Indian industries is realised both in terms of increase in physical output, training of technicians, technology transfer and development of skills of modern management.

Foreign Collaboration: By the term foreign collaboration we mean an agreement for setting up of an enterprise jointly by the foreign and native enterprises.

There are two approving authorities for foreign collaboration:

1) Reserve Bank of India (RBI) and 2) Department of Industrial Development in the Ministry of Industry, Government of India.

Foreign collaboration may take place mainly in three forms:

- (i) Collaboration between Indian and foreign private companies;
- (ii) Collaboration between Indian government companies and foreign private companies; and
- (iii) Collaboration between Indian Government and foreign government.

Foreign collaboration may be of two different types:

- (a) Financial Collaboration (foreign equity participation) where foreign equity alone is involved;
- (b) Technical Collaboration (technology transfer) involving licensing technology by the foreign collaborator on due compensation.

Under the changing globalized scenario, attainment of international competitiveness is become very important. Such competitiveness can be attained through foreign collaboration especially through technical collaboration in country like India.

¹³ <https://www.yourarticlelibrary.com/india-2/foreign-collaboration-and-mnacs/63280>

Government Policy of Foreign Collaboration:

The policy followed by the Government of India on Foreign Collaboration and foreign private investment is based mainly in the approach adopted in 1949. The basic policy followed is to welcome foreign private investment on a selective basis in those areas which are advantageous to the Indian economy. The conditions under which foreign capital or foreign collaboration is welcome include.

- (i) All undertakings (Indian or Foreign) have to conform to the general requirements of the Industrial policy of the Government
- (ii) Foreign enterprises are to be treated at par with their Indian counterparts.
- (iii) Foreign enterprises were given freedom to remit profits and repatriate capital, subject to foreign exchange considerations.

The Industrial Policy 1991 prepared a specified list of high technology and high investment 34 priority industries (Annexure III) in which automatic permission will be available for foreign direct investment up to 51% foreign equity. Thus this new policy freed Indian industries from official controls for fully exploiting opportunities for promotion of foreign investment.

Thus it is felt that foreign investment and foreign collaboration would bring advantages of technology transfer, marketing expertise, product diversification, introduction of modern managerial techniques and new possibilities for export promotion for Indian Industries.

Areas of Foreign Collaboration:

Time-to-time, the Government of India issues a list of industries indicating clearly where foreign investments may be permitted.

Foreign Investment Promotion Board (FIPB) of Government of India also considers import of technology in industries listed in Annexure A and Annexure B of Schedule 1 of Foreign Exchange Management Regulations, 2000 subject to compliance with the provisions of the Industrial Policy and Procedures as notified by Secretarial for Industrial Assistance (SIA) in the Ministry of Commerce and Industry of Government of India, from time to time.

Procedure for Setting up Foreign Collaboration:

As per the Government Policy and Foreign Exchange Laws prevailing in India, proposals for foreign investment and technical collaborations would require

Government approval. Later on, with adoption on New Industrial Policy, 1991 and subsequent amendments of laws regulating foreign collaborations and industry, this procedure has been simplified further.

With the enactment of FEMA, foreign collaborations and investments have become much easier.

Investment and Policy of Foreign Collaboration:

In recent years, lot of changes have been brought in the foreign investment and foreign collaboration policy for creating a more favourable fiscal environment for foreign collaborations and investment virtually in every sector of the economy excepting those selective industries reserved for the public sector.

The obstacles that once stood in the path of foreign collaborations are becoming thing of the past. The procedures for approval from the Government are now being simplified continuously in order to make foreign investments more attractive and beneficial.

Foreign Collaboration and MNCs:

In India, collaboration with Indian industrialists is a common form of participation of MNCs in Indian industry. In India, foreign collaboration agreements are being made between Indian and foreign companies through its sale of technology, spare parts and use of foreign brand names for its final products.

In India, almost all the new industries in the large and medium scale category, set up in the post-independence period, had some foreign collaboration agreement.

During 1980s, liberalisation process resulted a considerable spurt in foreign collaborations. Accordingly, out of total 12,760 foreign collaboration agreements approved during the period between 1948 and 1988, 6,165 agreements (i.e., 48.3%) were approved during the period between 1981 and 1988.

Again with the liberalisation of foreign investment policy announced during the post-1991 period, the number of foreign collaborations in India increased considerably.

During the period from August 1991 to November 1993, total number of foreign collaboration proposals approved by the Government was 3,467, including 1,565 proposals of foreign equity valued as Rs.122.9 billion. Again during the period 1991 to 2005, total actual inflows of Foreign Direct Investments was to the extent of \$32.29 billion (Rs.1,31,385 crore) and till 2013-14, total inflow of FDI stood at \$173.28 billion.

Favourable Impact of Foreign Collaboration:

Foreign Collaborations have some favourable impacts on Indian economy. Initially, Indian industries were concentrated on consumer goods sector only. Foreign collaborations in Indian industry have helped the sector to diversify its production spectrum which includes steel, light and heavy engineering, petroleum refinery, man-made fibre manufacture, automobile, chemical, pharmaceuticals and several other types of industrial products.

Without the support of technical knowhow and skills made available from foreign companies through such foreign collaborations approvals, the development of such basic industries would have been difficult. Thus the gain from foreign collaboration in Indian industries is realised both in terms of increase in physical output, training of technicians, technology transfer and development of skills of modern management.

Source: <https://www.microeconomicsnotes.com/india/foreign-trade/foreign-collaboration-subject-matter-and-policy/903>

8.9 Summary

International business (IB) includes any type of business activity that crosses national borders. It is a multidimensional concept comprising of various risks and issues like exchange risks, political risks, cultural differences, legal and taxation issues, economic, socio-cultural and technological environmental factors.

Globalisation is referred to as the integration of countries into world economy or one global market involving removal of all trade barriers between countries. It is the shift towards a more integrated and interdependent world economy with two main components - the globalization of market and the globalization of production. Further, as per International Monetary Fund, Globalisation is the growing economic interdependence of countries world-wide through increasing volume and variety of cross broader transactions of goods and services and of international capital flows and also through the more rapid and widespread diffusion of technology.

Multinational Corporation (MNC) accounts for a significant share of the world's investment, production, employment and trade having both benefits and costs to home and host country where it incorporates and work.

The successor to General Agreement on Tariffs and Trade (GATT), The World Trade Organisation was established on 1st January, 1995 with its Head Office located at Geneva, Switzerland. It is the embodiment of the Uruguay Round. India is one of the founder members among 146 members of WTO. The Ministerial Conference is the highest authority of WTO consisting of all representative member nations. It meets almost every three years and is empowered to take decisions on all matters under the multilateral trade agreements. Trading Bloc offers advantages to its member countries like (i) Free trade within the bloc (free access to each other's markets, members are encouraged to specialize), (ii) Market access and trade creation (free trade enables high-cost domestic producers to be replaced by lower-cost and more efficient imports), (iii) Economies of scale (application of scale economies, which will lead to lower costs and lower prices for consumers), (iv) Jobs (By removing the restrictions on the labour movement, economic integration can help expand job opportunities), (v) Protection (Firms inside the bloc are protected from cheaper imports from outside) and (vi) Consensus and cooperation (Regional understanding & similarities may also facilitate closer political cooperation). India, the one of the first in Asia recognising the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, established Asia's first EPZ in Kandla in 1965 to overcome the shortcomings experienced on account of the multiplicity of controls and clearances; absence of world-class infrastructure, and an unstable fiscal regime and with a view to attract larger foreign investments. In India, Special Economic Zones (SEZs) Policy was announced in April 2000 in view of making SEZs an engine for economic growth supported by quality infrastructure and complemented by an attractive fiscal package, both at the Centre and the State level with the minimum possible regulations.

Government of India eased restrictions on Foreign Direct Investment ("FDI") in India with a view to promoting the 'Make in India' and 'Start up India' initiatives. The reforms are wide ranging and aim to ease doing business, simplifying and rationalizing the process of FDI. The key highlight of the recent reforms is that more FDI proposals in more sectors will now be placed under the automatic route and not require the consent of the government. Of particular note is the liberalization in the Broadcasting, Construction, Defence and Single Brand Retailing sectors. Indian and foreign companies through its sale of technology, spare parts and use of foreign brand names for its final products, make collaboration. During 1980s, liberalization process resulted a considerable spurt in foreign collaborations.

8.10 Questions

Objective Type:

1. What is the full form of the trading block EU (a) European Union, (b) English Union, (c) External Union, (d) Empower Union.
2. What is the full form of the trading block EFTA (a) English Free Trade Association, (b) Empower Free Trade Association, (c) External Free Trade Association, (d) European Free Trade Association.

Short Answer type:

1. Narrate the concept of International Environment. Explain its importance.
2. What do you mean by the concept of 'Globalisation'?
3. Narrate briefly the Foreign Collaboration in India

Long Answer type:

1. Write a note on Multinational Corporation.
2. Discuss about WTO. Distinguish between GATT and WTO.
3. Write a note on Trading Blocs.
4. Explain briefly the Government Policy on Foreign Investment in India.

8.11 Further Readings

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