BUSINESS ENVIRONMENT (MBA 107)
ASSIGNMENT ANSWERS
WEEK 2

Ques 1 **Explain the role and functions of WTO in promoting world trade.**

Ans. The important objectives of WTO are:
1. To improve the standard of living of people in the member countries.

2. To ensure full employment and broad increase in effective demand.

3. To enlarge production and trade of goods.

4. To increase the trade of services.

5. To ensure optimum utilization of world resources.

6. To protect the environment.

7. To accept the concept of sustainable development.

Functions
The main functions of WTO are discussed below:
1. To implement rules and provisions related to trade policy review mechanism.

2. To provide a platform to member countries to decide future strategies related to trade and tariff.

3. To provide facilities for implementation, administration and operation of multilateral and bilateral agreements of the world trade.

4. To administer the rules and processes related to dispute settlement.

5. To ensure the optimum use of world resources.

6. To assist international organizations such as, IMF and IBRD for establishing coherence in Universal Economic Policy determination.

WTO facilitates implementation, administration and smooth operations of trade agreements between the countries. It provides a forum for the trade negotiations between its member countries. Settlements of disputes between the member countries through the established rules and regulations. Since its launch in 1995, the World Trade Organisation (WTO) has played a crucial role in regulating global trade and settling international disputes. With trading tensions between nations on the rise, and some parties calling for the body to be reformed, it's worth exploring why the WTO is an important part of international business. The Importance of the WTO to World Trade.

The WTO is at the forefront of efforts to ensure unimpeded global free trade and reduce trade barriers, operating on a rules-based multilateral system. It has made important contributions to the progress made around the world towards promoting global trade. This has led to the growth of a number of economies, the emergence of new markets – all important factors not only in improving business, but also in lifting people out of poverty. It does this by implementing, regulating and operating trade agreements between countries, and provides a fair forum for trade negotiations between member countries, mediating on disputes as they arise. It aims to help with imports, exports and conducting trade fairly. The WTO also cooperates with the IMF (International Monitory Fund) and World Bank to ensure global economic policies are fair and cohesive. Therefore, it isn't a matter of the WTO being important for international business, but of it being absolutely fundamental. Different countries operate on different regulations and rules between different countries, and it's not easy for an international business to stay on top of these when it operates in multiple countries. But the job would be a lot more difficult if these rules were unfair or unreliable, or not consistently applied. The importance of a regulatory body such as the WTO is especially pressing at a time of such pronounced global uncertainty – several of its members are currently using it to dispute President Trump's Trade tariffs, while a no-deal Brexit scenario would likely see the UK revert to WTO rule. Understanding the work and nature of the WTO is therefore an important part of remaining aware of the changing landscape of international landscape. In uncertain times, having the right advice and support is crucial – Galvin International can provide your business with the clarity and expertise that you need to ensure your international market expansion is a success. Get in touch to find out more.

Ques 2. Explain the dumping and antidumping measures taken by government of India.

Ans. Dumping: Remedial measures taken by Government of India vis a vis WTO provisions regarding dumping!
The sale of products for exports at a price less than the 'normal value' where normal value means roughly the price for which those some products are sold on the home or exporting market.

It is considered to be an unfair trade practices and as such, is prohibited under many national laws. Following are the types of dumping

1. Sporadic Dumping:
Occasional sale of a commodity at below cost in order to unload an unforeseen and temporary surplus of the commodity without having to reduce domestic prices.

2. Predatory Dumping:
Temporary sale of a commodity at below cost or a lower price abroad in order to derive foreign producers out of business after which prices are raised to take advantage of the monopoly power abroad.

3. Persistent Dumping:
Continuous tendency of a domestic monopolistic to maximise the total profits by selling the commodity at a higher price in the domestic market than internationally.

The under-developed countries resort to dumping their additional produce in the developing countries like India. In such conditions, in India, to conserve the production of the regional farmers, a quantitative restriction is put and otherwise higher income tax is incurred. These days according to the recommendations of the World Trade Organisation, the quantitative restriction has been abolished and a huge decrease in income tax was also being done. In such a scenario, to solve the problem of dumping Indian Government has taken certain steps. For this under commerce ministry an organisation called "Directorate of Anti-Dumping" has been established. The organisation keeps an eye on the matters related to dumping and various taxes. Under WTO, those countries which are influenced by dumping can adopt preventative measures.

India has taken advantage and it has adopted the measures to provide preservation to its produce through "Anti Dumping Duty". Similarly, to end the problem of dumping, India has scarted giving subsidy to its farmers so that they can increase their produce and the dumping of food stuff by the under developed countries can end. By counter vailing duty and special additional surcharges dumping can be checked.

Anti-dumping measures can only be applied if the dumping is hurting the industry in the Importing country. Therefore, a detail investigation has to be conducted according to specified rules first. The investigation must evaluate all relevant economic factors that have a bearing on the state of industry in question. If the investigation shows dumping is taking place and domestic industry is being hurt, the exporting company can undertake to raise its price to an agreed level in an order to anti-dumping import duty. Anti-dumping measure must expire five years after the date of imposition unless a review shows that ending the measure would lead to injury. Anti-dumping investigations are to end immediately in cases where the authorities determine that the margin of dumping is insignificantly small (defined as less than 2% of the export price of the product. Other conditions are also set. For example, the investigations also have to end if the volume of dumped imports is negligible (i.e. that is volume from one country is less than 3% of total imports of that products- although investigations can proceed if several countries, each supplying less that 3% of the imports, together account for 7% or more of total imports). The agreement says member countries must inform the committee on Anti0dumping practices about all preliminary and final anti0dumping actions, promptly and in detail. They must also report on all investigations twice a year. When differences arise, members are encouraged to consult each other. They can also use the WTO's dispute settlement procedure.

India and Anti-Dumping

In India, anti-dumping actions are taken by the Directorate of Anti-dumping and Allied Duties, Ministry of Commerce, as per the Customs Tariff Act, 1975, as amended in 1995 based on Article VI GATT 1994. For the government to initiate anti-dumping action the Indian industry must be able to show that dumped import are casing or threatening to cause material injury to the Indian Domestic industries. Obviously the ability of India to do so depends on proper environmental monitoring, data base and procedural familiarity.

Material retardation to the establishment of an industry is also regarded as injury. For anti0dumping action a causal link between the material injury being suffered by the Indian industries and the dumped import must be established. The economic and financial impact of the dumped imports on the Indian Industries concern can be demonstrated, inter-allia, by decline in output loss of sells, loss of market shares, reduce profits, decline in productivity, decline in capacity utilization, reduce return on investment, price effects, and adverse effects on cash flow, employment, wage, growth, investments, ability to raise capital etc. Anti-dumping actions may be suspended or terminated if the exporter concern furnishes and under taking to revise the price to remove the dumping the injurious effect of dumping the rules also provide for retrospective measures in certain cases.

Ques.3 What should be done with sick industries. Should they be closed Or revamped. Give reasons for your answer.

Ans. Industrial sickness is defined all over the world as "an industrial company which has, at the end of any financial year, accumulated losses equal to, or exceeding, its entire net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year".

Industrial Sickness and the Economy

Widespread industrial sickness impacts the economy in a number of ways. It can result in loss of government revenue, tying up scarce resources in sick units, increasing non-performing assets held by banks and financial institutions, increasing unemployment, loss of production and poor productivity. SICA was implemented to rectify these adverse socioeconomic consequences.

Causes of Industrial Sickness

The Sick Industrial Companies Act (SICA) identified a number of internal and external factors responsible for this epidemic. Internal factors within the organizations included mismanagement, overestimation of demand, wrong location, poor project implementation, unwarranted expansion, personal extravagance, failure to modernize and poor labor-management relationships. External factors included an energy crisis, raw materials shortage, infrastructure bottlenecks, inadequate credit facilities, technological changes, and global market forces

Suggestions for Rehabilitation of Sick Units:

The rehabilitation of sick units or restoring them to normal health is a matter of great urgency in view of the serious social, economic and political consequences of industrial illness.

The following measures may be suggested:

(i) Cooperation between Term-Lending Institutions and Commercial Banks:

Since commercial banks provide working capital, they are in a position to know about the working of industrial concern. But assistance from term-lending institutions is also essential for rescue operations.

(ii) Coordination between Various Government Agencies:

All government agencies, both regulatory and promotional, must join hands to restore sick units to health.

(iii) Full cooperation from various suppliers,' unsecured creditors and other stakeholders, particularly from the employees, is also essential to take the concern out of the difficulties in which it is involved.

(iv) Willing Cooperation and Clear Understanding with the Project Promoters:

Generally there is a lack of trust and confidence among the various interests concerned. It is found that government agencies and dealing institutions are more worried about their money and are anxious to recover them instead of curing of the health of the sick units.

(v) Checking Over-Valuation of Inventories:

The banks should verify on a regular basis the valuation of inventories both in terms of quantity and price. This would prevent over-borrowing on the hypothecation of inventories.

(vi) Marketing:

There should be well organised and scientific marketing by the project promoters otherwise launching of a project will be a leap in the dark. Good marketing arrangements will prevent industrial sickness.

(vii) Recovery of Outstanding:

Every effort should be made to realize outstanding advances so that the concern is able to gather funds to avoid sickness.

(viii) Modernisation of Machinery:

If the sick unit is to be restored to health, old and obsolete machinery and outdated technology should be discarded at the earliest.

(ix) Improving Labour Relations:

Restrictive labour and unreasonable trade unions are great obstacles. Improving labour relations will go a long way in curing industrial sickness.

(x) Efficient Management:

If necessary inefficient management should be replaced. The key to industrial health lies in alert and efficient management. The management should show a calm approach, patience and perseverance, courage and ability to steer in bad weather.

(xi) Performance Incentives:

It is necessary to offer performance incentives to the executives and the workers to induce them to put in their best efforts. This will be quite helpful in curing industrial sickness.

(xii) Sympathetic Government Attitude:

During periods of industrial illness the government agencies should adopt a sympathetic and understanding attitude so that the problem is not aggravated but moves towards a solution instead.

(xiii) Austerity and Economy:

Austerity and disciplines should be enforced at all levels. Every effort should be made in raising funds internally through the sale of excess assets, surplus machinery, etc. Uncalled for tours, lavish entertainments, unnecessary personal expenses should be ruthlessly cut down

Conclusion:

In view of the large-scale industrial sickness it would be necessary to organize a task force consisting of competent and experienced executives in various branches of business to go into the case and monitor recovery. Rehabilitation of sick units is not an easy and simple affair. An all-round effort is necessary to root out the disease, first necessary step is the identification of sick units which can be made viable through renovation, expansion, and diversification. Units beyond recovery should be wound up.

The second step is the reconstitution of management. Where the management is unwilling or unable to play its proper role, the financial institutions and the government agencies should intervene to fulfill their large social responsibility of ensuring efficient use of national resources. Since industrial sickness is due both to external causes, e.g., general recession, and internal causes like dishonest and inefficient management, the remedy mus6t also lie in both directions.

With a view to meeting the situation, the early warning system is strengthened. Viability studies should be undertaken to identify the sick units including creeping sickness which could be eventually restored to health with additional financial aid on liberal and easy terms. To an extent increase in industrial sickness is inevitable result of the very process of modernisation or technological development industry. It is natural that the units which cannot keep pace with the ongoing technological change will become sick, they should be allowed to wind up.

Ques 4. What economic changes were initiated by the government under the industrial policy, 1991? What impact have these changes Made on business and industry.

Ans. Industrial policy is an important means for governments to promote industrial development and accelerate economic growth. This paper mainly uses the Chinese Law and Regulation Database as the source of the relevant laws and regulations of China's industrial policies from 2003 to 2015. On this basis, it empirically examines the impact of industrial policies on economic growth. The study finds that China's industrial policy has significant positive effects on economic growth and that industrial structure rationalization is an important channel of industrial policy to improve economic growth. The findings are also valid under a series of robustness tests and endogenous corrections. The results of heterogeneity tests confirm that there are heterogeneous effects pertaining to industrial policy on economic growth among different sub-regional areas, administrative levels, industrial development stages, and industrial policy types. Overall, this paper supports the hypothesis that industrial policy has positive effects on economic growth and, accordingly, provides a basis for industrial policy implementation. The New Industrial Policy of 1991 comes at the center of economic reforms that launched during the early 1990s. All the later reform measures were derived out of the new industrial policy. The Policy has brought comprehensive changes in economic regulation in the country. As the name suggests, these reform measures were made in different areas related to the industrial sector.

Because of the large-scale changes, the Industrial Policy of 1991 or the new industrial policy represents a major change from the early policy of 1956.

The new policy contained policy directions for reforms and thus for LPG (Liberalisation, Privatisation and Globalisation). It enlarged the scope of private sector participation to almost all industrial sectors except three (modified). Simultaneously, the policy has given welcome to foreign investment and foreign technology. Since 1991, the country's policy on foreign investment is gradually evolving through the introduction of liberalization measures in a phase-wise manner.

Perhaps, the most welcome change under the new industrial policy was the abolition of the practice of industrial licensing. The1991 policy has limited industrial licensing to less than fifteen sectors. It means that to start an industry, one has to go for license and waiting only in the case of these few selected industries. This has ended the era of license raj or red tapism in the country. The 1991 industrial policy contained the root of the liberalization, privatization and globalization drive made in the country in the later period. The policy has brought changes in the following aspects of industrial regulation:

1. Industrial delicensing

2. Deregulation of the industrial sector

3. Public sector policy (dereservation and reform of PSEs)

4. Abolition of MRTP Act

5. Foreign investment policy and foreign technology policy.

1. Industrial delicensing policy or the end of red tapism: the most important part of the new industrial policy of 1991 was the end of the industrial licensing or the license raj or red tapism. Under the industrial licensing policies, private sector firms have to secure licenses to start an industry. This has created long delays in the start up of industries. The industrial policy of 1991 has almost abandoned the industrial licensing system. It has reduced industrial licensing to fifteen sectors. Now only 13 sector need license for starting an industrial operation.

2. Dereservation of the industrial sector– Previously, the public sector has given reservation especially in the capital goods and key industries. Under industrial deregulation, most of the industrial sectors was opened to the private sector as well. Previously, most of the industrial sectors were reserved to the public sector. Under the new industrial policy, only three sectors- atomic energy, mining and railways will continue as reserved for public sector. All other sectors have been opened for private sector participation.

3. Reforms related to the Public sector enterprises: reforms in the public sector were aimed at enhancing efficiency and competitiveness of the sector. The government identified strategic and priority areas for the public sector to concentrate. Similarly, loss making PSUs were sold to the private sector. The government has adopted disinvestment policy for the restructuring of the public sector in the country. at the same time autonomy has been given to PSU boards for efficient functioning.

4. Foreign investment policy: another major feature of the economic reform measure was it has given welcome to foreign investment and foreign technology. This measure has enhanced the industrial competition and improved business environment in the country. Foreign investment including FDI and FPI were allowed. Similarly, loan capital has also introduced in the country to attract foreign capital.

5. Abolition of MRTP Act: The New Industrial Policy of 1991 has abolished the Monopoly and Restricted Trade Practice Act. In 2010, the Competition Commission has emerged as the watchdog in monitoring competitive practices in the economy.

The industrial policy of 1991 is the big reform introduced in Indian economy since independence. The policy caused big changes including emergence of a strong and competitive private sector and a sizable number of foreign companies in India.

Ques 5. **Foreign capital plays a important role in the industrialization of any country. Elaborate by giving suitable examples.**

Ans. Everywhere in the world, including the developed countries, governments are vying with each other to attract foreign capital. The belief that foreign capital plays a constructive role in a country's economic development, it has become even stronger since mid-1980. The need for foreign capital arises because of the following reasons. In most developing countries like India, domestic capital is inadequate for the purpose of economic growth. Foreign capital is typically seen as a way of filling in gaps between the domestically available supplies of savings, foreign exchange, government revenue and the planned investment necessary to achieve developmental targets. To give an example of this 'savings-investment' gap, let us suppose that planned rate of growth output per annum is 7 percent and the capital-output ratio is 3 percent, then the rate of saving required is 21 percent.

If the saving that can be domestically mobilized is 16 percent, there is a shortfall or a savings gap of 5 percent. Thus the foremost contribution of foreign capital to national development is its role in filling the resource gap between targeted investment and locally mobilized savings. Foreign capital is needed to fill the gap between the targeted foreign exchange requirements and those derived from net export earnings plus net public foreign aid. This is generally called the foreign exchange or trade gap.

Impact of Multinational countries on the country and general population.

1. Promotion Foreign Investment:

In the recent years, external assistance to developing countries has been declining. This is because the donor developed countries have not been willing to part with a larger proportion of their GDP as assistance to developing countries. MNCs can bridge the gap between the requirements of foreign capital for increasing foreign investment in India. The liberalized foreign investment pursued since 1991, allows MNCs to make investment in India subject to different ceilings fixed for different industries or projects. However, in some industries 100 per cent export-oriented units (EOUs) can be set up. It may be noted, like domestic investment, foreign investment has also a multiplier effect on income and employment in a country. For example, the effect of Suzuki firm's investment in Maruti Udyog manufacturing cars is not confined to income and employment for the workers and employees of Maruti Udyog but goes beyond that. Many workers are employed in dealer firms who sell Maruti cars.

Moreover, many intermediate goods are supplied by Indian suppliers to Maruti Udyog and for this many workers are employed by them to manufacture various parts and components used in Maruti cars. Thus their incomes also go up by investment by a Japanese multinational in Maruti Udyog Limited in India.

2. Non-Debt Creating Capital inflows:

In pre-reform period in India when foreign direct investment by MNCs was discouraged, we relied heavily on external commercial borrowing (ECB) which was of debt-creating capital inflows. This raised the burden of external debt and debt service payments reached an alarming figure of our current account receipts. This created doubts about our ability to fulfill our debt obligations and there was a flight of capital from India and this resulted in balance of payments crisis in 1991. As direct foreign investment by multinational corporations represents non-debt creating capital inflows we can avoid the liability of debt-servicing payments. Moreover, the advantage of investment by MNCs lies in the fact that servicing of non-debt capital begins only when the MNC firm reaches the stage of making profits to repatriate Thus, MNCs can play an important role in reducing stress strains and on India's balance of payments (BOP).

3. Technology Transfer:

Another important role of multinational corporations is that they transfer sophisticated technology to developing countries which are essential for raising productivity of working class and enable us to start new productive ventures requiring high technology. Whenever, multinational firms set up their subsidiary production units or joint-venture units, they not only import new equipment and machinery embodying new technology but also skills and technical know-how to use the new equipment and machinery. As a result, the Indian workers and engineers come to know of new superior technology and the way to use it. In India, the corporate sector spends only few resources on Research and Development (R&D). It is the giant multinational corporate firms (MNCs) which spend a lot on the development of new technologies can greatly benefit the developing countries by transferring the new technology developed by them. Therefore, MNCs can play an important role in the technological up-gradation of the Indian economy.

4. Promotion of Exports:

With globalization and producing products efficiently and therefore with lower costs multinationals can play a significant role in promoting exports of a country in which they invest. For example, the rapid expansion in China's exports in recent years is due to the large investment made by multinationals in various fields of Chinese industry. Historically in India, multinationals made large investment in plantations whose products they exported. In recent years, Vistara airlines made a large investment in airline industries with a joint collaboration with Tata Industries. BrahMos missile is a joint venture of Govt. of India with Russia, which is being sold to Vietnam, will bring income to India. As a matter of fact until recently, when giving permission to a multinational firm for investment in India, Government granted the permission subject to the condition that the concerned multinational company would export the product so as to earn foreign exchange for India.