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UGC-NET

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National Testing Agency (NTA)

Paper 2 || Vol – 1

SIERRA INNOVATIONS

UGC NET Paper – 2 (Commerce)

I UNIT Business Environment and International Business

Concepts and Elements of Business Environment

1. Concept of Business Environment:

Definition:

➢ The business environment comprises all external and internal forces, conditions, and institutions that directly or indirectly influence a business's operations, decisions, strategies, and performance.

In simple words:

➢ All the elements surrounding a business—such as government policies, consumer preferences, technology, and society—together make up the business environment.

2. Features of Business Environment:

(1) **Dynamic Nature**: It keeps changing from time to time (e.g., implementation of GST).
(2) **Complexity**: It is made up of various interconnected components.
(3) **Uncertainty**: Political, economic, or technological changes can occur suddenly.
(4) **Interdependence**: Different elements depend on each other.
(5) **Relativity**: The same event can have different impacts on different countries or industries.

3. Elements of Business Environment:

➢ The business environment is mainly divided into two parts:

A. Internal Environment:

✓ These are the components that are under the organization's control.
✓ They directly influence the business's strategy, decisions, and culture.

➢ **Key Components:**

1. Organizational Culture & Values
2. Management & Employees
3. Organizational Structure
4. Financial Resources
5. Production Capacity and Technology

B. External Environment:

➢ These are the elements that exist outside the organization and are beyond its control, but they do have an impact on the business.

➢ They are divided into two parts:

1. Micro Environment:

➢ These elements directly affect the day-to-day operations of a business. They are also referred to as the "operating environment.

Components:

Components	**Description**
Customers	The foundation of a business's success
Competitors	Competition in the market and strategy formulation
Suppliers	Continuous supply of raw materials and services
Intermediaries	Assisting in delivering the product to the final consumer
Public	Media, NGOs, etc., that can influence brand image

2. **Macro Environment:**

- These are elements of the remote environment that affect the entire industry or country.
- They are also referred to as the "general environment".
- Components (Based on the PESTEL Model):

Component	Detailed Description
Political	Government policies, stability, tax regulations
Economic	Inflation, interest rates, GDP, employment rate
Socio-Cultural	Consumer lifestyle, education level, values
Technological	New technologies, R&D, automation
Environmental	Climate, green regulations, carbon policies
Legal	Labor laws, consumer protection laws, industrial policies

4. **Importance of Business Environment:**

(1) Helps identify opportunities and threats

(2) Assists in strategic planning

(3) Aids in analyzing competition

(4) Encourages innovation and adaptation

(5) Ensures long-term sustainability

5. **Tools for Environment Analysis:**

Tool	Purpose
SWOT Analysis	Identifying Strengths, Weaknesses, Opportunities, and Threats
PESTEL Analysis	Analyzing macro-environmental factors
Porter's Five Forces	Evaluating industry's competitive forces
ETOP (Environmental Threat and Opportunity Profile)	Profiling opportunities and threats

Conclusion:

Understanding and analyzing the business environment is essential for every business organization, as it enables them to formulate strategies in line with changing external and internal factors. This not only reduces risks but also creates opportunities for growth.

Scope and Importance of International Business

I. **Concept of International Business:**

International business refers to commercial activities that take place between two or more countries. It involves the exchange of goods, services, capital, technology, and labor.

II. **Scope of International Business:**

The scope of international business is not limited to just buying and selling goods and services; it encompasses several diverse dimensions:

1. **Import & Export of Goods:**

✓ The most basic form of international business.

✓ For example, India is exporting cotton to the USA.

2. **Trade in Services:**

✓ Banking, insurance, tourism, information technology, education, etc.

✓ For example, Indian IT companies provide software services to the USA.

3. **Foreign Investment:**
   - ✓ A company from one country investing capital in another country.
   - ✓ It has two forms:
     - FDI (Foreign Direct Investment): For example – Amazon setting up warehouses in India.
     - FPI (Foreign Portfolio Investment): Investment in the stock market.
4. **Technology Transfer:**
   - ✓ The transfer of technology from one country to another.
   - ✓ For example – Japan's automobile technology in India.
5. **Contract Manufacturing:**
   - ✓ A company gets its products manufactured by a foreign company.
   - ✓ For example – Nike gets its shoes made in China/India.
6. **Franchising & Licensing:**
   - ✓ Allowing local firms to use the brand, name, and technology.
   - ✓ For example – McDonald's franchise in India.
7. **Operation of Multinational Companies (MNCs):**
   - ✓ These are companies that operate plants, offices, and branches in multiple countries.

III. Importance of International Business:

1. **Earning Foreign Exchange:**
   - ✓ Through exports, a country earns foreign exchange, which helps in managing imports and maintaining the balance of payments.
2. **Industrial Growth:**
   - ✓ Due to access to larger markets, companies engage in large-scale production, which boosts industrialization.
3. **Employment Generation:**
   - ✓ Various employment opportunities are created through activities like production, transportation, export, and import.
4. **Technology Transfer and Innovation:**
   - ✓ Advanced technologies and work practices from abroad can be learned and adopted.
5. **Consumer Choice:**
   - ✓ Consumers also gain access to foreign products, which increases quality and variety.
6. **Balance of Trade:**
   - ✓ By increasing exports, a country can reduce its trade deficit.
7. **International Relations:**
   - ✓ Due to trade relations, mutual cooperation, peace, and understanding among countries increase.
8. **Price Competition:**
   - ✓ International trade increases competition, which leads to better product quality and fair pricing.
9. **Opportunities for Developing Countries:**
   - ✓ Participation on the global stage allows developing countries to gain investment, technology, and employment opportunities.

Examples:

- India exporting medicines to the USA → Earns foreign exchange.
- Apple manufacturing in China → Access to cheap labor and large-scale production.
- Starbucks franchising in India → Brand expansion and local partnerships.

Conclusion:

- International trade is the foundation of today's global economy. It plays a vital role in national economic development, employment, innovation, and cultural exchange. Due to its vast scope and significance, it offers limitless opportunities for businesses.

Theories of International Trade

Meaning:

- Theories of international trade explain why trade occurs between two or more countries, how it happens, and who benefits from it. These theories help in understanding the direction, scale, specialization, and distribution of gains from trade.
- **Major Theories:**
- We can divide them into two parts:
  1. Classical Theories
  2. Modern Theories

I. **Classical Theories**

1. **Mercantilism Theory**
   - ✓ Effective from the 16th to 18th centuries,
   - ✓ It advised maximizing exports and minimizing imports to make a country prosperous.
   - ✓ Emphasis was placed on accumulating foreign exchange (gold/silver).

- **Criticism:** This theory is protectionist in nature and harms the economy in the long run.

2. **Theory of Absolute Advantage**
   - ✓ **Proponent:** Adam Smith (1776)
   - ✓ A country should export goods in which it has an absolute advantage, i.e., it can produce the goods using fewer resources or at a lower cost compared to other countries.

Example:

- India → Superior in textiles
- USA → Superior in machinery
- → India produces textiles, USA produces machinery → Both benefit

3. **Theory of Comparative Advantage**
   - ✓ **Proponent:** David Ricardo (1817)
   - ✓ Even if a country is better at producing all goods, it should still specialize in the one where it has a comparative advantage—that is, where it gains relatively more.

Key Points:

- Trade decisions are based on **opportunity cost**
- All countries can benefit from trade

4. **Opportunity Cost Theory**
   - ✓ **Proponent:** Haberler
   - ✓ Modernized Ricardo's theory of comparative advantage
   - ✓ This theory considers all factors of production (labor, capital, land, etc.)
   - ✓ It uses the **Production Possibility Curve (PPC)**

II. Modern Theories

5. Heckscher-Ohlin Theory

- ✓ **Proponents:** Eli Heckscher & Bertil Ohlin
- ✓ Also known as the **Factor Endowment Theory**.
- ✓ Each country will export goods that require production factors it has in abundance.
- ✓ It will import goods that require resources it has in limited supply.

Example:

- ➢ India (labor-abundant) → Labor-intensive goods
- ➢ Germany (capital-abundant) → Capital-intensive goods

6. Leontief Paradox

- ✓ **Proponent:** Wassily Leontief (1953)
- ✓ The USA, despite being a capital-rich country, was exporting labor-intensive goods.
- ✓ This contradicted the Heckscher-Ohlin theory.
- ✓ **Conclusion:** In actual trade behavior, not just factor abundance, but also technology, productivity, and demand play significant roles.

7. Theory of International Cost Differences

- ✓ Countries engage in trade based on production costs and technological efficiency.

8. Product Life Cycle Theory

- ✓ **Proponent:** Raymond Vernon
- ✓ The international trade pattern of a product depends on the stage of its **life cycle**:
  - **Introduction** → Innovating country
  - **Growth** → Export begins
  - **Maturity** → Foreign production starts
  - **Decline** → Domestic production declines, imports increase

9. Intra-Industry Trade Theory

- ✓ It explains that a country can both import and export similar goods within the same industry.
- ✓ For example – India imports cars from Germany and exports cars to Japan.

Comparison Table:

Theory	Proponent	Key Idea
Mercantilism	Thomas Mun	Maximize exports, minimize import
Absolute Advantage	Adam Smith	Export goods with absolute advantage
Comparative Advantage	David Ricardo	Based on comparative benefit
Factor Endowment	Heckscher-Ohlin	Based on factor/resource abundance
Leontief Paradox	Wassily Leontief	Contradiction of HO theory
Product Life Cycle	Vernon	Trade based on product's life cycle stage

Conclusion:

- ➢ Theories of international trade help us understand:
  - ✓ Why do countries engage in trade?
  - ✓ Which goods will they export or import?
  - ✓ How do resources, costs, technology, and gains affect trade?
- ➢ These theories are extremely useful in shaping global competitiveness, strategies for developing countries, and foreign trade policies.

Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI)

I. Concept of Foreign Investment:

Foreign Investment is the process in which a foreign individual, institution, or company invests in the business or assets of another country. The purpose is to earn profits, enter new markets, or expand global trade operations.

Foreign investment occurs in two main forms:

1. FDI – Foreign Direct Investment
2. FPI – Foreign Portfolio Investment

II. FDI – Foreign Direct Investment

Definition:

- When a foreign company invests in the form of capital, technology, or management with the aim of establishing a permanent business in a country, it is called **FDI (Foreign Direct Investment)**.
- In this type of investment, the investor gains **management control** and a **lasting interest** in the company.

Key Features:

Point	Description
Control	The investor has the right to make decisions within the company.
Form	Equity shares, plant construction, mergers, takeover.
Duration	Long-term
Investment Goal	Production and business operations.
Risk	Relatively high.

Types of FDI

1. Greenfield Investment:

- ✓ Setting Up a New Plant/Factory
- ✓ Example – Hyundai building a plant in India.

2. Brownfield Investment:

- ✓ Acquisition of an Existing Company
- ✓ Example – Walmart investing in Flipkart.

III. FPI – Foreign Portfolio Investment)

Definition:

- When a foreign investor invests in a country's stock market, bonds, government securities, etc., for short-term gains, it is called **FPI (Foreign Portfolio Investment)**.
- In this type of investment, the investor does **not have any management control** in the company.

Key Features:

Point	Description
Control	The investor has no involvement in company management.
Form	Shares, bonds, debentures, government securities
Duration	Short-term
Investment Goal	Capital gains, interest income.
Risk	Highly volatile.

IV. Difference between FDI and FPI

Basis	FDI	FPI
Ownership	Direct control and ownership	Only financial investment
Term	Long-term	Short-term
Risk	Low	High (market-based)
Example	Amazon opening a warehouse in India	Foreign investors investing in Sensex
Form	Plant, equity, technology	Shares, bonds, debentures
Stability	Stable and sustainable	Unstable and sensitive
Profit	Dividend + control	Capital gain/interest

V. Importance of FDI & FPI in India:

Benefits of FDI:

1. Technological development and innovation
2. Employment generation
3. Increase in exports
4. Infrastructure development
5. Inflow of foreign exchange

Benefits of FDI:

1. Increase in stock market liquidity
2. Rise in foreign exchange reserves
3. Market development for domestic investors
4. Financial deepening

VI. Regulatory Bodies in India

Investment	Regulator
FDI	DPIIT (Ministry of Commerce), RBI, FEMA Act
FPI	SEBI (Securities and Exchange Board of India), RBI

VII. Sectors for FDI (Foreign Direct Investment):

FDI enters India through two routes:

1. **Automatic Route:**
   - ✓ **No prior government approval required**
   - ✓ Examples – Manufacturing, Mining, E-commerce (with certain conditions)
2. **Government Route:**
   - ✓ **Government approval is required**
   - ✓ Examples – Defence, Media, Multi-brand Retail

Conclusion:

- ➢ FDI and FPI are both forms of foreign investment, but they differ in terms of impact, control, duration, and purpose.
- ➢ For developing countries like India, FDI supports long-term economic growth, whereas FPI contributes to short-term capital inflow and liquidity in financial markets.

Balance of Payments - BoP

I. Definition:

- ➢ **Balance of Payments (BoP)** is a financial statement that records all economic transactions conducted between a country and the rest of the world during a specific period (usually one year).
- ➢ It shows where the country has earned foreign exchange (inflows) and where it has spent it (outflows).

II. Objectives of BoP:

1. To understand the country's foreign exchange position
2. To analyze international trade and capital flows
3. To assist in formulating financial policy and determining exchange rates
4. To evaluate trade deficit or surplus

III. Structure of Balance of Payments (BoP):

- BoP is primarily divided into two main accounts:

1. Current Account

- It includes trade in goods and services, unilateral transfers, and income.

Sub-Section	Description
➢ Merchandise Trade	Visible items
➢ Trade in Services (Invisibles)	Banking, IT, Tourism, Shipping
➢ Income	Profits/Interest from Foreign Investments
➢ Transfers	Remittances from NRIs etc.

- If exports > imports = Current Account Surplus
- If imports > exports = Current Account Deficit

2. Capital Account

- It records long-term and short-term financial investments.

Sub-Section	Description
➢ FDI (Foreign Direct Investment)	Long-term investment
➢ FPI (Foreign Portfolio Investment)	Short- term investment
➢ External Commercial Borrowings (ECBs)	Foreign loans taken by India
➢ NRI Deposits	Bank deposits by Non-Resident Indians
➢ Changes in RBI's Foreign Exchange Reserves	Increase/Decrease in forex reserves

Errors and Omissions:

- This section accounts for unknown errors, hidden transactions, or discrepancies in recording, ensuring that the BoP remains balanced.

IV. BoP Surplus and Deficit:

Equilibrium:

- When total receipts equal total expenditures, the BoP is said to be in balance.

Disequilibrium:

- When total receipts ≠ total expenditures, an imbalance occurs.
- Specifically, this happens when there is a current account deficit and it cannot be offset by capital inflows.

V. Causes of Disequilibrium in BoP:

1. Excessive Imports
2. Decline in Exports
3. Rise in Oil Prices (OPEC Effect)
4. Low Foreign Investment Inflows
5. Debt Repayment and Interest Payments
6. Lack of International Competitiveness
7. Unstable Political and Economic Conditions

VI. Corrective Measures:

1. Currency Devaluation
2. Export Promotion Policies
3. Import Restrictions/Tariff Hikes
4. Attracting Foreign Investment (FDI/FPI)
5. Monetary Policy Adjustments by RBI

VII. India's BoP Snapshot:

(Data for illustration purposes)

Year	Current Account Deficit	Capital Account	Total BoP
2022-23	$35 billion	$60 billion	$25 billion surplus
2023-24	$50 billion	$55 billion	$5 billion surplus

- India is typically a current account deficit country, which is balanced through FDI/FPI inflows.

VIII. Current vs. Capital Account

Basis	Current Account	Capital Account
Nature	Trade and Income	Investment and Loans
Duration	Short-term	Long-term
Stability	More volatile	Relatively stable
Impact on Balance	Direct impact on economic growth	Affects foreign exchange reserves

Conclusion:

- BoP is an important indicator reflecting a country's international economic strength and foreign exchange position. Monitoring it helps guide economic policies, exchange rate management, and global competitiveness in the right direction.

Regional Economic Integration

I. Introduction:

- Regional economic integration refers to a partnership between two or more countries wherein they enter into joint economic agreements to simplify, liberalize, and remove barriers to the flow of trade, investment, services, labor, and capital among themselves.
- **Objective:**
  - ✓ Economic cooperation among regional countries,
  - ✓ Elimination of trade barriers,
  - ✓ Ensuring collective economic development.

II. Definition:

- When countries within the same geographical region come together to remove restrictions on mutual trade, capital, and labor flows, it is referred to as regional economic integration.

III. Types of Regional Economic Integration:

- t is classified into 5 levels (in order of increasing depth):

Level	Name	Description
1	Free Trade Area	Member countries eliminate tariffs/quotas on mutual trade (e.g., NAFTA, SAFTA)
2	Customs Union	Free Trade Area + Common external tariffs on non-member countries
3	Common Market	Customs Union + Free movement of capital and labor (e.g., EU)
4	Economic Union	Common Market + Shared economic/monetary policies
5	Political Union	Economic Union + Political unification (e.g., 50 states of the USA)

IV. Examples of Regional Integration:

Organization	Region	Form
EU (European Union)	Europe	Economic + Monetary + Common Market
ASEAN	Southeast Asia	Trade and Economic Cooperation
NAFTA (अब USMCA)	USA, Canada, Mexico	Free Trade Area
SAARC / SAFTA	South Asia	Trade Cooperation
MERCOSUR	South America	Customs Union

V. Benefits of Regional Economic Integration:

1. **Increase in Trade** – Tariff-free trade among member countries expands
2. **Price Competitiveness** – Consumers get cheaper and better options
3. **Attraction of Investment** – Companies gain access to larger regional markets
4. **Employment Opportunities** – Business expansion leads to job creation
5. **Political Stability** – Cooperation among member countries reduces the likelihood of conflict
6. **Technology Transfer** – Developed countries support developing nations

VI. Challenges of Regional Integration:

1. **Political Differences** – Member countries may have conflicting interests
2. **Impact on Smaller Nations** – Larger economies may dominate the group
3. **Reduced National Sovereignty** – Policy-making independence decreases
4. **Uneven Development** – Not all countries benefit equally
5. **Internal Competition** – Domestic industries may suffer due to foreign competition

VII. India & Regional Integration:

➢ India is a member of the following organizations:

Organization	Role
SAFTA	South Asian Free Trade Area (under SAARC)
ASEAN FTA	Trade agreement between India and ASEAN countries
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
IBSA	Cooperation between India, Brazil, and South Africa

➢ Regional Comprehensive Economic Partnership

VIII. Regional vs. Global Integration

Aspect	Regional	Global
Scope	Limited (Local region)	वैGlobal (All countries)
Examples	EU, SAFTA	WTO, IMF
Control	By member counties	By global organizations
Pace	Faster	Slower

Conclusion:

➢ Regional economic integration has become a powerful strategy in the era of global trade. It not only promotes economic cooperation and trade but also encourages political stability, cultural exchange, and sustainable development among member countries.

➢ However, it requires strong policy coordination, a sense of equity, and political will.

4 Major International Economic Institutions

Introduction:

➢ International economic institutions are global organizations that work to promote economic cooperation, trade, financial stability, and development among countries. These institutions also provide aid, loans, and technical support to developing nations.

I. IMF – International Monetary Fund

Description:	Information
Establishment	1944 (Bretton Woods Conference)
Headquarters	Washington D.C., USA
Member Countries	190+ (India is also a founding member)

➢ **Main Objectives:**

1. Maintaining stability in global exchange rates
2. Protecting countries from foreign exchange crises
3. Providing short-term loans to member countries
4. Assisting in the improvement of Balance of Payments (BoP)

➢ **Key Functions:**

✓ Providing assistance to member countries based on IMF quotas

✓ Allocation of SDRs (Special Drawing Rights)

✓ Publishing global financial reports: *World Economic Outlook*

World Bank Group

Description:	Information
Establishment	1944 (Along with IMF)
Headquarters	Washington D.C., USA
Main Institution	IBRD (International Bank for Reconstruction and Development)

➢ **Other Component Institutions:**

1. **IBRD (International Bank for Reconstruction and Development)** – Loans for reconstruction and development
2. **IDA (International Development Association)** – Concessional loans to the poorest countries
3. **IFC (International Finance Corporation)** – Investment in the private sector
4. **MIGA (Multilateral Investment Guarantee Agency)** – Political risk insurance
5. **ICSID (International Centre for Settlement of Investment Disputes)** – Settlement of investment disputes

➢ **Main Objectives:**

1. Providing long-term loans to developing countries
2. Poverty alleviation and infrastructure development
3. Projects in sectors like education, health, energy, and water management

➢ India has received World Bank loans for several major projects – such as the Rural Roads Scheme, Water Conservation, and Swachh Bharat (Clean India).

III. WTO – World Trade Organization

Description:	Information
Establishment	January 1, 1995 (Successor to GATT)
Headquarters	Geneva, Switzerland
Members	164+ countries (India is a member)

➢ **Main Objectives:**

1. Making global trade free, fair, and equitable
2. Reducing tariffs and trade barriers
3. Resolving trade disputes
4. Providing developing countries with opportunities to participate in trade

- **Key Agreements:**
  - ✓ **GATT (General Agreement on Tariffs and Trade)** – Trade in goods
  - ✓ **GATS (General Agreement on Trade in Services)** – Trade in services
  - ✓ **TRIPS (Trade-Related Aspects of Intellectual Property Rights)**
- India has participated in several disputes under the WTO (such as agricultural subsidies, IT export disputes, etc.).
- United Nations Conference on Trade and Development (UNCTAD)

Description:	**Information**
Establishment	1964
Headquarters	Geneva, Switzerland
Objective	Promoting development through trade

Main Objectives:

1. Assisting developing countries in global trade
2. Promoting manufacturing, exports, and investment
3. Policy research and data analysis
4. Guidance and advisory in e-commerce and the digital economy

Published Reports:

- Trade and Development Report
- World Investment Report
- Technology and Innovation Report
- UNCTAD advocates for fair participation of developing countries in the WTO and global economic activities.

Comparative Table:

Institution	**Establishment**	**Main Functions**	**Headquarters**
IMF	1944	Currency stability, short-term loans	Washington D.C.
World Bank	1944	Long-term loans, development	Washington D.C
WTO	1995	Global trade rules	Geneva
UNCTAD	1964	Trade assistance for developing countries	Geneva

Conclusion:

- These four institutions form the backbone of the global economic system. They:
  - ✓ Maintain financial stability (**IMF**)
  - ✓ Accelerate development (**World Bank**)
  - ✓ Ensure fair trade (**WTO**)
  - ✓ Amplify the voice of developing countries (**UNCTAD**)
- With their collaboration, global economic balance, partnership, and innovation are promoted.

WTO - World Trade Organization

Introduction:

- The World Trade Organization (WTO) is an international organization that works to regulate, manage, and facilitate global trade. Its objective is to promote a free, fair, and transparent international trade system.

Establishment:

Point	**Description**
Establishment Date	January 1, 1995
Predecessor	GATT (General Agreement on Tariffs and Trade – 1948)
Headquarters	Geneva, Switzerland
Member Countries	164+ (India is a founding member)
Official Languages	English, French, Spanish

Objectives of WTO:

1. Promoting global trade
2. Reducing trade barriers (tariffs, quotas, subsidies, etc.)
3. Resolving trade disputes
4. Ensuring transparency in policy-making among member countries
5. Supporting developing countries in participating in global trade

Major Functions of WTO:

Task	Description
1	Formulating and monitoring global trade rules
2	Resolving trade disputes (Dispute Settlement Mechanism)
3	Reviewing trade policies (Trade Policy Review)
4	Implementing agreements like GATT, GATS, TRIPS
5	Providing technical assistance and training to developing countries

Major Agreements under WTO:

Agreement	Description:
GATT	Agreement on trade in goods (Tariffs, Quotas)
GATS	Agreement on trade in services (Banking, Tourism, IT, etc.)
TRIPS	Intellectual Property Rights (IPRs) – Patents, Copyrights
AOA (Agreement on Agriculture)	Liberalization of agricultural trade
TBT (Technical Barriers to Trade)	Rules on standards and certifications
SPS (Sanitary & Phytosanitary Measures)	Food safety and health standards

Organizational Structure:

Level	Description
Ministerial Conference	Supreme decision making body Meets every 2 years
General Council	Oversees daily administrative work
Dispute Settlement Body	Resolves disputes
Trade Policy Review Body	Reviews trade policies
Committees	Work on specific issues (IPR, Agriculture, Environment)

WTO and India:

India's Role:

- India is a founding member of the WTO.
- India strengthens the voice of developing countries.
- India has participated in several disputes at the WTO:
  - ✓ United States vs. India – Poultry import dispute
  - ✓ India vs. United States – Solar panel subsidy dispute

India's Priorities:

- Protection of agricultural subsidies
- Flexibility on intellectual property
- Protection of domestic industries
- Increasing exports in the services sector

Criticism of WTO:

Issues:
Neglect of developing countries' interests
Dominance of developed countries like the USA and Europe
Inequality in agriculture and IPR rules
Neglect of environmental and labor rights
Slow and complex dispute resolution process

IX. Recent Developments & Reforms:

- The Appellate Body (the final level of Dispute Settlement) has been non-functional for several years because the United States has not appointed new members.
- Discussions continue on new issues such as e-commerce, digital tax, and climate trade.
- India opposes plurilateral agreements rather than multilateral ones.

Comparison Table: WTO vs. GATT

Basis	**GATT**	**WTO**
Establishment	1948	1995
Nature	Agreement	Organization
Scope	Only goods	Goods + Services + IPR (Intellectual Property Rights)
Binding Nature	Loose	Legally binding
Dispute Settlement	Temporary	Organized system (Dispute Settlement Body - DSB)

Conclusion:

- The WTO is a platform that facilitates making global trade fair, open, and transparent. However, it needs reforms that consisder the needs of developing countries and global justice.
- For countries like India, active participation in the WTO's policy-making process is crucial so that they can achieve both competitiveness and benefits in international trade.

Monetary Policy

Definition:

- **Monetary Policy** is the policy through which a country's central bank (in India, the **RBI**) controls the **money supply** and **interest rates** to ensure **economic stability**, **inflation control**, and **economic growth**.
- **Institution responsible for framing Monetary Policy**:
  - ✓ In India, the **Reserve Bank of India (RBI)** is responsible for the **formulation and implementation of monetary policy**.
  - ✓ The decisions are made by the **Monetary Policy Committee (MPC)**.
- Objectives of Monetary Policy:

Objective	**Description**
Control Inflation	By regulating the supply of money
Promote Economic Growth	By making credit cheaper for industries
Currency Stability	To maintain the stability of the currency's value
Reduce Unemployment	By encouraging investment and production
Improve Balance of Payments	By balancing the gap between imports and exports

Types of Monetary Policy

Type	**Description**
Tight / Contractionary	When inflation is high, reduce money supply
Easy / Expansionary	During recession or unemployment, increase money supply by lowering interest rates

Instruments of Monetary Policy:

A. Quantitative Measures:

- These measures affect the total supply of money.

Instrument	Description
Repo Rate	The rate at which RBI lends money to banks
Reverse Repo Rate	The rate at which RBI accepts money from banks
Bank Rate	The rate charged by RBI on long-term loans to banks
CRR (Cash Reserve Ratio)	Banks must keep a certain portion of their total deposits in cash with RBI
SLR (Statutory Liquidity Ratio)	Banks must hold a part of their deposits in gold/bonds
Open Market Operations (OMO)	RBI buys or sells government securities

B. Qualitative Measures:

- These measures control the direction and purpose of credit.

Measure	Description
Margin Requirements	Keeping a higher margin on loans
Directed Lending	Giving priority to sectors like agriculture, small industries, etc.
Moral Suasion	Regulating banks through advisory or persuasion
Direct Control	Issuing directives to enforce regulation

Monetary Policy Committee – MPC:

- It is a **6-member committee**.
- Its primary function is to **determine the Repo Rate**.
- The committee meets **every two months (bi-monthly)**
- The **RBI Governor** is the **Chairperson** of the committee.
- A **balanced monetary policy** is essential for ensuring **economic stability**, **growth**, and **price control** in any economy.
- Through an appropriate policy, the **RBI maintains equilibrium** among **inflation**, **unemployment**, and **economic growth**.

Fiscal Policy)

Definition:

- **Fiscal Policy** refers to the policy through which the **government controls its revenue and expenditure** to influence the economy.
- This policy affects economic activities through **taxation**, **borrowing**, and **government spending**.

Objectives of Fiscal Policy:

Objective	Description
Economic Stability	Controlling inflation and recession
Economic Growth	Promoting infrastructure, industry, and agriculture
Reduction in Unemployment	Creating jobs through schemes and investments
Equitable Income Distribution	Providing subsidies, education, and healthcare to the poor
Efficient Use of Resources	Productive investment through government expenditure

Types of Fiscal Policy:

Type	Objective
Expansionary Policy	During economic recession, increase spending and reduce taxes
Contractionary Policy	During inflation, reduce spending and increase taxes

Instruments of Fiscal Policy:

- Government Expenditure:
  - ✓ Demand is increased by spending on sectors like roads, education, health, and defense.
- **Taxation Policy:**
  - ✓ **Fiscal Policy** refers to the policy through which the **government controls its revenue and expenditure** to influence the economy.
- **Fiscal Deficit:**
  - ✓ When the government's total expenditure exceeds its total revenue.
- **Public Borrowing:**
  - ✓ **The government borrows from the public, banks, or foreign institutions as needed.**
- When the government **increases expenditure** and/or **reduces taxes** to stimulate economic growth.

Type	Description
Balanced Budget Policy	When **income = expenditure**
Fiscal Deficit Policy	When **expenditure > income** (common in developing countries)
Fiscal Surplus Policy	When **income > expenditure** (used for controlling inflation)

- Fiscal Policy vs. Monetary Policy

Point	Fiscal Policy	Monetary Policy
Authority	Government	RBI (Reserve Bank of India)
Instruments	Taxes and expenditure	Interest rate, CRR (Cash Reserve Ratio), SLR (Statutory Liquidity Ratio)
Objective	Development and distribution	Money supply and price stability
Response Time	Slow process	Quick impact

- **Who formulates Fiscal Policy in India?**
- The **Government of India (Ministry of Finance)** is responsible for formulating fiscal policy.

Effects of Fiscal Policy

Sector	Impact
Demand	Demand increases through government spending
Employment	Employment is generated through public expenditure
Investment	Encourages private investment
Poverty	Reduced through social welfare schemes
Inflation	Can be controlled through tax policy

Conclusion:

- **Fiscal policy** is a powerful tool through which the government controls the **direction of the economy, development, and social welfare**.
- The success of this policy depends on an **effective budget, appropriate tax policy, and transparent expenditure**.

World Bank

Introduction:

- **The World Bank** is an international financial institution that provides **loans, grants, and technical assistance** to developing countries for development projects.
- Its main objective is to **eradicate poverty** and **promote economic development**.

Establishment:

Point	Description
Date of Establishment	1944 (Bretton Woods Conference)
Operations Started	1946
Headquarters	Washington D.C., USA
Member Countries	189+ (as of 2024)
India's Membership	Since 1944

The Five Organizations of the World Bank Group(World Bank Group):

Institution	Function
IBRD (International Bank for Reconstruction and Development)	Provides loans to middle-income countries
IDA (International Development Association)	Offers interest-free loans/grants to the poorest countries
IFC (International Finance Corporation)	Promotes private sector investment
MIGA (Multilateral Investment Guarantee Agency)	Provides risk insurance for foreign investments
ICSID (International Centre for Settlement of Investment Disputes)	Settles investment disputes

- **Typically, when we say "World Bank," it refers to IBRD + IDA,** (IBRD: International Bank for Reconstruction and Development IDA: International Development Association) I

Objectives of World Bank:

Objective	Description
Economic development in developing countries	Especially through investment in infrastructure
Providing financial assistance	For example – schools, hospitals, roads, electricity
Technical assistance and policy advice	In project planning and implementation
Poverty eradication	Through social programs and employment generation

Functions of World Bank:

- Providing loans for development projects
- Offering technical and policy advice
- Granting financial assistance
- Encouraging private investment
- Publishing statistical and research reports

India & World Bank:

- **India is a founding member of the World Bank.**
- The World Bank has **approved multi-billion-rupee projects** in areas such as **roads, education, rural development, and healthcare** in India.
- During **COVID-19**, India received **assistance for healthcare services** from the World Bank.

Criticism of World Bank:

- **Greater influence of wealthy nations**
- **Conditional loans** (e.g., **privatization**, **subsidy cuts**)
- **Neglect of environmental and tribal rights**
- **Some projects have failed**

- The **World Bank is an important source of financial, technical, and policy support** for developing countries. While it **faces criticism**, it remains a **crucial international institution** for **poverty alleviation** and **collaboration in development projects**.