B. COM. LLB III SEM 2013

MODEL ANSWER

CODE- AS-3042

Subject Business Environment

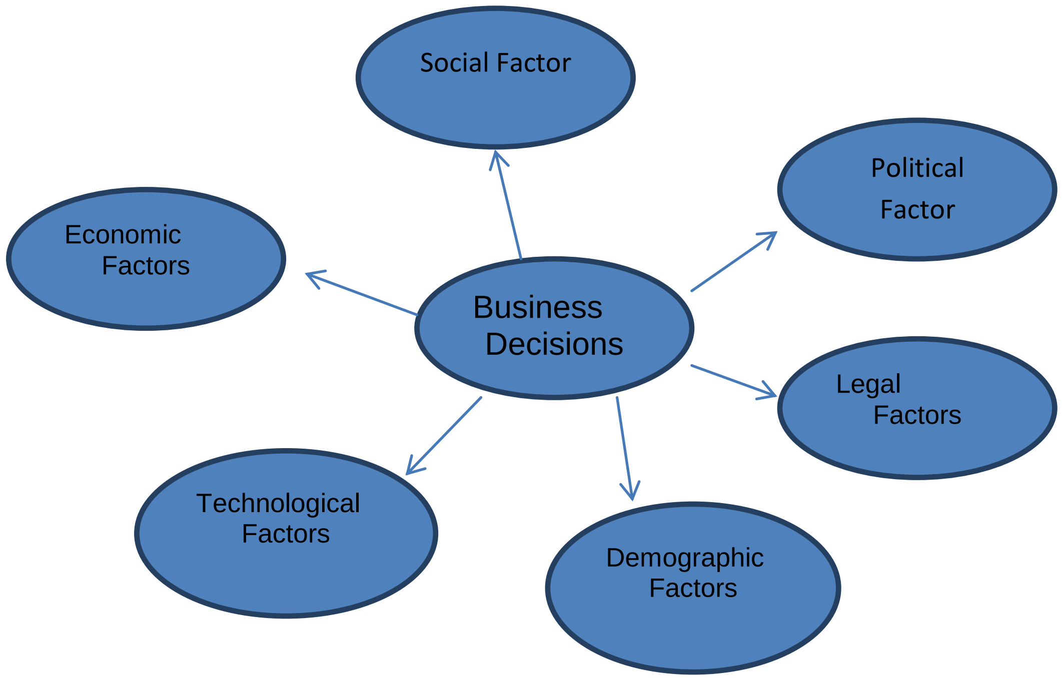
SECTION – A (MCQ)

1. Correct Answer: B
2. Correct Answer: C
3. Correct Answer: A
4. Correct Answer: B
5. Correct Answer D
6. Correct Answer: D
7. Correct Answer: A
8. Correct Answer: A
9. Correct Answer: C
10. Correct Answer: A
11. Correct Answer: B
12. Correct Answer: D
13. Correct Answer: D
14. Correct Answer: C
15. Correct Answer: A

Section B (Short Answer Type Question)

Q2. Define Business Environment?

The term ‘business environment’ connotes external forces, factors and institutions that are beyond the control of the business and they affect the functioning of a business enterprise. These include customers, competitors, suppliers, government, and the social, political,legal and technological factors etc. While some of these factors or forces may have direct influence over the business firm, others may operate indirectly. Thus, business environment may be defined as the total surroundings, which have a direct or indirect bearing on the functioning of business. It may also be defined as the set of external factors, such as economic factors, social factors, political and legal factors, demographic factors, technical factors etc., which are uncontrollable in nature and affects the business decisions of a firm. (2)



Q3. What is Capitalist Economy?

an economy in which each person has the right to invest money, to work in business, and to buy and sell, with no restrictions from the state.

1. The factors of production are privately owned and managed by individuals.
2. The main motive behind the working of the capitalist system is the profit motive. The entrepreneurs initiate production with a view to maximize profits.
3. Income is received in monetary form through the sale of services of the factors of production and fro: profits of private enterprise.
4. Capitalist economy is not planned, controlled or regulated by the government. In this system, economic decisions and activities are guided by price mechanism which operates automatically without any direction and control by the central authorities.

5. Competition is the most important feature of the capitalist economy. It means the existence of large number of buyers and sellers in the market who are motivated by their self-interest but cannot influence market decisions by their individual actions.

Q4. What do you mean by Swot Analysis?

A tool that identifies the **s**trengths, **w**eaknesses, **o**pportunities and **t**hreats of an organization. Specifically, SWOT is a basic, straightforward model that assesses what an organization can and cannot do as well as its potential opportunities and threats. The method of SWOT analysis is to take the information from an environmental analysis and separate it into internal (strengths and weaknesses) and external issues (opportunities and threats). Once this is completed, SWOT analysis determines what may assist the firm in accomplishing its objectives, and what obstacles must be overcome or minimized to achieve desired results.

Strengths:-

Patent

Strong brand Name

Good reputation among customers

Cost advantage from proprietary know how

Exclusive excess to high grade natural resources

Favourable access to distribution network.

Weaknesses:-

Lack of patent protection

A weak brand name

Poor reputation among customer

High cost structure

Lack of access to the best natural resources

Lack of access to key distribution channel

Opportunities

An unfulfilled customer needs

Arrival of new Technologies

Loosening of regulation

Removal of International Trade barriers

Threats

Shift in consumer taste away from the firm's products.

Emergency of substitute products

New regulation

Increased trade barriers.

Q5. What is Environmental Scanning?

It is the process of gathering, analysing and dispensing information for tactics and strategic purpose.

Careful monitoring of an organization's internal and external environments for detecting early signs of opportunities and threats that may influence its current and future plans. ‘the study and interpretation of the political, economic, social and technological events and trends which influence a business, an industry or even a total market’ is called as Environmental Scanning.[The factors which need to be considered for environmental scanning are events, trends, issues and expectations of the different interest groups.

Kinds of Environmental Scanning

Ad-Hoc Scanning: - Short term, frequent examination usually initiated by a crisis.

Regular Scanning: - Study has done on regular schedule.

Continuous Scanning: - Continuous structure data collection and processing on a broad range of environment factor.

Q6. What is political Environment of Business?

Political environment is defined as the state, government, institutions and laws together with the public and private stakeholders who operate and influence that system. Business managers will pay attention to the political environment to see how government actions will influence their company. Political environment also includes the political culture which are views held about what governments should act with relation to its citizens.For many businesses, non-market forces are as significant as market factors: the interaction between government institutions, elected officials, policy-oriented activists and NGOs shape the legal environment for firms in ways that have direct implications for their bottom line. Lawyers are frequently involved in developing and implementing strategies in the non-market environment to advocate and realize the interests their clients. This class introduces a set of analytic tools that rest upon a foundation of economic principles, political analysis, social psychology and risk management to help students identify patterns of behavior and outcomes in the non-market environment, methods of analysis that facilitate understanding and prediction, and, ultimately, the shaping of strategies to improve the non-market environment for clients. The course is organized through a series of case studies that identifies the ways in which firms are subjected to, and need to respond to, non-market forces and institutions including the media, activist campaigns, regulatory action and threats, and the legislative arena. In exploring these topics students will be required to prepare a series of short assignments that provide policy and legal guidance for firms that are engaged in these situations, complete an in-class midterm that tests students on their understanding of fundamental concepts in non-market analysis, and complete a substantial group project in which students identify an important non-market issue being faced by a Nashville-area business or non-governmental organization, and use the frameworks and lessons learned in class to offer advice and recommendations for how best to achieve their goals while paying appropriate attention to the relevant non-market considerations.

Q7. Discuss any four social responsibility of business?

The idea behind corporate social responsibility is that companies have multiple responsibilities to maintain. These responsibilities can be arranged in a pyramid, with basic responsibilities closer to the bottom. As a business meets lower-level responsibilities that obligate it to shareholders and the law, it can move on to the higher level responsibilities that benefit society.

Economic Responsibilities

A company's first responsibility is its economic responsibility -- that is to say, a company needs to be primarily concerned with turning a profit. This is for the simple fact that if a company does not make money, it won't last, employees will lose jobs and the company won't even be able to think about taking care of its social responsibilities. Before a company thinks about being a good corporate citizen, it first needs to make sure that it can be profitable.

Legal Responsibilities

A company's legal responsibilities are the requirements that are placed on it by the law. Next to ensuring that company is profitable, ensuring that it obeys all laws is the most important responsibility, according to the theory of corporate social responsibility. Legal responsibilities can range from securities regulations to labor law, environmental law and even criminal law.

Ethical Responsibilities

Economic and legal responsibilities are the two big obligations of a company. After a company has met these basic requirements, a company can concern itself with ethical responsibilities. Ethical responsibilities are responsibilities that a company puts on itself because its owners believe it's the right thing to do -- not because they have an obligation to do so. Ethical responsibilities could include being environmentally friendly, paying fair wages or refusing to do business with oppressive countries, for example.

Philanthropic Responsibilities

If a company is able to meet all of its other responsibilities, it can begin meeting philanthropic responsibilities. Philanthropic responsibilities are responsibilities that go above and beyond what is simply required or what the company believes is right. They involve making an effort to benefit society -- for example, by donating services to community organizations, engaging in projects to aid the environment or donating money to charitable causes.

Q8. What do you mean by Licensing?

A business arrangement in which one company gives another company permission to manufacture its product for a specified payment.

There are few faster or more profitable ways to grow your business than by licensing patents, trademarks, copyrights, designs, and other intellectual property to others. Licensing lets you instantly tap the existing production, distribution and marketing systems that other companies may have spent decades building. In return, you get a percentage of the revenue from products or services sold under your license. Licensing fees typically amount to a small percentage of the sales price but can add up quickly.

For example, about 90 percent of the $160 million a year in sales at Calvin Klein Inc. comes from licensing the designer's name to makers of underwear, jeans and perfume. The only merchandise the New York-based company makes itself, in fact, are its women's apparel lines. Many large corporations, such as the Walt Disney Co., generate less significant proportions of their revenue from licenses. IBM, after energizing its efforts to license its thousands of technology patents a few years ago, now attributes $1 billion a year of its corporate sales to licensing. The downside of licensing is that you settle for a smaller piece of the pie. Calvin Klein-branded products, for example, generate $5 billion in sales a year, the vast majority of which goes to licensees and retailers. At the same time, licensing revenue tends to be high-margin, with almost all the fees from licensing flowing straight to the bottom line.

On the other side of the coin, you could be the one with the interest in licensing the high-recognition brand name of another company. To many, it might seem like the key to a gold mine: Putting a Notre Dame logo, a Lion King character or a Star Wars graphic on your product means guaranteed success, right?

For a sure thing, prepare for a frustrating search. But if you're willing to put some time and effort into making your product work, buying the licensing rights to a well-known product or name can substantially increase your chances for success.

Licensing is a billion-dollar retail market worldwide. But a license isn't a prescription for instant success. It gives you the borrowed interest of a name that is either unique or has some consumer acceptance, but it still takes good selling and marketing to succeed. A license is, in essence, a tool, and when used well, it's an extremely cost-effective marketing tool.

Licensing offers three major advantages. First, it may mean you have something unique your competitors don't. Second, it may mean getting a little better margin because it's unique. And third, it may mean that 10 percent of the retailers you call on that you've never been able to sell to will finally take a look because you have something different. And when that happens, you can sell the rest of your line.

Business licenses are permits issued by government agencies that allow individuals or companies to conduct business within the government's geographical jurisdiction. It is the authorization to start a business issued by the local government.[1] A single jurisdiction often requires multiple licenses that are issued by multiple government departments and agencies. Business licenses vary between countries, states, and local municipalities. There are often many licenses, registrations and certifications required to conduct a business in a single location.

Section C (Long Answer Type Question)

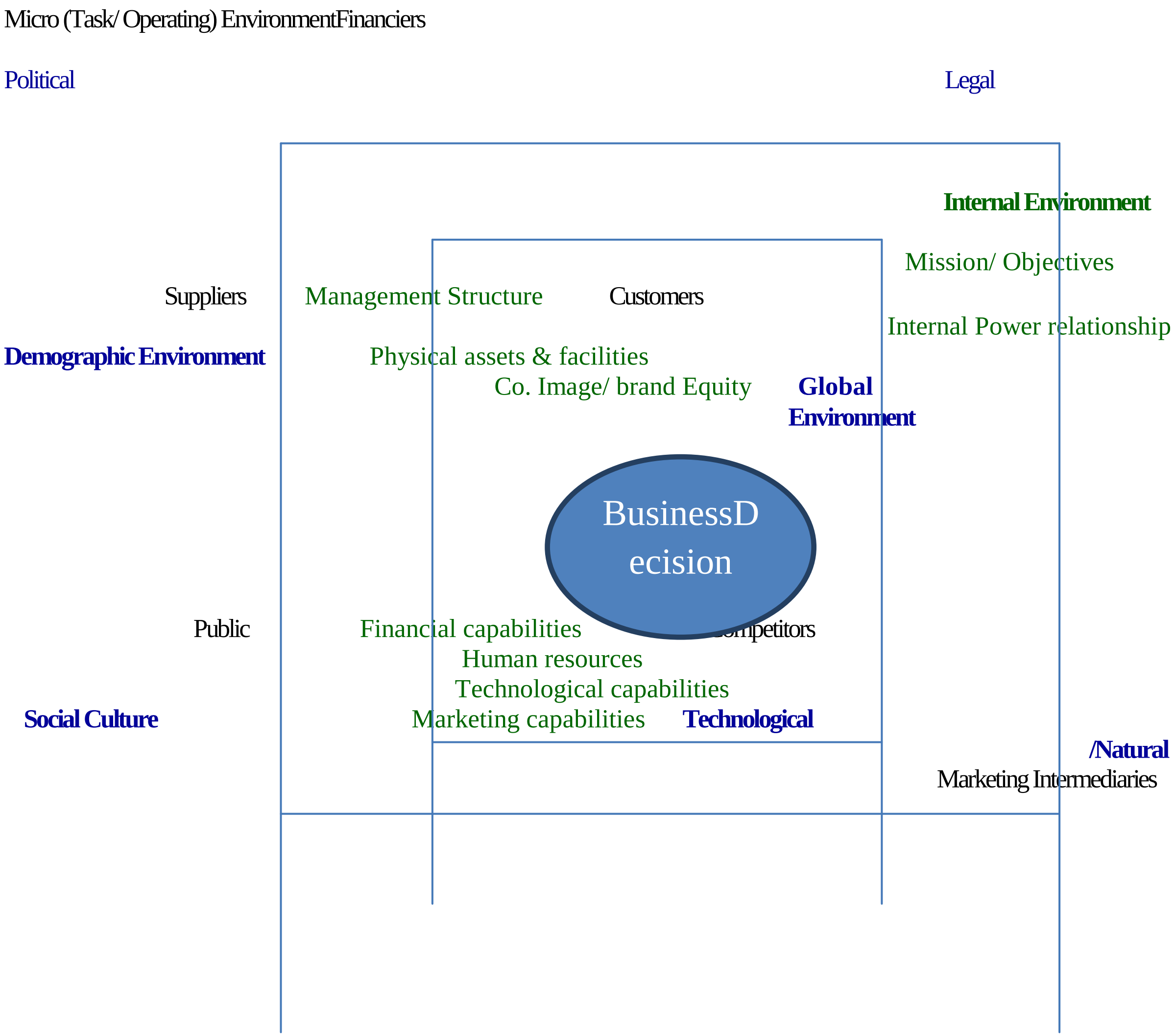
9.Explain meaning of Business Environment and its Significance?

Environment means the surroundings, externalobjects, influences or circumstances under which someone or something exists. Theenvironment of any organisation is theaggregate of all conditions, events & influencesthat surround & affect it.

A business organization can not exist a vacuum. It needs living persons, natural resources and places and things to exist. The sum of all these factors and forces is called the business environment.

Business environment is of two types-
(i) Micro environment or the internal environment
(ii) Macro environment or the external environment

(i) Micro environment / Internal Environment of Business
Micro environment comprises of the factors in the immediate environment of the company that affect the performance of the company. In includes the suppliers, competitors, Marketing intermediaries, customers, pressure groups and the general public. Supplier form an important factor of the micro environment of business as the importance of reliable sources of supply are obvious. Supplier include the financial labor input. Stock holders, banks and other similar organizations that supply money to the organization are also termed as suppliers. Managers always strive to ensure a study flow of inputs at the lowest price. Customers are also an important factor in the internal environment of business. The customers or the clients absorb the output of an organization and a business exists to meet the demands of the customers. Customers could be individuals, industries, government and other institutions. Labor force is also an important part of the internal environment of business. Other than these the business associates, competitors, regulatory agencies and the marketing intermediaries are also a part of the micro business environment.



Macro environment / External environment of Business :

The forces and institutions out side of the organization that can potentially affect the performance of the organization come under the external environment of Business. The macro environment of business consist of the economic, demographic, natural, cultural and political forces. The external environment of business is often categorized into the economic environment, political and government environment, socio cultural environment and the international environment.

Signification of Business environment:-

An assessment of the operating environment of business firms is the core. The students, managers and entrepreneurs need to study business environment for the following reasons:

a. Understanding the nature of environment:

An analysis of environment enables business firms to understand that today's environment is turbulent, complex and dynamic, and hence they cannot afford to remain passive to the fast-paced changes taking place.

And at the same time the organisation must learn to live with chaos in order to cope with the radical changes.

b. Environment influences different industries differently:

And within one industry different firms differently as it is multi-faceted. Therefore, the environment has to be understood in a proper perspective.

c. To understand customers in a context:

What distinguishes the strategic concept of marketing from the 'new' concept of marketing which appeared in 1960 is the emphasis on environment. "Knowing everything there is to know about the customer is not enough.

To succeed, marketers must know the customer in a context including the competition, government policy and regulation, and the broader economic, social, and political macro forces that shape the evolution of markets."

d. Different markets, different strategies:

In terms of market, for domestic as well as international, the different strategies are required only because of differences in business environments. If there are no differences then the same strategies would have worked for both.

e. To identify what is critical in environment:

Business environments can be of different kinds - Internal and external, domestic, national and global, and so on. The entrepreneurs will have to identify for themselves as to what is critical for them and focus upon the same.

f. The root cause of most business problems is the self-reference criterion:

(SRC) in making decisions, i.e., an unconscious reference to one's own cultural values, experiences and knowledge as the basis for decisions. Many firms have burnt their fingers because of it - like Colgate-Palmolive and Apple Computers. Proctor & Gamble lost heavily when it entered Japanese market with American products, American managers, and American practices.

g. An analysis of business environment tells the entrepreneurs of opportunities and threats (through external environment), and strengths and weaknesses (through internal environmental analysis), a precursor to designing right kind of strategies.

h. Organisations have a choice in how they manage their relationships with the environment. They may be reactive, when they just sit back and wait for the environment to change, and react to changes as they happen.

They constantly engage themselves into fire-fighting immediate problems. Or they can identify and foresee changes in the environment, and plan their responses before the changes happen.

They are known as proactive - planning for the future. And some of the organizations go even beyond and manage the environment in their own interests - at different times since 1900, Ford, IBM, Sony, McDonalds and Microsoft have done it.

of business environment is briefly explained in an analysis below.

(1) Identification of Strength: The analysis of the internal environment helps to identify strength of the firm. For instance, if the company has good personal policies in respect of promotion, transfer, training, etc than it can indicates strength of the firm in respect of personal policies. This strength can be identified through the job satisfaction and performance of the employees. After identifying the strengths the firm must try to consolidate its strengths by further improvement in its existing plans & policies.

(2) Identification of Weakness: The analysis of the internal environment indicates not only strengths but also the weakness of the firm. A firm may be strong in certain areas; where as it may be weak in some other areas. The firm should identify sue weakness so as to correct them as early as possible.

(3) Identification of Opportunities: An analysis of the external environment helps the business firm to identify the opportunities in the market. The business firm should make every possible effort to grab the opportunities as and when they come.

(4) Identification of Threats: Business may be subject to threats from competitors and others. Therefore environmental analysis helps to identify threats from the environment identification of threats at an earlier date is always beneficial to the firm as it helps to defuse the same.

(5) Exploitation of Business Opportunities: Environment opens new opportunities for the expansion of business activities. Study of environment is necessary in order to discover and exploit such opportunities fully.

(6) Keeping Business Enterprise Alert: Environment study is needed as it keeps the business unit alert in its approach and activities. In the absence of environmental changes, the business activities will be dull and lifeless. The problems & prospects of business can be understood properly through the study of business environment. This enables an enterprise to face the problems with confidence and secure the maximum benefits of business opportunities available.

(7) Keeping Business Flexible and Dynamic: Study of business environment is needed for keeping business flexible and dynamic as per the changes in the environmental forces. This will enable the development of business organization.

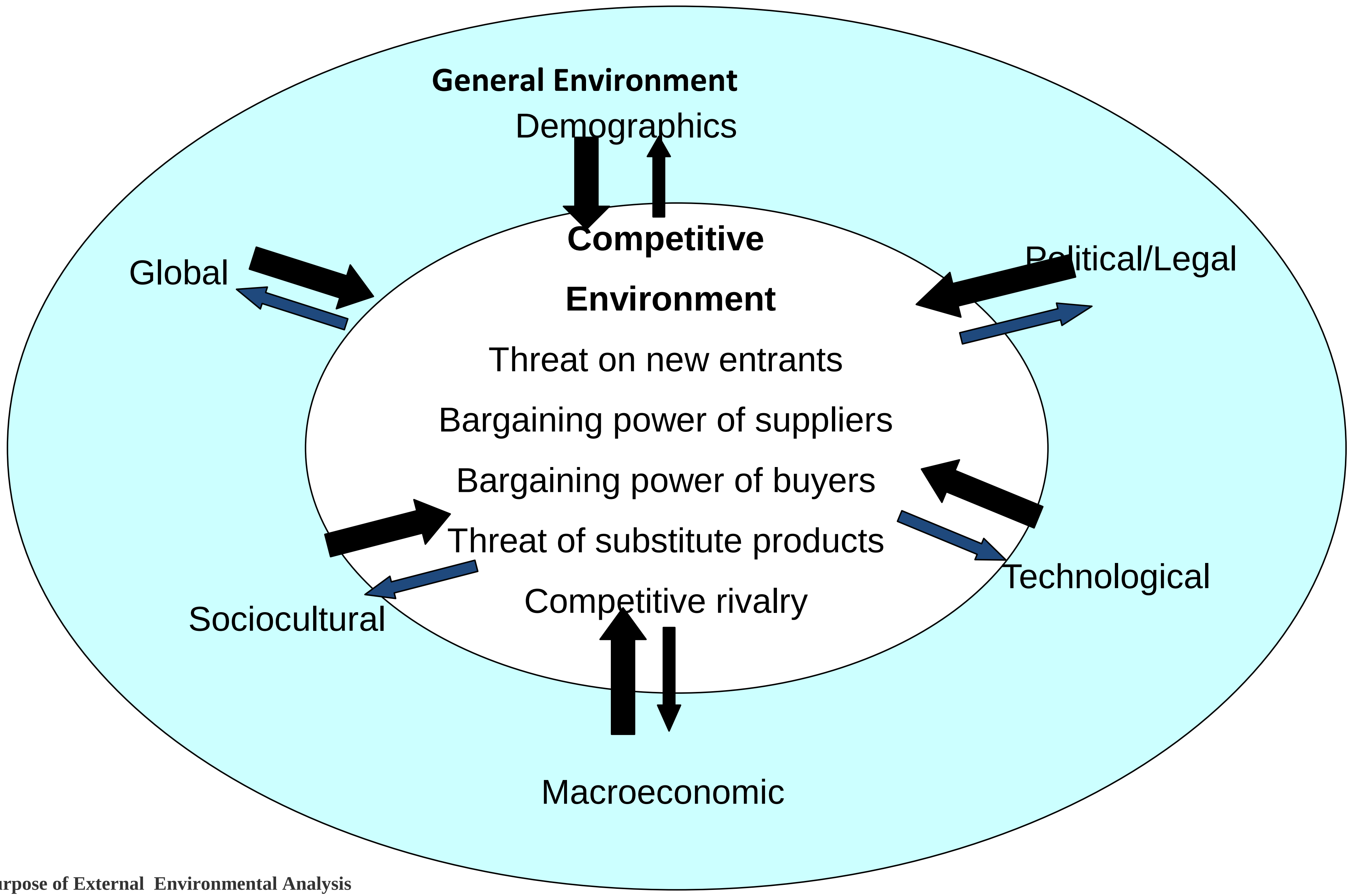
(8) Understanding Future Problems and Prospects: The study of business environment enables to understand future problems and prospects of business in advance. This enables business organizations to face the problems boldly and also take the benefit of favorable situation.

(9) Making Business Socially Acceptable: Environment study enables businessmen to expand the business and also make it acceptable to different social groups. Business organizations can make positive contribution for maintaining ecological balance by studying social environment.

(10) Ensures Optimum Utilization of Resources: The study of business environment is needed as it ensures optimum use of resources available. For this, the study of economic and technological environment is useful. Such study enables organization to take full benefit of government policies, concessions provided, and technological developments and so on.

(11) Ensures Survival and Growth: Business environment inform about suitable changes to be affected in business policies. This helps the business organizations to grow & prosper. (12) Maintaining adaptability to changes: Business environment guides the business organization about socio-economic changes & the organization must accordingly adapt these change. This enables the business organization to survive for a longer period.

Q10. What is environmental Analysis? Discuss stages of Environment Analysis?



Purpose of External Environmental Analysis

- Organizations are affected by conditions in the environment

- Managers need to be aware of these conditions in order to
  - Take advantage of opportunities that can lead to higher profits
  - Reduce the impact of threats that can harm the organization’s future

Gathering Information for External Environmental Analysis

- Managers need information in order to know and develop an understanding about what is happening in the external environment
- Three approaches to information gathering:
  - Scanning: general surveillance of environmental changes; looking for early signals of changes
  - Monitoring: close attention to specific developments that could affect the organization
  - Competitive Intelligence: following actions of competitors

Two Areas for Analysis

- General Environment
- Competitive Environment

The General and Competitive Environment

General Environment Demographics

- Characteristics of a country’s population
  - Size of population and growth rate
  - Age distribution of population
  - Education levels
  - Income distribution
  - Ethnic diversity
  - Geographic distribution

General Environment Political/Legal

- Political and legal conditions affecting business
    - Government policies toward business
    - Investment incentives
    - Business regulation: labor, environment
    - Education priorities
    - Budget conditions and plans

General Environment Technological

- Technological developments relevant to a business
    - Telecommunications
    - Internet
    - On-line training
    - Product and process innovations

General Environment Macroeconomic

- Impact of the economy on business
    - Size and change in gross domestic product
    - Per capita income levels
    - Inflation rate
    - Interest rates
    - Foreign trade deficit or surplus
    - Unemployment
    - Rates of saving and investment

General Environment Sociocultural

- Influence of values, beliefs, and lifestyles of a country on business
  - Family relationships
  - Attitudes about work
  - Living arrangements
  - Styles of entertainment
  - Attitudes toward health

General Environment Global

- International developments that can impact a business
  - Rise of China as economic power
  - Rising global trade and WTO
  - Intellectual property protection
  - Important political events: Iraq war
  - Search for low cost suppliers

Competitive Environment

- Managers must understand the conditions of competition within their industry
  - Porter Five-Forces Model of Competition (determining the attractiveness of an industry)
  - Key Success Factors
  - Competitive Changes During industry Evolution
  - Strategic Groups

Environmental analysis is a strategic business activity involving examination of a business's external circumstances, including the remote, operating and competitive environment

Stages of Environmental Analysis

1. Scanning:- To detect warning signals
2. Monitoring :- Trends
3. Forecasting :- Future changes .
4. Assessing:- The changes for organizational implication

Scanning

- Analyses Environment for identifying factors with impact/ implication for business.
- Exploratory in nature
- Identifies emerging trends.
- Alert Organization on potentially significant external factors before crystallization.

Monitoring
Focused & systematic in depth analysis of relevant environment trends.
Gather data to determine emerging patterns.
Outputs of monitoring:-

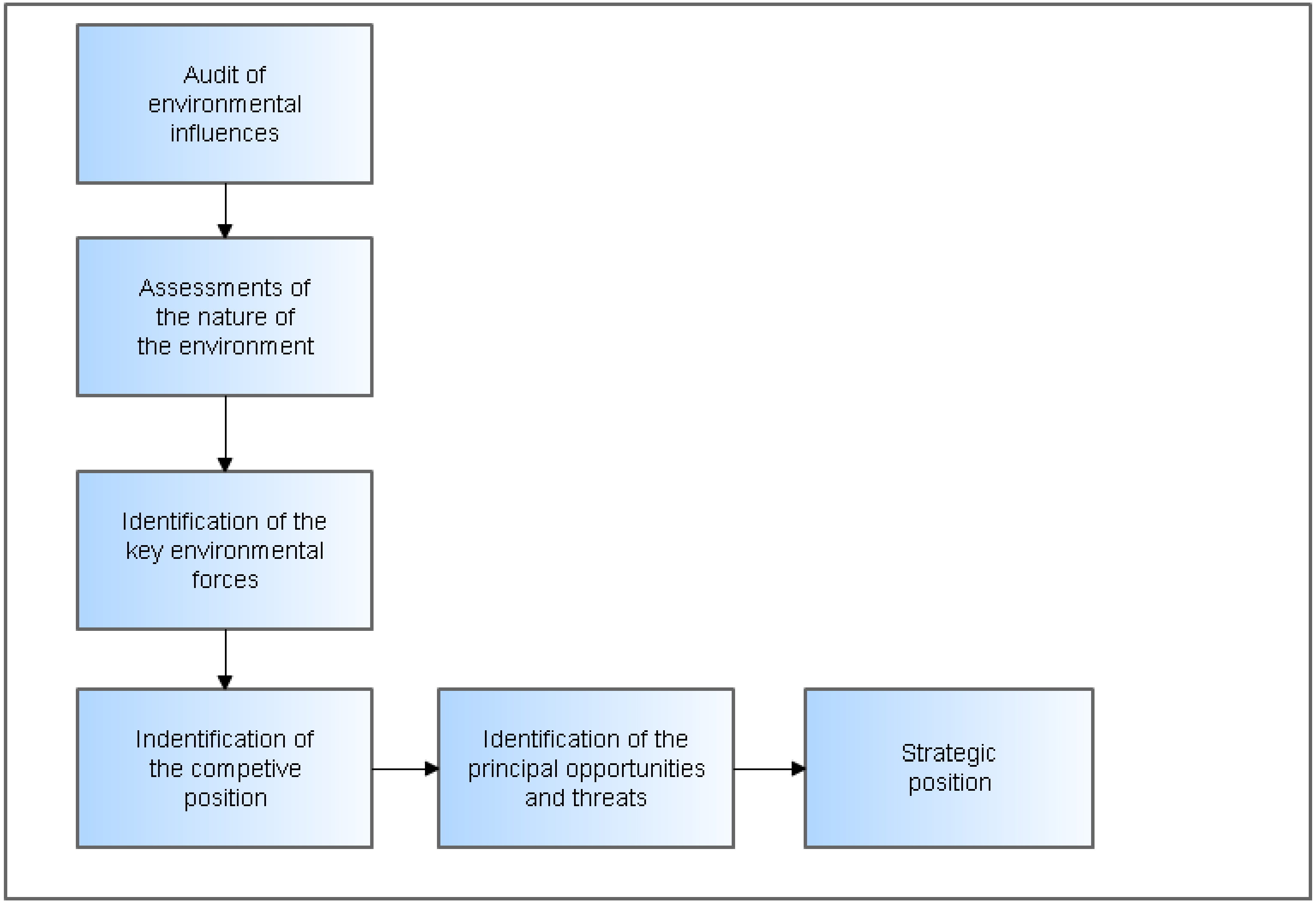
1. Environmental pattern to be forecast
2. Trends for future monitoring
3. Patterns requiring further scanning.

Forecasting….

- Anticipating trends in future changes
- Pinpoint critical variables emerging/ declining
- Give more concrete view on threats and opportunities.
- Help formulate strategic plans.

Assessment

- Evaluate the impact on Organizational business.
- Draws up implication / possible impacts.
- What foreshadow environment holds for the organization



Q11. Write short notes:-

IDRA:- The Industries (Development and Regulation) Act , 1951 , amended from time to time , is one of the most effective weapons the Government possesses to regulate the development and to control the activities of the industrial sector . (Describe the objectives , and main provisions)

2. EXIM policy:- **Export-Import Bank of India** is the premier export finance institution of the country, established in 1982 under the Export-Import Bank of India Act 1981.

EXIM (Export Import) Policy is a course of action taken by the Indian government to control the imports and exports within the country. The policy prioritizes economic development and international commitments that it has made. Launched the institution with a mandate, not just to enhance exports from India, but to integrate the country's foreign trade and investment with the overall economic growth. Since its inception, Exim Bank of India has been both a catalyst and a key player in the promotion of cross border trade and investment. Commencing operations as a purveyor of export credit, like other Export Credit Agencies in the world, Exim Bank of India has, over the period, evolved into an institution that plays a major role in partnering Indian industries, particularly the Small and Medium Enterprises, in their globalisation efforts, through a wide range of products and services offered at all stages of the business cycle, starting from import of technology and export product development to export production, export marketing, pre-shipment and post-shipment and overseas investment

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

The **Foreign Trade Policy** of India is guided by the Export Import in known as in short **EXIM Policy** of the Indian Government and is regulated by the **Foreign Trade Development and Regulation Act, 1992**. **DGFT (Directorate General of Foreign Trade)** is the main governing body in matters related to Exim Policy. The main objective of the Foreign Trade (Development and Regulation) Act is to provide the development and **regulation of foreign trade** by facilitating imports into, and augmenting exports from India. Foreign Trade Act has replaced the earlier law known as the imports and Exports (Control) Act 1947.

EXIM Policy

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

History of Exim Policy of India

In the year 1962, the Government of India appointed a special **Exim Policy** Committee to review the government previous export import policies. The committee was later on approved by the Government of India. Mr. V. P. Singh, the then Commerce

Minister and announced the Exim Policy on the 12th of April, 1985. Initially the EXIM Policy was introduced for the period of three years with main objective to boost the **export business** in India

Exim Policy Documents

The Exim Policy of India has been described in the following documents:

- **Interim New Exim Policy 2009 - 2010**
- Exim Policy: 2004- 2009
- Handbook of Procedures Volume I
- Handbook of Procedures Volume II
- ITC(HS) Classification of Export- Import Items

The major information in matters related to export and import is given in the document named "Exim Policy 2002-2007".

An exporter uses the **Handbook of Procedures Volume-I** to know the procedures, the agencies and the documentation required to take advantage of a certain provisions of the Indian EXIM Policy. For example, if an exporter or importer finds out that paragraph 6.6 of the

Exim Policy is important for his export business then the exporter must also check out the same paragraph in the Handbook of Procedures Volume- I for further details.

The **Handbook of Procedures Volume-II** provides very crucial information in matters related to the **Standard Input-Output Norms (SION).** Such Input output norms are applicable for the products such as **electronics**, **engineering, chemical**, **food** products including **fish and marine** products, **handicraft**, **plastic** and **leather** products etc. Based on SION, exporters are provided the facility to make duty-free import of inputs required for manufacture of export products under the
Duty Exemption Scheme or Duty Remission Scheme.

The **Export Import Policy** regarding import or export of a specific item is given in the **ITC- HS Codes** or better known as
Indian Trade Clarification Code based on Harmonized System of Coding was adopted in India for import-export operations. **Indian Custom** uses an eight digit ITC-HS Codes to suit the national trade requirements. ITC-HS codes are divided into two schedules. Schedule I describe the rules and
exim guidelines

related to import policies where as

Export Policy Schedule II describe the rules and regulation related to export policies. Schedule I of the ITC-HS code is divided into 21 sections and each section is further divided into chapters. The total number of chapters in the schedule I is 98. The chapters are further divided into sub-heading under which different HS codes are mentioned.

ITC(Hs) Schedule II of the code contain **97 chapters** giving all the details about the

Export Import Guidelines related to the export policies.

Objectives Of The Exim Policy : -

Government control import of non-essential items through the

EXIM Policy. At the same time, all-out efforts are made to promote exports. Thus, there are two aspects of Exim Policy; the import policy which is concerned with regulation and management of imports and the export policy which is concerned with exports not only promotion but also regulation. The main objective of the Government's EXIM Policy is to promote exports to the maximum extent. Exports should be promoted in such a manner that the economy of the country is not affected by unregulated **exportable items** specially needed within the country. Export control is, therefore, exercised in respect of a limited number of items whose supply position demands that their exports should be regulated in the larger interests of the country. In other words, the main objective of the Exim Policy is:

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

Governing Body of Exim Policy

The Government of India notifies the Exim Policy for a period of five years (1997-2002) under Section 5 of the **Foreign Trade (Development and Regulation Act), 1992**. The current

Export Import Policy covers the period 2002-2007. The Exim Policy is updated every year on the 31st of March and the modifications, improvements and new schemes became effective from 1st April of every year.

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

Exim Policy 1992 -1997

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

Exim Policy 1997 -2002

With time the Exim Policy 1992-1997 became old, and a **New Export Import Policy** was need for the smooth functioning of the Indian export import trade. Hence, the Government of India introduced a new Exim Policy for the year 1997-2002. This policy has further simplified the procedures and educed the interface between exporters and the **Director General of Foreign Trade (DGFT)** by reducing the number of documents required for export by half. Import has been further liberalized and better efforts have been made to promote Indian exports in international trade.

Objectives of the Exim Policy 1997 -2002

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

- To accelerate the economy from low level of economic activities to high level of economic activities by making it a globally oriented vibrant economy and to derive maximum benefits from expanding global market opportunities.

- To motivate sustained economic growth by providing access to essential raw materials, intermediates, components,' consumables and capital goods required for augmenting production.
  To improve the technological strength and efficiency of Indian agriculture, industry and services, thereby, improving their competitiveness.
- To create new employment. Opportunities and encourage the attainment of internationally accepted standards of quality.
- To give quality consumer products at practical prices.

Highlights of the Exim Policy 1997-2002

1. Period of the Exim Policy

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

2. Liberalization

• A very important feature of the policy is liberalization.
• It has substantially eliminated licensing, quantitative restrictions and other regulatory and discretionary controls. All goods, except those coming under negative list, may be freely imported or exported.

3. Imports Liberalization

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

4. Export Promotion Capital Goods (EPCG) Scheme

• The duty on imported capital goods under
EPCG Scheme has been reduced from 15% to 10%.
• Under the zero duty EPCG Scheme, the threshold limit has been reduced from Rs. 20 crore to Rs. 5 crore for agricultural and allied Sectors

5. Advance License Scheme

• Under Advance License Scheme, the period for export obligation has been extended from 12 months to 18 months.
• A further extension for six months can be given on payment of 1 % of the value of unfulfilled exports.

6. **Duty Entitlement Pass Book (DEPB) Scheme**

• Under the **DEPB**

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

• Such credit can be can be

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

Impact of Exim Policy 1997 –2002

(a) Globalization of Indian Economy:

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

(b) Impact on the Indian Industry:

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

(c) Impact on Agriculture:

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

(d) Impact on Foreign Investment.

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

(e) Impact on Quality up gradation:

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

(f) Impact on Self-Reliance:-

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

Exim Policy 2002 – 2007

The Exim Policy 2002 - 2007 deals with both the export and import of merchandise and services. It is worth mentioning here that the Exim Policy: 1997 - 2002 had accorded a status of exporter to the business firm exporting services with effect from1.4.1999. Such business firms are known as Service Providers.

Objectives of the Exim Policy: 2002 - 2007

The main objectives of the Export Import Policy 2002-2007 are as follows:

1. To encourage economic growth of India by providing supply of essential raw materials, intermediates, components, consumables and capital goods required for augmenting production and providing services.
2. To improve the technological strength and efficiency of Indian agriculture, industry and services, thereby improving their competitive strength while generating new employment opportunities and encourage the attainment of internationally accepted standards of quality; and
3. To provide consumers with good quality products and services at internationally competitive prices while at the same time creating a level playing field for the domestic producers.

Main Elements of Exim Policy 2004-2009

The new Exim Policy 2004-2009 has the following main elements:

- Preamble
- Legal Framework
- Special Focus Initiatives
- Board Of Trade
- General Provisions Regarding Imports And Exports
- Promotional Measures

- Duty Exemption / Remission Schemes
- Export Promotion Capital Goods Scheme
- Export Oriented Units (EOUs),Electronics Hardware Technology Parks (EHTPS), Software Technology Parks (STPs) and Bio-Technology Parks (BTPs)
- Special Economic Zones
- Free Trade & Warehousing Zones
- Deemed Exports

Permeable of Exim Policy 2004-2009: It is a speech given by the Ministry of Commerce and Industries. The speech for the Exim Policy 2004-2009 was given by Kamal Nath, on 31ST AUGUST, 2004.

Legal Framework of Exim Policy 2004-2009

1.1 Preamble

The Preamble spells out the broad framework and is an integral part of the Foreign Trade Policy.

1.2 Duration

In exercise of the powers conferred under Section 5 of The Foreign Trade (Development and Regulation Act), 1992 (No. 22 of 1992), the Central Government hereby notifies the Exim Policy for the period 2004-2009 incorporating the Export Import Policy for the period 2002-2007, as modified. This Policy shall come into force with effect from 1st September, 2004 and shall remain in force up to 31st March, 2009, unless as otherwise specified.

1.3 Amendments

The Central Government reserves the right in public interest to make any amendments to this Policy in exercise of the powers conferred by Section-5 of the Act. Such amendment shall be made by means of a Notification published in the Gazette of India.

1.4 Transitional Arrangements

Notifications made or Public Notices issued or anything done under the previous Export / Import policies and in force immediately before the commencement of this Policy shall, in so far as they are not inconsistent with the provisions of this Policy, continue to be in force
and shall be deemed to have been made, issued or done under this Policy.

Licenses, certificates and permissions issued before the commencement of this Policy shall continue to be valid for the purpose and duration for which such license; certificate or permission was issued unless otherwise stipulated.

1.5 Free Export Import

In case an export or import that is permitted freely under Export Import Policy is subsequently subjected to any restriction or regulation, such export or import will ordinarily be permitted notwithstanding such restriction or regulation, unless otherwise stipulated, provided that the shipment of the export or import is made within the original validity of an irrevocable letter of credit established before the date of imposition of such restriction.

Special Focus Initiative of Exim Policy 2004-2009

With a view to doubling our percentage share of global trade within 5 years and expanding employment opportunities, especially in semi urban and rural areas, certain **special focus initiatives** have been identified for agriculture, handlooms, handicraft, gems & jewellery, leather and Marine sectors.

Government of India shall make concerted efforts to promote exports in these sectors by specific sectoral strategies that shall be notified from time to time.

Board of Trade of Exim Policy 2004-2009

BOT has a clear and dynamic role in advising government on relevant issues connected with foreign trade.

- To advise Government on Policy measures for preparation and implementation of both short and long term plans for increasing exports in the light of emerging national and international economic scenarios;
- To review export performance of various sectors, identify constraints and suggest industry specific measures to optimize export earnings;
- To examine existing institutional framework for imports and exports and suggest practical measures for further streamlining to achieve desired objectives;
- To review policy instruments and procedures for imports and exports and suggest steps to rationalize and channelize such schemes for optimum use;
- To examine issues which are considered relevant for promotion of India’s foreign trade, and to strengthen international competitiveness of Indian goods and services; and
- To commission studies for furtherance of above objectives.

General Provisions Regarding Exports and Imports of Exim Policy 2004-2009

The Export Import Policy relating to the general provisions regarding exports and Imports is given in Chapter-2 of the Exim Policy.

Countries of Imports/Exports - Unless otherwise specifically provided, import/ export will be valid from/to any country. However, import/exports of arms and related material from/to Iraq shall be prohibited.

The above provisions shall, however, be subject to all conditionality, or requirement of licence, or permission, as may be required under **Schedule II of ITC (HS).**

Promotional Measures of Exim Policy 2004-2009

The Government of India has set up several institutions whose main functions are to help an exporter in his work. It would be advisable for an exporter to acquaint him with these institutions and the nature of help that they can provide so that he can initially contact them and have a clear picture of what help he can expect of the organized sources in his export effort. Some of these institution are as follows.

Export Promotion Councils
Commodity Boards
Marine Products Export Development Authority

Agricultural & Processed Food Products Export Development Authority
Indian Institute of Foreign Trade
India Trade Promotion Organization (ITPO)
National Centre for Trade Information (NCTI)
Export Credit Guarantee Corporation (ECGC)
Export-Import Bank
Export Inspection Council
Indian Council of Arbitration
Federation of Indian Export
Organizations
Department of Commercial Intelligence and Statistics
Directorate General of Shipping
Freight Investigation Bureau

Duty Exemption / Remission Schemes of Exim Policy 2004-2009

The Duty Exemption Scheme enables import of inputs required for export production. It includes the following exemptions-

Duty Drawback: - The **Duty Drawback Scheme** is administered by the Directorate of Drawback, Ministry of Finance. Under Duty Drawback scheme, an exporter is entitled to claim **Indian Customs Duty** paid on the imported goods and **Central Excise Duty** paid on indigenous raw materials or components.

Excise Duty Refund: - **Excise Duty** is a tax imposed by the Central Government on goods manufactured in India. Excise duty is collected at source, i.e., before removal of goods from the factory premises. Export goods are totally exempted from central excise duty.

Octroi Exemption: - Octroi is a duty paid on manufactured goods, when they enter the municipal limits of a city or a town. However, export goods are exempted from Octroi.

The **Duty Remission Scheme** enables post export replenishment/ remission of duty on inputs used in the export product.

DEPB: Duty Entitlement Pass Book in short **DEPB**

Rate is basically an export incentive scheme. The objective of **DEPB Scheme** is to neutralize the incidence of basic custom duty on the import content of the exported products.

DFRC

Under the Duty Free Replenishment Certificate (DFRC) schemes, import incentives are given to the exporter for the import of inputs used in the manufacture of goods without payment of basic customs duty. Duty Free Replenishment Certificate (DFRC) shall be available for exports only up to 30.04.2006 and from 01.05.2006 this scheme is being replaced by the

Duty Free Import Authorization (DFIA).

DFIA: Effective from 1st May, 2006, **Duty Free Import Authorisation or DFIA** in short is issued to allow duty free import of inputs which are used in the manufacture of the export product (making normal allowance for wastage), and fuel, energy, catalyst etc. which are consumed or utilized in the course of their use to obtain the export product. Duty Free Import Authorisation is issued on the basis of inputs and export items given under **Standard Input and Output Norms**(SION).

Export Oriented Units (EOUs), Electronics Hardware Technology Parks (EHTPs), Software Technology Parks(STPs) And Bio-Technology Parks (BTPs) of Exim Policy 2004-2009

The Export Import Policies relating to Export Oriented Units (EOUs) Electronics Hardware Technology Parks (EHTPs), Software Technology Parks (STPs) and Bio-technology parks (BTPs) Scheme is given in Chapter 6 of the Foreign Trade Policy. Software Technology Park(STP)/Electronics Hardware Technology Park (EHTP) complexes can be set up by the Central Government, State Government, Public or Private Sector Undertakings. **Export Promotion Capital Goods Scheme (EPCG) of Exim Policy 2004-2009**

Introduced in the EXIM policy of 1992-97,

Export Promotion Capital Goods Scheme (EPCG) enable exporters to import machinery and other capital goods for export production at concessional or no customs duties at all. This facility is subject to export obligation, i.e., the exporter is required to guarantee exports of certain minimum value, which is in multiple of total value of capital goods imported.

Capital goods imported under **EPCG Scheme** are subject to actual user condition and the same cannot be transferred /sold till the fulfillment of export obligation specified in the license. In order to ensure that the capital goods imported under EPCG Scheme, the license holder is required to produce certificate from the jurisdictional

Central Excise Authority (CEA) or Chartered Engineer (CE) confirming installation of such capital goods in the declared premises.

Special Economic Zone (SEZ)

under the Exim Policy 2004-2009

A **Special Economic Zone in short SEZ** is a geographically distributed area or zones where the economic laws are more liberal as compared to other parts of the country. SEZs are proposed to be specially delineated duty free enclaves for the purpose of trade, operations, duty and tariffs. SEZs are self-contained and integrated having their own infrastructure and support services.

The area under 'SEZ' covers a broad range of zone types, including Export Processing Zones (EPZ), Free Zones (FZ), Industrial Estates (IE), Free Trade Zones (FTZ), Free Ports, Urban Enterprise Zones and others.In Indian, at present there are eight functional Special Economic Zones located at Santa Cruz (Maharashtra), Cochin (Kerala), Kandla and Surat (Gujarat), Chennai (Tamil Nadu), Visakhapatnam (Andhra Pradesh), Falta (West Bengal) and Noida (Uttar Pradesh) in India. Further a Special Economic Zone at Indore (Madhya Pradesh) is also ready for operation.

Free Trade & Warehousing Zones of Exim Policy 2004-2009

Free Trade & **Warehousing Zones (FTWZ)** shall be a special category of Special Economic Zones with a focus on trading and warehousing. The concept of FTWZ is new and has been recently introduced in the five-year foreign trade policy 2004-09. Its main objective is to provide infrastructure for growth of the economy and foreign trade. Free Trade & Warehousing Zones (FTWZ) plays an important role in achieving global standard warehousing facilities as free trade zones. Free Trade & Warehousing Zones is a widely accepted model with a history of providing Substantial encouragement to foreign trade and warehousing activity.

Deemed Exports under the Exim Policy 2004-2009

Deemed Export is a special type of transaction in the Indian Exim policy in which the payment is received before the goods are delivered. The payment can be done in Indian Rupees or in Foreign Exchange. As the **deemed export** is also a source of foreign exchange, so the Government of India has given the benefit duty free import of inputs.\

Dr.(Mrs.) B.B. Pandey