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# INTERNATIONAL BUSINESS

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## ECONOMIC POLICY

Economic policies of the government of India suggest the system for taxation, and also the budget of this county, not only that but also it includes the currency and the rate of interest. The market of labour and also the national ownership are an integral part of economic policies of India. India has various economic policies which are industrial policy, trade policy, monetary policy, fiscal policy, Indian agricultural policy, National agricultural policy, industrial policies, International trade policy in India, exchange rate management policy, EXIM policy.

The plan of the economic policies in India was first conducted in 1947. But after the advent of the economic crisis in 1991, the government of India reforms the policies of economics in India.

## HISTORICAL BACKGROUND OF ECONOMIC POLICY

Economic policy refers to the actions that governments take in the economic field. It covers the systems for setting levels of taxation, government budgets, the money supply and interest rates as well as the labor market, national ownership, and many other areas of government interventions into the economy.

### Pre-1991 economic scenario in India

● Indian economic policy after independence was influenced by the colonial experience (which was seen by Indian leaders as exploitative in nature) and by those leaders' exposure to Fabian socialism.

● Nehru, and other leaders of the independent India, sought an alternative to the extreme variations of capitalism and socialism.

● In this system, India would be a socialist society with a strong public sector but also with private property and democracy.

● As part of it, India adopted a centralised planning approach.

● Policy tended towards protectionism, with a strong emphasis on import substitution, industrialisation under state monitoring, state intervention at the micro level in all businesses especially in labour and financial markets, a large public sector, business regulation. Drawbacks of Pre-1991

Drawbacks of Pre-1991 economic policy: 1.Licence raj: The "Licence Raj" or "Permit Raj" was the elaborate system of licences, regulations and accompanying red tape that were required to set up and run businesses in India between 1947 and 1990. 2.Import substitution: Import substitution industrialization (ISI) is a trade and economic policy which advocates replacing foreign imports with domestic production. ISI is based on the premise that a country should attempt to reduce its foreign dependency through the local production of industrialized products and was intended to promote self reliance. But this meant the monopoly of indian industries and lack of incentive for them to improve the quality of products which hampered consumer interests. "Before the process of reform began in 1991, the government attempted to close the Indian economy to the outside world. The Indian currency, the rupee, was inconvertible and high tariffs and import licensing prevented foreign goods reaching the market.The labyrinthine bureaucracy often led to absurd restrictions—up to 80 agencies had to be satisfied before a firm could be granted a licence to produce and the state would decide what was produced, how much, at what price and what sources of capital were used."

## 1991 economic crisis

● By 1985, India had started having balance of payments problems. This is due to more expenditure by the government whereas the income generated was less. In addition there was huge disparities between income and expenditure.

● By the end of 1990, it was in a serious economic crisis. The government was close to default, its central bank had refused new credit

● In 1991, India met with an economic crisis - relating to external debt. The government was not able to make repayments on its borrowings from abroad. ● The foreign exchange reserves, which we maintain to import petroleum and other important items, dropped to levels that were not sufficient to last even a fortnight.

● The crisis was further compounded by rising prices of essential goods.

## Advent of IMF and World Bank

● India approached the International Bank for Reconstruction and Development(IBRD), commonly known as World Bank and the International Monetary Fund(IMF) for help.

● India received 7 billion dollars as loan from these agencies to solve the crisis.

● It had to pledge 20 tonnes of gold to Union Bank of Switzerland and 47 tonnes to Bank of England as part of the deal with the International Monetary Fund (IMF)

● In addition, as part of the bailout, IMF expected India to liberalise and open up the economy and remove trade restrictions between India and other countries.

## Stabilisation measures

● These are short term measures aimed at solving the immediate cause - the 1991 economic crisis.

● These included correcting the weakness which resulted in the balance of payments crisis and steps to bring the inflation under control. Structural measures

● These are long term measures aimed at improving the efficiency of the economy and increasing its international competitiveness by removing the rigidities in various segments of the indian economy.

**These reforms fall under three leads:**

1. Liberalisation

2. Privatisation

3. Globalisation

## Liberalisation

Liberalisation was done in various sectors in the following ways

1. Deregulation of industrial sectors

● Industrial licensing was abolished for all but product categories - alcohol, cigarettes, hazardous chemicals, drugs, explosives etc.,

● Many industries which are reserved for public sector in have now been "de-reserved". Only railways, defence equipment, atomic power generation have been reserved with the public sector.

● Market has been allowed to determine the prices. 2. Financial sector reforms

● Reduce the role of RBI from regulator to facilitator of financial sector.

● These reforms led to the establishment of private banks.

● FDI in banks was raised to 50%.

● But certain managerial aspects have been retained with the RBI, to safeguard the interests of the account holders.

## Tax reforms :

● Corporate tax, which was very high earlier has been gradually reduced.

● The tax procedures have been simplified and the rates also have been lowered. 1973-74 - Eleven tax slabs, with rates from 10 to 85 per cent. 1990-91 - In five Budgets between 1991-96, FM Manmohan Singh reduces IT slabs to three (20, 30 and 40 per cent). 4. Foreign exchange reforms:

● The rupee was "devalued" against foreign currencies which led to an increase in inflow of foreign exchange.

● Market has been allowed to determine the foreign exchange rates.

Trade and investment policy reforms

● Dismantling of quantitative restrictions on imports.

● Reduction of tariff rates(taxes on imports)
● Removal of licensing procedures for imports except in case of hazardous and environmentally sensitive products

● Quantitative restriction on imports was also fully decreased later.

● Export duties have been removed to promote exports

## Privatisation

● Privatisation means the transfer of assets from public sector to private sector.

● Privatisation helps in improving financial discipline and to facilitate modernisation.

● Privatisation helps in strong inflow of FDIs

● Disinvestment Privatisation of public sector enterprises by selling off part of the equity of PSEs to the public is called Disinvestment.

● Criticism:

Assets of PSUs has been undervalued.

The money from disinvestments were diverted to meet the shortage in the government revenue rather than in creating new assets.

## Globalisation:

●Globalisation is the process of international integration arising from the interchange of world views, products, ideas and mutual sharing, and other aspects of culture.

● Outsourcing: In Outsourcing, a company hires regular service from external sources, which was hitherto provided internally. It is an outcome of globalisation. Thanks to new economic policy, India became a major source for outsourcing jobs. Eg: BPO, banking services etc.,

● World Trade Organisation(WTO): WTO was established to administer all multilateral trade agreements by providing equal opportunities to all countries in the international market for trading purposes. India has been an active member of WTO, which aims to enlarge trade between countries.

## Industrial Policy

The stress of these policies is on the public sector of India in 1948. This policy is handled by the development and regulation act 1951. 1973's FERA handles the foreign investment in India. After the 1991's economic crisis these governments took strong steps in order to make the industries in India and also introduced the industry more competitive.

## Trade Policy

The foreign trade policy of India focuses on enhancing the share of India in universal trade from 2.1% to 3.5%. Most importantly, the trade of this country India became $900 billion in the financial year of 2020.

## Monetary Policy

This policy in India majorly deals with the monetary authority of this country and it includes the central bank. It handles the allocation and also the supply of money, rate of interest in order to present the high growth of the economy in India.

## Fiscal Policy

This policy controls taxation and the decision of expenditure from the perspective of the government of India. This government takes strong steps to strengthen the control of the expenditure of this country. Through the initiative of this government, the contribution of the resources and the principles of the market have been improved.

## Indian Agricultural Policy

This policy mainly includes the reformation of the land in India. The strategies regarding agriculture and the use of innovative technology in agriculture are also the concern of this policy. Most importantly, the policy of prices of the goods, security and safety of the foods, and also the public distribution system, service regarding non-firms are also an integral part of this policy.

National Agricultural Policy

Through this policy, the annual development rate regarding agriculture has been increased. Reformation of land includes reform of tenancy, advancement of land-lease markets, and the rights of women regarding land. This policy also aims to bring equal development regarding the agriculture of the country of India.

## Industrial Policies

Regarding these policies, the industrial policy resolution was taken in 1948 to add democratic socialism to the structure of the economy in India. The new policies regarding industries suggest the expansion of the responsibilities of the states under India, decrease of the threats of nationalization and all.

## International Trade Policy

This policy includes free trade in India. Free trade suggests the smooth trade of a country. In the mid-19th century, the government of India modified the trade international trade policies. The main aim of these policies is to make the economy of the country India strong.

## Exchange Rate Management Policy

This policy is also known as the pegged exchange rate. This policy includes the flexibilities in the exchange rate. There is the upper and lower limit of the exchange rate. If the up and down rate is 1%, then the rate of exchange is in a normal state. The main purpose of these policies regarding exchange rate is to assure stability regarding foreign trade and capital movement.

### EXIM Policy

EXIM policy suggests the export and import policies in India. Through these policies, the guidelines have been fixed regarding export and import. The government of this country India introduced these policies for five years in the control of the development and regulation act 1992 regarding foreign trade.

## RISK MANAGEMENT

Risk management is the process of identifying, assessing and controlling financial, legal, strategic and security risks to an organization's capital and earnings. These threats, or risks, could stem from a wide variety of sources, including financial uncertainty, legal liabilities, strategic management errors, accidents and natural disasters.

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## Why is risk management important?

If an unforeseen event catches your organization unaware, the impact could be minor, such as a small impact on your overhead costs. In a worst-case scenario, though, it could be catastrophic and have serious ramifications, such a significant financial burden or even the closure of your business.

To reduce risk, an organization needs to apply resources to minimize, monitor and control the impact of negative events while maximizing positive events. A consistent, systemic and integrated approach to risk management can help determine how best to identify, manage and mitigate significant risks.

## Risk management in finance

Financial risk management involves identifying the potential downsides in any investment decision and deciding whether to accept the risks or take measures to mitigate them. Financial risk management is a continuing process as risks can change over time.

There are risks in all investments. Successful financial risk management requires a balance between potential risks and potential rewards.

- Risk management is the process of identifying the potential downsides as well as the potential rewards of an investment.
- Balancing risk and reward is a crucial process in any investment decision.
- Risk management strategies include avoidance, retention, sharing, transferring, and loss prevention and reduction.
- One method of measuring risk involves determining standard deviation, which is a statistical measure of dispersion around a central tendency.

## Risk Management Techniques and Types

## Techniques:

- Avoidance
- Retention
- Sharing
- Transferring
- Loss prevention and reduction

## Types:

- Beta and passive
- Alpha and active

How Risk Management Works

Risk is inseparable from return. Every investment involves some degree of risk. It is close to zero for U.S. Treasury bills but it can be very high for emerging-market stocks.

The problem is, a higher level of risk almost always means a higher potential return. The solution, from the investor's point of view, is to diversify investment choices to mitigate overall risk.

## Quantifying Risk

Risk can be quantified in both absolute and relative terms.

Risk management involves identifying and analyzing the sources of risk and making

decisions about how to deal with it. It occurs everywhere in the realm of finance. For instance:

- An investor may choose virtually risk-free U.S. Treasury bonds over riskier lower-rated corporate bonds
- A fund manager who identifies currency price changes as a risk may hedge that risk with currency derivatives
- A bank checks the credit rating of applicants for personal lines of credit and grants or denies the applicant based on the results
- A stockbroker uses financial instruments like options and futures to offset potential losses in other investments
- A money manager uses strategies like portfolio diversification to mitigate the risk of losses in specific stocks.

## Failures in Risk Management

Inadequate risk management can result in severe consequences for companies, individuals, and the overall economy.

The subprime mortgage meltdown that led to the Great Recession of 2007-2008 stemmed from a failure to manage risk. Banks and other lenders gave mortgages to people regardless of their credit ratings or income. The mortgages were then sold to investment firms, which packaged and resold them to investors as mortgage-backed securities (MBSs). This was profitable until rising mortgage default rates rendered the MBSs worthless.

## Risk Management Techniques

The following are some of the most common risk management techniques.

**Avoidance**: The most obvious way to manage risk is to avoid it. Some investors make their investment decisions by cutting out volatility and risk completely. This means choosing the safest assets with little to no risks.

- **Retention**: This strategy involves accepting any risks as the price to be paid for the chance of high returns.
- **Sharing**: Risk can be shared among two or more parties. For instance, insurance companies pay reinsurers to cover potential losses above specified levels.
- **Transferring**: Risks can be passed on from one party to another. Health insurance allows consumers to transfer the risk of expensive medical costs to an insurance company in return for payment of regular premiums.
- **Loss prevention and reduction**: Rather than eliminating risk, many investors mitigate it by balancing volatile investments, such as growth stocks, with more conservative choices.

## Using Standard Deviation for Risk Management

Investment risk is measured by its deviation from an expected outcome. A result may differ from the expected outcome, for better or worse. This deviation is expressed in absolute terms or relative to something like a market benchmark.

To achieve higher returns, one expects to accept greater risk. It is also generally accepted that increased risk means increased volatility.

While investment professionals constantly seek to reduce volatility, and sometimes achieve it, there is no clear consensus on how to do it.

How much volatility an investor should accept depends entirely on their risk tolerance. This depends on the individual's circumstances, income, long-term goals, and personality.

## Measuring Volatility

One of the most commonly used absolute risk metrics is standard deviation, which is a statistical measure of dispersion around a central tendency.

To determine standard deviation, take the average return of an investment over a period of time and find its average standard deviation for the same period.1

Normal distributions (the familiar bell-shaped curve) dictate that the expected return of the investment may be one standard deviation from the average 67% of the time and two standard deviations from the average deviation 95% of the time.

This provides a numeric risk evaluation. If the risk is tolerable (financially and emotionally), the investment gets the green light.

## DETERMINANTS OF CONSUMER BEHAVIOUR

In a Market, different consumers have different needs. As all consumers are unique they exhibit different behaviour while making a purchase decision due to various factors influencing consumer behaviour. Therefore it is important to understand the various factors influencing consumer behaviour.

The Various factors influencing Consumer Behaviour can be classified into 4 categories:

- Economic Factors
- Personal Factors
- Cultural and Social Factors
- Psychological Factors

## ECONOMIC FACTORS INFLUENCING CONSUMER BEHAVIOUR

- Personal Income – Total Income of the consumer
- Discretionary Income – Income available to a consumer after deducting taxes and basic cost of living.
- Disposable Income – Income available with consumer to spend according to his wishes
- Family Income – Income of the family. Lower income families have less demand than prosperous families.
- Consumer Expectations Regarding Future Income
- Availability of Liquid Assets with the consumer
- Consumer Credit – Availability of consumer credit, Credit policies
- Level of Standard of Living

A consumer demands more and spends more with increase in his income or expectations of future profits or availability of liquid cash or availability of credit but saves and demands less in its absence. The nature of consumption and buying pattern of a consumer is also affected by the income of the family and the level of standard of living.

## PERSONAL FACTORS INFLUENCING CONSUMER BEHAVIOUR

- Age – People of different ages have different needs.

- Occupation – Professionals, business-man, salaried-workers have different demands.
- Life Cycle Stage – Newly born, Teenager, Bachelor, Married, Parent, Grand Parent
- Lifestyle – Achievers, Strugglers, Strivers, Makers
- Personality – Aggressive, Shy, Introvert, Extrovert, Conservative, Experimental
- Self-Concept – One`s perceptions towards themselves.

## Social Factors influencing Consumer Behaviour

Social Group – A group is any collection of individuals with similar interests, opinions and activities. An individual draws cues regarding consumption and disposal of products from various social groups he belongs to. The various social groups an individual forms a part of are:

- Reference Group – It refers to all those people which directly affect the purchase pattern and decision of a consumer as they serve as a point of reference or comparison for the consumer while making a purchase decision.
- Contractual Group – It includes friends, family, peers who have a direct and daily face to face interaction with an individual. They are the most important source of influence on consumer behaviour.
- Avoidance Group – A group of people that have a negative impact on a consumer. A consumer disassociates himself from such a group and avoid using products and services used, recommended or promoted by the avoidance group.
- Aspirational Group – It includes film stars, TV celebrities, Sport stars etc. whom a consumer aspires to be. A consumer wants to associate himself with people he aspires and uses products and services used, recommended and promoted by them.

Opinion Leaders – It refers to a key individual in a group which influences the behaviour of members of the group by providing them relevant information about new trends and products in the market.

## PSYCHOLOGICAL FACTORS AFFECTING CONSUMER BEHAVIOUR

Customers behave differently towards the same marketing mix (product) due to their respective psychological makeup. The psychological factors that affect consumer behaviour are:

- Motivation – A motive is an internal force that drives a person to do something i.e. fulfill a need, achieve a goal, solve a problem. Different motives of a consumer can be understood through Maslow Hierarchy of needs. All consumers react differently towards a product depending upon their position in the hierarchy. i.e. an individual will first satisfy his basic needs and then move upward in the hierarchy with satisfaction of each want.
- Involvement – It refers to the amount of interest or importance a consumer shows towards a product. A consumer may have high or low involvement in a product.

## FOREIGN DIRECT INVESTMENT

New Delhi, Mar 7 (KNN) Foreign direct equity (FDI) inflows into India contracted by 21 per cent year-on-year to USD 41.31 billion in 2023, according to data released by the Department for Promotion of Industry and Internal Trade (DPIIT).

The sustained contraction in FDI inflows to India reflects various factors contributing to the cautious investor sentiment. High inflation rates and a slowdown in developed countries have significantly impacted investor confidence, leading to a decline in overseas investments flowing into the country.

While the Indian government has not officially commented on the reasons behind the FDI dip, industry analysts suggest that addressing policy uncertainties and streamlining regulations could be crucial in attracting renewed investor interest.

“India remains a promising market with a large and growing consumer base,” said an industry expert. “However, it is essential to create a stable and predictable policy environment to ensure continued foreign investment and support economic growth,” he added.

The decline in FDI comes despite India's recent efforts to improve its ease of doing business ranking and attract foreign capital. The government has implemented various initiatives, including addressing regulatory bottlenecks, streamlining bureaucratic procedures, and offering incentives to encourage foreign investment inflows.

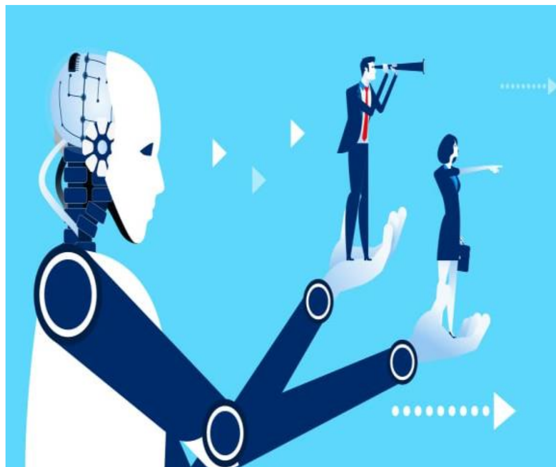
The coming months will be crucial in observing how the Indian government responds to this downward trend and whether it can implement effective measures to reverse the decline in FDI inflows.

## ETHICAL CHALLENGES IN BUSINESS

Human resources (HR) professionals and management figures may find it challenging to manage ethical issues effectively. Although there are laws to hold people accountable, unethical behaviour can still occur in the workplace and an organisation can also act unethically. As an HR professional or a manager, learning about the ethical issues a business can face can help you prepare to manage them effectively if they occur. In this article, we consider what ethical issues in business are, look at several examples and discuss how to manage them.

Ethical issues in business occur when a decision, activity or scenario conflicts with the organisation's or society's ethical standards. Both organisations and individuals can become involved in ethical issues since

others may question their actions from a moral viewpoint. Complex ethical issues include diversity, compliance, governance and empathetic decision-making that align with the organisation's core values. Ethical conflicts may pose a risk for an organisation, as they may imply non-compliance with relevant legislation. In other instances, ethical issues may not have legal consequences but may cause an adverse reaction from third parties. It may be challenging to effectively manage ethical issues when no guidelines exist. For this reason, as an HR or management professional, you can help develop policies to guide employees to make the right decision when faced with moral issues.



## 1.Discrimination and Harassment

Discrimination is a violation of law that prohibits an employer from treating someone less favourably because they belong to a protected class, including race, religion, gender, age, national origin, sexual orientation, disability or genetic information. Harassment is a more subtle form of discrimination and usually occurs in the workplace.

## 2. Abuse of Power

Abuse of power can come in many forms, from bullying employees to putting a person's job in jeopardy. These acts of harassment can cause severe work-based trauma.

Leaders who abuse power aren't just harmful to their own reputations and opportunities for influence; they can also negatively impact employee performance, engagement, morale, and productivity.

## 3. Non-Disclosure

Non-disclosure is a real challenge in business, and it can be costly to a company or individual. For example, if an employee decides to use confidential client information they acquired during their time with your company to start their own business, it could cost you a fortune in lost revenue and legal fees – especially if you are in a competitive industry.
Luckily, there are ways to protect your most sensitive information and your reputation. One is to have a formal non-disclosure agreement in place before handing over any such information. An NDA typically includes a list of information being protected, a description of what is not considered confidential and an obligation on the receiving party to make good faith efforts to keep it inviolable.

## 4.Health & Safety

Health and safety is an important aspects of business ethics that every owner or man-

ager should address. This is because it affects the quality of life of your employees, as well as the reputation and financial stability of your company.
In most cases, the underlying purpose of any piece of health and safety legislation or rule is to prevent harm. This might be in the form of rules about work exposure, documentation, or risk assessment and response.

## **5.Fraud**

Fraud is one of the biggest business ethics challenges and can have a huge impact on your company. It affects your customers, investors, employees, and even your reputation, which could be the difference between financial success and failure.