

MAA OMWATI DEGREE COLLEGE HASSANPUR

EXAM NOTES

CLASS –BBA 4th SEM

SUBJECT -**Indian Business Environment**

Course Code: 25IMSI404DS03

SYLLABUS

UNIT-I

Business Environment – Nature, components of business environment: internal and external environment; country risk; political risk; international impact on business environment; nature of Indian economy

UNIT-II

Economic reforms; Liberalization, privatization and globalization, monetary and fiscal policy; Competition Act 2002; Consumer protection; corporate governance

UNIT-III

Industrial policy of 1991; public sector reforms; public private partnership; SMEs– threats and challenges; industrial sickness; introduction to SEBI and investor protection

UNIT-IV

Balance of Payments scenario; foreign trade pattern and policy; environment for international direct investment; Foreign Exchange Management Act; WTO, IMF, World Bank

UNIT-I

Business Environment -To master the **Business Environment**, it is essential to look at it as a multi-layered ecosystem. It includes every factor that can either propel a company forward or act as a significant hurdle.

1. Nature and Components

The business environment is **dynamic** (constantly changing), **uncertain** (hard to predict), and **complex**. It is divided into two main categories:

Internal Environment (Controllable)

These are factors within the organization that the management can influence.

- **Value System:** The ethical beliefs and culture of the company.
- **Mission & Objectives:** The long-term goals and strategic direction.
- **Management Structure:** The hierarchy and internal politics.
- **Human Resources:** The skills, morale, and productivity of employees.

External Environment (Uncontrollable)

These are forces outside the company that it must adapt to. It is further split into:

- **Micro Environment:** Immediate players like **Customers, Suppliers, Competitors,** and **Intermediaries**.
- **Macro Environment (PESTEL):** * **Political** (stability, taxes), **Economic** (inflation, GDP), **Social** (trends, demographics), **Technological** (innovation), **Environmental** (sustainability), and **Legal** (laws).

2. Nature of the Indian Economy

The Indian economy serves as a unique backdrop for business, defined by its "Mixed" nature:

- **Mixed Economy:** A blend of the private sector (market-driven) and the public sector (government-controlled).
- **Developing & Transitional:** Moving from an agriculture-heavy base to a service-led economy (IT, banking, and telecommunications now contribute over 55% of GDP).
- **Demographic Dividend:** A massive young workforce and a growing middle class that creates a high consumer demand.

3. Economic Reforms: The 1991 LPG Model

In 1991, India faced a severe Balance of Payments (BoP) crisis, leading to the landmark **New Economic Policy (NEP)**.

- **Liberalization:** Removing "License Raj" and reducing government restrictions to give private businesses more freedom to grow.
- **Privatization:** Selling government-owned shares (disinvestment) in public sector units (PSUs) to private individuals or companies.
- **Globalization:** Opening the economy to international trade and investment (FDI), aligning India with the global market.

4. International Impact: WTO, IMF, and World Bank

Global business is governed by three major international organizations:

- **WTO (World Trade Organization):** Sets the rules for global trade and settles disputes between member nations to ensure trade flows smoothly.
- **IMF (International Monetary Fund):** Acts as a global lender of last resort. It focuses on maintaining **monetary stability** and helping countries with Balance of Payments crises.
- **World Bank:** Focuses on long-term **economic development** and poverty reduction by providing loans and technical aid for infrastructure, health, and education.

Comparison of Global Institutions

Organization	Primary Focus	Main Goal
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Organization	Primary Focus	Main Goal
WTO	Trade Rules	Free and fair global trade.
IMF	Monetary Stability	Short-term financial bailouts.
World Bank	Economic Development	Long-term poverty reduction.

Components of environment components of business environment:

The components of the business environment are generally divided into two broad categories: the **Internal Environment** (factors within the firm's control) and the **External Environment** (factors outside the firm's control).

1. Internal Environment (Controllable Factors)

These are forces that exist within the organization. Management has the power to change or modify these to suit the company's goals.

- **Value System:** The ethical beliefs, work culture, and "DNA" of the organization.
- **Mission and Objectives:** The fundamental reason for the business's existence and what it aims to achieve.
- **Management Structure:** The internal hierarchy, the composition of the Board of Directors, and professional management styles.
- **Human Resources:** The skill, morale, commitment, and attitude of the employees.
- **Physical Assets:** The production capacity, technology, and infrastructure available to the firm.

2. External Environment (Uncontrollable Factors)

This is divided into two layers: the **Micro** (immediate) and the **Macro** (broad) environment.

A. Micro Environment (Task Environment)

These factors have a direct, day-to-day impact on the business. They are specific to the industry or the firm.

- **Customers:** The lifeblood of the business. Understanding their needs and buying power is vital.
- **Suppliers:** Those who provide raw materials and components. Dependency on a single supplier can be a risk.
- **Competitors:** Other firms offering similar products. Businesses must monitor competitors' pricing and strategies.
- **Marketing Intermediaries:** Wholesalers, retailers, and distributors who help the firm reach the end consumer.
- **Publics:** Groups like the media, local communities, or environmentalists who have an interest in the company's actions.

B. Macro Environment (General Environment)

These are larger societal forces that affect all businesses in an economy. They are often analyzed using the **PESTEL** framework:

Component	Description	Example
Political	Government stability, ideologies, and foreign trade policies.	A change in the ruling party affecting tax laws.
Economic	Interest rates, inflation, GDP growth, and disposable income.	A rise in interest rates making business loans expensive.
Social	Cultural trends, demographics, and lifestyle changes.	Growing health-consciousness increasing demand for organic food.
Technological	Innovation, R&D, and automation.	The shift from physical stores to E-commerce platforms.
Environmental	Climate change, weather, and "green" regulations.	Plastic bans forcing companies to change packaging.
Legal	Employment laws, safety regulations, and Competition Acts.	Strict data privacy laws (like GDPR) affecting IT firms.

3. The Relationship: SWOT Analysis

Businesses use the study of these components to perform a **SWOT Analysis**:

- **Internal** factors help identify **Strengths** and **Weaknesses**.
- **External** factors help identify **Opportunities** and **Threats**.

Nature of Business Environment

we are describing the inherent characteristics and qualities that define how these external and internal forces behave. Understanding the nature of the environment is the first step for any manager attempting to craft a strategy.

Here are the key characteristics that define the nature of the business environment:

1. Totality of External Forces

The business environment is the sum total of all things external to business firms. It is "aggregative" in nature because it combines thousands of small and large factors (like a change in a local law plus a global shift in oil prices) into one single complex climate.

2. Specific and General Forces

The environment is composed of two distinct types of forces:

- **Specific Forces:** These affect individual enterprises directly and immediately in their day-to-day working (e.g., customers, suppliers, competitors, and investors).
- **General Forces:** These have an impact on all business enterprises and only affect an individual firm indirectly (e.g., social, political, legal, and technological conditions).

3. Inter-relatedness

Different elements of the business environment are closely interrelated. A change in one factor often leads to a change in another.

- *Example:* An increase in health awareness (Social) leads to a rise in demand for organic food and gym memberships (Economic).

4. Dynamic Nature

The business environment is constantly changing. It is not static. Whether it is a shift in consumer preferences, the entry of a new competitor, or a breakthrough in technology, the "ground" is always moving.

5. Uncertainty

It is very difficult to predict future happenings, especially when environment changes are taking place too frequently, as in the case of information technology or fashion industries. No one can predict with 100% certainty what the market will look like in five years.

6. Complexity

Since the environment consists of many interrelated and dynamic forces, it is difficult to understand it in its totality. It may be easy to understand what a single change (like a 5% tax increase) means, but it is very difficult to understand how that tax change will interact with shifting social trends and new technology simultaneously.

7. Relativity

The business environment is a relative concept since it differs from country to country and even region to region.

- *Example:* Political conditions in the USA differ from those in India. Similarly, the demand for sarees will be high in India but may be almost non-existent in France.

Summary Table: The Nature of BE

Characteristic	Key Meaning
Dynamic	It keeps on changing.
Uncertain	Future happens are unpredictable.

Characteristic	Key Meaning
Complex	Easy to understand in parts, difficult in total.
Relativity	Differs from place to place and country to country.
Multi-faceted	A change may be viewed as an opportunity by one and a threat by another.

Internal and external environment -To truly understand how a business operates, we look at it through the lens of its **Internal** and **External** environments. Think of the internal environment as the "health" of the body and the external environment as the "weather" outside.

1. Internal Environment (Controllable)

The internal environment consists of factors within the organization's boundaries. Because these are "homegrown," the management has a high degree of control over them.

- **Corporate Culture:** The shared values, beliefs, and "vibe" of the office. A strong culture can be a massive competitive advantage.
- **Mission & Vision:** The specific goals and the roadmap the company has set for itself.
- **Human Resources (HR):** The quality, skill set, and morale of the employees. If the staff is poorly trained, the business fails from the inside.
- **Financial Resources:** The cash flow, creditworthiness, and capital available for expansion.
- **Operational Capacity:** The machines, technology, and physical infrastructure (factories, offices) the company owns.

2. External Environment (Uncontrollable)

The external environment consists of everything outside the company's walls. The company cannot change these factors; it can only **react** and **adapt** to them. This is split into two layers:

A. Micro Environment (Task Environment)

These are the players that interact with your business directly. They are "industry-specific."

- **Customers:** Their changing tastes determine your revenue.
- **Suppliers:** If they raise prices or have a strike, your production stops.
- **Competitors:** Their pricing and innovation force you to stay sharp.
- **Intermediaries:** The wholesalers and retailers who get your product to the market.

B. Macro Environment (General Environment)

These are broad, societal-level forces that affect every business in the country. We use the **PESTEL** model to analyze these:

- **Political:** Election results, government stability, and trade policies.
- **Economic:** Inflation rates, GDP growth, and unemployment levels.

- **Social:** Trends like "remote work" or the "fitness craze."
- **Technological:** The rise of AI, 5G, or automation.
- **Environmental:** Climate change policies and carbon footprints.
- **Legal:** Labor laws, safety standards, and patent protections.

3. Comparison Summary

Feature	Internal Environment	External Environment
Control	Highly Controllable.	Mostly Uncontrollable.
Focus	Strengths and Weaknesses.	Opportunities and Threats.
Example	Employee turnover.	A change in tax law.
Strategy	Changing internal policy.	Adapting the business model.

4. The Tool: SWOT Analysis

Managers use the **SWOT** matrix to bridge these two environments:

- **Strengths & Weaknesses** come from the **Internal** environment.
- **Opportunities & Threats** come from the **External** environment.

Country risk

When a business decides to expand across borders, it faces **Country Risk**. This is the total risk associated with investing in a particular country, encompassing the possibility that economic, political, or social changes will negatively affect a firm's operations or the value of its investment.

Think of it as the "risk premium" a company must consider before entering a foreign market.

1. Components of Country Risk

Country risk is not a single factor but a combination of several overlapping risks:

- **Political Risk:** The risk that government actions (like coups, changing laws, or civil unrest) will hurt the business.
- **Economic Risk:** The risk that a country's economic mismanagement (hyperinflation, high debt levels) will lead to a collapse in demand or currency value.
- **Sovereign Risk (Default Risk):** The possibility that a foreign government will fail to meet its debt obligations or "default" on its payments.
- **Transfer Risk:** The risk that a government will impose restrictions on the movement of capital, preventing a company from sending its profits back to its home country (remittance).
- **Legal Risk:** The lack of a strong legal system or "Rule of Law," which makes it difficult to enforce contracts or protect intellectual property.

2. Factors Influencing Country Risk

To assess how "risky" a country is, analysts look at specific indicators:

1. **Macroeconomic Performance:** GDP growth, inflation rates, and fiscal deficit.
2. **Political Stability:** Frequency of government changes and the level of corruption.
3. **Social Factors:** Wealth inequality, religious or ethnic tensions, and labor strikes.
4. **External Debt:** How much the country owes to foreign lenders compared to its ability to pay.

3. Why it Matters to Business

High country risk can lead to:

- **Asset Seizure:** The government might nationalize a private factory without fair compensation.
- **Currency Devaluation:** If the local currency crashes, the value of the company's local earnings shrinks when converted back to dollars or euros.
- **Supply Chain Disruption:** Civil war or strikes can halt the movement of raw materials.

4. Measuring Country Risk

Large corporations and banks often use ratings provided by professional agencies to decide whether to invest:

- **Credit Rating Agencies:** Moody's, Standard & Poor's (S&P), and Fitch.
- **Specialized Agencies:** Organizations like **Coface** or the **OECD** provide country-by-country risk maps.

Summary: Country Risk vs. Political Risk

Feature	Country Risk	Political Risk
Scope	Broad (includes economy, debt, and society).	Narrow (focuses on government and policy).
Example	A country going bankrupt (Economic).	A new law banning foreign ownership (Political).

Political Risk - is a specific subset of Country Risk. It refers to the complications that businesses face as a result of political decisions, events, or conditions in a country that could result in a loss of profit or assets.

While Economic Risk deals with market forces, Political Risk deals with **power and policy**.

1. Types of Political Risk

Political risk is generally categorized into two levels:

A. Macro-Political Risk (General)

These are risks that affect **all** foreign firms in a country equally.

- **Civil Unrest:** Protests, riots, or civil war that disrupt all business operations.
- **Coup d'état:** A sudden, violent change in government that can lead to radical policy shifts.
- **Nationalization:** When a government seizes an entire industry (e.g., oil or telecommunications) and brings it under state control.

B. Micro-Political Risk (Targeted)

These are risks that affect only **specific** industries or companies.

- **Expropriation:** When the government seizes a specific company's assets, sometimes with little or no compensation.
- **Discriminatory Taxes:** Implementing high taxes that target only foreign-owned businesses.
- **Import/Export Restrictions:** Sudden bans on bringing in raw materials or sending out finished goods.

2. Main Causes of Political Risk

1. **Change in Ideology:** A new government comes to power with a "socialist" or "nationalist" agenda that is hostile to foreign corporations.
2. **Corruption:** High levels of bribery or nepotism that make it impossible to compete fairly.
3. **Conflict with Neighboring Countries:** Border disputes or sanctions that can cut off supply lines.
4. **Social Inequity:** Extreme poverty or inequality can lead to populist movements that target wealthy foreign businesses.

3. How Businesses Manage Political Risk

Companies don't just "hope for the best"; they use specific strategies to protect themselves:

- **Political Risk Insurance:** Buying insurance (from providers like MIGA or Lloyd's of London) that covers losses from war or expropriation.
- **Local Partnerships (Joint Ventures):** Partnering with a local company makes it harder for the government to target you without hurting their own citizens.
- **Lobbying:** Building relationships with government officials to ensure favorable policy outcomes.
- **Scenario Planning:** Developing "Plan B" and "Plan C" for what to do if a revolution or sudden law change occurs.

4. Summary: The Impact

Factor	High Political Risk	Low Political Risk

Factor	High Political Risk	Low Political Risk
Investment	Capital flight (money leaves).	High Foreign Direct Investment (FDI).
Contracts	Often broken or ignored.	Strongly enforced by law.
Stability	Uncertain and volatile.	Predictable and steady.

International impact on business environment -
 In today's hyper-connected world, no business—no matter how small—is immune to the **International Impact**. Global events act like ripples in a pond; a "splash" in one country (like a tech breakthrough or a war) eventually reaches the shores of every other country.

The international impact on the business environment is primarily driven by **Interdependence** and **Interconnectedness**.

1. Global Economic Interdependence

Most products today are "Global Products." For example, an iPhone is designed in the US, uses chips from Taiwan, and is assembled in China.

- **Supply Chain Shocks:** If there is a political conflict in the Middle East, oil prices spike globally. This increases transportation costs for a local grocery store in India or a factory in Brazil.
- **Currency Fluctuations:** International trade is mostly done in US Dollars. If the Dollar becomes stronger, it becomes more expensive for developing countries to import essential goods like medicine or machinery.

2. The Role of Global Watchdogs

International institutions set the "rules of the game" that domestic businesses must follow:

- **WTO (World Trade Organization):** Forces countries to lower their import taxes (tariffs). This means a local manufacturer suddenly faces intense competition from cheap foreign goods.
- **IMF (International Monetary Fund):** When a country is in financial trouble, the IMF provides loans but often demands "austerity measures" (like cutting government spending or increasing taxes), which reduces the purchasing power of local consumers.
- **World Bank:** Funds massive infrastructure projects (dams, highways). While this creates opportunities for construction firms, it can also lead to stricter environmental regulations for all businesses.

3. The "LPG" Impact (Globalization)

The move toward **Globalization** has changed the environment in three specific ways:

1. **Market Expansion:** Small businesses can now sell to the entire world via the internet (E-commerce).
2. **Global Competition:** You are no longer just competing with the shop down the street; you are competing with global giants like Amazon or Zara.
3. **Technological Diffusion:** Advanced technology (like 5G or AI) spreads across borders almost instantly, forcing local businesses to "upgrade or die."

4. Current Trends (2026 Context)

As of 2026, the international impact is being shaped by new "Global Shifts":

- **Digital Multipolarity:** The competition between the US and China over AI and data privacy is forcing businesses to choose different software and security standards depending on who they trade with.
- **Climate Accords:** International agreements (like the Paris Agreement) are forcing local businesses to adopt "Green Accounting" and reduce carbon emissions to stay eligible for international trade.
- **Regional Trade Blocs:** Countries are moving away from "Global" trade toward "Regional" trade (e.g., ASEAN, EU, USMCA). Businesses now focus more on their neighbors than on distant partners.

Summary: How the World Affects the Local Shop

Global Event	Local Business Impact
Foreign War	High fuel prices and raw material shortages.
New WTO Rule	Lower prices for imported parts, but more foreign competition.
Global Tech Shift	Need to invest in AI/Automation to remain relevant.
IMF Bailout	Higher local taxes and lower consumer spending.

The **Nature of the Indian Economy** - is defined by its transitional and dualistic character. As of early 2026, India is the world's **fourth-largest economy** by nominal GDP and is widely recognized as the fastest-growing major economy.

Its nature can be summarized through the following key dimensions:

1. A Mixed Economy

India follows a "Mixed" model where the **Public** and **Private** sectors coexist.

- **Public Sector:** The government maintains control over strategic areas like defense, railways, and nuclear energy.
- **Private Sector:** Agriculture, retail, and most of the manufacturing and services sectors are driven by private enterprise.

- **Modern Shift:** There is a heavy current emphasis on **Public-Private Partnerships (PPP)** and "Disinvestment" (selling government stakes in public companies) to improve efficiency.

2. A Developing and Transitional Economy

While India has modernized rapidly, it still carries the hallmarks of a developing nation:

- **Per Capita Income:** Though rising significantly (estimated at over \$3,050 in 2026), it remains low compared to developed nations.
- **Shift in Sectors:** India is undergoing a structural transformation. It is moving from an **Agrarian** (Agriculture-based) economy to a **Services-led** economy, bypassing the traditional heavy-industrialization phase that many Western nations went through.

3. Sectorial Composition (2026 Status)

The "Nature" of the economy is best reflected in how much each sector contributes to the GDP:

Sector	Contribution to GDP (%)	Key Features
Services (Tertiary)	~55-57%	The engine of growth. Includes IT, Banking, Telecommunications, and Fintech.
Industry (Secondary)	~25-28%	Driven by the "Make in India" initiative, focusing on electronics, semiconductors, and EVs.
Agriculture (Primary)	~15-18%	Still the largest employer, providing livelihoods for nearly 45-50% of the population.

4. Key Characteristics in 2026

- **Demographic Dividend:** India has one of the youngest populations globally. This large working-age population is a primary driver of domestic consumption.
- **Domestic Demand-Driven:** Unlike export-heavy economies (like China), India's growth is largely fueled by its own massive internal market.
- **Digital Economy Pioneer:** With platforms like UPI (Unified Payments Interface), India has one of the world's highest rates of digital payment adoption, integrating the informal sector into the formal economy.
- **Infrastructural Push:** The government is currently investing heavily in "Gati Shakti" (logistics) and "Viksit Bharat" goals to reduce the cost of doing business.

5. Challenges (The "Other Side" of its Nature)

- **Dualism:** A sharp contrast between high-tech urban centers (like Bengaluru) and underdeveloped rural areas.
- **Unemployment/Underemployment:** Creating enough high-quality jobs for the massive youth population remains a critical challenge.
- **Income Inequality:** A significant portion of the nation's wealth is concentrated among a small percentage of the population.

UNIT-II

Economic Reforms - in India refer to the structural policy changes initiated in **1991** to transform the country from a closed, state-led economy to an open, market-driven one. These reforms are famously known as the **LPG Model** (Liberalization, Privatization, and Globalization).

1. Why were Reforms needed? (The 1991 Crisis)

By 1991, India faced a severe economic crisis due to:

- **Balance of Payments (Bop) Crisis:** Foreign exchange reserves fell so low that they could barely cover two weeks of imports.
- **High Inflation:** Prices were rising at nearly **17%**.
- **Fiscal Deficit:** The government was spending far more than it earned (8.4% of GDP).
- **Inefficient PSUs:** Public Sector Undertakings were mostly loss-making.
- **Gulf War:** A spike in oil prices and a drop in remittances from Indian workers in the Middle East worsened the situation.

In response, India approached the **IMF** and **World Bank** for a \$7 billion loan, which was granted on the condition that India reform its economy.

2. The Three Pillars: LPG

A. Liberalization (Removing the "License Raj")

Liberalization meant ending the era of strict government controls and "red tape."

- **Abolition of Industrial Licensing:** For most industries, the requirement to get a government permit to start or expand a business was removed.
- **Financial Sector Reforms:** Banks were given more freedom to set interest rates, and private banks (like HDFC and ICICI) were allowed to enter the market.
- **Tax Reforms:** Direct and indirect tax rates were reduced and simplified to encourage compliance.
- **Foreign Exchange Reforms:** The Rupee was devalued to make exports cheaper and more competitive.

B. Privatization (Reducing the Role of Government)

Privatization involves transferring ownership or management of government enterprises to the private sector.

- **Disinvestment:** Selling shares of Public Sector Undertakings (PSUs) to the public or private companies (e.g., Maruti Udyog).

- **De-reservation:** The number of industries reserved exclusively for the public sector was reduced from 17 to just **3** (Atomic Energy, Railways, and Atomic Minerals).
- **Autonomy:** Profitable PSUs were given "Navratna" status, allowing them more freedom to operate like private firms.

C. Globalization (Connecting with the World)

Globalization is the process of integrating the domestic economy with the global economy.

- **Reduction in Tariffs:** High import duties were drastically cut to allow foreign goods to enter easily.
- **FDI (Foreign Direct Investment):** Limits on foreign investment were raised, and an "Automatic Route" was created for many sectors.
- **FEMA:** The restrictive FERA (Foreign Exchange Regulation Act) was replaced by the more business-friendly **FEMA** (Foreign Exchange Management Act).

3. Impact of Reforms

Positive Impacts	Negative/Challenges
GDP Growth: Increased from the "Hindu rate" (3.5%) to over 7-8%.	Inequality: The gap between the rich and the poor widened.
Foreign Reserves: Rose from nearly zero to over \$700 Billion (as of early 2026).	Agriculture Neglect: Most growth happened in Services/Industry, not farming.
Consumer Choice: Access to global brands and better technology.	Jobless Growth: High GDP but difficulty in creating high-quality formal jobs.

4. Second Generation Reforms (Post-1991 to 2026)

Reforms didn't stop in 1991. Subsequent governments introduced:

- **GST (2017):** Unified the country into "One Nation, One Tax."
- **Insolvency and Bankruptcy Code (IBC):** Made it easier for failing businesses to exit the market.
- **Digital India & UPI:** Revolutionized the payments and fintech ecosystem.
- **Budget 2026 Focus:** The current focus is on "**Viksit Bharat 2047**," pushing for high-value manufacturing (semiconductors, EVs) and simplifying labour codes to make doing business even easier.

Liberalization- is the "opening up" of an economy by removing government-imposed restrictions, regulations, and hurdles that prevent private businesses from growing. In India, it was the first and most crucial step of the **1991 Economic Reforms**.

Before 1991, India operated under the "**License Raj**," a system where you needed a government permit (license) for almost everything—starting a factory, deciding how much to produce, or even changing your product line. Liberalization ended this era of "red tape."

1. Key Features of Liberalization

To make the economy market-oriented, the government introduced reforms across several sectors:

A. Industrial Sector (Abolition of License Raj)

- **De-licensing:** Licensing was abolished for almost all industries. Today, only a few sectors (like alcohol, cigarettes, hazardous chemicals, and industrial explosives) require a license.
- **Freedom of Expansion:** Businesses no longer need government permission to expand their production capacity or start new product lines.
- **De-reservation:** Many items that were previously "reserved" for Small Scale Industries (SSIs) were opened up for large-scale competition.

B. Financial Sector Reforms

- **Role of RBI:** The RBI's role shifted from being a "**Regulator**" (telling banks exactly what to do) to a "**Facilitator**" (giving banks the freedom to make their own decisions).
- **Private Banking:** New private sector banks (like HDFC, ICICI) and foreign banks were allowed to enter, bringing in better technology and competition.
- **Interest Rates:** Banks were given more autonomy to set their own deposit and lending rates.

C. Foreign Exchange & Trade Reforms

- **Devaluation of Rupee:** In 1991, the Rupee was devalued to make Indian exports cheaper and more attractive to foreign buyers.
- **Import Liberalization:** High import duties (tariffs) were drastically reduced, and the "Quota System" (restricting the quantity of imports) was abolished for most goods.
- **FERA to FEMA:** The strict Foreign Exchange Regulation Act (FERA) was replaced by the business-friendly **Foreign Exchange Management Act (FEMA)**.

2. Objectives of Liberalization

- To unlock the economic potential of the country by encouraging private enterprise.
- To introduce **competition** into the economy to boost efficiency and quality.
- To attract **Foreign Direct Investment (FDI)** and modern technology.
- To reduce the debt burden and fix the Balance of Payments (BoP) crisis.

3. Impact of Liberalization (2026 Context)

Positive Impacts	Negative/Challenges
High Growth: India's GDP growth rate	Competition for SMEs: Small local businesses

Positive Impacts	Negative/Challenges
jumped from the sluggish 3.5% to consistently over 7-8%.	often struggle to compete with global giants.
Consumer Benefits: Consumers now have access to high-quality global brands at competitive prices.	Urban-Rural Divide: Most benefits reached urban centers, while rural areas lagged behind.
Foreign Reserves: From nearly zero in 1991, reserves have soared to over \$700 Billion in early 2026.	Jobless Growth: While GDP grew, the economy struggled to create enough formal jobs for the youth.

4. Difference between Liberalization & Privatization

It is easy to confuse these two, but they are distinct:

- **Liberalization** is about **rules** (removing restrictions and letting the market decide).
- **Privatization** is about **ownership** (transferring government companies to private hands).

While **Liberalization** (discussed previously) focused on changing the "rules" and removing government restrictions, **Privatization** and **Globalization** - are about changing **ownership** and **scale**. Together, they form the pillars that shifted India from a state-centered economy to a global market player.

Privatization and Globalization

1. Privatization: Changing Ownership

Privatization is the process of transferring the ownership, management, and control of **Public Sector Enterprises (PSEs)** to the private sector. The goal is to improve efficiency and reduce the government's financial burden.

Forms of Privatization in India:

- **Disinvestment:** The government sells a portion of its shares (equity) in a public company to the general public or financial institutions (e.g., selling 10% of LIC). The government still retains control.
- **Strategic Sale:** The government sells a majority stake (51% or more) and transfers **management control** to a private buyer (e.g., the sale of **Air India** to the Tata Group in 2021).
- **Asset Monetization:** Leasing out government assets like roads, airports, or railway tracks to private players for a fixed period to generate revenue (a major focus in 2025-26).

Why Privatize?

- **Efficiency:** Private firms are profit-driven and tend to be more innovative and less bureaucratic than state-run firms.
- **Fiscal Relief:** Many PSUs were "sick" (loss-making). Selling them saves the government from spending taxpayer money on bailouts.
- **Market Discipline:** Privatized firms must answer to shareholders, forcing better performance.

2. Globalization: Connecting with the World

Globalization is the integration of the domestic economy with the world economy. It turns the world into a "global village" where goods, services, capital, and labor move freely across borders.

Key Drivers of Globalization in India:

- **Reduction in Tariffs:** Lowering import and export duties to make foreign trade easier.
- **Foreign Direct Investment (FDI):** Allowing foreign companies like Apple, Samsung, or Google to set up factories and offices in India.
- **Outsourcing (BPO/KPO):** India became the "back office of the world" as global companies moved their IT and customer service operations to Indian cities.
- **FEMA (1999):** The Foreign Exchange Management Act replaced the restrictive FERA, making it easier to handle foreign currency and international transactions.

Impact of Globalization (2026 Perspective):

- **The Positive:** India is now the world's 4th largest economy; consumers have global choices; and Indian companies (like TCS or Reliance) have become global giants.
- **The Negative:** Widening income inequality (rich getting richer faster than the poor), loss of local culture, and vulnerability to global economic shocks (like a recession in the US affecting Indian IT jobs).

3. Comparison Summary: LPG at a Glance

Pillar	Core Action	Main Tool
Liberalization	Ending "License Raj"	Deregulation & De-licensing
Privatization	Transferring Ownership	Disinvestment & Strategic Sales
Globalization	Integrating Markets	FDI, Lower Tariffs, & Outsourcing

4. Modern Trends (2026 Context)

As of early 2026, the government has reaffirmed its commitment to a "**Minimum Government, Maximum Governance**" strategy:

- **Strategic Sectors:** The government will maintain only a "bare minimum" presence in four key areas (Atomic Energy, Space/Defense, Transport/Telecom, and Power/Petroleum). Everything else is open for privatization.
- **Viksit Bharat:** The focus is on making India a global manufacturing hub ("China+1" strategy) through globalization, attracting companies moving away from other markets.

Monetary and fiscal policy

In an open economy like India's, the government and the central bank use **Monetary** and **Fiscal** policies as the "steering wheel" and "brakes" to keep the economy stable, control inflation, and ensure growth.

1. Monetary Policy (Managed by the RBI)

Monetary policy refers to the actions taken by the **Reserve Bank of India (RBI)** to manage the **money supply** and **interest rates** in the economy.

Key Objectives:

- **Price Stability:** Keeping inflation within a target range (usually $4\% \pm 2\%$).
- **Economic Growth:** Ensuring there is enough credit available for businesses to expand.
- **Exchange Rate Stability:** Preventing the Rupee from crashing against the Dollar.

The Tools (Instruments):

1. **Repo Rate:** The rate at which the RBI lends money to commercial banks. If the RBI raises the Repo Rate, loans become expensive, people spend less, and inflation goes down.
2. **Reverse Repo Rate:** The rate at which RBI borrows money from banks. It helps in sucking out excess cash from the banking system.
3. **Cash Reserve Ratio (CRR):** The percentage of deposits that banks must keep with the RBI in cash. High CRR means banks have less money to lend.
4. **Statutory Liquidity Ratio (SLR):** The percentage of deposits banks must maintain in safe liquid assets like gold or government bonds.
5. **Open Market Operations (OMO):** The buying and selling of government securities by the RBI to regulate liquidity.

2. Fiscal Policy (Managed by the Ministry of Finance)

Fiscal policy refers to the use of **Government Spending** and **Taxation** to influence the economy. It is presented every year in the **Union Budget**.

Key Objectives:

- **Resource Allocation:** Spending money on priority sectors like infrastructure and health.
- **Reducing Inequality:** Taxing the rich more (Progressive Tax) and providing subsidies to the poor.

- **Controlling Deficit:** Managing the "Fiscal Deficit" (the gap between what the government earns and what it spends).

The Tools (Instruments):

1. **Taxation:** * **Direct Taxes:** Income Tax, Corporate Tax.
 - **Indirect Taxes:** GST (Goods and Services Tax). Lowering taxes leaves more money with people to spend, boosting the economy.
2. **Public Expenditure:** Spending on "Capital Assets" (roads, railways, ports) or "Revenue Expenditure" (salaries, subsidies).
3. **Public Debt:** If the government spends more than it earns, it borrows money from the public or international bodies.
4. **Deficit Financing:** Printing more money or borrowing to cover the budget gap (used sparingly to avoid high inflation).

3. Comparison: Monetary vs. Fiscal Policy

Feature	Monetary Policy	Fiscal Policy
Controlled By	Reserve Bank of India (RBI).	Ministry of Finance (Govt of India).
Main Tools	Interest rates, Repo rate, CRR.	Taxes and Government spending.
Primary Goal	Inflation control & price stability.	Growth and social welfare.
Frequency	Reviewed every 2 months (Bi-monthly).	Announced once a year (Union Budget).

4. Interaction in 2026

As of early 2026, India is practicing "**Calibrated Tightening**" in Monetary policy to keep inflation in check, while the Fiscal policy is "**Expansionary**," focusing heavily on the **Viksit Bharat** infrastructure push. The goal is to keep the Fiscal Deficit below 4.5% of GDP while maintaining a high growth rate of 7%+.

The **Competition Act, 2002** - is the primary legislation in India designed to ensure fair play in the market. It replaced the older, more restrictive **MRTP Act (1969)** to shift from "preventing monopolies" to "promoting healthy competition."

As of early 2026, the Act has been significantly strengthened by the **Competition (Amendment) Act, 2023**, to tackle challenges in the modern digital economy.

1. Objectives of the Act

- **Prevent practices** that have an **Appreciable Adverse Effect on Competition (AAEC)**.
- **Promote and sustain competition** in Indian markets.
- **Protect the interests of consumers** (ensuring better prices and quality).
- **Ensure freedom of trade** for all market participants.

2. Three Pillars of the Competition Act

The Act focuses on regulating three specific areas of business behavior:

A. Prohibition of Anti-Competitive Agreements (Section 3)

Businesses cannot enter into deals that stifle competition. These are divided into:

- **Horizontal Agreements:** Agreements between direct competitors (e.g., two airlines fixing ticket prices). The most serious form is a **Cartel**.
- **Vertical Agreements:** Agreements between different levels of the supply chain (e.g., a manufacturer telling a retailer they cannot sell a competitor's product—a "Tie-in arrangement").

B. Prohibition of Abuse of Dominant Position (Section 4)

Being "big" or "dominant" is not illegal; however, **using** that power to crush competitors is. Abuse includes:

- **Predatory Pricing:** Selling below cost price to drive competitors out of business.
- **Denial of Market Access:** Using power to stop new players from entering the industry.
- **Unfair Conditions:** Imposing discriminatory prices or conditions on certain buyers.

C. Regulation of Combinations (Sections 5 & 6)

The Act monitors **Mergers, Acquisitions, and Amalgamations** (called Combinations).

- **The Goal:** To ensure that a merger between two giants doesn't create a monopoly.
- **2026 Update:** New "Deal Value Thresholds" now require any deal worth over **₹2,000 Crore** to be reported to the CCI if the company has substantial business in India (targeted at Big Tech acquisitions).

3. The Competition Commission of India (CCI)

The CCI is the "Watchdog" or regulator established to enforce this Act.

- **Composition:** A Chairperson and up to six members appointed by the Central Government.
- **Powers:** It can conduct inquiries, impose heavy penalties (up to 10% of global turnover), and even order the "de-merger" of a company.
- **Advocacy:** It also works to educate the public and the government on the benefits of competition.

4. Key Amendments (As of 2026)

Feature	Old Provision	New Amendment (2023/2026)

Feature	Old Provision	New Amendment (2023/2026)
Approval Timeline	210 days for merger approval.	Reduced to 150 days for faster business.
Hub-and-Spoke	Only direct competitors were caught.	Now includes entities that facilitate cartels (like consultants).
Penalty Base	Based on "Relevant" turnover.	Now based on Global Turnover (much higher fines).
Settlements	No clear path for settlement.	Introduced a Settlement & Commitment framework to end cases faster.

5. Why it Matters

Without this Act, large companies could form cartels to keep prices artificially high, or a single player could buy up all its rivals, leaving you, the consumer, with no choice and poor service. The Competition Act ensures that companies win customers by being **better**, not by being **bullies**.

Consumer protection; corporate governance

1. Consumer Protection

In a market-driven economy, the consumer is often the weaker party. The **Consumer Protection Act (CPA) 2019** was introduced to replace the outdated 1986 Act, specifically addressing the digital age and e-commerce.

Key Features of CPA 2019 (Updated for 2026):

- **Central Consumer Protection Authority (CCPA):** A powerful regulator that can investigate violations, order product recalls, and impose penalties for misleading advertisements.
- **Three-Tier Redressal System:**
 - **District Commission:** Claims up to **₹1 Crore**.
 - **State Commission:** Claims between **₹1 Crore and ₹10 Crore**.
 - **National Commission:** Claims above **₹10 Crore**.
- **Product Liability:** Manufacturers and sellers are legally responsible for harm caused by defective products. You can sue the entire supply chain, not just the local shop.
- **E-commerce & AI (2026 Shift):** Rules now include strict regulations on "dark patterns" (manipulative website designs) and the use of AI in customer service to ensure bots do not mislead consumers.

Rights of a Consumer:

1. **Right to Safety:** Protection against hazardous goods.
2. **Right to Information:** Knowing the quality, quantity, and price.
3. **Right to Choice:** Access to a variety of goods at competitive prices.
4. **Right to be Heard:** Consumer interests must be considered at appropriate forums.
5. **Right to Seek Redressal:** Compensation for unfair trade practices.
6. **Right to Consumer Education:** Acquiring knowledge to be an informed customer.

2. Corporate Governance

Corporate Governance is the system of rules, practices, and processes by which a company is directed and controlled. It balances the interests of a company's stakeholders, such as shareholders, management, customers, and the community.

The Four Pillars of Corporate Governance:

1. **Accountability:** The board of directors must be answerable to the shareholders for their decisions and performance.
2. **Transparency:** Timely and accurate disclosure of financial results, risks, and performance metrics.
3. **Fairness:** Equal treatment of all shareholders, including minority shareholders.
4. **Responsibility:** The board must act with social and environmental integrity (ESG—Environmental, Social, and Governance).

Key Updates in 2025–2026:

- **BRSR Core Reporting:** SEBI now mandates the **Business Responsibility and Sustainability Report (BRSR) Core** for the top 250–1,000 listed companies. They must report on emissions, water usage, and gender diversity with third-party verification.
- **Value Chain Disclosures:** Starting in FY 2025-26, large companies must also disclose the sustainability performance of their major suppliers and partners.
- **HVDLE Framework:** SEBI has tightened the governance rules for "High-Value Debt Listed Entities" to protect bondholders.

Summary: Protecting the Market

Feature	Consumer Protection	Corporate Governance
Focus	Protects the Buyer .	Protects the Shareholder/Stakeholder .
Regulator	CCPA / Consumer Courts.	SEBI / MCA (Ministry of Corporate Affairs).
Main Goal	Fair trade and safe products.	Ethical management and transparency.

[Corporate Governance and Consumer Protection](#)

This video provides an excellent summary of the recent changes in Indian laws and how they empower consumers and shareholders against unfair practices.

UNIT-III

The **Industrial Policy of 1991** - is arguably the most significant economic turning point in modern Indian history. Launched on **July 24, 1991**, by the Narasimha Rao government (with Dr. Manmohan Singh as Finance Minister), it marked the end of the restrictive "**License Raj**" and paved the way for a market-driven economy.

1. Objectives of the 1991 Policy

The policy was designed to pull India out of a deep economic crisis and achieve the following:

- **International Competitiveness:** To make Indian goods quality-competitive in the global market.
- **Rapid Industrial Growth:** To remove bureaucratic hurdles that slowed down factory setup.

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- **Foreign Investment:** To attract foreign capital and advanced technology.
- **Efficiency in PSUs:** To force Public Sector Undertakings to perform or face competition.

2. Five Key Pillars of the Policy

A. Industrial De-licensing (End of License Raj)

The most radical change was the abolition of industrial licensing for all but a few industries.

- **The Shift:** Previously, a license was needed for everything. After 1991, this was scrapped for all except **18 industries** (later reduced to just **5**).
- **Current Status (2026):** Only industries like hazardous chemicals, industrial explosives, tobacco, and defense aerospace require a license.

B. De-reservation of the Public Sector

The government drastically reduced the number of industries reserved exclusively for the public sector.

- **The Shift:** The list dropped from **17** industries to **8**, and eventually down to just **2** today.
- **Current Reserved Sectors:** Atomic Energy and Railway Operations (though private participation in specific railway services is now permitted).

C. Foreign Investment Policy (FDI)

For the first time, India became "investor-friendly" by allowing automatic approval for foreign investment.

- **The Shift:** FDI limit was raised to **51%** in high-priority industries, removing the need for constant government permission.
- **Impact:** This brought in global giants like Suzuki, Hyundai, and Coca-Cola, along with modern manufacturing technology.

D. Foreign Technology Agreements

The policy allowed for the automatic approval of technology transfers from foreign companies to Indian firms, provided they stayed within certain payment limits. This helped Indian factories modernize their production lines quickly.

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E. Amendment of the MRTP Act

The **Monopolies and Restrictive Trade Practices (MRTP) Act** previously forced large companies to get government approval before expanding or diversifying.

- **The Shift:** The 1991 policy removed these "asset limits," allowing big companies to grow based on market demand rather than government quotas. (This Act was eventually replaced by the **Competition Act, 2002**).

3. Impact Assessment

Feature	Pre-1991 (Closed)	Post-1991 (Liberalized)
Growth Rate	~3.5% ("Hindu Rate of Growth")	7% to 9% in peak years
Consumer Choice	Limited (Ambassador cars, etc.)	Global variety and competition
Foreign Reserves	Barely 2 weeks of imports	Over \$700 Billion (2026)
Role of Govt.	Regulator & Controller	Facilitator & Promoter

4. Critical Evaluation

While the policy led to a "Boom" in the services and manufacturing sectors, critics point out:

- **Agriculture Neglect:** The reforms focused on industry, leaving the farming sector behind.
- **Regional Imbalance:** Most investment went to already developed states like Maharashtra and Tamil Nadu, widening the gap with states like Bihar.

Public Sector Reforms - refer to the transition of the government's role from being the primary owner and operator of industries to becoming a facilitator and regulator. These reforms aim to improve the efficiency, productivity, and profitability of Public Sector Undertakings (PSUs).

As of **February 2026**, these reforms have entered a "strategic phase" under the **Viksit Bharat 2047** vision, moving beyond simple stake sales to deep structural changes.

1. The New PSE Policy (2021–2026)

The government has categorized all public sectors into two groups to clarify its roadmap:

- **Strategic Sectors:** The government will maintain a "bare minimum" presence (usually 1–4 firms). These include:
 - Atomic Energy, Space, and Defense.
 - Transport and Telecommunications.
 - Power, Petroleum, Coal, and other Minerals.
 - Banking, Insurance, and Financial Services.
- **Non-Strategic Sectors:** In these areas (like hospitality, textiles, or trading), the government aims to privatize or close all PSUs entirely.

2. Key Reform Strategies in 2026

A. Strategic Disinvestment & Privatization

Instead of selling tiny percentages of shares, the government now focuses on **Strategic Disinvestment**—selling a majority stake and handing over **management control** to private experts.

- **Successes:** The privatization of **Air India** (to Tata) and **Neelachal Ispat Nigam Ltd.**
- **2026 Target:** The Union Budget 2026-27 has set an ambitious disinvestment target of **₹80,000 crore**, with a focus on IDBI Bank and shipping corporations.

B. Asset Monetization (NMP)

Under the **National Monetization Pipeline**, the government is not "selling" the assets but "leasing" them.

- **How it works:** Private players manage highways, railway tracks, or power lines for 25–30 years, pay the government upfront, and then return the assets. This generates revenue without losing permanent ownership.

C. Banking Sector Reforms

In early 2026, a major shift is occurring in state-run banks:

- **FDI Hike:** The government is discussing raising the **Foreign Direct Investment (FDI)** limit in public sector banks from **20% to 49%**.
- **Banking Governance Bill:** A new law is being finalized to make PSU banks more professional, competitive, and technology-driven, allowing them to compete head-on with private giants like HDFC or ICICI.

D. Autonomy (Maharatna, Navratna, Miniratna)

To reduce "red tape," the government grants different levels of financial and operational freedom to PSUs based on their performance:

- **Maharatnas (e.g., ONGC, NTPC):** Can invest up to **₹5,000 crore** in a project without government approval.
- **Navratnas:** Can invest up to **₹1,000 crore** independently.

3. Why Reform? (The "Pros" and "Cons")

Objective	Reality/Impact
Efficiency	Private management usually reduces waste and increases speed.
Fiscal Health	Sales proceeds help the government fund infrastructure like High-Speed Rail.
Technology	Private partners bring in modern AI and automation tools.
Social Concern	Risk: Potential job losses and reduced "social service" focus of PSUs.

4. Current Status: February 2026

The **Union Budget 2026** (presented just a few days ago) emphasizes **Public Capital Expenditure** of **₹12.2 lakh crore**. The government is now pushing PSUs to become "global champions" in sectors like Green Hydrogen and Semiconductors rather than just domestic providers.

Public-Private Partnership

(PPP) is a long-term contractual arrangement between a government agency and a private sector company. The goal is to combine the strengths of both—the public sector's role in providing social benefits and the private sector's efficiency and capital—to build and operate infrastructure or public services.

As of early 2026, the **Economic Survey 2026** has emphasized that PPPs in India must move beyond just "building roads" (transaction-centric) toward "market building" in emerging areas like health, education, and Green Hydrogen.

1. Popular PPP Models in India (2026)

The government uses different "flavors" of PPP depending on who takes the most risk and who provides the funding:

Model	How it Works	Common Usage
BOT (Build-Operate-Transfer)	Private entity builds the project, operates it for a "concession period" (e.g., 20 years) to recover costs via tolls/fees, and then hands it back to the government.	Toll Highways, Bridges.
HAM (Hybrid Annuity Model)	A blend of EPC and BOT. The Govt. pays 40% of the cost during construction; the private player brings 60%. The Govt. collects tolls and pays the private player in fixed annual installments (annuities).	National Highways (most popular currently).
TOT (Toll-Operate-Transfer)	The government builds the asset first. It then "leases" the operational rights to a private player for 30 years in exchange for a massive upfront lump-sum payment.	Asset Monetization (NHAI).
EPC (Engineering, Procure, Construct)	The government pays the private firm 100% of the cost to build the project. Once built, the government owns and operates it. (Least risky for private players).	Specialized Bridges, Complex Tunnels.
DBFOT (Design-Build-Finance-Operate-Transfer)	The private sector handles everything from design to financing and operation.	Airports (e.g., Jewar/Noida Airport), Ports.

2. Why PPP? (The "P" Advantage)

- **Resource Mobilization:** The government doesn't have enough money to build everything. Private capital bridges the gap.
- **Risk Sharing:** Risks like construction delays or cost overruns are shared with the private partner.
- **Innovation:** Private companies bring in global technology (like AI-based traffic management or energy-efficient lighting).
- **VGF (Viability Gap Funding):** For projects that are socially important but not immediately profitable (like rural hospitals), the government provides a grant of up to **40%** to make it "viable" for private players.

3. Challenges in 2026

Despite the success in roads and ports, PPPs face hurdles:

- **"Asset Sale" Perception:** Critics often view PPPs as the government "selling off" public assets rather than a partnership.
- **Dispute Resolution:** Long legal battles over contract terms can stall projects for years.
- **Risk Allocation:** Private players often feel they are asked to take too much risk (like land acquisition delays), while the public feels user charges (tolls) are too high.
- **Sub-national uptake:** While Central projects (NHAI, Airports) are thriving, many State Governments and Municipal bodies still lack the "professional PPP cells" to handle complex deals.

4. The Future: "Smart PPPs"

In the **Union Budget 2026**, the focus has shifted to:

- **Social PPPs:** Bringing private players into managing municipal waste, sanitation, and even drinking water metros.
- **Viksit Bharat Pipeline:** A 3-year pipeline of **852 projects** worth over ₹17 lakh crore is being readied to give investors long-term visibility.
- **ESG Integration:** New PPP contracts now require private partners to meet strict "Green" standards and social impact goals.

Small and Medium Enterprises (SMEs), often referred to as **MSMEs** in India, are the backbone of the economy, contributing nearly **30% of the GDP** and **45% of exports**. However, as we move through 2026, they face a complex mix of "traditional" hurdles and "new-age" digital threats.

1. Top Challenges for SMEs (Internal & Operational)

These are obstacles that limit the daily efficiency and scaling potential of small businesses.

- **The Credit Gap:** This remains the #1 challenge. Despite government schemes, only about **16% of SMEs** have access to timely formal credit. Most struggle with a lack of collateral and high interest rates from informal lenders.
- **Delayed Payments:** Often called the "Silent Killer" of SMEs. Large corporations and government departments often delay payments, locking up an estimated **₹8.1 lakh crore** in outstanding receivables as of 2026. This creates a massive "Working Capital" crunch.
- **Skill Gap & Talent Retention:** While India has a large workforce, only about **5% are formally skilled**. SMEs struggle to retain top talent because they cannot match the high salaries and benefits of large MNCs.
- **Regulatory "Red Tape":** Even with "Ease of Doing Business" reforms, small owners are often overwhelmed by complex GST filings, labor law compliances, and environmental certifications.

2. Modern Threats (External & Global)

In 2026, the threats are becoming more global and technological in nature.

- **The Digital Divide & AI Threat:** While AI is a tool, it is also a threat to those who can't adapt. Small firms that cannot afford AI-driven analytics or automation are losing their competitive edge to larger, "smarter" rivals.

- **Global Trade Barriers:** With rising protectionism and "Carbon Border Taxes" (like the EU's CBAM), Indian SMEs find it harder and more expensive to export their goods if they don't meet strict international "Green" standards.
- **Cheap Imports:** SMEs in sectors like toys, electronics, and textiles face intense pricing pressure from cheap, mass-produced imports, particularly from countries with massive economies of scale like China.
- **Cybersecurity Risks:** As SMEs move their operations online (via ONDC or e-commerce), they become prime targets for ransomware and data breaches but rarely have the budget for robust cybersecurity.

3. The 2026 Response: Budgetary & Policy Support

The **Union Budget 2026-27** (introduced in early February) specifically targeted these pain points:

Initiative	Problem Solved
SME Growth Fund (₹10,000 Cr)	Provides equity capital so firms don't just rely on debt/loans.
Corporate Mitras	Trained professionals provided by the govt. to help SMEs with compliance and filing.
TReDS Expansion	Mandating government companies to use a system that ensures SMEs get their payment invoices "discounted" and paid quickly.
Customs Reform	Lifting the limit on courier-based exports to help "D2C" (Direct-to-Consumer) brands sell globally with ease.

4. Summary: The SME Outlook

Feature	Small Enterprise (SME)	Large Enterprise
Agility	High (can pivot quickly).	Low (bureaucratic).
Bargaining Power	Weak (with suppliers/buyers).	Strong.

Feature	Small Enterprise (SME)	Large Enterprise
Innovation Type	Incremental / Niche.	R&D-heavy / Breakthrough.
Primary Goal	Survival and Cash Flow.	Market Dominance and Scale.

[Budget 2026-27: Key Measures for MSME Growth](#)

This video analyzes the specific policy shifts in the 2026 Budget and how the government plans to address the persistent credit and compliance issues facing small businesses.

Industrial Sickness - refers to a condition where an industrial unit performs poorly, suffers from a persistent "cash loss," and experiences a total erosion of its net worth. In simple terms, it is an industry that is no longer "healthy" enough to sustain itself without external financial help.

As of early 2026, while India's GDP growth is robust, industrial sickness remains a localized challenge, particularly in traditional sectors like textiles and older manufacturing units.

1. Defining "Sickness" (The Criteria)

In India, the definition has evolved from the older SICA (1985) to the current standards used by the **RBI** and the **Companies Act**:

- **Financial Erosion:** A unit is generally considered sick if its **accumulated losses** in any financial year are equal to or exceed **50% of its average net worth** over the preceding four years.
- **Payment Default:** If the company fails to repay its debts for **three consecutive quarters** after a formal written demand from creditors.
- **Operational Loss:** A unit that has incurred cash losses for one year and is likely to continue doing so in the following year.

2. Causes of Industrial Sickness

Sickness is rarely caused by a single event; it is usually a combination of **Internal** and **External** factors.

A. Internal Causes (Within the Company's Control)

- **Poor Management:** Incompetent leadership, lack of professional planning, or "induced sickness" (where promoters deliberately siphon off funds).
- **Technological Obsolescence:** Using outdated machinery that leads to high production costs and poor quality.
- **Financial Mismanagement:** Poor utilization of working capital or over-borrowing at high interest rates.
- **Labor Problems:** Constant strikes, unrest, or lack of employee motivation.

B. External Causes (Outside the Company's Control)

- **Global Recession:** A sudden drop in international demand (e.g., global trade tensions in 2025 affecting Indian exports).
- **Infrastructure Bottlenecks:** Frequent power cuts, high logistics costs, or lack of raw materials.
- **Change in Govt. Policy:** Sudden changes in tax structures (GST updates) or import/export duties that favor foreign competitors.
- **Market Competition:** Inability to compete with cheaper, mass-produced imports (especially in electronics and toys).

3. Impact on the Economy

Industrial sickness acts as a "slow poison" for the economy:

1. **Blocked Capital:** Billions of rupees in bank loans become **Non-Performing Assets (NPAs)**, reducing the bank's ability to lend to healthy businesses.
2. **Unemployment:** Closure of sick units leads to mass layoffs and loss of livelihood for thousands of workers.
3. **Wastage of Resources:** Valuable land, buildings, and machinery lie idle and unproductive.
4. **Social Unrest:** Widespread job losses in an industrial hub can lead to increased crime and social instability.

4. The 2026 Revival Framework

The old system (BIFR) was slow and ineffective. Today, India uses a much faster "Exit and Revival" mechanism:

- **Insolvency and Bankruptcy Code (IBC) 2016:** This is the primary tool. It aims for a **time-bound resolution** (ideally 180–330 days). The goal is to either revive the company by finding a new buyer or liquidate it to recover money for creditors.
- **National Company Law Tribunal (NCLT):** The "court" that hears these cases and decides whether a revival plan is viable.
- **Pre-packaged Insolvency (Pre-packs):** A faster, out-of-court process specifically for MSMEs to settle debts and reorganize without shutting down operations.

Summary: Sickness vs. Health

Feature	Healthy Unit	Sick Unit
Profitability	Generates internal surplus.	Continuous cash losses.
Net Worth	Positive and growing.	Eroded by 50% or more.

Feature	Healthy Unit	Sick Unit
Debt Service	Regular interest/principal payments.	Frequent defaults (3+ quarters).
Management	Proactive and professional.	Often reactive or incompetent.

The **Securities and Exchange Board of India (SEBI)** -is the statutory regulator for the Indian securities market. Established in 1988 and given statutory powers in 1992, its core mission is encapsulated in three words: **Protect, Develop, and Regulate.**

As of February 2026, SEBI has evolved into one of the world's most tech-forward regulators, focusing heavily on protecting retail investors from the volatility of digital markets and complex financial products.

1. The Three Primary Functions of SEBI

To maintain a healthy market ecosystem, SEBI operates through three distinct functional roles:

1. **Protective Function:** This is the most critical for individual investors. It includes prohibiting **insider trading**, checking **price rigging** (artificial price manipulation), and promoting fair trade practices.
2. **Regulatory Function:** SEBI acts as the "policeman" of the market. It registers and regulates brokers, merchant bankers, and mutual funds, and it drafts the "Rules of the Game" for stock exchanges like the NSE and BSE.
3. **Developmental Function:** SEBI works to grow the market by training intermediaries and promoting **investor education** so that people move from being mere "savers" to "investors."

2. Investor Protection Framework (2026)

SEBI's investor protection strategy is built on the principle of **Informed Consent**. It doesn't tell you *where* to invest; it ensures you have all the *truthful information* needed to decide for yourself.

A. Full Disclosure & Transparency

- **Listing Regulations (LODR):** Companies must disclose all "material events" (like a sudden loss or a new merger) to the public within hours.
- **Mutual Fund Transparency:** Starting April 1, 2026, a new rule mandates that Mutual Funds disclose "Base Expense Ratios" (management fees) separately from other costs like brokerage and taxes, making it easier for you to see exactly what you are paying.

B. Market Surveillance

- **AI-Driven Monitoring:** SEBI uses advanced algorithms to detect "suspicious" trading patterns in real-time. If a stock suddenly jumps 20% without any news, SEBI's systems flag it for potential manipulation.
- **Closing Auction Session (CAS):** To prevent price manipulation in the final minutes of trade, SEBI is introducing a dedicated "Closing Auction" in 2026 to ensure the final price of a stock is fair and stable.

C. Grievance Redressal: SCORES 2.0

If an investor is cheated by a broker or a company, SEBI provides a digital "court" called **SCORES** (SEBI Complaints Redress System).

- **Timeline:** Companies must respond to a complaint within **30 days**.
- **Two-Level Review:** If you aren't satisfied with the company's reply, the relevant Stock Exchange reviews it first. If you're still unhappy, SEBI itself does a second review.
- **ODR Portal:** For faster resolution, SEBI now uses **Online Dispute Resolution (ODR)**, which uses digital mediation and arbitration to settle money disputes without going to physical courts.

3. Key Rights of an Investor

Under SEBI's 2026 Charter, every investor has the right to:

1. **Receive help** from the Investor Protection Fund (IPF) if their broker goes bankrupt.
2. **Get fair treatment** during corporate actions (like dividends or bonus shares) being directly credited to their Demat account (no more "Letters of Confirmation" required as of early 2026).
3. **Access clear risk profiles** of products (the "Risk-o-meter" for Mutual Funds).
4. **Nominate** someone to inherit their investments easily.

4. Summary: The Regulator's Impact

Feature	Before SEBI (Pre-1992)	SEBI Era (2026)
Trading Type	Physical Paper/Pit trading.	100% Digital & T+1 Settlement.
Fraud Risk	High (scams like 1992).	Low (Real-time AI monitoring).
Complaints	Hard to track/Physical letters.	Instant via SCORES/ODR App.
Investor Base	Limited to a few cities.	Pan-India (over 160 million Demat accounts).

Balance of Payments scenario

In the context of 2026, India's **Balance of Payments (BoP)** scenario reflects a "resilient yet cautious" economy. The BoP is a systematic record of all economic transactions between residents of India and the rest of the world.

1. Current Account: Manageable Deficits

The Current Account deals with the "here and now"—trade in goods, services, and transfers.

- **Trade Deficit (Goods):** India continues to run a significant merchandise trade deficit (around **\$87.4 billion** in mid-FY26) because our appetite for oil, electronics, and gold remains high.
- **The "Invisibles" Savior: * Services Surplus:** This is India's superpower. Software services and business consulting exports have grown by over **14%**, providing a massive buffer against the goods deficit.
 - **Remittances:** India remains the world's top recipient of remittances, expected to exceed **\$125 billion** in 2025-26. As the Rupee faced slight pressure against the Dollar (trading near **₹90-91** in early 2026), NRIs sent more money home to take advantage of higher yields.
- **Current Account Deficit (CAD):** For H1 FY26, the CAD stood at a very healthy **0.8% of GDP**. However, analysts warn that as US tariffs on Indian exports (estimated around 18% in some sectors) begin to "pinch," the CAD for the full year may widen toward **1.5% - 2.0% of GDP**.

2. Capital Account: The Investment Engine

The Capital Account records the movement of "wealth" or "assets"—FDI, FPI, and loans.

- **Foreign Direct Investment (FDI):** After a slight dip, FDI inflows have stabilized (around **\$81 billion** annually). The focus in 2026 is on "China Plus One" manufacturing, particularly in semiconductors and green hydrogen.
- **Foreign Portfolio Investment (FPI):** This is the "hot money." While India saw outflows in late 2025 due to global headwinds, the inclusion of Indian bonds in global indices (like J.P. Morgan) has kept the debt side of FPI robust.
- **External Commercial Borrowings (ECBs):** Indian companies are borrowing more from international markets to fund their 2026 expansion plans, though at higher interest rates.

3. The "Bop Crisis" vs. Current Reserves (2026)

Unlike the 1991 crisis when India had barely two weeks of import cover, the 2026 scenario is incredibly strong:

- **Forex Reserves:** As of February 2026, India's foreign exchange reserves stand at a record high of **\$723.8 billion**.
- **Import Cover:** These reserves are enough to cover over **11 months of imports**, giving the RBI immense power to intervene and prevent the Rupee from crashing during global market shocks.

4. Key Challenges to the BoP in 2026

1. **US Trade Policy:** New tariffs and a "strategic power gap" are making goods exports more expensive.
2. **Primary Income Outgo:** India is paying out more in dividends and interest to foreign investors (around **\$12.2 billion** per quarter) as the total stock of foreign investment in India grows.
3. **Oil Prices:** Any sudden spike in global crude oil prices (geopolitical shocks) remains the single biggest "wildcard" that can ruin the BoP balance.

Summary: The Bop Equation

Component	Status in 2026	Impact on BoP
Merchandise Trade	Deficit	Negative (Drain on Forex)
Service Exports	High Surplus	Positive (Strongest Buffer)
Remittances	Record Highs	Positive (Stability)
Capital Inflows	Volatile but Positive	Positive (Finances the CAD)
Forex Reserves	\$720B+	High Resilience

India's **Foreign Trade Pattern and Policy** in 2026 reflect a "strategically confident" nation. The focus has moved from merely asking for global market access to becoming a central node in global supply chains through the "China Plus One" strategy.

1. Current Trade Patterns (2026 Trends)

India's trade basket and partners have undergone a structural shift, moving away from traditional commodities toward high-value technology and services.

A. Composition of Trade (What we trade)

- **Electronics Boom:** Driven by the PLI (Production Linked Incentive) scheme, electronics (especially smartphones) have become a top-3 export. India's electronics production is on track to hit **\$300 billion** in 2026.
- **The "Services" Powerhouse:** Services exports reached a record **\$387.6 billion** in FY25 and continue to grow at ~14% in 2026. This is no longer just IT; it now includes high-end "Global Capability Centres" (GCCs) doing R&D for the world.
- **Green Exports:** A new category has emerged—**Green Hydrogen and Solar PV**. Solar exports surged 23x compared to 2022 levels.
- **Imports:** While oil remains the largest import, there is a sharp rise in **Critical Minerals** (Lithium, Cobalt) needed for India's burgeoning EV and semiconductor industries.

B. Direction of Trade (Who we trade with)

- **The EU Pivot:** In January 2026, India and the **European Union** concluded a landmark Free Trade Agreement (FTA), covering 99% of export lines.
- **The "Global South" Focus:** India is aggressively diversifying into Africa, Latin America, and SE Asia (Vietnam, Malaysia) to absorb its mid-tech manufacturing.
- **The US Relationship:** Despite new tariff pressures (averaging 18% in some sectors), the US remains a primary partner, though India is actively "hedging" by strengthening ties with the UK and Gulf countries (Oman/UAE).

2. Foreign Trade Policy (FTP) 2023–2028 (2026 Status)

The current policy is unique because it has **no "end date"**; it is a dynamic document updated based on feedback.

Key Pillars of the 2026 Trade Policy:

1. **Incentive to Remission:** The government has moved away from "subsidies" (which the WTO often disputes) to **Remissions** (like RoDTEP), which simply refund the taxes and duties already paid by exporters.
2. **Ease of Doing Business: * Paperless Trade:** The entire lifecycle of an export authorization is now 100% digital.
 - **Courier Limit:** The value limit for e-commerce exports via courier has been **raised to ₹10 Lakh** (with discussions to remove it entirely in mid-2026) to help MSMEs sell directly to global customers.
3. **Districts as Export Hubs:** Under the "One District One Product" (ODOP) initiative, 750+ districts now have specific "Export Action Plans" to promote local specialties like Moradabad brass or Varanasi silk.
4. **Rupee Internationalization:** A major policy push allows exporters to accept payments in **Indian Rupees** through Special Vostro Accounts, reducing dependence on the US Dollar.

3. Latest Reforms (Budget 2026 Highlights)

The **Union Budget 2026** (tabled in February) introduced specific "Trade Firewalls":

- **Tariff Simplification:** Broad categories were broken into specific "product codes" to prevent confusion and reduce litigation at customs.
- **Customs Modernization:** A "Deferred Duty Payment" window was opened for trusted manufacturers, allowing them to clear goods first and pay duties later.
- **Logistics Efficiency:** Logistics costs have successfully dropped to **~8% of GDP** (from 14% in 2014) due to the PM Gati Shakti and National Logistics Policy.

4. Summary Table: Trade Evolution

Feature	Old Pattern (Pre-2020)	New Pattern (2026)

Feature	Old Pattern (Pre-2020)	New Pattern (2026)
Export Driver	Low-end Textiles & Gems	Electronics, Pharma, & AI Services
Main Market	USA & UAE	Diversified (EU, GCC, SE Asia)
Strategy	Incentive-based (Subsidies)	Facilitation-based (Remissions)
Logistics	Slow & Expensive (14% GDP)	Fast & Digitized (~8% GDP)

environment for international direct investment;

In early 2026, the environment for **International Direct Investment** (specifically **Foreign Direct Investment** or **FDI**) in India is characterized by a "strong push for manufacturing" and "tech-led integration." While global markets face volatility, India has positioned itself as a stable and high-growth destination.

1. Current FDI Landscape (2025–2026)

India anticipates robust FDI growth in 2026, with inflows expected to cross the **\$80.6 billion** mark achieved in the previous fiscal year.

- **The "Automatic Route" Dominance:** Over **90%** of sectors are now under the automatic route, meaning foreign investors do not need prior government approval to invest.
- **Leading Investors:** Singapore and Mauritius remain the top sources (accounting for ~49%), followed by the USA, the Netherlands, and Japan.
- **Top States:** Maharashtra, Karnataka, and Gujarat continue to attract the lion's share (over 60%) of total inflows.

2. Key Sectoral Shifts in 2026

The focus of international investment has shifted from simple services to complex technology and infrastructure.

Sector	FDI Cap (2026)	Trend/Reason
Insurance	100%	New laws effective Feb 2026 allow full foreign ownership to deepen market penetration.
Defense	74%	Shifted to automatic route to boost "Aatmanirbhar Bharat" in high-tech weaponry.

Sector	FDI Cap (2026)	Trend/Reason
Semiconductors	100%	A top priority in 2026; backed by the ISM 2.0 (India Semiconductor Mission) .
Data Centers	100%	Surged due to AI infrastructure demand; India attracted ~\$9B in data center projects in 2025.
Space	74% to 100%	Relaxed norms in 2024–25 have led to big-ticket investments in satellite launches and ground stations.

3. Factors Driving the FDI Environment

- **Viksit Bharat 2047 Strategy:** The government is marketing India not just as a consumer market, but as a global production and export base.
- **New Generation Trade Pacts:** Deals with the **EFTA** (\$100B commitment over 15 years) and the **India-UK FTA** have created long-term investment certainty.
- **PLI Schemes:** Production Linked Incentives in 14 sectors act as a "magnet" for foreign manufacturers like Apple (Foxconn) and Samsung.
- **Ease of Doing Business:** The **Jan Vishwas Bill 2.0** (2025) has decriminalized minor industry offenses, reducing the "fear factor" for foreign CEOs.

4. Challenges & Threats in 2026

Despite the optimism, several "friction points" remain for international investors:

- **Geopolitical Tariffs:** US-India trade tensions (with tariffs around 18%) and global protectionism have made "Export-oriented FDI" more complex.
- **Regulatory Speed Bumps:** Sudden changes in e-commerce "marketplace" rules and data localization norms often spook digital investors.
- **The Talent Gap:** There is a critical shortage of "Industry 4.0" ready talent (AI, mechatronics, wafer fabrication) compared to the massive demand from foreign firms.
- **Land & Labor:** While Central reforms are in place, the actual implementation of New Labor Codes and land acquisition remains uneven across different Indian states.

Prohibited Sectors (2026)

It is important to note where FDI is still **strictly banned**:

- Lottery, Gambling, and Betting.
- Chit Funds and Nidhi Companies.
- Manufacturing of Cigars, Cheroots, and Cigarettes.
- Atomic Energy and Real Estate Business (except township development).

This completes the overview of the international investment environment. Would you like me to summarize the "Foreign Trade Policy 2023-28" next, or focus on how the "India-US Trade Deal" affects current investments?

[FDI Policy in India 2026](#) This video provides a timely analysis of how the current global environment and recent budget proposals are impacting FDI inflows into India.

The **Foreign Exchange Management Act (FEMA), 1999** - is the legal framework that governs all foreign exchange transactions in India. It replaced the older, much stricter **FERA (1973)** to move the country from "control" to "management" of foreign currency.

As of **February 2026**, FEMA has become a tool for the "Internationalization of the Rupee," with new rules allowing the Rupee to be used for global trade settlements.

1. Key Objectives of FEMA

- **Facilitate External Trade:** To make it easier for Indian businesses to import and export goods and services.
- **Orderly Maintenance of Forex Markets:** To ensure that the foreign exchange market in India operates smoothly and without extreme volatility.
- **Manage Forex Reserves:** Instead of just "conserving" (hiding away) foreign exchange, FEMA aims to manage and utilize it to boost economic growth.

2. Main Features of FEMA

- **Civil Offense:** Unlike FERA, where violations were criminal offenses (lead to jail), FEMA treats violations as **civil offenses** (punishable by fines). Imprisonment only occurs if the fine is not paid.
- **Residential Status:** A person is considered a "Resident in India" if they stayed in India for more than **182 days** in the preceding financial year (exceptions apply for employment/business).
- **Authorized Persons:** All forex deals must happen through **Authorized Dealers** (mostly banks), money changers, or off-shore banking units authorized by the RBI.
- **Appellate Authority:** It provides a structured system for appeals, including the **Special Director (Appeals)** and the **Appellate Tribunal**.

3. Types of Transactions under FEMA

FEMA divides all transactions into two major categories:

A. Current Account Transactions

These are transactions that **do not** change the assets or liabilities of a person.

- **Examples:** Payment for imports, interest on loans, remittances for living expenses of family abroad, and expenses for travel, education, or medical care.
- **Rule:** These are generally **permitted** unless specifically restricted by the government.

B. Capital Account Transactions

These are transactions that **alter** the assets or liabilities (including contingent liabilities) outside or inside India.

- **Examples:** Investing in foreign shares, buying property abroad, or foreign companies investing in India (FDI).
- **Rule:** The **RBI** has the power to restrict or regulate these transactions.

4. FEMA vs. FERA: The Great Shift

Feature	FERA (1973)	FEMA (1999/2026)
Philosophy	Control & Conservation.	Management & Facilitation.
Nature of Offense	Criminal (Jail is common).	Civil (Penalty is common).
Number of Sections	81 (Complex).	49 (Streamlined).
Residential Status	Based on Citizenship.	Based on Stay (>182 days).
RBI's Role	Strict Regulator (needs permission for all).	Facilitator (sets broad guidelines).

5. Modern Updates (2025–2026)

- **Global Rupee:** In 2025-26, the RBI updated FEMA to allow **non-residents** to open Rupee accounts (SNRAs) easily to settle international trade, reducing our reliance on the US Dollar.
- **Direct Listing Abroad:** New FEMA rules now allow certain Indian public companies to list their shares directly on foreign stock exchanges (like the NYSE or LSE) via the GIFT City pathway.
- **Export-Import Regulations 2026:** Notified to take effect from **October 1, 2026**, these new rules move away from "prescriptive controls" to a "principle-based" approach, giving small exporters much more flexibility.

The **World Trade Organization (WTO)** - is the only global international organization dealing with the rules of trade between nations. Established on **January 1, 1995**, following the Uruguay Round of negotiations, it replaced the General Agreement on Tariffs and Trade (GATT).

As of **February 2026**, the WTO is at a critical crossroads, preparing for the **14th Ministerial Conference (MC14)** in Yaoundé, Cameroon, where members are debating massive reforms to keep the organization relevant in an era of digital trade and "green" protectionism.

1. Key Objectives & Principles

The WTO operates on several "golden rules" designed to make trade predictable and fair:

- **Most-Favoured-Nation (MFN):** You cannot discriminate between your trading partners. If you grant someone a special favor (like a lower customs duty), you must do the same for all other WTO members.
- **National Treatment:** Imported and locally produced goods must be treated equally once they have entered the market.
- **Predictability through Binding:** When countries agree to open their markets for goods or services, they "bind" their commitments. For a country to change these, they must negotiate with their partners.
- **Fair Competition:** The WTO discourages "unfair" practices like **dumping** (exporting at a price lower than the home market) and harmful **subsidies**.

2. Core Functions of the WTO

The WTO is often described as a "three-legged stool":

1. **Trade Negotiations:** It provides a forum for members to discuss and agree on new rules (e.g., the recent agreements on E-commerce and Fisheries).
2. **Implementation & Monitoring:** It reviews the trade policies of all member countries (Trade Policy Review Mechanism) to ensure they are following the rules they signed up for.
3. **Dispute Settlement:** It acts as an international "court" to resolve trade conflicts between member nations.

3. The 2026 Scenario: Current Issues & Challenges

The environment in 2026 is one of the most challenging in the WTO's 31-year history:

A. The Dispute Settlement Crisis

For over six years, the **Appellate Body** (the "Supreme Court" of trade) has been non-functional because the US has blocked the appointment of new judges.

- **2026 Status:** While a full restoration is a top agenda item for MC14 in March, many countries (like the EU and China) are using the **MPIA (Multi-Party Interim Appeal Arbitration Arrangement)** as a temporary "bypass" to settle disputes.

B. Fisheries Subsidies ("Fish 1" and "Fish 2")

- **Milestone:** The **Agreement on Fisheries Subsidies** (Fish 1) officially entered into force on **September 15, 2025**. It bans subsidies for illegal fishing and overfished stocks.
- **2026 Negotiations:** Members are currently locked in intense talks for "Fish 2"—a more comprehensive set of rules to tackle "overcapacity" (the building of too many big fishing boats).

C. Agriculture & Food Security

Developing nations like India are leading the charge for a "**Permanent Solution**" on **Public Stockholding**.

- **The Conflict:** India wants the right to buy food from farmers at fixed prices for food security without being accused of "distorting" trade. Developed nations argue this gives Indian exports an unfair advantage.

D. Digital Trade & E-commerce

With global digital trade hitting record highs in 2026, the WTO is trying to finalize a permanent ban on **Customs Duties on Electronic Transmissions**. If this "Moratorium" is not extended at MC14, countries could start taxing every Netflix subscription or software download that crosses borders.

4. Impact on the Indian Economy (2026)

Favorable Impacts	Challenges / Unfavorable Impacts
Export Access: India's record services exports (\$380B+) rely on WTO's predictable GATS rules.	Patent Costs (TRIPS): Stricter intellectual property rules can make life-saving drugs more expensive.
Protection from "Bullies": Small and developing nations use the WTO to challenge unfair tariffs by larger economies.	Agri-Subsidies: Constant pressure to reduce "Amber Box" subsidies (like MSP) for Indian farmers.
Standardization: WTO rules help Indian products meet global quality standards, easing entry into Western markets.	Environmental Clauses: New "Green" rules (like Carbon Taxes) are seen by India as a new form of trade barrier.

5. Summary of WTO Structure

1. **Ministerial Conference:** The highest body; meets at least every 2 years (MC14 in March 2026).
2. **General Council:** Handles the day-to-day work in Geneva.
3. **Dispute Settlement Body (DSB):** The arm that resolves conflicts.
4. **Trade Policy Review Body (TPRB):** The arm that monitors transparency.

The **International Monetary Fund (IMF)** is the global "financial firefighter" and economic watchdog. Established in 1944 at the Bretton Woods Conference, it currently comprises **191 member countries** and focuses on global monetary cooperation and financial stability.

As of **February 2026**, the IMF has positioned India as the "primary engine of global growth," recently upgrading India's GDP forecast for FY 2025-26 to **7.3%**.

1. Core Functions of the IMF

The IMF serves three main roles in the global economy:

1. **Surveillance (The Watchdog):** It monitors the economic and financial policies of its members.
 - **Article IV Consultations:** Every year, the IMF sends a team to member countries (like India) to assess their economic health and provide policy advice.
2. **Financial Assistance (The Lender):** It provides loans to countries experiencing **Balance of Payments (BoP)** difficulties. Unlike a bank, the IMF lends to give countries "breathing room" to correct economic problems.
3. **Capacity Development (The Teacher):** It provides technical assistance and training to help countries manage their economies—such as improving tax collection or banking regulations.

2. IMF and India: The 2026 Scenario

In early 2026, the relationship between India and the IMF is one of high optimism:

- **Growth Leadership:** The IMF's January 2026 **World Economic Outlook (WEO)** reports that India is expected to account for **17% of total global growth** this year, overtaking the United States in its contribution to the worldwide real GDP increase.
- **Fiscal Consolidation:** The IMF has lauded India's effort to bring the fiscal deficit down (targeting **4.3% of GDP** for FY27), noting that this "cautious balance" reinforces global investor confidence.
- **Inflation Management:** The Fund expects Indian inflation to return to the **4% target** range in 2026, driven by a decline in food prices and stable monetary policy from the RBI.

3. Key IMF Instruments

- **SDR (Special Drawing Rights):** This is the IMF's "unit of account." It is not a currency, but a potential claim on the usable currencies of IMF members. The value of an SDR is based on a basket of five currencies: **USD, Euro, RMB (Yuan), Yen, and Pound Sterling**.
- **Quotas:** Every member is assigned a quota based on its relative size in the global economy. This determines its voting power and how much it can borrow.
- **Global Financial Safety Net:** In 2026, the IMF is focusing on new lending tools to help countries deal with **climate-related shocks** and **AI-driven economic shifts**.

4. Comparison: IMF vs. World Bank

It is easy to confuse the two, but they have very different missions:

Feature	International Monetary Fund (IMF)	World Bank
Primary Goal	Macroeconomic Stability & Forex.	Long-term Development & Poverty.
Problem Solved	Balance of Payment crises (Short-term).	Infrastructure, Health, Education (Long-term).
Focus	Exchange rates and fiscal policy.	Specific projects (Dams, Schools, Roads).

5. Challenges for the IMF in 2026

- **Geopolitical Fragmentation:** The rise of "trade wars" and tariffs (averaging 18.5% globally in early 2026) makes it harder for the IMF to coordinate global policy.
- **AI Productivity Paradox:** The IMF is currently studying whether the "AI investment boom" will truly lead to productivity gains or if it creates a financial bubble that could destabilize the market.

This concludes our look at the IMF! Would you like a final summary table of all the International Institutions (WTO, IMF, World Bank) for your revision?

[India Overtakes the US in Global Growth Share in 2026](#)

This video explains the IMF's latest data showing India's massive 17% contribution to global growth in 2026 and what it means for the world economy.

The **World Bank** is a vital international financial institution that provides loans, grants, and technical assistance to the governments of low and middle-income countries. While the IMF focuses on short-term stability, the World Bank is dedicated to **long-term economic development** and poverty reduction.

As of **February 2026**, the World Bank is undergoing a historic "Evolution," shifting its focus toward a new, broader mission: **"To create a world free of poverty on a livable planet."**

1. The Five Institutions of the World Bank Group

The World Bank is not just one bank but a group of five specialized organizations:

Institution	Full Name	Primary Role
IBRD	Int. Bank for Reconstruction and Development	Lends to middle-income and creditworthy low-income governments.
IDA	International Development Association	Provides interest-free loans (credits) and grants to the world's poorest countries.
IFC	International Finance Corporation	The largest global development institution focused exclusively on the private sector .
MIGA	Multilateral Investment Guarantee Agency	Provides political risk insurance to encourage foreign investment in developing nations.
ICSID	Int. Centre for Settlement of Investment Disputes	Provides facilities for conciliation and arbitration of international investment disputes.

2. World Bank and India: The 2026 Framework

In late January 2026, the World Bank and India launched a new **Country Partnership Framework (CPF)** designed to support India's vision of becoming a developed nation (**Viksit Bharat**) by 2047.

Key Current Focus Areas in India:

- **Job Creation:** Supporting the upgrade of India's network of **Industrial Training Institutes (ITIs)** through an \$830 million loan (PM-SETU) to produce 1 million skilled workers annually.
- **Urban Transformation:** Investing in "livable cities" to prepare for India's urban population, which is expected to double by 2050.
- **Green Hydrogen & E-Mobility:** Providing financing to scale up India's electric vehicle transition and frontier technologies like green hydrogen.
- **Climate Resilience:** Projects like the **Maharashtra Project on Resilient Agriculture** use digital technology to help small farmers withstand extreme weather.

3. The 2026 Evolution: "One World Bank Group"

Starting in **January 2026**, the Bank has restructured its knowledge system into a unified "One World Bank" model. Instead of separate silos, all experts now work across **five key verticals**:

1. **People:** Health, Education, and Social Protection.
2. **Prosperity:** Job creation, Agribusiness, and Finance.
3. **Planet:** Climate change, Energy, and Water.

4. **Infrastructure:** Transport, Digital development, and Cities.
5. **Digital:** Scaling high-impact technology and cybersecurity.

4. World Bank vs. IMF (Quick Comparison)

Understanding the difference is crucial for any business environment student:

- **The World Bank** is a **Development Institution**. It builds schools, bridges, and solar parks (Long-term).
- **The IMF** is a **Cooperative Institution**. It fixes exchange rates and bails out countries in a debt crisis (Short-term).

5. Summary: Why the World Bank Matters in 2026

- **Climate Finance:** By early 2026, nearly **48%** of the World Bank's total financing is now tied to "Climate Co-benefits," meaning every road or school built must also be climate-resilient.
- **Private Capital Mobilization:** The Bank is moving from being a "Lender" to a "Catalyst," trying to use its small amount of money to attract trillions in private sector investment.
- **Crisis Response:** The new **IDA21 replenishment** is a top priority in 2026 to ensure the poorest nations have a financial safety net against global shocks.

MAA OMWATI DEGREE COLLEGE HASSANPUR
EXAM NOTES
CLASS –BBA 4th SEM
SUBJECT -Indian Business Environment
Course Code: 25IMSI404DS03

Short Questions

1. Define **Business Environment**.
2. Distinguish between **Internal** and **External** environment.
3. What is meant by **PESTLE** analysis?
4. Define **Political Risk**.
5. What is **Country Risk** in international business?
6. Mention any two features of the **Nature of the Indian Economy**.
7. Define **Liberalization**.
8. What is the primary objective of **Privatization**?
9. Define **Globalization**.
10. What is **Monetary Policy**?

11. What is **Fiscal Policy**?
12. State the main purpose of the **Competition Act, 2002**.
13. Define **Corporate Governance**.
14. Who is considered a "Consumer" under the **Consumer Protection Act**?
15. What was the main shift in the **Industrial Policy of 1991**?
16. Define **Disinvestment**.
17. What is **Public-Private Partnership (PPP)**?
18. Define **Small and Medium Enterprises (SMEs)**.
19. What is **Industrial Sickness**?
20. What is the full form of **SEBI**?
21. Mention one measure for **Investor Protection** taken by SEBI.
22. Define **Balance of Payments (BoP)**.
23. What is the difference between **Current Account** and **Capital Account**?
24. Define **Foreign Direct Investment (FDI)**.
25. What is the primary function of the **World Bank**?

Long Questions

1. **Explain** the nature and significance of the Business Environment for a modern enterprise.
2. **Discuss** the components of the Micro and Macro environment in detail.
3. **Analyze** the impact of political and legal factors on business operations.
4. **Evaluate** how international events (International Impact) influence a country's domestic business environment.
5. **Describe** the transition of the Indian Economy from a closed to an open economy.
6. **Critically examine** the New Economic Policy (LPG) of 1991 and its impact on Indian business.
7. **Discuss** the role of the Reserve Bank of India (RBI) in framing and implementing **Monetary Policy**.
8. **Explain** the various instruments of **Fiscal Policy** used to control economic stability.
9. **Analyze** the features of the **Competition Act, 2002** and how it prevents anti-competitive agreements.
10. **Discuss** the rights of consumers under the **Consumer Protection Act**.
11. **Explain** the importance of **Corporate Governance** in maintaining transparency and stakeholder trust.
12. **Detail** the landmark changes introduced in the **Industrial Policy Resolution of 1991**.
13. **Explain** the various types of **Public Sector Reforms** undertaken in India since 1991.
14. **Discuss** the advantages and challenges of the **PPP (Public Private Partnership)** model in infrastructure development.
15. **Analyze** the threats and challenges faced by **SMEs** in the era of globalization.
16. **Explain** the causes and consequences of **Industrial Sickness** in India.
17. **Discuss** the role and functions of **SEBI** as a regulator of the capital market.
18. **Explain** the mechanisms available for **Investor Protection** in India.
19. **Explain** the structure of the **Balance of Payments** and the reasons for a persistent deficit.
20. **Discuss** the recent trends and patterns in India's **Foreign Trade Policy**.
21. **Analyze** the factors that create a favorable environment for **International Direct Investment**.
22. **Explain** the objectives and important provisions of the **Foreign Exchange Management Act (FEMA)**.
23. **Discuss** the role of the **World Trade Organization (WTO)** in regulating global trade.
24. **Explain** the objectives and functions of the **International Monetary Fund (IMF)**.
25. **Compare and Contrast** the roles of the **IMF** and the **World Bank** in supporting developing nations.