

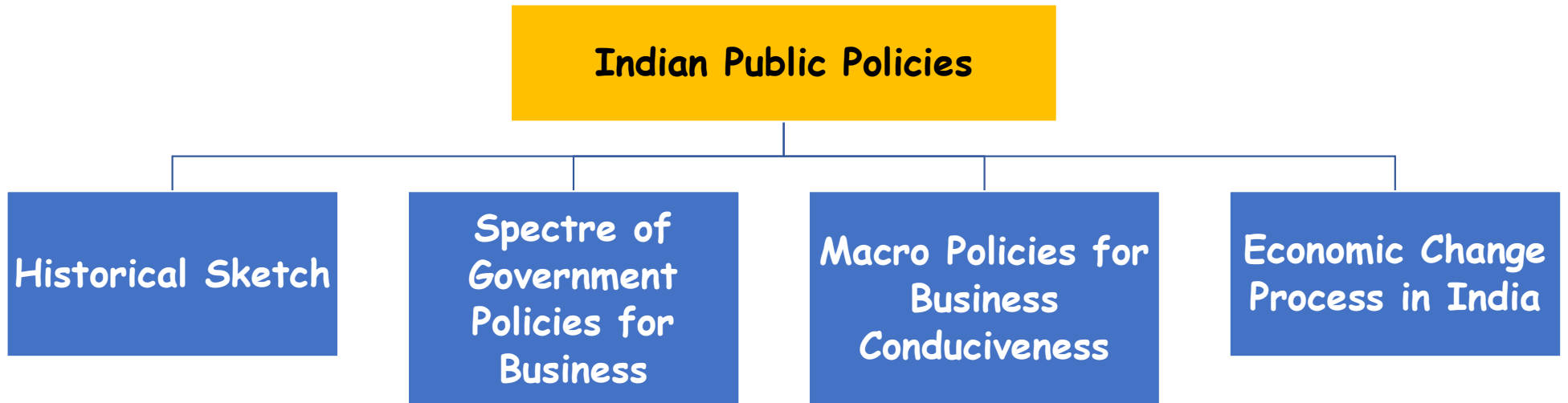
# CA FOUNDATION

## BUSINESS AND COMMERCIAL KNOWLEDGE

### Chapter - 4

#### Government Policies for Business Growth

# CHAPTER OVERVIEW



**RAMAN  
(Engineer)**

- Developed an **app based solution** for blind students
- He **understands technology**, but he does not know about **law finance, accounting, govt. policies**

**ALI  
(Chartered Accountant)**

- He has **exposure to technology** and also understands **IPR (Intellectual Property Right), Patent Law, GST Formalities**
- He also understands the **commercial side of Raman's work**

They form a team to pitch for getting funds

- **Legal process, tax policies, business restrictions, financial reporting** of any nation are derived from **government policies**
- **Government Policies** are '**sine qua non**' (an essential condition) for **all the spheres of the economy** i.e. business may be large or small it should be followed

## PUBLIC POLICIES

Every nation defines its **mode of governance** through a number of policies and these policies are known as **Public Policies**

Bangladesh

India

Difference in policies related to **SALE OF IMPORTED CAR**

E.g. Toyota's way of doing business in Bangladesh and Toyota Kirloskar's way of doing business in India

**All the companies** whether large or big, domestic or foreign has to align their corporate policies in relation to public policies

# HISTORICAL SKETCH OF POLICY FRAMEWORK

## ANCIENT INDIA

### POLICY FRAMEWORK

Research of public policies used to happen in universities like **Takshashila, Vaishali, Nalanda**

Kautilya -  
Arthashastra

Ashoka - Policy of  
peace and harmony

Alauddin Khilji - Tax  
Reform

Akbar - Land Tax  
Reforms

## HISTORICAL SKETCH OF POLICY FRAMEWORK

### UNDER BRITISH RULE

- Policies were colonial in nature - **benefitting only Britishers**
- **Dadabhai Naoroji depicted this through his book "Poverty and Un-British Rule In India"**
- Introduced '**Zamindari System**'
- Put **restrictions** on India's **economic and political freedom**

## HISTORICAL SKETCH OF POLICY FRAMEWORK

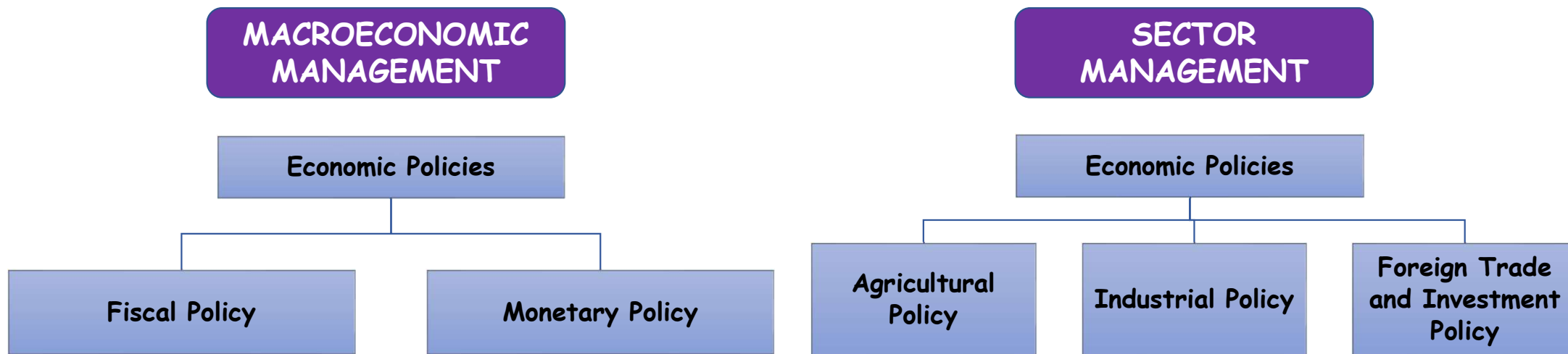
### SINCE INDEPENDENCE

- 1947 onwards India needed an economic policy which would help India towards Economic Growth and Economic Development
- First industrial policy was introduced in 1948
- 1950 → Right to Carry out Business and Trade was added in the Constitution
- 1951 → Planning Commission initiated its First Five Year Plan
- 1956 → First Industrial Policy which direct ownership was given to Government of India for majority of the industries as private was not willing and also they were not able to do such huge investment
- 1991 → Economic Reforms - New Economic Policy which consisted of Liberalisation, Privatisation and Globalisation

## POLICIES OF FIFTIES AND NINETIES

<b>Bases of Comparison</b>	<b>Policy regime of Fifties</b>	<b>Policy regime of Nineties</b>
<b>Economic System</b>	<b>Socialist</b>	<b>Mixed</b>
<b>Economic Governance carried out through</b>	<b>Economic Planning</b>	<b>Market Mechanism</b>
<b>Openness</b>	<b>Closed Economy</b>	<b>Open Economy - Globalisation</b>
<b>Role of Government in Business</b>	<b>Public Sector Undertakings</b>	<b>Public Sector along with Private Sector especially through privatisation</b>
<b>Role of Government vis-à-vis Private Business</b>	<b>Regulation and Control</b>	<b>Liberalisation of regulations</b>





- ❑ Fiscal Policy - Policy related to **government expenditure and taxes and non - tax revenues**
- ❑ Monetary Policy - Policy related to credit creation or credit control i.e. **supply of money**
- ❑ During **COVID-19** government announced **FISCAL STIMULUS PACKAGE (Rs. 20 Lakh Crores)**
- ❑ **Telecom Policy , Aviation Policy → Sector Management Policy**

## MACRO POLICY INDICATORS AND BUSINESS CONDUCTIVENESS

### ✓ Five major MACRO POLICY INDICATORS

GDP (Gross Domestic Product), Inflation, Tax Rates, Interest Rates, Exchange Rates

Variable	Direction	Meaning
GDP	Rising	Economic Optimism, High Demand and High Expectations
Inflation	Moderate (not too High or not too low - sedation)	Demand and Profit Expectations
Tax	Lower	Incentive for investors as post - tax income would be higher
Interest	Lower	Lower Cost of Funds (Loans)
Exchange Rate	Moderate	Protection to Domestic Production - Imports, Export Incentives

## POLICY FORMULATION AND IMPACT TRANSMISSION PROCESS



- Policy formulation process is Bi - Directional
- Government will not just make policies and implement it as it will take feedback from the market participants
- Policies are made for holistic development

## **POLICIES BY INTENDED IMPACT**

### **PROTECTIVE POLICIES**

These policies provide protection to business and help them to grow

### **RESTRICTIVE POLICIES**

These policies are meant to stop or prevent or prohibit the business growth like **M RTP Act replaced by Competition Act**

### **REGULATORY POLICIES**

These policies are meant for ensuring that business follow proper rules and regulations while doing economic activities like **Policies of RBI, SEBI, Ministry of Railways**

### **FACILITATIVE POLICIES**

These policies facilitate / help the business activity. **Policies for MSME or NSDC (National Skill Development Corporation)**

## ECONOMIC REFORMS

### LIBERALIZATION

- Liberalisation means to **remove or loosen restrictions that were imposed on private sector**
- It also means **giving opportunities to private sector**
- Earlier **18 industries** were reserved with GOI but after liberalisation it was **reduced to 3** which included **Atomic Energy, Defence and Railways**
- **Industrial Licensing** was **removed** except for environmentally hazardous industries like **alcohol, cigarettes, drugs, etc**
- **MRTA Act** was **cancelled** and **Competition Act** was introduced from 2002
- **800 products** which were **reserved** primarily for **SSI** are slowly and gradually **de-reserved**

# ECONOMIC REFORMS

## PRIVATIZATION

- Introduced by **Mrs. Margaret Thatcher**
- Privatization refers to **transfer of ownership of government owned business to private sector**
- **Reasons**
  - a. Increase **Profitability**
  - b. Increase **Efficiency, Competitiveness and Quality**
  - c. Reduce the **burden of loan and interest**
- **Types**
  - a. Delegation : **Hand - Over Partial Tasks**
  - b. Divestment: **More than 50%**
  - c. Displacement: **Allow Private Players to enter into market**
  - d. Disinvestment: **Upto 50%**

## INWARD FOREIGN DIRECT INVESTMENT (FDI)

- **Foreign Direct Investment** refers to investment done by one enterprise in another enterprise located in different nation by capturing a majority stake of ownership
- India receives its FDI from **USA, Britain, Singapore, Japan**
- FDI is **not uniform** in all the sectors in some sectors it is **26%, 49% or 51%**
- Sectors like **Defence and Media** is not open for FDI as it may pose some danger to India
- **Routes of FDI**
  - a) **Government Route - Prior Permission Required**
  - b) **Automatic Route - (Permission required of RBI)**
- When there is **no approval through Automatic Route**, the company has to seek permission from **FIFP (Foreign Investment Facilitation Portal)**

- **Prohibited** under both Government Route as well as Automatic Route
- ✓ **Atomic Energy**
- ✓ **Lottery Business**
- ✓ **Gambling and Betting**
- ✓ **Business of Chit Fund**
- ✓ **Nidhi Company**
- ✓ **Agriculture** (except Horticulture, Floriculture, Pisciculture, Cultivation of vegetables, mushrooms etc) **and Plantation** (other than Tea Plantation)
- ✓ **Housing and Real Estate Business** (except development of townships, construction of residential complex, roads or bridges)
- ✓ **Trading in TRD (Transferable Development Rights)**
- ✓ **Manufacture of cigars, cheroots, cigarillos, and cigarettes of tobacco or tobacco substitutes**



## FOREIGN INSTITUTIONAL INVESTORS (FII)

- FII are registered abroad with a view to invest in other nation's equity market, hedge funds, pension funds and mutual funds
- Market Bullish : Flow Increases
- Market Bearish: Flow Decreases
- Thus, any nation prefers FDI over FII as they are more sustainable

## OUTWARD FDI (OFDI)

- Investment made by Indian Firms outside India
- Bharti Airtel invest \$978.92 Million in its wholly owned subsidiary in Mauritius, Feb 2020
- Nov, 2019 PVR Cinemas invested in its first international property at SL
- Aug, 2019 Sunpharma entered into licensing agreement with China System Medical Holdings
- According to RBI in Jan 2020 OFID increased by nearly 40% which is \$2.10 Billion on yearly basis