An Appraisals of Economic Environment and Business Environment in India

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ABSTRACT

In Today business environment is of a buyers' market. This trend is the result of international transitions and macroeconomic, technological, political, and social changes. Business Environment and Economic Environment in India effect growth and development in Economy. The GDP (Gross Domestic Product) and Gross National Income in India measure Social and economic status. The development as sustained development for long time period economic progress and economic growth as quantitatively and qualitatively fastens the growth rate of income in economy to upgrade the standard of living. Business environment is multifaceted as it is an opportunity for some but a challenge for others and changes may be viewed by individuals. Early identification of opportunities helps an enterprise to have the advantage. As the country's economic and social development continues, there is increasing pressure on businesses to consider the environmental and social impacts of their operations. Now, the business environment in India is very dynamic and rapidly evolving with country's strong economic growth, openness to foreign investment, youthful demographic. In this article, focus remain on important trend in the Indian business environment giving importance to sustainability and social responsibility, creating opportunities for businesses of all kinds and effect of economic environment and business environment on business.

Keywords: *Development; Economy; Environment; Growth.*

INTRODUCTION

Economics is the study of scarcity and its implications for the use of resources, production of goods and services, growth of production and welfare over time, and various issues of vital concern to society. The changing world continuously in economy effect the nature of economic environment. It is formulated by the existence of National entity, Institutional structure, Interdependence of decision making, scarcity of resources, need, satisfaction, dynamic. Business is focus on earning money and wealth through the economic activities production, consumption and exchange. The profit motive, risk and uncertainty are big aspects to study in business. Business activities have industry, commerce and trade. Industry depicts the process by which useful things are extracted from economic environment, transformed, processed, and converted into other products. Commerce include smooth flow of goods and services. Trade is the branch of commerce involving the sale, transfer or exchange of goods and services, transportation, storage, insurance, banking, advertising. In India, the economy is facing various challenges. The focus in this article is on contemporary status of economic environment and effect on business environment in economy.

(A) Economic Environment

Economic environment represents economic factors which have effect on the functioning of business unit/production unit. The Significance of an economic environment is that more and more business and economic experts find place in marketing, planning and finance areas. Economic factors effecting business include growth, strategy, economic system, economic planning, industry, agriculture, infrastructure, financial and fiscal sector, removal of regional imbalanced, price and distribution control, economic reform, human resources, per capital and national income.

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i. Economic planning system is good growth strategy in India.
ii. The moderation of capitalism with state intervention is a welfare state.
iii. The tools of production as socialism are to be organized, managed and owned by the Government.
iv. Communism goes beyond socialism to abolish private property and property rights to income and denial of individual freedom. Communist ideology is for each according to the ability, needs and work.
v. The source of welfare and profit is for public sector units.

Elements

a. Economic environment is very complex and dynamic in nature that keeps on changing with the change in policies or political situations.
    i. Economic Conditions of Public-Low, Medium, High Income Group,
    ii. Economic Policies of the country -Industrial, Trade, Agriculture, Price, Tax, Monetary, Fiscal,
    iii. Economic System-Capitalism, Socialism, Mixed Economy
    iv. Other Economic Factors: – Infrastructural Facilities, Banking, Insurance companies, money markets (Short Period), capital markets (Long Period) etc.
b. Types of Environment
    i. Internal Environment -Business organization have strength with internal environment and effected by the firm and various internal factors such as culture, mission and objectives, management and power structure, company image and brand equity, financial position, distribution system, marketing competence, technological capability, physical assets, production capacity, management information system etc.
    ii. External Environment -It creates a favourable condition (opportunity) as well as unfavourable condition and comprises micro and macro environment.
        a. Micro Environment is operating environment effecting the performance of the company and elements include suppliers, customers, competitor, financiers, marketing intermediaries, Trade Union, Public.
        b. Macro Environment –known as general environment and remote environment. The factors effecting are economic environment, political and regulatory environment, and social/cultural demographic, technological, natural and global environment.

(B) Nature of the economy

The development of the economy has implications for business with significant effect on the nature and size of demand. Government Policies affecting business, Countries and even various regions within a country with economic development. Economies status is on the basis of per capital income and countries are broadly classified as low income, middle income, and high income economies and other criteria such as sector-wise distribution of income and employment generation, social development indicators etc. show whether an economy is developed and developing one.

The **features** of Indian Economy low per capital, inequitable distribution of income, high incidence of poverty, predominance of agriculture, rapid population growth and high dependency ratio, low level of human development, unemployment, scarcity of capital, technological backwardness. The inequitable distribution of income shows the poorest 10% people in India gains only 3.6% of national income while the richest 10% people enjoys 31.1% of national income. The per capital income is determined the percentage of people in non-working age group to people in working age group is nearly 57.5%, 58% of the working population was engaged in Agriculture and its contribution in national income was 17.5% and below poverty line are 29% people .

(C) Structure of the economy

Factors such as contribution of different sectors like primary (mostly agricultural), secondary (industrial) and territory (service sectors), large, small, medium, and tiny sectors to the economy and their linkages, integration with the world economy etc. are important to business and indicate the prospects for different types of business, certain factors which affect the business. Normally as the economy develops the share of the primary sector in the GDP and employment decrease and for other sectors increase. Structural changes are distribution of domestic product, slow changes in employment structure, growth of basic capital goods industries, expansion in social overhead capital, progress in banking and financial sector. Important structural changes in economies in terms of percentage shares of saving rates increase, Govt. Revenue, food consumption decrease, non-food consumption increase and relative output of services labour in primary sector of the economy does not fall as rapidly as its share in output, the employment in industry with increase in labor productivity more easily secured with technological advancement.

(D) The Impact of Economic Policies on Business Environment

The Govt. of India announced the New Industrial Policy On July 24,1991, which proved a new beginning in the economy for industrial development in the country with special emphasis on **Liberalization, Privatization, Globalization** of the economy exposed to international competition. Industry becomes very strong by adopting cost saving technology and relaxation to the system of control, regulation and licenses .

(a) Objectives:

1. Abolition of Industrial Licensing (Focus on privatization and industrialization)
2. Foreign Capital and Technology (Modernization and Branded Products manufacturing)
3. Small Scale Enterprises (More investment in small scale industries)
4. Public Sector Enterprises (Identify Sick units in public sector)
5. Restructuring Monopolies and Restrictive Trade Act (MRTP) (Relaxation in MRTP Act.1969)
6. Foreign Exchange Management Act (2000). (Change from Foreign Exchange Regulation Act.(1974))

(b) Industrial Analysis

A country's infrastructure (transportation, telecommunications and energy industry) as manufacturing sector play a key role in Industrial policies. The policies are tightening credit or taxing capital gain, and other policies protecting textiles from imports or subsidizing export industries. Many types of industrial policies contain common elements with such as trade policy and fiscal policy. The typical industrial policy is import-substitution-industrialization, where trade barriers are temporarily imposed on some key sectors, such as manufacturing. The competitive industries where restrictions are lifted to expose the selected industries to the international market. The Govt. of India have shifted the emphasis from public sector to private sector as the engine of economic growth and Healthy competition raised the level of productivity and brought a kind of stability to industrial growth. The objective of raising the levels of industrial efficiency, time consuming hurdles of regulations, licenses and restrictions would made industry friendly. Inflow of foreign technology and Foreign Direct Investment transfers are encouraged with increasing industrial production and productivity. The wave of liberalization increase the entrepreneurial skills in the economy. D-reservation of industries for the public sector increase professionalism in the sector. Increased autonomy in dynamism is for the betterment, Special focus on the role and importance of small scale industries which have large potential to deal with the problem like unemployment, regional disparities, income inequalities and inflation. For protecting the interest of workers ,special emphasis to enhance the welfare and upgrade the economic and social status of the workers, to ensure long lasting and cordial relation between the workers and the management, workers and management participate in the management decision of the enterprise.

(c) FEMA (Foreign Exchange Management Act.2000)

The Foreign Exchange Management Act (1999) introduced as FEMA(moderation of FERA (Foreign Exchange Regulation Act.) on the 1st day of June, 2000. The deals in foreign exchange were to be managed instead of regulated as was in FERA. A significant change that the FEMA brought with it, was that it made all offenses regarding foreign exchange civil offenses, as opposed to criminal offense as dictated by FERA . It is formulated to promote the orderly development and maintenance of foreign exchange market in India. FEMA is applicable to all parts of India. The FEMA head-office, also known as Enforcement Directorate is situated in New Delhi and is headed by a Director. The Directorate is further divided into five zonal offices in Delhi, Mumbai, Kolkata, Chennai and Jalandhar and office is headed by a Deputy Director. Each zone is further divided into seven sub-zonal offices headed by the Assistant Directors and five field units headed by Chief Enforcement Officers. FEMA has formally recognized the distinction between current account and capital account transactions. Two Golden rules or principles in FEMA are :

a. all current account transactions are permitted unless otherwise prohibited and,
b. All capital account transactions are prohibited unless otherwise permitted.

FERA (Foreign Exchange Regulation Act.)

FERA Act. Foreign Exchange Regulation Act. came into force in 1974. Important objectives of FERA Act. To regulate, certain payments, dealings in foreign exchange and security, transactions indirectly affecting foreign exchange, import and export of currency, conserve precious foreign exchange, attain proper utilization of foreign exchange so as to promote the economic development of the country, FERA could not facilitate external trade and payments. It failed to encourage the orderly maintenance and development of foreign exchange market in India. FERA was repealed by NDA Govt. In 1998.

(d) Monetary Policy

Monetary policy controls the supply of money in the economy by exercising its control over interest rates in order to maintain price stability and achieve high economic growth. In India, the central monetary authority (Central Bank) is the Reserve Bank of India (RBI) is so designed as to maintain the price stability in the economy, promoting economic development . The objectives are

i. **Controlled Expansion Of Bank Credit -**The important functions of RBI is special attention to seasonal requirement for credit without affecting the output.

ii. **Promotion of Fixed Investment -**The objective is to increase the productivity of investment by restraining non-essential fixed investment.

iii. **Restriction of Inventories -**The aim of this policy is to avoid over-stocking and idle money in the organization

iv. **Promotion of Exports and Food Procurement Operations -**Monetary policy pays special attention to facilitate the trade.

v. **Desired Distribution of Credit -**The allocation of credit is to priority sector and small borrowers.

vi. **Equitable Distribution of Credit** -The all sectors of the economy and all social and economic class of people get benefit of it.

vii. **To Promote Efficiency -**The financial system make strong and to incorporate structural changes such as deregulating interest rates, ease operational constraints in the credit delivery system, to introduce new money market instruments etc.

viii. **Reducing the Rigidity -** The flexibility in the operations which provide a considerable autonomy to control over financial system efficiently in operations of the financial system.

Monetary view Analysis

The availability of money and cost of money is to achieve the various macroeconomic objectives such as:

a. In the economy's modern welfare state ,the desired changes in national income and employment expected.
b. The social goals is to achieve stabilization and economic growth.
c. Initiative for appropriate economic policy.
d. The growth rate of money supply in its quantitative terms effect the price rise and expose the price stability and growth.
e. Economic and financial market condition show the financial stability.
f. Strengthening the external sector in competitive world.

Instruments

a. **Reference Rate**--It serves as a bench mark of the price of money lending markets. The actual rate of interest charged in the money lending market tends to different than the reference rate shows the cost of money at any point of time. It is the building block of a strong financial market.

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b. **Bank Rate policy** –taken as the rate at which the RBI extends advances to the commercial banks as RBI Act. bank rate (9.1% to 9.6%). As a standard rate at which it is prepared to buy or re-discount bills of exchange or other commercial papers eligible for purchase under this Act.
c. **Open Market Operation**-It refers broadly to the purchase and sale by the central bank of a variety of assets such as foreign exchange, Gold, Government Securities and even company shares.
d. **Variable Reserve Requirement**–CRR (cash reserve ratio)/SLR(Statutory liquidity ratio) reserves can act as a liquidity buffer for bank during crisis time. CRR (4%) portion of total deposits as of commercial bank which it has to keep with the Reserve Bank, SLR (20.5%), proportion of total deposits of a commercial which it has to keep with itself in the form of liquid reserves.
e. **Liquidity Adjustment Facility-**It operates through overnight fixed repo- rate (bank borrows short term from RBI) and reverse repo- rates (bank park their short term surplus fund with RBI)
f. **Selective credit controls**- It is useful supplement to general credit regulation to achieve a reasonable stabilization of prices of the concerned commodities through demand side. The rationale expectation that the interest rate to stimulate demand. Govt passed a substantial increase in Government expenditure and cut taxes.

Achievements

a. To control the supply shocks is to maintain a moderate level of inflation.
b. Fastest growing economies of the world.
c. Successful for ensuring financial stability.
d. Restriction on imports have been virtually abolished and the current account convertibility instituted.
e. Being increasingly sophisticated and forward-looking warranting a continuous up gradation of monitoring scan and technical skills.

Limitations

1. Freeing monetary policy from the automatic monetization and significant marketing of the Govt. borrowing programme.
2. Predominance of publicly owned financial intermediaries.
3. Complicates the transmission mechanism of monetary policy limited size of Indian financial system.
4. Sign of stickiness in interest rates.
5. Constrained by lack of comprehensive and timely information.
6. Use of cash - ratio of cash to GDP has increased 2% age points.

(e) Fiscal Policy

Fiscal policy is the use of government revenue collection (taxation) and expenditure (spending) to influence the economy. The two main instruments of fiscal policy are changes in the level and composition of taxation and government spending in various sectors. These changes can affect the following macroeconomic variables in an economy:

(i) Aggregate demand and the level of economic activity;
(ii) The distribution of income;
(iii) The pattern of resource allocation within the government sector and relative to the private sector.

Purpose: Fiscal policy refers to the use of the government budget to influence economic activity. The level of aggregate economic activity in the economy can be affected by varying the size of balanced budget the stabilizing effect of the fiscal policy depends largely on the size of surplus or deficit in the budget. Fiscal policy involves in important decision related to goal of full employment, determining the social priorities. The main concern is promotion of economic growth with stability and reduction in the economic inequalities. The Govt expenditures on different items in any society will be determined by the prevailing social values.

Fiscal policy and economic growth

For attaining the full employment and stable prices level in the economy shows the development and the increasing importance of Government spending and taxation in national income. This policy through its tax instruments can encourage investment and discourage consumption so that production may increase. The problem of instability in a free society is essentially a problem of broad faces affecting the overall magnitudes of the economy.

(E) Business Environment and Business :An Appraisal

A business environment is all the components that affect a business. These include both internal factors, like employees and resources, and external factors, like customers and markets. Both internal and external factors that influence a company's operating situation. The aggregate of all conditions, events and influences that surround and affect it and contributes to a company's working environment. It influence how the business functions. The environment provides numerous opportunities, and it is necessary to identify the opportunities to improve the performance of a business. An opportunity to an enterprise be the first to identify, instead of losing them to competitors. The business environment includes both general and specific forces. Specific forces include investors, customers, competitors, and suppliers. Severe competition among organizations within and across the countries effect business. Business complexity is the formation of a large, interconnected network of technologies, data, products or services, and people within an organization. It's often a byproduct of positive business changes like innovation, growth, and expanding product portfolios.

A dynamic environment is a business environment that is rapidly changing. In a dynamic market, businesses have to adapt quickly to changes and develop new ideas, products and services to keep up with technology and new trends. This external business environment is composed of numerous outside organizations and forces that group into seven key sub environments, economic, political and legal, demographic, social, competitive, global, and technological.

Characteristics of the business environment are:

a. Totality of external forces (Effect business Performance)
b. Specific and general forces (Effect productivity)
c. Inter-relatedness (Coordination among activities)
d. Uncertainty (Effective decision making power)
e. Dynamic nature (Innovation)
f. Relativity (Interconnected)
g. Complexity (To be simplified)

Contemporary Status of Business Environment and Economic Environment

The importance of environmental studies deals with many areas as Conservation of natural resources, ecological aspects, pollution of the surrounding natural resources, controlling the pollution, social issues connected to it, and impacts of human population on the environment.

As the **Business Environment** in India is very dynamic and continuously changing .The major trends are shaping the business environment in India and contribute in the rapid growth of the country's economy. The country has undergone significant economic and social changes in recent years, and this has had a profound impact on the business landscape India has emerged as the third most-improving geography in terms of business environment. The business environment consists a large market size, economic growth, political stability, and consumer needs. Key factors such as a young workforce, technological advancements, and social diversity shape the business operations in India. The business environment includes all the factors that influence how companies operate and grow. The knowledge of features helps businesses adapt, plan, and succeed in a competitive market. The environment continuously changes due to innovations, policies, and social shifts. India has one of the fastest-growing economies in the world, with GDP growth averaging around seven percent per year in recent years. The growth depends on strong domestic demand, favourable demographics, and a supportive policy environment. Indian business environment is the increasing openness of the economy and open up its markets for foreign investment and trade . It has contributed to the growth of many sectors, including manufacturing, services, and technology also .

The several social and demographic trends are contributed in business environment in India. As the country has a young and growing population, with majority of the population under the age of 25. This youthful demographic is driving demand for a wide range of products and services and is also contributing to the growth of the country's digital economy.

In Indian economy, the **Economic Environmen**t, the factors - large-scale (macro) or small-scale (micro) effect company performance.

Macro factors : Employment/unemployment, income, inflation, interest rates, Tax rates, currency exchange rate, saving rates, consumer confidence levels, Recessions.

Micro factors: size of market, demand of products or services, competition, availability and quality of suppliers.

In business sense, the reliability of the company's distribution chain and gets products to customers become main issues. While companies often cannot control their economic environment, they can evaluate economic conditions before choosing to enter a particular market or industry or pursue other strategies. Economic status refers to a family's social class or position in the distribution of income across generations. It is influenced by genetic and cultural transmission of traits, such as cognitive functioning, as well as the inheritance of income-enhancing group memberships and property. India is a mixed economy. In India, most of the labour force is employed in the agriculture and industry sectors. The main characteristics of the Indian economy are high dependence on the primary sector, low per-capital income, big population, unemployment, unequal distribution of wealth, and lack of infrastructure. Socioeconomic status is usually described as low, medium, and high. People with a lower socio-economic status generally have less access to financial, educational, social, and health resources than those with a higher socio-economic status.

Various big industries where the production of Cement, Coal, Steel, Electricity, Refinery Products and Fertilizers have positive growth , achieving 8 percent GDP growth each year in the next decade and growing India's GDP to $19 trillion by 2047. creating 90 million jobs by 2030 and 600 million jobs by 2047. In Table No.1, NNI (Annual Growth), Per Capital (Annual Growth), Inflation Rate, People Living under poverty line show fluctuating trend (decreasing and increasing) since 2016 show favorable growth in economy.

Economic indicators since formation of NITI AYOG

Sr. No.	Year	NNI(Annual Growth)(%)	Per Capita (Annual Growth)(%)	Inflation Rate(%)	People Living under Poverty Line(%)
1	2016-17	8.2	6.69	4.95	14.96
2	2017-18	6.7	5.5	3.33	13.37
3	2018-19	6.2	5.2	3.73	10.2
4	2019-20	3.6	2.5	6.62	16.4
5	2020-21	-7.9	-8.9	5.13	11.9
6	2021-22	10.4	9.3	6.7	11.8
7	2022-23	6.8	5.7	5.65	8.5
8	2023-24	8.3	7.4	5.69	14

Table No.1

Source: Economic Survey(2023-2024)

Data shows very less growth in NNI in 2020-21 and per capital also. Moreover, in 2024, services accounted for 55% of overall GDP, manufacturing 13%, other industrial activity 17%, and agriculture 19%. Looking at GDP by expenditure, private consumption accounted for 60% of GDP in 2024, Government consumption 23.4%, fixed investment 34%, and net exports is -1%. in the decade to 2023. These include high levels of inflation, an unstable rupee, and a large current account deficit. The standard of living in India varies from state to state. In 2024, poverty rate fallen to below 5% and India is no longer the nation with the largest population living in poverty. There is significant income inequality within India, as it is simultaneously home to some of the world's richest people and more investment in infrastructure and real estate.

CONCLUSION

The economic environment with external economic factors, influence purchasing habits of consumers and businesses. The environmental factors are the economic, social, political, and technological factors affect the performance of business. These factors are often beyond a company's control, and may be either large-scale (macro) or small-scale (micro). The nature of economic environment is National entity, Institutional structure, Interdependence of decision making, scarcity of resources, need, satisfaction, dynamic (changing world continuously) in economy. Business is an economic activity, focus on earning money and acquiring wealth through the production, sale, transfer and exchange of goods and services. The important features are profit motive, risk and uncertainty. Business activities show the relationship among trade, industry and commerce. Industry helps the things are extracted from economic environment and converted into other products. Commerce include smooth flow of goods and services and Trade is the branch of commerce involving the sale, transfer or exchange of goods and services. Several auxiliary services that facilitate exchange of goods and services, transportation, storage, insurance, banking, advertising in business. It provides resources constitute the business environment. The environment may be

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classified into market environment and non-market environment depending upon whether a business firm's environment is influenced by market forces like demand, supply, number of other firms and the resulting price competition, or non-price competition, etc., or by non-market forces like Government. The role of the Government as a planner is to ensure that businesses can operate in an efficient and effective manner and ensure to operate in a competitive market. India is currently the fifth-largest economy in the world, with achieving growth rate (8.3%).

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