SYLLABUS

Class – B.Com. I Year (FT)

Subject – Basic of Foreign Trade

UNIT – I	Foreign trade: Meaning, need, importance of foreign trade, theories of international trade.
UNIT – II	Balance of trade and balance of payment, objectives of trade policy, instruments of trade policy – tariffs, quantitative restrictions.
UNIT – III	Exchange control – objectives, procedures, methods, effect. Exchange rate adjustments.
UNIT – IV	Trade blocks and regional economic co-operation costing and pricing for export.
UNIT – V	International economic institution – world bank, IMF, WTO, UNCTAD.

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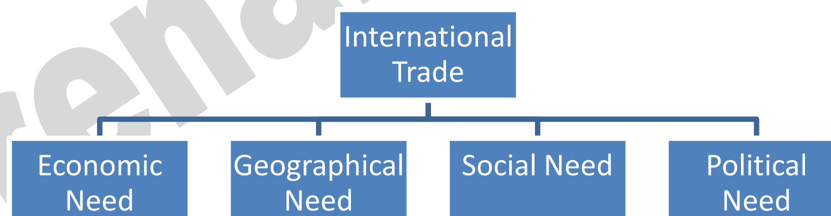
UNIT-I
FOREIGN TRADE

Meaning –
International Trade occupies a vital and significant place in all the economies of the world whether they are developed or underdeveloped. All countries have not been endowed by nature with same productive resources. There are so many differences in their economies like differences in climatic conditions, natural and geological deposits and in the supply of capital and labour. Not a single country in the world could be regarded as a truly self-reliant economy because for their different needs and requirements they mutually depend on each other.
The term 'International Trade' literally means the activity of trade (buying and selling) among nations of the world. There is an exchange of goods for goods among nations. This could be termed as the basic economic activity or transition among different countries of the world. Economic interdependence of countries is reflected in these economic transaction. International trade is the most important item of all international economic transactions. This international trade is made up transaction in goods or exchanges of gods or purchase and sale of goods among nations collectively called imports and exports. Imports are goods consumed in one country which have been from another country. Exports are goods produced in one country and sold to and consumed in another country.

DEFINITIONS OF FOREIGN TRADE
The term "International Trade" has been defined by many well-known international economists as well as by popular Encyclopedia. Some of the important definitions are given as under –
C.F. Stalake – **"International Trade is an exchange of goods and services across national boundaries."**
Harrold – **"International Trade appears when the division of labour is pushed beyond national frontiers."**
P.T. Ellsworth – "International trade is trade that crosses national boundaries."
Encyclopaedia Britanica – "**International Trade may be defined simply as the exchange of goods and services among nations."**
All these above mentioned definitions commonly emphasise this fact that any countries trade with the other or trade among nations and crossing the border is termed as international trade.

NEED OF FOREIGN TRADE
Keeping in view of the importance of the international trade, its growth has consistently outpaced overall economic growth. The international trade has been growing faster than world output because a growing proportion of the national output is internationally traded. This international trade has proved to be a real engine of growth and development for almost all the developed countries of the world is due to international trade. U.K. developed due to its international trade in woolen and textiles, Sweden by wood, Denmark through dairy products; Canada with wheat, Switzerland developed its economy with exporting watches Japan with silk and electronic etc.
According to Paul V. Horn & Henery, **"It results in benefits to al participant nations and injury to none".**
In short, 'International trade enables the nations to improve the economic well-being of their masses and level of economic development'.
THE NECESSITY OF INTERNATIONAL TRADE
There are number of grounds which necessitates international trade. We can classify those grounds as under-



1. **ECONOMIC NEED** – The principal grounds of necessity of international trade are the economic reasons and they are many in numbers but important economic reasons could be elaborated as follows;
   - i) **To Fulfill the Fundamental Necessities of the Masses** – If any country lacks the basic requirement of life like food grains, it can only be fulfilled through import of those necessities in order to save the lives of their citizens.
   - ii) **To import Necessary Technology** – In order to upgrade the existing level of technology many countries import higher technology and machinery from other developed countries.
   - iii) **For Accelerating the Pace of Economic Development** – International trade has truly been regarded as the engine of growth and development and with the help of international trade, they can easily accelerate the pace of their economic development.
   - iv) **To take the benefits of International Division of Labour and Specialisation** – Each country can take the benefit by producing only those commodities in which they have comparatively an edge over other with less of cost production.
   - v) **For Accumulating Foreign Exchange Reserve** – Many countries desire to stimulate their trading capacity through creating more and more of foreign exchange reserve and higher level of export in this regard could solve the problem of the country.
   - vi) **To Create Infrastructure in the Economy** – Many developing countries lack basic infra structure in their economies and in order to create them, they have to enter into international trade.
   - vii) **To take the Comparative Cost advantage** – International trade make all the countries to take the benefits of comparative cost advantage.
   - viii) **Difference in Development Level** – All countries of the world do not have similar development level and international trade will minimize this difference.

2. **GEOGRAPHICAL NEED –**
   - i) **Geographical Location and Natural Climate –** All the countries of the world have different geographical location and natural climate and all types of goods cannot be produced in one single country. Due to difference in geographical conditions different countries produce difference types of commodities like production of wheat by Australia and Canada, Jute in Bangladesh and Dates in Arab. Etc, and due to this reason many countries specialize in production of certain specialized commodities only and they produce in abundant quantity and the surplus they export to other countries of world.
   - ii) **Unequal Distribution of Natural Resources –** Nature has not bestowed its resources equally. Due to this characteristics, they have unequal distribution of natural resources. For example, the Arabian Gulf Countries have abundant Petroleum and many developed countries like USA UK and France also depend on these countries for their oil requirement.
   - iii) **Natural Calamities** – Many countries from time to time suffer various kinds of natural disasters in the form of earthquake, flood, famine, droughts and epidemics. In order to overcome these natural calamities, the national have to take the help of other nations.
   - iv) **Difference in Human Resources –** All countries also differ in their human resources and their capacities. In some country, we have highly skilled Labour force. While in some they have poor qualities physically and intellectually they differ and they produce different types of goods and services and through international trade these differences can be minimized.

3. **SOCIAL NEED –**
   - i) **Materialistic Attitude** – In the present age of materialism, the people have become more materialistic with more and more wants and their increasing desires can only be fulfilled through international trade.

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ii) **Difference in Culture and Civilization** – All countries have difference culture and these differences in culture also facilitated international trade.

iii) **Desire for Different Tastes and Varied Consumption –** People like to have different types of taste and variety in their consumption and they also want to consume the goods which are not produced indigenously. For this purpose in satisfying their desire international trade becomes the panacea for such people.

4. **POLITICAL NEED –**

i) **Desire of Gain Political Power and Strength** – Many countries, only to establish good political relations, they enter into international trade.

ii) **To Cater Imperialistic Interest** – In colonial rule many countries through international trade strengthen their imperialism. The best example is trade of UK with their allies in common wealth.

iii) **For Political Stability –** Many countries, for their political stability they indulge in international trade. It is generally argued that he countries having more international trade with more countries they have political stability and les transfer of powers. For example, The countries USA, Japan, Germany, France and UK have political stability due to more international trade while, the African countries like Uganda, Nigeria, Kenya have political instability because of less international trade. Thus for political stability also participation in trade is indispensable.

Similarities in International Trade & Domestic Trade

1) Objective of Trade
2) Transactions of Goods
3) Two Parties
4) Similarities in nature
5) Sales and Marketing Efforts

6) Common Commercial Services
6) Development of Cultural & Social Relation
7) Application of comparative cost advantage theory
8) Advantageous to both parties
9) Division of labour and specialization

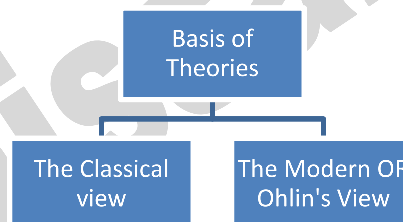
Dissimilarities in International Trade & Domestic

- Difference in Mobility of Labour
- Difference in the laws and returns
- Difference in natural resources and geographical conditions
- Difference in Monetary system
- Difference in International monetary institutions
- Difference in national policies
- Difference in commercial laws
- Obstacles to the import and export of the commodities

- Separation of the markets
- Difference related to classes
- Different political system
- Different business customs
- Difference in objections
- Different in weights and measures
- Difference in Distance between buyer and seller
- Different in statistical information
- Difference in terms of trade
- Problems in payments

Theories of International Trade

International Trade has become an integral part of each and every economy of the world. It has been in existence since ancient times among nations. It has grown tremendously in modern times. A very pertinent question is why do nations engage in trade ? Why foreign trade? Why a separate theory is required for international trade? what are the theoretical explanations of the reasons for and pattern of international trade. What are the important bases of global trade? A number of international economists and management scholars have attempted to answer these questions and to provide theoretical explanations of the reasons and bases of international trade. A number of theories have been put forward to explain the basis of international trade.



THE CLASSICAL VIEW
Absolute Cost Advantage Theory: Adam Smith
This theory of international trade is propounded by Adam Smith (1723-1790) father of Modern Economics. This theory is also known as free trade theory as it assumes no restrictions on international trade by any country. According to this theory, the basis of international trade is absolute cost advantage. The trade between two countries will be commodity at an absolute advantage over the other country and other country produce another commodity in the same manner at an absolute advantage over the first country, then both countries would gain by international trade.

The classical economies considered the principle of division of labors as the basis of international trade. Adam Smith was the first economist who sowed the seeds of classical theory of international trade. He was a staunch advocate of free trade and a critic of protectionism. He argues that the application of the principle of division of labors to international trade is advantageous to all nations because it causes each country to specialize in those goods which it is best suited to produce most cheaply. He held that free trade between countries brings about an optimum allocation of the productive resources of the world, leading to a enhancement of real income of the trading countries.

In this context, Adam Smith developed the law of absolute cost advantage for international trade. According to him, trade occurs between two countries if one of them has an absolute advantage in producing one commodity and the other country having absolute advantage in producing some other commodity. In other words, each country specializes in the production of that commodity in which it enjoys an absolute cost advantage and trade with other countries in between the countries would result in optimum allocation of the resources in the world ad hence productivity will boost.
This can be illustrated with the help of an illustration. Suppose there are two countries, A and B and each of them can produce say two commodities wine and cloth. As per the assumptions of the classical, economists, all costs are measured only in terms of labors.
If in country A, one unit of the labors per day can produce 25 barrels of wine or l0 bales of cloth. In country B, the Same amount of labors can produce 10 barrels of wine or 15 bales of cloth

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The cost conditions in country A and B are given below:

Commodity	Production of One unit of labour per day	
	Country A	**Country B**
Wine	25 Barrels	10 Barrels
Cloth	10 Bales	15 Bales

A has an evidently, country A has an absolute cost advantage Over country B in the production of wine (for 25 barrels are more than 10 barrels), while country B has an absolute advantage over country A in the production of cloth (for 15 bales are more than 10 bales).

Thus, country A will specialize in the production of wine in which it has an absolute cost advantage over country B and country 13 will specialize in producing cloth in which it has an absolute advantage over country A.

The trade between the two countries then will benefit both of them. As it is can be seen that with 2 units of labors, country A will now produce 50 barrels of wine and country B 30 bales of cloth as a result of specialization and international trade. In the absence of international trade, there will be only 35 barrels of wine and 25 bales of cloth produced by cloth produced by both the countries with their

Comparative Cost Advantage Theory: David Ricardo (1817)

The renowned classical economist David Ricardo agreed with the analysis of Adam Smith that international trade would be mutually' beneficial if one country has absolute advantage over another in one line of production and another country in other. But Ricardo went further and showed that the countries can very well gain by trading even if one of the countries is having an absolute advantage in both the goods over another, provided the extent of absolute advantage is different in the two commodities in question or the comparative advantage is greater in respect of one goods than in that of other. In other words there are comparative differences in cost. To illustrate the comparative cost advantage, Ricardo has taken the hypothetical example of production costs of wheat and cloth in England and Portugal.

Comparative Cost Advantage

Country	No of Units of Labour Per Unit of wine	No of Units of Labour Per Unit of Cloth
Portugal	80	90
England	120	100

"Each country will specialize in the production of those commodities in which it has greater comparative advantage or least comparative disadvantage." -David Ricardo

A country will export those goods in which the comparative advantage is the maximum and it would import those goods in which its comparative disadvantage is the minimum.
In fact, the doctrine of comparative costs was developed by Ricardo out of his (classical) labours theory of value. According to this theory, the value of any commodity is determined by the labours costs. It asserts that goods are exchanged against one another according to the relative amount of labours embodied in them. The labours cost principle is however, based on the following assumptions:

Assumptions: This classical theory of international trade is based on following assumptions

1. There we two countries.
2. There are two commodities

3. There is only one factor of production i.e. Labour.
4. Labour theory of price determination is applicable
5. Labour is homogeneous
6. Labour is perfectly mobile and dynamic within the: country but static and immobile between countries.
7. The cost ratio between the two commodities is assumed to be constant since production is considered to be subject to the law of Constant returns.
8. Tastes in demand and technical level and resources in supply remain unchanged.
9. There is perfect competition in both the markets.
10. There is full employment.
11. There is no transportation cost.
12. There is Free Trade or there are no restrictions, barriers and hurdles in international trade.
13. There is barter economy.
14. Both countries are at equal development levels.

According to the principle of comparative costs, under free trade conditions, a country specializes in the production of a commodity in which its comparative advantage is greater or its comparative disadvantage is lesser. Each country exports a commodity in the production of which it has a greater comparative: advantage or a lesser comparative disadvantage.

Critical Evolution of the Theory:
1. It Depends on Labour Theory
2. Unrealistic Assumption of Constant Cost
3. Some Static Assumptions:- Many static assumptions like fixed tastes, identical production functions between trading countries and fixed supj)lied of land labour and capital etc.
4. No Transport Cost Assumption
5. Assumption of Perfect Mobility Inside and Immobile Out Side-
6. Not Applicable for More Than Two Countries
7. Assumption of Full Employment
8. Assumption of Perfect Competition
9. OM Sided Theory
10. Not Practicable in Defence and Strategic Areas
11. Compete Specialisation Not Possible
12. No Free Trade
13. In Complete, Artificial and Impracticable for Developing Nations-

The Modern Theory of Factor Endowments OR The Heckscher-Ohlin Theory
Introduction
Berlin Ohlin formulated the General Equilibrium or Factor Endowment or Factor Proportions Theory of International Trade. It is also known as the Modern Theory of International Trade or the Heckscher-Ohlin (H.O.) Theory. In fact, it was Eli Heckseher, Ohlin's teacher, who first propounded the idea in 1919 that trade results from differences in factor endowments in different countries, and Ohlin carried it forward to build the modem theory of international trade.

The Heckscher-Ohlin Theory
The H.O. theory states that main determinant of the pattern of production, specilisation and trade among regions is the relative availability of factor endowments and factor prices. Regions or countries have different factor endowments and factor prices. "Some countries have much capital, other have much labour. The theory now says that countries that are rich in capital will export capital-intensive goods. To Ohlin the immediate cause of international trade always is that some commodities can be bought more cheaply from other regions, whereas in the same region their production is possible at

high prices. Thus the main cause of trade between regions is the difference in prices of commodities based on relative factor endowments and factor prices.

This theory is also known as the "Factor Proportion Analysis" and the "General Equilibrium Theory". This theory was developed by two Swedish economists Eli Heckscher (1920) and his student Bertil Ohlin (1933).

The modern theory is an extension of general equilibrium theory of value. According to this theory, there are no fundamental differences but only quantitative differences between inter-regional trade rand international trade. According to Ohlin "International trade is but a special case of inter-local or inter-regional trade". Hence there is no need to have a separate theory of international trade. The immediate cause of international trade is the difference in commodity prices which is due to the differences in the factor supplies in the two countries. A country produces and exports that commodity which uses more intensively the country's relatively abundant factor of production. These differences in factor supplies arise due to disparities in natural endowment and factor endowments. These resources bestowed upon a country by nature. Natural endowments include climate, whether water, rainfall, natures of soil; forest wealth and minerals. Factor endowments refer to the relative amounts of factors of production a country has i.e. land Labour, capital, organisation and enterprises skills. Factor endowment is more important particularly of Labour and Capital. A country may have more capital and less of Labour and vice versa. A country may use factors of production in different combinations or proportions. This is called factor proportions or factor intensity.

A country will export that commodity which it can produce by using its abundant factor more intensely and import that commodity which it cannot produce by using scarce factors intensely. On this reasoning, the differences in comparative costs or advantages can be attributed to differences in factor endowment.

Its Assumptions

Before analyzing the theory in detail; we discuss below its assumptions;

1. It is a two-by-two model, i.e. there are two countries (A and B), two commodities (X and Y), and two factor of production (capital and labour)
2. There is perfect competition in commodity as well as factor markets.
3. There is full employment of resources.
4. There are quantitative differences in factor endowments in different regions, but qualitatively they are homogeneous.
5. The production functions of the two commodities have different factor intensities, i.e. labour-intensive and capital-intensive.
6. Factor intensities are non-reversible.
7. There is perfect mobility of factors within each region but internationally they are immobile.
8. There are no transport costs.
9. There is free and unrestricted trade between the two countries.
10. There are constant return to scale in the production of each commodity in each region. I I. Tastes and preferences of consumers and their demand patterns are identical in both countries.
12. There is no change in technological knowledge.
13. There is incompletespecialisation. Neither country specialises in the production of one commodity.

Its Explanation

Give these assumptions, Heckscher and Ohlin contend that the immediate cause of international trade is the difference in relative commodity prices caused of differences in relative demand and supply of factor (factor prices) as a result of differences in factor endowments between the two countries. Fundamentally, the relative scarcity of factor-the shortage of supply in relation to demand is essential

for trade between two regions. Commodities which use large quantities of scarce factors are imported because their prices are high while those using abundant factors are exported because their prices are low.

The H.O. theorem is explained in terms of two definitions: (I) factor abundance (or scarcity) in terms of the price criterion; and (2) factor abundance (or scarcity) in terms of physical criterion. We discuss these on by one below:

1. **Factor Abundance in Terms of Factor Prices**. Heckscher-Ohlin explain richness in factor endowment in terms of factor prices. According to their definition, country A is abundant in capital if (Pc/POne0c/P0a, where Pc and PL refer to prices of capital and labour, and the subscripts A and B denote the two countries. In other countries. In other words, if capital is relatively cheap in country A, the country is abundant in capital, and if labour is relatively cheap in country B, the country is abundant in labour. Thus country A will produce and export the capital-intensive-good and important the labour-intensive good and country B will produce and export the labour-intensive good and import the capital intensive good.
   This establishes the H.O. theorem that the capital abundant country will export the relatively cheap capital-intensive commodity, and the labour 'abundant country will export the relatively cheap labour-intensive commodity.
2. Factor Abundance in Physical Terms. Another way to explain the 11.0. theorem is in physical terms of factor abundance. According to this criterion, a country is relatively capital abundant if it is endowed with a higher proportion of capital and labour, than the other. If country A is relatively capital abundant and country B is relatively labour-abundant, then measured in, physical amounts CA/LA> CB/1.43, where CA and LA are the total amounts of capital and labour respectively in country B.
   The H.O. theorem in terms of physical criterion will be valid only if tastes (demand or consumption preferences) for each commodity in the two countries arc identical.

Its Superiority over the classical theory of international trade inpany aspects.

1. International Trade A Special Case. The 1-1.0. theory is superior to the classical theory in that it regards international trade as ,a Special case of interregional or inter local trade as distinct from the classical theory which considers international trade totally different from domestic trade.
2. General Equilibrium Theory. The H.O. analysis is cast within the framework of the realistic general equilibrium theory of value. It frees the classical theory from the defunct and unrealistic labour theory of value.'
3. Two Factors of Production. The H.O. model takes two factors-labour and capital-as against the one factor(labour) of the classical model, and is thus superior to the latter.
4. Differences in Factor Supplies. The H.O. theory is superior to the Ricardian theory in that it regards differences in factor supplies as basic for determining the pattern of international trade while the Ricardian theory takes no notice of it.
5. Relative Prices of Factors. The H.O. model is realistic because it is based on the relative price of goods, while the Ricardian theory considers the relative prices of good only.
6. Relative Productivities of Factors. The H.O. theory considers differences in relative productivities of labour and capital as the basis of international trade, while the classical theory takes the productivity of labour alone. Hence the former is more realistic than the letter.
7. Differences in Factor Endowments. The H.O. model is based on differences in factor endowments in different countries as against the quality of one factor labour in the classical theory. Thus the former is superior because it lays emphasis not only on the quality but also on the quantity of factors in determining international values.
8. Cause of Differences in Comparative Costs. According to Samuelson, the Ricardian theory could not explain the causes of difference in comparative advantage. The merit of 11.0 theory lies in explaining the same satisfactorily.

9. Positive Theory. The classical theory demonstrates the gains from trade between the two countries. This is related to the welfare theory. On the other hand, the H.O. model is scientific and concentrates on the basis of trade. It, thus partakes of the positive theory.
10. Location Theory. According to Haberler, the H.O. theory is a location theory which highlights the importance of the space factor in international trade while classical theory regards the different countries as space less markets. Thus the former theory is superior to the latter.
11. Production function of Two Countries. The H.O. theorem is explicitly based on the assumption of production functions of the two countries. On the other hand, the classical theory is based on difference in the production of the trading countries.
12. Complete Specialisation. The H.O. model is more realistic than the classical theory in that the fanner leads to complete specialisation in the production of one commodity by one country and of the other commodity by the second country when they enter into trade with each other. By contrast, the trade between two countries may not lead to incomplete specialisation in the classical theory.
13. Future of Trade. According to Lancaster, the HO. theory is superior to the classical theory because it refer to the future of trade. In the classical theory, difference in comparathe costs between two countries arc due to difference in the efficiency of labour. If, in future, labour becomes equally efficient in both the countries, there will be no trade between them. But in the 1-1.0. theory trade will not cease even if labour becomes equally efficient, in ilia two countries because the basis of trade is difference in factor endowments and prices.

Critical Evaluation of Modern Theory-

1. It lakes into consideration all the cost and not only the labour cost and not .only the labour cost as in classical theory.
2. This theory introduced the economies of large scale production rind claimed that these economics created an additional basis for international trade.
3. The classical economists felt the need of a separate ;incl.distinct theory of international trade while Ohlin was of the opinion that there was no need or a separate theory. The difference between the two was one of the degree, not of kind.
4. Modern theory of emphasizes the differences in factor endowments.
5. The classical theory does not explain why there are differences in comparative cost but modern theory is able to do so.
6. the classical theory is unrealistic where as modern theory is realistic.

Short Comings or Criticism of Modern Theory:

1. It is Based on Wrong and Over Simplified Assumptions So It is Unrealistic
2. It Only Provides a Partial Equilibrium
3. It Fails to Explain Leontief Paradox
4. Highly Static in Nature
5. Commodity Prices Determine Factor Prices
6. Trade with Identical Factor Endowments
7. Trade Possible in Differential Products
8. Production Function not Identical
9. No International Immobility of Factors
10. No Homogeneity of the Productive Factors
11. It Ignores Factor Reversal.

Role of foreign trade in economic development of countries

Introduction of foreign trade:

There is no country in the world today which produces all the commodities it needs. Every country, therefore, tries to produce those commodities in which it has comparative advantage. It exchanges part

of those commodities with the commodities produced by other countries relatively more efficiently. The relative difference in factor endowments, technology, tastes etc, among the nations of the world have greatly widened the basis of international trade.

Importance/Role of foreign trade in economic development

The role of foreign trade can be judged by the following faces:

Foreign trade and economic development

Foreign trade plays very important role in the economic development of any country. Pakistan also exports a lot of agricultural product to other countries and imports the capital goods from other countries. Therefore, it is not wrong to say that economic development of a country depends of foreign trade.

Foreign exchange earning

Foreign trade provides foreign exchange which can be used to remove the poverty and other productive purposes.

Market expansion

The demand factor plays very important role in increasing the production of any country. The foreign trade expands the market and encourages the producers. In Pakistan home market is very limited due to poverty. So it is necessary chat we should sell our product in other countries.

Increase in investment

Foreign trade encourages the investor to increase the investment to produce more goods. So the rate of investment increases.

Foreign investment

Besides the local investment, foreign trade provides incentives for the foreign investors to invest in those countries where there is a shortage of investment.

Increase in national income

Foreign trade increases the scale of production and national income of the country. To meet the foreign demand we increase the production on large scale so GNP also increases.

Decrease in unemployment

With the rise in the demand of goods domestic resources are fully utilized and it increases the rate of development in the country and reduces the unemployment in the world.

Price stability

Foreign trade helps to bring stability in price level. All those goods which are short and prices are increasing can be imported and those goods which are surplus can be exported. There by stopping fluctuation in prices.

Specialization

There is a difference in the quality and quantity of various factors of production in different countries. Each country adopts the specialization in the production of those commodities, in which it has comparative advantage. So all trading countries enjoy profit through international trade.

Remove monopolies

Foreign trade also discourages the monopolies. Where every any monopolist increases the prices, government allows the import of goods to reduce the prices in the country.

Removal of food shortage

India is also facing the food shortage problem. To remove the food shortage India has imported the wheat many times. So due to foreign trade we are solving this problem for many years.

Agricultural development

Agricultural development is the back bone in our economy. Foreign trade has played very important role for the development of our agriculture sector. Every year we export rice, cotton, fruits and vegetables to other countries. The export of goods makes our farmer more prosperous. It inspires the spirit of development in them.

Import of consumer goods

India and Pakistan imports the various consumer goods from other countries, which are not produced inside the country. Today the shortage of any commodity can be removed through international trade.

To improve quality of local products
Foreign trade helps to improve quality of local products and extends market through changes in demand and supply as foreign trade can create competition with the rest of the world.

External economics
External economics can also be achieved through foreign trade. The industries producing foods on large scale in Pakistan and India are enjoying the external economics due to international trade.

Competition with foreign producers
We can compete with the foreign producers in foreign trade so it improves the quality and reduces the cost of production. It is also an advantage of foreign trade.

Useful for the world peace
Today all the countries are tied in trade relations with each other. So foreign trade also contribute to peace and prosperity in the world.

Import of capital goods and technology
The inflow of capital goods and technology in the less developed countries has increased the rate of economic development, and this is due to foreign trade.

Import substitution
These countries not only produce import substitute, but also reduce deficit in balance of payment of their countries.

Better understanding
Foreign trade provides an opportunity to the people of different countries to meet, discuss, and exchange views and ideas related to their social, economic and political problems.

Dissemination of knowledge
Foreign trade is also responsible for dissemination of knowledge and learning from developed countries to under developed countries.

Interdependence
Foreign trade is responsible for creating economic depending and establishing economic interest in the economy of the countries having trade relations.

Factors productivity
Through foreign trade the productivity of labour and capital and organization increases. Demand make them mobile on national as well as international level which helps underdeveloped countries to develop and maintain a high level of growth of developed countries.

Reference –
1) Export Marketing, B.S. Rathore, Unit-II, P-21-28 for theories.
2) International Trade & Finance, Dr. Mohd. Abdul Hai & B.L. Ojha, Unit-I,II,IV

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UNIT-II
INSTRUMENTS OF TRADE POLICY
TARIFF AND NON-TARIFF BARRIERS

Every country has to regulate its own international trade mainly due to the specific reasons:

(i) improving its balance of trade and balance of payments position. Most of the developing countries face balance of payments, problem and, therefore, they struggle hard to maintain the balance in their imports and exports,

(ii) Protecting its own industries against the competition in the international market or in domestic markets from foreign products, and

(iii) Exploiting its manpower and natural resources to the maximum extent possible so that country's economic development may be done at a faster speed. In order to attain these objectives, almost every country imposes certain restrictions on its international trade, i.e., imports and exports. These restrictions may be called trade barriers.

Trade barriers may be:

(i) Tariff barriers and

(ii) Non-tariff or protective barriers.

(1) **Tariff barriers.** Tariff have been one of the classical methods of regulating international trade. Tariffs may be referred to as taxes levied on the imports. It aims at restricting the inward flow of goods from other countries to protect the country's own industries by making the goods costlier in that country. Sometimes the duty on a product is so steep that it does not become worthwhile to import it. In addition, the duties so imposed provide a substantial source of revenue to the importing country.

In India, customs duty from a significant part of total revenue and, therefore, is an important element in preparing the budget. Some countries use this method of imposing tariffs and customs to balance its balance of trade. A nation may also use this method to influence the political and economic policies of other countries. It may impose tariffs on certain imports from a particular country as a protest against tariffs imposed by that country on its goods.

In order to ensure that the system of imposing custom duties is not discriminatory, a multilateral association comprising a number of countries of the world, has been formed to help formulate trade policies of the member countries. This association is popularly known as General Agreement on Tariff and Trade (GATT) discussed in question 2.1 and its main objective is to reduce duties and other import levies systematically through mutual negotiations. It ensures that every member country enjoys a status of Most Favored Nation (MFN) and a member country must charge the tariffs and customs duties at the lowest rate unless otherwise settled bilaterally.

Kinds of tariffs. Tariffs may be classified according to

(i) the purpose of taxes, and

(ii) how they are levied.

(i) **As far as the purpose of taxes is concerned,** tariffs may be classified into two categories,
(a) Revenue tariff, and
(b) Protective tariff.

Revenue tariffs are basically intended to raise the Government revenue without intending to protect any industry of the country. It is levied at a fairly low rate and does not obstruct the free flow of imports.

Protective tariffs, on the other hand, aim at protecting the domestic industries and the generally levied at a very high rate and, therefore, obstruct the free flow of imports. Its main purpose is not to increase revenue but to provide a safeguard to the domestic industries against foreign competitions in the local market.
Tariffs sometimes are levied to discriminate between countries, e.g., tariffs are imposed on certain goods having certain specifications which are imported from a particular country.

(ii) **On the basis of method how tariffs are computed** Tariffs may be put into two categories-
(a) Specific tariffs, and
(b) Ad valorem tariffs.

Specific duties or tariffs are imposed on the basis of per unit of any identifiable characteristics of merchandise such as per unit of weight, volume, length, number or any other unit of quality of goods. The duty schedules so specified must specify the rate of duty as well as the determining factor such as weight, number etc. and the basis of arriving at determining factor such as gross weight, net weight or fare weight etc.
Ad valorem tariffs are based on the value of imports and are charged in the form of a specify percentage of the value of goods. The schedule should specify how the value of the imported goods would be arrived at.

Other Tariffs. In order to protect the domestic industries against competition, some other tariffs are also imposed. Among them two are important-
(a) Anti dumping duty and
(b) Counteracting duties.

(a) Anti-dumping duties. Very often, exporters from developed countries are eager to sell their products in the foreign markets with a view to capture a large market, at a very low price not proportionate to their cost of production. This attempt to introduce their products in a large quantity into foreign market at a very low price, even lower than cost, is called 'dumping'.
The Government of the importing country, there, therefore, impose customs duty on such goods at a very high rate to counteract this unfair competition. This duty is known as 'anti-dumping duties'. Such duties are charged in addition to the normal customs duty on the product. This additional charge would cover at least the difference between the export price and the normal price or market price in the exporting country.

(b) Counteracting duties. These are similar to the anti-dumping duties, and are charged on goods, imported from countries where the manufacturer-exporter is paid, directly or indirectly, a subsidy as an incentive for export. The amount of duty normally does not exceed the estimated amount of subsidy.

NON-TARIFF BARRIERS
Over the last few years, GATT has been endeavoring to achieve a reduced and rationalized tariff structure for trade among its member countries As per terms of GATT, every member, country will accord MFN treatment to all other member countries while importing goods from them. At the same time, importing countries are also concerned with development of their own industries and trade. They will have to protect them against unfair competition with a view to giving the domestic industry a fair chance for survival. To meet the challenges, more and more countries are adopting non-tariff measures, regulate their imports. Such measures may be called 'non-tariff barriers'. Some of these non-tariff measures are-
(a) Quantity restrictions, quotas and licensing procedures;
(b) Foreign exchange restrictions;
(c) Technical and administrative regulations;
(d) Consular formalities;
(e) State trading; and

(f) Preferential arrangements.

We shall discuss these measures in brief hereunder-

(a) **Quantity restrictions, quotas and licensing procedures.** Under quantity restrictions, the maximum quantity of different commodities which would be allowed to be imported over a period of time from various countries is fixed in advance. The quantity allowed to be imported or quota fixed normally depends upon the relations of the two countries and the need of the importing country. There is, therefore, no effect of price level changes in foreign or domestic markets and the Government is in a position to restrict the imports to a desired level. Quotas are very often combined with licensing system to regulate the flow of imports over the quota period as also to allocate them between various importers and supplying countries. Under this system, a license or a permit is to be obtained from the Government to import the goods specifying the quantity and the country, from which to import, before concluding the contract with the supplier.

(b) **Foreign exchange restrictions.** Exchange control measures have been widely used by a number of developing countries in the post-war period to regulate their imports and keep the balance of payments in controllable limits. Under this system, the importer must be sure that adequate foreign exchange would be made available to him for the imports of goods by obtaining a clearance from the exchange control authorities of the country before concluding the contract with the supplier.

(c) **Technical and administrative regulations.** The another measure to regulate the imports is the imposition of certain standard of technical production, technical specifications etc. to which an importing commodity must conform. Such types of technical restrictions are imposed in case of pharmaceutical products, etc.

(d) **Consular formalities.** A number of countries demand that shipping documents must accompany the consular documents etc. Sometimes, it is also insisted that such documents should be drawn in the language of importing countries. In case the documentation is faulty or not drawn in the language of importing country, heavy penalties are imposed. Fees charged for such documentation are quite heavy.

(e) **State trading.** In most of the socialistic countries, foreign trade, i.e. import and export transactions, is exclusively handled or canalized by certain state agencies. Separate state agencies are set up for each class of products. The agencies carry on the international trade strictly according to the Government policies.

India is a good example where state trading is followed in a restricted sense. Some articles, as decided by the Government, are imported only through the State Trading Corporation (STC). Likewise, exports of raw materials such as iron ore, mica etc. are canalized only through Minerals and Metals Trading Corporation.(MMTC).

(f) **Preferential arrangement.** With the evolvement of multilateral trading system, a few member countries agree to a small advantageous group for their mutual benefit. The member countries of the group negotiate and arrive at a settlement preferential tariff rate to carry on trade amongst them. The rates are much lower than ordinary tariff rates and applicable only to the member nations of the small group. Such types of preferential arrangements are outside the purview of the GATT. Some of the small groups are EEC, ASEAN, and LAFTA etc.

Differences between Tariff and Non-tariff Barriers

The purpose of tariff and non-tariff barriers is to regulate the free flow of imports. However, the following differences may note in their operation.

(i) With tariffs the Government **receives the revenue** whereas no revenue is received by the Government by applying non-tariff measures. However, it is favored as an appropriate measure to meet the demand of the country and to protect the industry.

(ii) Non-tariff measures **protect the producers** and make them feel more secure than under a tariff. Producers are inclined to produce more for domestic as well as for international market under non-tariff barriers. Such incentives are not there under tariffs.

(iii) **Customs classification and valuation procedures** pose a problem before the customs authorities whereas under non tariff measures no such problem arises.

(iv) Non-tariff barriers to trade induce the domestic producers **to form monopolistic organization** with a view to keeping output low and prices high. This is not possible under an import duty. If the price of products continues to rise due to the operation of monopolistic tendencies, imports became attractive even after the import duty is paid. Thus non-tariff barriers remain ineffective monopolistic tendencies prevail in the country.

(v) Imposition of tariffs and amendments therein are subject to **legislative enactment and** therefore are more or less inflexible further, in many cases, the scope for adjustments especially an upward revision of tariffs is very limited due to the commitment under **GATT**. On the other hand, non-tariff measures are often more flexible than tariff because the grant of import license or release foreign exchange is a matter of official discussion in regard to the timing and quantity.

(vi) Under tariffs, **price differences** between the importing and exporting countries will be only equal to the costs of tariffs and transportation. If differences are more than this, they will be eliminated by competition. But the price differences will be greater in two countries in non-tariff measures are adopted because there no free flow of imports.

(vii) As because the difference in prices of the product in two countries is more than the costs of tariffs and transportation under non-tariffs. **The importers earn huge profits and it makes the business of importing more lucrative.** But under the tariff system, there are no such complications because flow of goods is not restricted and therefore the price difference cannot be more than the costs of tariffs and transportation for long. There are, therefore, no huge profits to imports.

(viii) From the point of view of **administrative conveyance** tariffs are more simple to operate. Tariff rates once fixed through legislation, require to individual allocation of licensing, quotas or exchange. There are, however, a number of authorities for the administration of non-tariff measures. It may result in some sort of political interference or corruption.

(ix) **Tariffs favor particularly to efficient firms** in the country because only they can bear the competition, whereas non-tariff measures benefit the established firm because they get quotas or import licenses on the basis of their past representation and, therefore, **non-tariffs discriminate against newcomers.**

Thus both the measures-tariffs and non-tariffs-are not free from defects and, therefore, one cannot be advantageous to adopt individually. Both the measures are to be operated simultaneously to eliminate the ill-effects of each other and to get the best for the economy.

Why have Non-tariff Barriers Become More Important

We may come to the conclusion from the above discussion that tariffs earn the revenue for the Government of importing country. It shields domestic industries from foreign competition and therefore provides them an opportunity to grow to contribute to the national economy. On the other hand, tariffs increase the price of the commodities imported but do not check the inflow of goods effectively.

Moreover, the arrangement under GATT (General Agreement on Tariff and Trade) does not permit a country to impose discriminatory rates of tariffs for member countries unless otherwise agreed upon bilaterally. Under the agreement, every member country should be given Most Favored Nation (MFN) treatment from other member nations and they should be charged tariffs at the lowest rates. GATT, more often, attempts to reduce systematically duties and other import levies. The developing countries, therefore, find it difficult in such arrangements to protect their own industries and trade against international competition. With a view to giving the domestic industry a fair chance for survival, these tariff barriers are considered very seriously especially by developing countries.

In order to combat these limitations effectively, more and more countries have been adopting a number of non-tariff measures aimed at regulating their import trade. The most common non-tariff measures

adopted by less developed countries are introducing quota system and licensing procedures, foreign exchange restrictions and bilateral arrangements. Technical and administrative regulations, state trading and consular formalities are preferred only in restricted sense to achieve only certain desired goods.

In short, it may be concluded that recently non-tariff measures have became more important than tariffs regulating the imports of a country in the desired direction keeping in mind the balance of trade and balance of payment situations.

HIGHLIGHTS OF THE FOREIGN TRADE POLICY 2015-2020

A. SIMPLIFICATION & MERGER OF REWARD SCHEMES

Export from India Schemes:

1. Merchandise Exports from India Scheme (MEIS)

(a) Earlier there were 5 different schemes (Focus Product Scheme, Market Linked Focus Product Scheme, Focus Market Scheme, Agri. Infrastructure Incentive Scrip, VKGUY) for rewarding merchandise exports with different kinds of duty scrips with varying conditions (sector specific or actual user only) attached to their use. Now all these schemes have been merged into a single scheme, namely Merchandise Export from India Scheme (MEIS) and there would be no conditionality attached to the scrips issued under the scheme. The main features of MEIS, including details of various groups of products supported under MEIS and the country groupings are at Annexure-1.

(b) Rewards for export of notified goods to notified markets under 'Merchandise Exports from India Scheme (MEIS) shall be payable as percentage of realized FOB value (in free foreign exchange). The debits towards basic customs duty in the transferable reward duty credit scrips would also be allowed adjustment as duty drawback. At present, only the additional duty of customs / excise duty / service tax is allowed adjustment as CENVAT credit or drawback, as per Department of Revenue rules.

2. Service Exports from India Scheme (SEIS)

(a) Served From India Scheme (SFIS) has been replaced with Service Exports from India Scheme (SEIS). SEIS shall apply to 'Service Providers located in India' instead of 'Indian Service Providers'. Thus SEIS provides for rewards to all Service providers of notified services, who are providing services from India, regardless of the constitution or profile of the service provider. The list of services and the rates of rewards under SEIS are at Annexure-2.

(b) The rate of reward under SEIS would be based on net foreign exchange earned. The reward issued as duty credit scrip, would no longer be with actual user condition and will no longer be restricted to usage for specified types of goods but be freely transferable and usable for all types of goods and service taxdebits on procurement of services / goods. Debits would be eligible for CENVAT credit or drawback.

3. Chapter -3 Incentives (MEIS & SEIS) to be available for SEZs

It is now proposed to extend Chapter -3 Incentives (MEIS & SEIS) to units located in SEZs also.

4. Duty credit scrips to be freely transferable and usable for payment of custom duty, excise duty and service tax.

(a) All scrips issued under MEIS and SEIS and the goods imported against these scrips would be fully transferable.

(b) Scrips issued under Exports from India Schemes can be used for the following:-

(i) Payment of customs duty for import of inputs / goods including capital goods, except items listed in Appendix 3A.

(ii) Payment of excise duty on domestic procurement of inputs or goods, including capital goods as per DoR notification.

(iii) Payment of service tax on procurement of services as per DoR notification.

(c) Basic Customs Duty paid in cash or through debit under Duty Credit Scrip can be taken back as Duty Drawback as per DoR Rules, if inputs so imported are used for exports.

5. Status Holders

(a) Business leaders who have excelled in international trade and have successfully contributed to country's foreign trade are proposed to be recognized as Status Holders and given special treatment and privileges to facilitate their trade transactions, in order to reduce their transaction costs and time.

(b) The nomenclature of Export House, Star Export House, Trading House, Star Trading House, Premier Trading House certificate has been changed to One, Two, Three, Four, Five Star Export House.

(c) The criteria for export performance for recognition of status holder have been changed from Rupees to US dollar earnings. The new criteria is as under:-

Status category	Export Performance FOB / FOR (as converted) Value (in US $ million) during current and previous two years
One Star Export House	3
Two Star Export House	25
Three Star Export House	100
Four Star Export House	500
Five Star Export House	2000

(d) **Approved Exporter Scheme - Self certification by Status Holders**

Manufacturers who are also Status Holders will be enabled to self-certify their manufactured goods as originating from India with a view to qualify for preferential treatment under different Preferential Trading Agreements [PTAs], Free Trade Agreements [FTAs], Comprehensive Economic Cooperation Agreements [CECAs] and Comprehensive Economic Partnerships Agreements [CEPAs] which are in operation. They shall be permitted to self-certify the goods as manufactured as pertheir Industrial Entrepreneur Memorandum (IEM) / Industrial Licence (IL)/ Letter of Intent (LOI).

B. BOOST TO "MAKE IN INDIA"

6. Reduced Export Obligation (EO) for domestic procurement under EPCG scheme:

Specific Export Obligation under EPCG scheme, in case capital goods are procured from indigenous manufacturers, which is currently 90% of the normal export obligation (6 times at the duty saved amount) has been reduced to 75%, in order to promote domestic capital goods manufacturing industry.

7. Higher level of rewards under MEIS for export items with high domestic content and value addition.

It is proposed to give higher level of rewards to products with high domestic content and value addition, as compared to products with high import content and less value addition.

C. TRADE FACILITATION & EASE OF DOING BUSINESS

8. **Online filing of documents/ applications and Paperless trade in 24x7 environment:**

(a) DGFT already provides facility of Online filing of various applications under FTP by the exporters/importers. However, certain documents like Certificates issued by Chartered Accountants/ Company Secretary / Cost Accountant etc. have to be filed in physical forms only. In order to move

further towards paperless processing of reward schemes, it has been decided to develop an online procedure to upload digitally signed documents by Chartered Accountant / Company Secretary / Cost Accountant. In the new system, it will be possible to upload online documents like annexure attached to ANF 3B, ANF 3C and ANF 3D, which are at present signed by these signatories and submitted physically.

(b) Henceforth, hardcopies of applications and specified documents would not be required to be submitted to RA, saving paper as well as cost and time for the exporters. To start with, applications under Chapter 3 & 4 of FTP are being covered (which account for nearly 70% of total applications in DGFT). Applicationsunder Chapter-5 would be taken up in the next phase.

(c) As a measure of ease of doing business, landing documents of export consignment as proofs for notified market can be digitally uploaded in the following manner:-
(i) Any exporter may upload the scanned copy of Bill of Entry under his digital signature.
(ii) Status holders falling in the category of Three Star, Four Star or Five Star Export House may upload scanned copies of documents.

9. Online inter-ministerial consultations:
It is proposed to have Online inter-ministerial consultations for approval of export of SCOMET items, Norms fixation, Import Authorisations, Export Authorisation, in a phased manner, with the objective to reduce time for approval. As a result, there would not be any need to submit hard copies of documents for these purposes by the exporters.

10. Simplification of procedures/processes, digitisation and e-governance
(a) Under EPCG scheme, obtaining and submitting a certificate from an independent Chartered Engineer, confirming the use of spares, tools, refractory and catalysts imported for final redemption of EPCG authorizations has been dispensed with.
(b) At present, the EPCG Authorisation holders are required to maintain records for 3 years after redemption of Authorisations. Now the EPCG Authorization Holders shall be required to maintain records for a period of two years only. Government's endeavour is to gradually phase out this requirement as the relevant records such as Shipping Bills, e-BRC are likely to be available in electronic mode which can be archived and retrieved whenever required.
(c) Exporter Importer Profile: Facility has been created to upload documents in Exporter/Importer Profile. There will be no need to submit copies of permanent records/ documents (e.g. IEC, Manufacturing licence, RCMC, PAN etc.) repeatedly with each application, once uploaded.
(d) Communication with Exporters/Importers: Certain information, like mobile number, e-mail address etc. has been added as mandatory fields, in IEC data base. This information once provided by exporters, would help in better communication with exporters. SMS/ email would be sent to exporters to inform them about issuance of authorisations or status of their applications.
(e) Online message exchange with CBDT and MCA: It has been decided to have on line message exchange with CBDT for PAN data and with Ministry of Corporate Affairs for CIN and DIN data. This integration would obviate the need for seeking information from IEC holders for subsequent amendments/ updation of data in IEC data base.
(e) Communication with Committees of DGFT: For faster and paperless communication with various committees of DGFT, dedicated e-mail addresses have been provided to each Norms Committee, Import Committee and Pre-Shipment Inspection Agency for faster communication.
(f) Online applications for refunds: Online filing of application for refund of TED is beingintroduced for which a new ANF has been created.

11. Forthcoming e-Governance Initiatives
(a) DGFT is currently working on the following EDI initiatives:
(i) Message exchange for transmission of export reward scrips from DGFT to Customs.

(ii) Message exchange for transmission of Bills of Entry (import details) from Customs to DGFT.
(iii) Online issuance of Export Obligation Discharge Certificate (EODC).
(iv) Message exchange with Ministry of Corporate Affairs for CIN & DIN.
(v) Message exchange with CBDT for PAN.
(vi) Facility to pay application fee using debit card / credit card.
(vii) Open API for submission of IEC application.
(viii) Mobile applications for FTP

D. Other new Initiatives
12. New initiatives for EOUs, EHTPs and STPs
(a) EOUs, EHTPs, STPs have been allowed to share infrastructural facilities among themselves. This will enable units to utilize their infrastructural facilities in an optimum way and avoid duplication of efforts and cost to create separate infrastructural facilities in different units.
(b) Inter unit transfer of goods and services have been allowed among EOUs, EHTPs, STPs, and BTPs. This will facilitate group of those units which source inputs centrally in order to obtain bulk discount. This will reduce cost of transportation, other logistic costs and result in maintaining effective supply chain.
(c) EOUs have been allowed facility to set up Warehouses near the port of export. This will help in reducing lead time for delivery of goods and will also address the issue of un-predictability of supply orders.
(d) STP units, EHTP units, software EOUs have been allowed the facility to use all duty free equipment/goods for training purposes. This will help these units in developing skills of their employees.
(e) 100% EOU units have been allowed facility of supply of spares/ components up to 2% of the value of the manufactured articles to a buyer in domestic market for the purpose of after sale services.
(f) At present, in a period of 5 years EOU units have to achieve Positive Net Foreign Exchange Earning (NEE) cumulatively. Because of adverse market condition or any ground of genuine hardship, then such period of 5 years for NFE completion can be extended by one year.
(f) Time period for validity of Letter of Permission (LOP) for EOUs/EHTP/ STPI/BTP Units has been revised for faster implementation and monitoring of projects. Now, LOP will have an initial validity of 2 years to enable the unit to construct the plant and install the machinery. Further extension can be granted by the Development Commissioner up to one year. Extension beyond 3 years of the validity of LOP, can be granted, in case unit has completed 2/3rd of activities, including the construction activities.
(g) At present, EOUs/EHTP/STPI units are permitted to transfer capital goods to other EOUs, EHTPs, STPs, SEZ units. Now a facility has been provided that if such transferred capital goods are rejected by the recipient, then the same can be returned to the supplying unit, without payment of duty.

(h) A simplified procedure will be provided to fast track the de-bonding / exit of the STP/ EHTP units. This will save time for these units and help in reduction of transaction cost.
(i) EOUs having physical export turnover of Rs.10 crore and above, have been allowed the facility of fast track clearances of import and domestic procurement. They will be allowed fast tract clearances of goods, for export production, on the basis of pre-authenticated procurement certificate, issued by customs / central excise authorities. They will not have to seek procurement permission for every import consignment.

13. **Facilitating & Encouraging Export of dual use items (SCOMET).**
(a) Validity of SCOMET export authorisation has been extended from the present 12 months to 24 months. It will help industry to plan their activity in an orderly manner and obviate the need to seek revalidation or relaxation from DGFT.
(b) Authorisation for repeat orders will be considered on automatic basis subject to certain conditions.
(c) Verification of End User Certificate (EUC) is being simplified if SCOMET item is being exported under Defence Export Offset Policy.

(c) Outreach programmes will be conducted at different locations to raise awareness among various stakeholders.

14 Facilitating & Encouraging Export of Defence Exports

(a) Normal export obligation period under advance authorization is 18 months. Export obligation period for export items falling in the category of defence, military store, aerospace and nuclear energy shall be 24 months from the date of issue of authorization or co-terminus with contracted duration of the export order, whichever is later. This provision will help export of defence items and other high technology items.

(b) A list of military stores requiring NOC of Department of Defence Production has been notified by DGFT recently. A committee has been formed to create ITC (HS) codes
for defence and security items for which industrial licenses are issued by DIPP.

15. e-Commerce Exports

(a) Goods falling in the category of handloom products, books / periodicals, leather footwear, toys and customized fashion garments, having FOB value up to Rs.25000 per consignment (finalized using e-Commerce platform) shall be eligible for benefits under FTP. Such goods can be exported in manual mode through Foreign Post Offices at New Delhi, Mumbai and Chennai.

(b) Export of such goods under Courier Regulations shall be allowed manually on pilot basis through Airports at Delhi, Mumbai and Chennai as per appropriate amendments in regulations to be made by Department of Revenue. Department of Revenue shall fast track the implementation of EDI mode at courier terminals.

16. Duty Exemption

(a) Imports against Advance Authorization shall also be eligible for exemption from Transitional Product Specific Safeguard Duty.

(b) In order to encourage manufacturing of capital goods in India, import under EPCG Authorisation Scheme shall not be eligible for exemption from payment of anti-dumping duty, safeguard duty and transitional product specific safeguard duty.

17. Additional Ports allowed for Export and import

Calicut Airport, Kerala and Arakonam ICD, Tamil Nadu have been notified as registered ports for import and export.

18. Duty Free Tariff Preference (DFTP) Scheme

India has already extended duty free tariff preference to 33 Least Developed Countries (LDCs) across the globe. This is being notified under FTP.

19. Quality complaints and Trade Disputes

(a) In an endeavour to resolve quality complaints and trade disputes, between exporters and importers, a new chapter, namely, Chapter on Quality Complaints and Trade Disputes has been incorporated in the Foreign Trade Policy.

(b) For resolving such disputes at a faster pace, a Committee on Quality Complaints and
Trade Disputes (CQCTD) is being constituted in 22 offices and would have members from EPCs/FIEOs/APEDA/EICs.

20. Vishakhapatnam and Bhimavaram added as Towns of Export Excellence

Government has already recognized 33 towns as export excellence towns. It has been decided to add Vishakhapatnam and Bhimavaram in Andhra Pradesh as towns of export excellence (Product Category–Seafood)

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BALANCE OF TRADE

Balance of trade is the balance of exports and imports of commodities and goods. Goods are those which have utility and are scarce. Hence they command a price because there is a demand on one side and the matching and non matching supply on the other side .

Goods may be tobacco, war goods or of intoxicants. Commodities and goods go, foreign exchange comes in. Commodities and goods come, foreign exchange goes out.

Export of commodities and goods are losses in real terms but are gains in monetary terms . The country men will have lesser quantities to consume and hence the price will rise. If the exports are of real surpluses takes place, then the producers gain but the consumers do not suffer consumption losses.

A country imports those commodities and goods which it can not grow or produce in sufficient quantities. Hence when goods come they increase the consumption base and the production base. Subsequently the exchange and distribution base also increases.

The import wards off hunger, improve standard of living, standard of production because capital goods bring higher technology.

Imports are gain in real terms but are losses or leakages in money terms. The country men will have more quantities to consume and hence the price will fall or remain stable.

In international market, trade means imports and exports of a country. The **balance of trade** denotes the difference between the imports of merchandise and exports of merchandise of a country. If imports exceeds exports over a period, it is unfavourable balance of trade and denoted as **trade defici**t and, conversely, if exports exceeds imports, it is said to be a favourable balance of trade and denoted as **trade surplus**. **Mr. Benham** has defined the term as "Balance of trade of a country is the relation, over a period between the value of her exports and the value of her imports.

Balance of trade includes only those transactions arising out of the exports and imports of only merchandise goods or the visible items. It does not cover the exchange rendered by shipping, insurance, banking, communication, travels and many more service.

The balance of trade is the only one single item of balance of payment that is international trade in merchandise goods.

MEANING AND DEFINITIONS OF BALANCE OF TRADE

The balance of trade of a country is the difference between the value of commodity exports and imports.
The balance of trade of a country shows its trade transactions with the rest of the world during the course of a year. It indicates the relationship between the value of exports and the value of imports of the country. The balance of trade takes into account only visible exports and imports. The visible exports and imports are those which are actually recorded at the ports.
Benham "The balance of trade of trade is the relationship between the aggregate value of export and the aggregate value of imports of a country in a given period of time."

W.M. Scammel "The balance of trade is the difference of value of goods sold and bought by the residents of one country to the other countries."

In an equation form, the balance of trade can be expressed as;
BOT = X – M
Where BOT = Balance of Trade

X = Total value of export
M = Total value of import

Thus, the balance of trade is the difference between the value of imports and exports of the country the balance of trade can be of three types. The sum total trade and exports is called total trade and the difference between exports and imports is called balance of trade. Balance of trade for one country could be of three types-

(i) Balanced Balance of Trade
(ii) Surplus Balance of Trade
(iii) Deficit Balance of Trade

In Balanced Balance of Trade for a country, its total amount of export will be just equal to its total amount of import. This happens rarely for a country due to present era of multilateral trade but in the regime of bilateralism, this balanced balance of trade was possible because in bilateral trade, the trade between two countries is subject to bilateral agreements regarding quantities and values of exports and imports on government basis.

In surplus Balance of Trade of a country the value of exports will exceed the value of imports. Surplus Balance of Trade is also called as plus, positive or favourable balance of trade or trade surplus. While in deficit balance of trade of a country, the value of import will exceed the value of exports. This balance of trade is also known as minus (-), adverse or negative balance of trade. In this adverse balance of trade, the country is said to be in trade deficit.

EFFECTS OF FAVOURABLE BALANCE OF TRADE

1. Improvement in the Situation of Balance of Payment
2. It Increases the Soundness of the Economic
3. It Enhances the Goodwill of the country
4. It helps in Accelerating the Pace of Economic Development
5. Favourable Rate of Exchange
6. Increase in Foreign Exchange Reserve
7. Fear of Inflation
8. Increase in Competition

EFFECTS OF UNFAVOURABLE BALANCE OF TRADE

1. It Increases Disequilibrium in Balance of payment
2. Economy Becomes Weak
3. Hurdle in Economic Development
4. Fall in Prestige and Goodwill of the country
5. Unfavourable Rate of Exchange
6. Decrease in Foreign Exchange Reserve
7. Bad Effects on Production, Employment Level of the Country

MEASURES FOR CORRECTING UNFAVOURABLE BALANCE OF TRADE

1. Export Promotion
2. Import Control and Substitution
3. Dumping
4. Devaluation:- It purposefully decreases the value of its currency in terms of other foreign currencies. Export will be cheaper and import will become more constller thus by this way, a country can rectify its adverse balance of trade.
5. Policy of Protection
6. Increase in Export Credit and Facilities

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BALANCE OF PAYMENTS

"The **balance of payments** of a country is a systematic record of all economic transactions between the resident of a country and the rest of the world. It represents a classified record of all **receipts** on accounts of goods exported, services rendered and capital received by 'residents' and **payments** made by them on account of goods imported and services received from and capital transferred to 'nonresidents' or 'foreigners." Thus, **balance of payments** includes an account of all receipts (revenue and capital) and payments (revenue and capital) made during international transactions for goods, services and capital.

Balance of payments includes balance of trade also, i.e., a balance in revenue account means only a difference of imports and exports of trade may be favourable or unfavourable and forms part of balance of payments

Balance of payments position is an index of country's economic strength or weakness. Government takes several measures to correct the unfavourable balance of payment situation because the situation cannot last long.

Items Included in Balance of Payments

The items usually form part of balance of payments account are-

(i) Merchandise imports and receipts for merchandise exports.
(ii) Loans to and investments in foreign countries and enterprises, foreign investments in domestic enterprises and borrowing from foreign countries, agencies etc.
(iii) Tourist expenditures abroad by domestic tourists and foreign tourists expenditures in reporting country.
(iv) Money paid to foreign carriers and receipts for foreign goods carried in national bottoms.
(v) Payments and receipts for services and from foreign countries. These services include cable and telegraph payments, Bank commission, insurance premium, shipping and a airlines services etc.
(vi) Expenses of foreign establishments outside the country and expenses on foreign embassies, establishments in the home country.
(vii) Receipts and payments of interest and dividends or for technical knowhow.
(viii) Gifts, donations, awards etc paid or received by a country.

The two sides of balances-

The two sides of balances-receipts and payments-must equal. The simple reason can be found in the fact that in every transaction, one should get in return for what he gives up and likewise one should give up against something he receives in return.

Form of Balance of Payments.

Normally balance of payments can be divided in two parts-(a) current account, and (b) Capital Account. In A hypothetical case, the Current Account will have the following items-(i) Imports, (ii) Exports, (iii) Trade balance, (iv) Non-monetary gold movement, (v) Invisibles- (a) receipts, (b) Payments, (c) Net.

The Current Account Can be broken into two parts, viz, (i) balance of trade and (ii) balance of services. The first part (balance of trade) deals only with exports and imports of merchandise (or visible items). It is not necessary that this part always balances; more often than not, it shows either a surplus or a deficit. The second part (balance of services) deals with invisible items or items other than imports and exports. Like balance of trade, balance of services will not balance. It will also show either a surplus or a deficit. In this way, the balance of Current Account will always show a surplus or deficit except in cases where the surplus balance of trade will match the deficit on balance of services which in normal course does not happen.

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Similarly, the Capital Account consists of the following capital transactions-
(a) Private : (i) Receipts (ii) Payments, (iii) Net;
(b) Government : (i) Receipts, (ii) Payments, (iii) Net; (c) Amortisation payments; (d) Repurchase of rupees from IMF, (e) Banking capital. The difference of total receipts and payments must tally with the net surplus or deficit on Current Account.

Difference Between Balance of Trade and Balance of Payment.
We have made an attempt to define the two terms-balance of trade and balance of payments. Now we shall try to differentiate these who terms to make them more clear. The main points of difference are-

(i) The balance of trade includes **only visible imports and exports,** i.e., imports and exports of merchandise, the difference and of the two (imports and exports) is called balance of trade. If imports are more than exports, it is unfavourable balance of trade. Whereas, the balance of payment **includes all visible and invisible items** exported from and imported into the country in addition to exports and imports of merchandise. Thus balance of payments includes balance of trade whereas balance of trade does not include balance of payments.
(ii) Balance of trade includes **revenues received or paid** on account of imports and exports of merchandise. In other words it shows only revenue item. The balance of payments, on the other hand, includes all revenue and capital item whether visible or invisible. Balance of trade thus form a part of balance of payment.
(iii) Balance of trade may be **favourable or unfavourable** but balance of payments always balance just like trading profit and loss account of a business shows a profit or loss but the two sides of Balance Sheet (assets and liabilities) always tally.
(iv) The balance of payments tallies and never shows a balance.Any balance (deficit or surplus) Is to be financed by any external sources (loan or assistance)or to be utilized on the other hand, balance of trade always shows a balance(favourable or unfavourable).

Usefulness of Balance of Payments to International Marketer
The study of balance of payments has become a matter of great interest to all concerned, i.e., businessmen, bankers, statesmen and economists. It can appropriately be said that balance of payments is just like a financial statement of a bank or a business that reveals the financial condition of the country vis-à-vis foreign countries. For an international marketer, it is an important document. In fact, it is so important that balance of payments is considered to be an economic barometer of a country's health. It can furnish the key to an understanding of a country's economic problems. The following facts are revealed by the balance of payments of a country to an international marketer:

(i) It is of great value **in forecasting and evaluating its business and economic conditions.** The more accurate the material in the balance of payments, the more valuable it becomes as a basis for the study of the economic and business conditions of a country.
(ii) Balance of payments can also serve **as a basis to evaluate a country's solvency** and to determine the appropriateness of the exchange value of its currency.
(iii) Balance of payments also **reveals the nature, size, composition and director of a country's international trade,** of visible and invisible item which form part of balance of payments. A minute study of it will give an idea for a country's industrial production and its international and external demands.
(iv) Balance of payments **clarifies the foreign exchange position** of a county which can be used as a basis by the marketer is selecting markets for his products.
(v) It also helps decide the **trade, industrial and economic policies of the Government.** If balance of payments is favourable, the Government will take a liberal view of imports otherwise different types of restrictions)tariff and non-tariff measures) will be imposed as corrective measures. It will naturally affect the international trade and international marketer.

Thus, the study of balance of payments position of a country is very useful for an international marketer as it helps him decide that his domestic or foreign trade policies, programmes,

procedures and strategies. It is a basic document hat gives a direction to Government policies and programmes.

S. No.	Basis of Difference	Balance of Trade	Balance of Payment
1	Meaning	Balance of trade is the difference between values of exports and imports of merchandise goods.	Balance of payment is a comprehensive and systematic record of all international economic transaction.
2	Approach	It has a narrow approach if analyzes only merchandise goods.	It adopts a broad and comprehensive approach and analyses all transactions.
3	Items	It has only one item of merchandise goods or visibles.	It has several items and accounts, visibles, invisibles, capital and many more.
4	Relationship	It is a part of balance of payment.	It is a whole and includes balance of trade.
5	Scope	It has limited scope	It has wider and comprehensive scope.
6	Nature of Equilibrium	It could be favourable, unfavourable or balanced.	Balance of payment always balanced.
7	Analysis	It has partial analysis of trade in goods.	It provides of a comprehensive analysis of all items, transactions and accounts.
8	Knowledge of Economy	It provides knowledge of international trade only.	It provides knowledge about entire external sector of the economy.
9	Effects	It has limited effects on economy.	It affects national economy substantially.
10	Relative importance	It is relatively less important.	It is relatively more important.
11	Measurement	It is very simple to measure balance of trade.	It is more difficulty and complex to measure balance of Payment.
12	Use	Its uses are less	It is used for several purposes.
13	Determination of Rate of Exchange	It has less effect on determination of rate as it is only a partial statement of demand and supply of foreign exchange.	As it is a complete statement of demand and supply of foreign exchange. It determines the rate of exchange.
14	Effect on Economic Position	Adversity will affect less.	Its adversity is more for economic Development.
15	Correcting Disequilibrium	Less effort.	More and sincere efforts.

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UNIT-III
EXCHANGE CONTROL

Introduction

An exporter without any commercial contract is completely exposed of foreign exchange risks that arises due to the probability of an adverse change in exchange rates. Therefore, it becomes important for the exporter to gain some knowledge about the foreign exchange rates, quoting of exchange rates and various factors determining the exchange rates. In this section, we have discussed various topics related to foreign exchange rates in detail.

Spot Exchange Rate

Also known as "benchmark rates", "straightforward rates" or "outright rates", spot rates represent the price that a buyer expects to pay for a foreign currency in another currency. Settlement in case of spot rate is normally done within one or two working days.

Forward Exchange Rate

The forward exchange rate refers to an exchange rate that is quoted and traded today but for delivery and payment on a specific future date.

Method of Quoting Exchange Rates

There are two methods of quoting exchange rates:

- **Direct Quotation**: In this system, variable units of home currency equivalent to a fixed unit of foreign currency are quoted.
  For example: US $ 1= Rs. 42.75
- **Indirect Quotation**: In this system, variable units of foreign currency as equivalent to a fixed unit of home currency are quoted.
  For example: US $ 2.392= Rs. 100

Before 1993, banks were required to quote all the rates on indirect basis as foreign currency equivalent to RS. 100 but after 1993 banks are quoting rates on direct basis only.

Exchange Rate Regime

The exchange rate regime is a method through which a country manages its currency in respect to foreign currencies and the foreign exchange market.

- **Fixed Exchange Rate**
  A fixed exchange rate is a type of exchange rate regime in which a currency's value is matched to the value of another single currency or any another measure of value, such as gold. A fixed exchange rate is also known as pegged exchange rate. A currency that uses a fixed exchange rate is known as a fixed currency. The opposite of a fixed exchange rate is a floating exchange rate.
- **Floating Exchange Rate**
  A Floating Exchange Rate is a type of exchange rate regime wherein a currency's value is allowed to fluctuate according to the foreign exchange market. A currency that uses a floating exchange rate is known as a floating currency. A Floating Exchange Rate or a flexible exchange rate and is opposite to the fixed exchange rate.
- **Linked Exchange Rate**
  A linked exchange rate system is used to equalize the exchange rate of a currency to another. Linked Exchange Rate system is implemented in Hong Kong to stabilize the exchange rate between the Hong Kong dollar (HKD) and the United States dollar (USD).

Forward Exchange Contracts

A Forward Exchange Contract is a contract between two parties (the Bank and the customer). One party contract to sell and the other party contracts to buy, one currency for another, at an agreed future date, at a rate of exchange which is fixed at the time the contract is entered into.

Benefits of Forward Exchange Contract

- Contracts can be arranged to either buy or sell a foreign currency against your domestic currency, or against another foreign currency.

- Available in all major currencies.
- Available for any purpose such as trade, investment or other current commitments.
- Forward exchange contracts must be completed by the customer. A customer requiring more flexibility may wish to consider Foreign Currency Options.

Foreign Currency Options

Foreign Currency Options is a hedging tool that gives the owner the right to buy or sell the indicated amount of foreign currency at a specified price before a specific date. Like forward contracts, foreign currency options also eliminate the spot market risk for future transactions. A currency option is no different from a stock option except that the underlying asset is foreign exchange. The basic premises remain the same: the buyer of option has the right but no obligation to enter into a contract with the seller. Therefore the buyer of a currency option has the right, to his advantage, to enter into the specified contract.

Flexible Forwards

Flexible Forward is a part of foreign exchange that has been developed as an alternative to forward exchange contracts and currency options. The agreement for flexible forwards is always singed between two parties (the 'buyer' of the flexible forward and the 'seller' of the flexible forward) to exchange a specified amount (the 'face value') of one currency for another currency at a foreign exchange rate that is determined in accordance with the mechanisms set out in the agreement at an agreed time and an agreed date (the 'expiry time' on the 'expiry date'). The exchange then takes place approximately two clear business days later on the 'delivery date').

Currency Swap

A currency swap which is also known as cross currency swap is a foreign exchange agreement between two countries to exchange a given amount of one currency for another and, after a specified period of time, to give back the original amounts swapped.

Foreign Exchange Markets

The foreign exchange markets are usually highly liquid as the world's main international banks provide a market around-the-clock. The Bank for International Settlements reported that global foreign exchange market turnover daily averages in April was $650 billion in 1998 (at constant exchange rates) and increased to $1.9 trillion in 2004. Trade in global currency markets has soared over the past three years and is now worth more than $3.2 trillion a day. The biggest foreign exchange trading centre is London, followed by New York and Tokyo.

OBJECTIVE OF EXCHANGE CONTROL

In many countries of the world exchange control is regarded as a necessary evil. There are several objectives in practising exchange controls. The main objects of foreign exchange control may be stated as follows:

1. Conservation of Foreign Exchange :

Exchange control may be introduced by the monetary authority to conserve the gold, bullion, foreign exchange currencies, etc., i.e., foreign exchange resources, of the country. It may be necessary to ensure the availability of sufficient amount of foreign exchange needed to buy essential foreign goods.

2. Check on Flight of Capita:

Under the free exchange system there is the danger of huge outflow of capital which may weaken the country's economy. Especially erratic shifting of capital tend to accentuate the disequilibrium in the balance of payments and it also adversely affects future growth of the country. Exchange control, however, offers a prompt and effective means to prevent such capital outflows.

3. Correcting Disequilibrium in Balance of Payments:

To correct the deficit in the balance of payments, the country needs to put a curb on imports. For this purpose, the use of Foreign exchange earnings by exporters for import of goods must be checked

through appropriate exchange control. Again, exchange control is essential to implement an import policy very effectively. In short, exchange control may be introduced to protect the country's balance of payments.

4. Stabilisation of Exchange Rates:

In a free exchange market, exchange rate is a fluctuating phenomenon. Thus, exchange control may be adopted to maintain exchange rates at an arbitrarily chosen fixed point.

5 . Protecting the Interest of Home Producers:

Exchange control may be used for giving protection to domestic producers by restricting the competition from foreign traders through import control.

6 . Redemption of External Debt:

The Government may use the exchange control device to obtain foreign exchange needed for repaying or servicing of its foreign loans.

7 . Effective Economic Planning:

For successful economic planning, foreign trade has to be coordinated with planned programmes and the outflow of capital should be restricted in order to make it available to domestic industries. Thus, for mitigating the economic repercussions of foreign trade endangering economic plans, exchange control becomes inevitable.

8 . Maintaining Over-value of Home Currency:

Sometimes exchange control is used in order to maintain the external value of the country's currency at an overvalued level. For this purpose, the available foreign exchange resources are rationed for use of specific and important purposes only and the government thereby, seeks to adjust total demand with total supply of foreign currencies.

9 . Generating Public Revenue:

Under exchange control, by adopting multiple exchange rates system, the Government can yield revenue income through difference of average buying and selling rates, less costs of administration.

10 . To prevent Spread of Depression:

Depression in a big country may spread from country to country via international economic relations. Exchange control may work as a preventive against such spread of depression by controlling the main doors - imports and exports

PROCEDURE FOR EXCHANGE CONTROL

- For purposes of exchange control, Government designates a central control agency, usually the central bank to function as the actual buyer and seller of foreign exchange on government account.
- Under the most comprehensive form of exchange control, exporters and other recipients of foreign exchange are not free to dispose of their foreign exchange earning in any manner they like.
- They are required to surrender all their foreign exchange for local currency. To ensure against evasion, export licences, which certify the delivery of foreign exchange to the exporters, must be presented to customs officials before shipment is permitted.
- This is how the government secures its supply of foreign exchange. The central bank or control agency is in a position to ration its supply of foreign exchange for any uses that may be found desirable.
- In allocating foreign exchange to various buyers (importers), the central bank takes into account the needs of the country. Relatively liberal rations of exchange will be allowed for the import of only those goods which are essential to the functioning of the economy, such as basic foodstuffs, raw materials, capital goods etc. while the control agency can flatly refuse to release exchange for luxury goods or non-essential commodities.
- It should be noted that all systems of exchange control are not necessarily so rigorous. If the balance of payments pressure is not severe, controls may involve no more than general supervision of applications received for foreign exchange.

- There are two ways of regulating exchange rates: (i) The monetary authorities undertake to buy and sell foreign exchange in unlimited amounts at the official exchange rates. People are free to buy any amount of foreign exchange for any purpose. The purpose of such type of exchange control is to avoid fluctuations in the exchange rate and stabilise it.
- The difference between the demand for and the supply of foreign exchange at fixed exchange rates at different times is adjusted by variations in the foreign exchange reserves of the central bank.
- The Exchange Equalisation Account established in April 1932 in the U.K., and the Exchange Stabilisation Fund instituted in January 1934 in U.S.A. provide examples of this method of exchange control, (ii) Another method of exchange control restricts the freedom of the people to buy foreign exchange. Under this type of control, there is a rationing of foreign exchange, and allocation is made among the importers for specific purposes only. It is the most drastic method usually employed for achieving various purposes as we have seen above.

Free Exchange Market :

When exchange control is not very rigid, together with exchange restrictions adopted by the government, a free exchange market is also allowed to operate to a limited extent.

Often the central bank releases, in addition to the official exchange in the country, a certain amount of exchange to maintain a free exchange market. All exchange earnings drawn from certain exports may be allowed to go into the free market, where they are sold to the highest bidder.

Exchange rates in the free market are invariably higher than the official rate, for the obvious reason that foreign exchange supply is less than the demand in the free market. Moreover, the exchange control agency may desire the free market rate to be higher than the official exchange rate by a certain percentage, so that importers disqualified for official exchange have to pay a premium.

It is obvious that, when exchange control exists, there is generally a black market in foreign exchange and various methods of evading the control. Foreign currencies or drafts payable in foreign currencies may be smuggled into the country

Causes of Exchange Rate Fluctuations –

1) ***Changes in the demand and supply of foreign exchange*** – The changes in demand and supply of foreign exchange influence the balance of payment of a country in short-term and it also affects the aggregate volume of capital movement. These changes in demand and supply will either increase or decrease the rate depending upon the changes in the supply and demand of foreign exchange.
2) ***State of International Trade*** – The state of international trade of a country or changes in the volume of imports and exports will also affect the rate. If there is adversity in trade and it increases further, this deficit in trade will adversely affect the rate and vice versa in case of a favorable trade balance.
3) ***Monetary Policy*** – Monetary policy particularly the regulation of money supply and frequent changes in money supply will affect the fluctuation in rate of exchange.
4) ***Speculative Activities*** – These activities substantially affect the exchange rate as under speculative activities the exchange rate is highly fluctuated.
5) ***Capital Movement*** – External borrowing assistance and aid and other financial foreign investment will affect the exchange rate.
6) ***Activities of Middlemen and Brokers*** – These activities are carried out to dispose off securities by buying in cheaper market and selling in the expensive and costlier security markets to earn profit by the brokers and these activities affect the demand and supply of foreign exchange, it naturally affects exchange rate.
7) ***Industrial Factors*** – In case of industrial development, there is more investment of foreign capital and rate will be favourably affected and vice versa.
8) ***Currency Conditions*** – The currency conditions also deeply affect the rate of exchange.
   a. *Inflation* – Due to decrease in purchasing power, the rate turns against the country.

   b. *Deflation* – Due to deflation, there will be more foreign capital into the country and the rates will turn in favour of the country.
   c. *Devaluation* – The policy of devaluation will also affect the rate as it will affect the import, export and capital movement.

9) ***Political Conditions*** – There are several political factors which also affect the rate, like political stability in the country. The position of peace or war or national security problems, need heavy expenses on defence etc.
10) ***Fiscal and other economic policies*** – If government is adopting deficit fiscal policy, it will enhance inflation and rate will be adversely affected.
11) ***Policy of protection*** – In case of extending protection to domestic industries for promoting export and substituting imports in the long run, there will be positive effect on exchange rate.
12) ***Exchange Control*** – A country will like to stabilize the rate through various measures of exchange controls. These controls invariably affect exchange rate.
13) ***Capital Market and Stock Exchange Condition*** – The rate is also influenced by various transactions performed at stock exchanges or capital market. As it is well-known various type of securities like shares, stocks, debentures, bonds are bought and sold everyday on the stock exchanges and they affect the demand and supply of foreign exchange.
14) ***Banking Condition*** – Many factors related with banking also influence the rate like;
    a. Bank rate of the central bank
    b. Arbitrage operations
    c. Sale and purchase of bills, instruments and traveler cheques etc.
    d. Issuing of credit instruments
15) ***National Income*** – Increase in national income will lead to an increase in investment, production and consumption and accordingly these it will have effect on the exchange rate.
16) ***Resources Discoveries*** – When there are discoveries of resources that will help those countries to rise in their value of exchange rate. A good example is the "Petrol-dollar" in many gulf countries due to "oil".
17) ***Psychological Factors*** – It has powerful influence on exchange rates sometimes aggravating the trend set by other factors. The bull (Purchasing heavily expecting a rise in price) and bear (selling heavily expecting a fall in price) operations are the example of psychological factors.
18) ***Technical and Market Factors*** – There are huge isolated transactions in the market and seasonal variations in the demand and supply. These factors may upset the balance of demand and supply of foreign exchange.
19) ***Other Factors and Conditions*** – There are several other factors like aid, gift, amount of compensation and many other transfer payments which also affect the rate.

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UNIT-IV
COSTING FOR EXPORT

The first step is to use below **cost-plus** method to determine the export pricing competitiveness of your products.
The Cost Plus Method of Calculation require a **costing sheet** so that it enable the exporter or manufacturer to:
Check that every expense has been covered in arriving at the selling price and provide a detailed record of the terms that have been quoted to the foreign buyer.

The items covered by the export costing sheet are:
1. Unit cost of Product - The starting point in export pricing is the production cost per unit of the product. This would be the variable cost plus fixed cost or overhead.
2. Profit - Normally, profit will have already been included in the domestic price. However, if it is insufficient for the risk involved in selling abroad, an extra allowance for profit can now be added.
3. Agent's commission abroad - This is usually calculated on a percentage basis.
4. Packing - The cost of packing for overseas shipment will vary according to the product, destination, and means of transportation. The manufacturer must include reasonable provision for it.
5. Labels - These may have to be printed in a foreign language, perhaps containing information not included in the labels used within the exporter's country. Also, from the sales point of view, they must be suitable to the foreign consumer. The selling price of the product must include sufficient allowance for these extra labeling costs.
6.Marking - A small cost is involved in stenciling an identification mark on each package for export.
7.Strapping - Each carton may have to be wire-strapped to help prevent it from being accidentally opened en route to its destination. Small packages must be wire-strapped together to discourage pilferage and other loss.
8.Cartage - Allowance must be made for transporting the goods to be transported to the local railway station or container depot.
9.Freight to seaboard - The cost of transporting the goods from the inland town or city to the seaport for shipment abroad e.g. K.L. to Port Klang.
10.Unloading charge - There is a charge for unloading goods from railway cars or trucks. This cost will be incurred when the goods arrive at the seaport.
11.Terminals - These are handling, wharfage and harbor dues that must be paid by the exporter to the wharfage Company.
12.Long or heavy load charge - If the shipment is exceptionally long or heavy, an extra charge may be incurred.
13.Consular Documents - These documents can be quite expensive, particularly in the case of export to the Latin American countries. Initially, the exporter may wish to quote to the foreign customer a price of so many dollars plus the cost of consular documents. If not, it must make adequate provision in the price to cover their cost.
14.Other charges - Here, space is left for the inclusion of unexpected additional expenses such as the cost of overseas telegrams or telephone calls, extra storage charges etc.
15. Ocean freight - The cost of shipping the goods by sea to the foreign port. The cost may be quoted by the ocean carrier in local currency or U.S. dollars.
16.Freight forwarder's fee - If the exporter uses the services of "Freight Forwarder" for documentation and book the shipping space required, allowance must be made for the fee involved. The amount of these fees can be obtained in advance from the forwarder or shipping agent.
17.Financing charges - Until payment is received, the export firm will have part of its working capital tied up in export merchandise. Even if no credit is given, it will have to wait until the goods are shipped or delivered before payment is made.
If credit are given to the foreign customer, it may have to wait an additional 60, 90, or 180 days for payment. The selling price should include an amount to cover the cost of this working capital.

If the exporter intends to discount at its bank a time draft that has been accepted by the foreign importer, so that the exporter can obtain its money sooner. Then allowance must be made in the export price for bank discount charges.

18. Export credits insurance - The exporter may buy insurance or "Factoring" on its credit sales abroad. Allowance should be made for it.

19.Total (C. & F.) - The total of the previous items, each of which should be rechecked, is the C. and F. cost of the export goods.

20.Marine insurance - The exporter will want to insure itself against financial loss from all possible risks, including damage to the goods or theft, while they are being shipped abroad. Usually, ocean ships are insured for 110 percent of their total cost to cover anticipated profit and the interest cost of working capital tied up in the shipment.

21. Total (C.I.F. local funds) - This is the total price of the goods calculated in such a way as to include all the various costs involved, including insurance and freight. It is the total in item 19, plus the insurance premium.

22. Conversion into Foreign Exchange

The foreign buyer will usually ask for a price quotation in U.S. dollars or perhaps in German marks, Japanese yen, or some other currency. Therefore, the price in the exporter's local currency must be converted to a price into the foreign currency.

Care must be taken to use the correct exchange rate. The exporter may wish to eliminate the risk of an exchange loss by selling the foreign currency to a bank on a forward basis, in exchange for local currency.

The cost of this bank service, which provides the exporter with a predetermined, fixed rate of exchange for its foreign currency should be included in the export price quoted to the foreign importer.

REGIONAL ECONOMIC GROUPING/ INTEGRATION
(TRADE BLOCKS) OR (REGIONAL ECONOMIC COOPERATION)

INTRODUCTION

The post second world war period has seen a growing interest in integrating national economies at regional levels, though the efforts have often floundered due to political differences and unforeseen economic hurdles.

The motivation for regional economic grouping arises out of the realization of the limitations imposed by national frontiers.

The expected benefits from a wider market consisting of several national economies, in terms of increased trade, investment and economic efficiency.

MOTIVES OF FORMING AN REI

1. **ECONOMIC**
    - Improved resource allocation and greater competition.
    - To attain competitive advantage
    - To provide training ground or launching pad for onward looking policies
    - To gain improved market access in other nations
    - To improve the policy through co- ordination.
2. **POLITICAL**
    - To achieve national security goals
    - Political unification leads to faster world peace.

TYPES/ FORMS OF ECONOMIC GROUPING

- **Preferential trade agreement-**

A Preferential trade area (also Preferential trade agreement, PTA) is a trading bloc which gives preferential access to certain products from the participating countries. This is done by reducing tariffs, but not by abolishing them completely. A PTA can be established through a trade pact. It is the first stage of economic integration.

- **Free trade area-**

A free trade area (FTA) is a trade bloc whose member countries have signed a free trade agreement(FTA), which eliminates tariffs, import quotas, and preferences on most (if not all) goods and services traded between them. It can be considered the second stage of economic integration. Countries choose this kind of economic integration if their economical structures are complementary. If their economical structures are competitive, they are more likely to form a customs union

- **Monetary union-**

A currency union (also known as monetary union) is where two or more states share the same currency, though without there necessarily having any further integration such as an Economic and Monetary Union, which has in addition a customs union and a single market.

- **Customs union-**

A customs union is a type of trade bloc which is composed of a free trade area with a common external tariff. The participant countries set up common external trade policy, but in some cases they use different import quotas. Common competition policy is also helpful to avoid competition deficiency.
Purposes for establishing a customs union normally include increasing economic efficiency and establishing closer political and cultural ties between the member countries.
It is the third stage of economic integration.

- **Common market-**

A single market is a type of trade bloc which is composed of a free trade area (for goods) with common policies on product regulation, and freedom of movement of the factors of production (capital and labour) and of enterprise and services. The goal is that the movement of capital, labour, goods, and services between the members is as easy as within them.[1] The physical (borders), technical (standards) and fiscal (taxes) barriers among the member states are removed to the maximum extent possible. These barriers obstruct the freedom of movement of the four factors of production.
A common market is a first stage towards a single market, and may be limited initially to a free trade area with relatively free movement of capital and of services, but not so advanced in reduction of the rest of the trade barriers.

- **Economic union-**

An economic union is a type of trade bloc which is composed of a common market with a customs union. The participant countries have both common policies on product regulation, freedom of movementof goods, services and the factors of production (capital and labour) and a common external trade policy.
Purposes for establishing a economic union normally include increasing economic efficiency and establishing closer political and cultural ties between the member countries.

MAJOR TRADE BLOCKS

The European Economic Community (EEC) (also known as the Common Market in the English-speaking world, renamed the European Community (EC) in 1993[note 1]) was an international organisation created with a view to bring about economic integration (including a single market) among the Inner Six of European integration; the Western European countries of Belgium, France, Germany, Italy, Luxembourg and the Netherlands.

Asia-Pacific Economic Cooperation (APEC) is a forum for 21 Pacific Rim countries (styled "Member Economies") that seeks to promote free trade and economic cooperation throughout the Asia-

Pacific region. Established in 1989 in response to the growing interdependence of Asia-Pacific economies and the advent of regional economic blocs (such as the European Union and the North American Free Trade Area) in other parts of the world, APEC works to raise living standards and education levels through sustainable economic growth and to foster a sense of community and an appreciation of shared interests among Asia-Pacific countries. Members account for approximately 40% of the world's population, approximately 54% of worldGDP and about 44% of world trade

The Caribbean Community (CARICOM) is an organisation of 15 Caribbean nations and dependencies. CARICOM's main purposes are to promote economic integration and cooperation among its members, to ensure that the benefits of integration are equitably shared, and to coordinate foreign policy.[1] Its major activities involve coordinating economic policies and development planning; devising and instituting special projects for the less-developed countries within its jurisdiction; operating as a regional single market for many of its members (Caricom Single Market); and handling regional trade disputes. The secretariat headquarters is based in Georgetown, Guyana.

The North American Free Trade Agreement or NAFTA is an agreement signed by the governments of Canada, Mexico, and the United States, creating a trilateral trade bloc in North America. The agreement came into force on January 1, 1994. It superseded the Canada – United States Free Trade Agreement between the U.S. and Canada. In terms of combined GDP of its members, as of 2010 the trade bloc is the largest in the world.

The Free Trade Area of the Americas (FTAA) (Spanish: Área de Libre Comercio de las Américas (ALCA),French: Zone de libre-échange des Amériques (ZLÉA), Portuguese: Área de Livre Comércio das Américas(ALCA), Dutch: Vrijhandelszone van Amerika) was a proposed agreement to eliminate or reduce the trade barriers among all countries in the Americas but Cuba. In the last round of negotiations, trade ministers from 34 countries met in Miami, Florida, United States, in November 2003 to discuss the proposal. [3] The proposed agreement was an extension of the North American Free Trade Agreement (NAFTA) betweenCanada, Mexico and the United States. Opposing the proposal were Cuba, Venezuela, Bolivia, Ecuador,Dominica, Nicaragua and Honduras (all of which entered the Bolivarian Alternative for the Americas in response), and Argentina, Chile and Brazil.

The South Asian Association for Regional Cooperation (SAARC) is an organization ofSouth Asian nations, founded in December 1985 and dedicated to economic, technological, social, and cultural development emphasizing collective self-reliance. Its seven founding members are Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka.Afghanistan joined the organization in 2005. Meetings of heads of state are usually scheduled annually; meetings of foreign secretaries, twice annually. It is headquartered in Kathmandu, Nepal.

The Agreement on South Asian Free Trade Area (SAFTA) is an agreement reached on January 6, 2004 at the 12th SAARC summit in Islamabad, Pakistan. It created a free trade area of 1.6 billion people in Bangladesh, Bhutan, India, Maldives, Nepal,Pakistan and Sri Lanka. The seven foreign ministers of the region signed a framework agreement on SAFTA to reduce customs duties of all traded goods to zero by the year 2016

1. Association of Southeast Asian Nations (ASEAN)

The Association of Southeast Asian Nations (ASEAN) was formed in 1967 by Indonesia, Malaysia, the Philippines, Singapore, and Thailand to promote political and economic cooperation and regional stability. The member countries of the Association of Southeast Asian Nations (ASEAN) are Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei Darussalam, Vietnam, Laos and Myanmar. The ASEAN Community is comprised of three pillars, the Political-Security Community, Economic Community and Socio-Cultural Community. Every year following the ASEAN Ministerial Meeting, ASEAN holds its Post-Ministerial Conference (PMC) to which the Secretary of State is invited. In 1994, ASEAN took the lead in establishing the ASEAN Regional Forum (ARF), which now has 27 members.

1.1 Objectives:

The ASEAN nations came together with three main objectives in mind:

- To promote the economic, social and cultural development of the region through cooperative programmers
- To safeguard the political and economic stability of the region against big power rivalry; and
- To serve as a forum for the resolution of intra-regional differences.

1.2 Activities:

ASEAN and its Member States reaffirm and adhere to the fundamental principles contained in the declarations, agreements, conventions, concords, treaties and other instruments of ASEAN.ASEAN and its Member States shall act in accordance with the following Principles:

- Respect for the independence, sovereignty, equality, territorial integrity and national identity of all ASEAN Member States;
- Shared commitment and collective responsibility in enhancing regional peace, security and prosperity;
- Renunciation of aggression and of the threat or use of force or other actions in any manner inconsistent with international law;
- Reliance on peaceful settlement of disputes;
- Non-interference in the internal affairs of ASEAN Member States;
- Respect for the right of every Member State to lead its national existence free from external interference, subversion and coercion;
- Enhanced consultations on matters seriously affecting the common interest of ASEAN
- Respect for fundamental freedoms, the promotion and protection of human rights, and the promotion of social justice;
- Upholding the United Nations Charter and international law, including international humanitarian law, subscribed to by ASEAN Member States;
- Abstention from participation in any policy or activity, including the use of its territory, pursued by any ASEAN Member State or non-ASEAN State or any non-State actor, which threatens the sovereignty, territorial integrity or political and economic stability of ASEAN Member States;
- Respect for the different cultures, languages and religions of the peoples of ASEAN, while emphasizing their common values in the spirit of unity in diversity.

1.3 Contribution:

Cooperation in Industrial Development, Cooperation in Finance and Banking, Cooperation in Investment, Cooperation in Food, Agriculture and Forestry, Cooperation in Minerals, Cooperation in Energy, Cooperation in Transportation and Communications, Cooperation in Tourism, Cooperation in Services, Cooperation in Intellectual Property, Private Sector.

2. Asia Pacific Economic Co-operation (APEC)

The Asia Pacific Economic Cooperation (APEC) was established in 1989 as an informal Ministerial-level dialogue group with twelve members. Today APEC has 21 member economies spread out over four continents. APEC Member Economies work together to sustain economic growth through a

commitment to open trade, investment and economic reform. This is accomplished by progressively reducing tariffs and other barriers to trade.

2.1 Objectives:
The current member economies represent the rich diversity of the region as well as differing levels of economic growth. Despite such differences there is a growing sense of common purpose and cooperation aimed at sustained regional and world growth. In the 1991 Seoul APEC Declaration, APEC members agreed on specific objectives:

- To sustain the growth and development of the region for the common good of its peoples and, in this way, to contribute to the growth and development of the world economy;
- To enhance the positive gains, both for the region and the world economy, resulting from increasing economic interdependence, to include encouraging the flow of goods, services, capital, and technology;
- To develop and strengthen the open multilateral trading system in the interest of Asia-Pacific and all other economies; and
- To reduce barriers to trade in goods and services among participants in a manner consistent with GATT principles, where applicable, and without detriment to other economies.

2.2 Activities:
APEC aims to strengthen regional economic integration by removing impediments to trade and investment "at the border", enhancing supply chain connectivity "across the border" and improving the business environment "behind the border". It endeavors to improve the operating environment for business by reducing the cost of cross-border trade, improving access to trade information and simplifying regulatory and administrative processes. APEC also assists member economies build the institutional capacity to implement and take advantage of the benefits of trade and investment reform. APEC supports the multilateral trade negotiations underway in the WTO, and complements the goals of the G-20 Framework for Strong, Sustainable and Balanced Growth in the Asia-Pacific Region.

2.3 Contribution:
APEC is the premier Asia-Pacific economic forum. Their primary goal is to support sustainable economic growth and prosperity in the Asia-Pacific region.
They are united their drive to build a dynamic and harmonious Asia-Pacific community by championing free and open trade and investment, promoting and accelerating regional economic integration, encouraging economic and technical cooperation, enhancing human security, and facilitating a favorable and sustainable business environment. Our initiatives turn policy goals into concrete results and agreements into tangible benefits.

5. European Union (EU)
The European Union was formally established when the Maastricht Treaty—whose main architects were Helmut Kohl and François Mitterrand—came into force on 1 November 1993. In 1995, Austria, Finland, and Sweden joined the EU. In 2002, euro banknotes and coins replaced national currencies in 12 of the member states. The European Union (EU) is an economic and political union of 28 member states that are located primarily in Europe. The EU operates through a system of supranational independent institutions andintergovernmental negotiated decisions by the member states

5.1 Objectives:

- Promote social cohesion and equal opportunities for all through adequate, accessible, financially sustainable, adaptable and efficient social protection systems and social inclusion policies;
- Interact closely with the Lisbon objectives for achieving greater economic growth and more and better jobs, as well as with the Union's Sustainable Development Strategy;

- Improve governance, transparency and the involvement of stakeholders in the design, implementation and monitoring of policy.

5.2 Activities:
The European Union (EU) is unique. It is not a federal state like the United States of America because its member countries remain independent sovereign nations. Nor is it a purely intergovernmental organization like the United Nations because the member countries do pool some of their sovereignty—and thus gain much greater collective strength and influence than they could have acting individually. They pool their sovereignty by taking joint decisions through shared institutions such as the European Parliament, which is elected by the EU citizens, and the European Council and the Council, which both represents national governments. They decide on the basis of proposals from the European Commission, which represents the interests of the EU as a whole. It also gives a brief overview of the agencies and other bodies that are involved in the European Union's work.

5.3 Contribution:
Cooperation in Industrial Development, Cooperation in Finance and Banking, Cooperation in Investment, Cooperation in Food, Agriculture and Forestry, Cooperation in Minerals, Cooperation in Energy, Cooperation in Transportation and Communications, Cooperation in Tourism, Cooperation in Services, Cooperation in Intellectual Property, Private Sector.

6. North American Free Trade Agreement (NAFTA)
In January 1994, the United States, Mexico and Canada entered into the North American Free Trade Agreement (NAFTA), creating the largest free trade area and richest market in the world. The NAFTA is the most comprehensive regional trade agreement ever negotiated by the United States and is scheduled to be fully implemented by the year 2008. In 1996, U.S. two-way trade in goods under the NAFTA with Canada and Mexico stood at $420 billion–a 44 % increase since the NAFTA was signed.

6.1 Objectives:
1. The objectives of this Agreement, as elaborated more specifically through its principles and rules, including national treatment, most-favored-nation treatment and transparency are to:
- eliminate barriers to trade in, and facilitate the cross border movement of, goods and services between the territories of the Parties;
- promote conditions of fair competition in the free trade area;
- increase substantially investment opportunities in their territories;
- provide adequate and effective protection and enforcement of intellectual property rights in each Party's territory;
- create effective procedures for the implementation and application of this Agreement, and for its joint administration and the resolution of disputes; and
- establish a framework for further trilateral, regional and multilateral cooperation to expand and enhance the benefits of this Agreement.

2. The Parties shall interpret and apply the provisions of this Agreement in the light of its objectives set out in paragraph 1 and in accordance with applicable rules of international law.

6.2 Activities:
- to reduce barriers to trade
- to increase cooperation for improving working conditions in North America
- to create an expanded and safe market for goods and services produced in North America
- to establish clear and mutually advantageous trade rules
- to help develop and expand world trade and provide a catalyst to broader international cooperation

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6.3 Contribution:
The North American Free Trade Agreement (NAFTA) will not be fully implemented until 2008. However, it is evident that NAFTA has already proved its worth to the United States by playing an important and vital role in increasing consumer choice, improving market access for U.S. products, and expanding U.S. jobs supported by exports. It also contribute in agricultural trade, automotive industry, and textile and apparel.

7. Organization of Petroleum Exporting Countries (OPEC)
Organization of Petroleum Exporting Countries (OPEC) was established on September 14, 1960, it consisted of just five developing countries. The founding members of the Organization of the Oil Exporting Countries are Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. OPEC's six other members are Qatar (which joined in 1961), Indonesia (joined in 1962), Libya (joined in 1962), the United Arab Emirates (which took over the membership of Abu Dhabi in 1974), Algeria (joined in 1969) and Nigeria (joined in 1971).

7.1 Objectives:
OPEC's objectives are spelled out in the OPEC Statute, which dates from the earliest days of the organization: "OPEC's principal aims are the coordination and unification of the petroleum policies of Member Countries and the determination of the best means for safeguarding their interest, individually and collectively. The Organization shall devise ways and means of ensuring the stabilization of prices in international oil markets,

7.2 Activities:
These documents were adopted in the 1960s, when the world oil industry, outside the former centrally planned economies, was dominated by the "The Seven Sisters" multinational oil companies. In such an environment, oil prices were at extremely low levels, with minimal returns for those countries within whose borders the crude reserves lay.
OPEC asserted its role in the 1970s, supporting its member countries as they took control of their domestic oil industries and acquired a major say in the pricing of oil on world markets. While the situation has moved on since then, with a broadening of the power base in a more integrated and consensual global industry, OPEC is nevertheless envisaged today as a major player in the world oil market.
There is one other important early document of relevance to OPEC's role — the "Solemn Declaration" adopted by a conference of OPEC sovereigns and heads of state in Algiers in 1975. This declaration carried a proposal for a "New International Economic Order" aimed at promoting a more equitable global economic system, with particular emphasis on alleviating poverty and other injustices affecting developing countries by encouraging greater interdependence among nations from the north and south.
The proposal for a new international economic order led to the establishment of the OPEC Fund for International Development, which is a multilateral development finance institution seeking to promote cooperation between OPEC members and other developing countries. Over the years, the OPEC Fund has distributed loans and grants to 104 countries located in Africa, Asia, Latin America, the Caribbean and Europe. Including grants and contributions to other institutions, the Fund's total approved commitments, as of the end of September 1999, stood at $5.4 billion (U.S.), with disbursements reaching $3.7 billion.

7.3 Contribution:
The "Organization of Petroleum Exporting Countries" (OPEC) includes most of the world's major oil-exporting countries. By agreeing to limit their respective production levels, they maintain a higher price for their oil worldwide. While this extends the life of their domestic fields, and provides substantial income, it is a semi-monopoly that limits the affordability of petroleum in many of the world's developing countries. There is no international law that prohibits such cartels, as would apply

within many countries.(In the past, such attempts to control the worldwide production of raw materials would have almost certainly led to conquest of these areas by militarily stronger countries.

8. South Asian Association for Regional Cooperation (SAARC)

The South Asian Association for Regional Cooperation (SAARC) comprises Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka. SAARC is a manifestation of the determination of the peoples of South Asia to work together towards finding solutions to their common problems in a spirit of friendship, trust and understanding and to create an order based on mutual respect, equity and shared benefits. The main goal of the Association is to accelerate the process of economic and social development in member states, through joint action in the agreed areas of cooperation. The idea of regional cooperation in South Asia was first mooted in November 1980. After consultations, the Foreign Secretaries of the seven countries met for the first time in Colombo, in April 1981. This was followed, a few months later, by the meeting of the Committee of the Whole, which identified five broad areas for regional cooperation. The Foreign Ministers, at their first meeting in New Delhi, in August 1983, formally launched the Integrated Programme of Action (IPA) through the adoption of the Declaration on South Asian Regional Cooperation (SARC). At the First Summit held in Dhaka on 7-8 December 1985, the Charterestablishing the South Asian Association for Regional Cooperation (SAARC) was adopted.

8.1 Objectives:

The objectives are as follows:

- To promote the welfare of the peoples of South Asia and to improve their quality of life;
- To accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realize their full potentials;
- To promote and strengthen collective self-reliance among the countries of South Asia;
- To contribute to mutual trust, understanding and appreciation of one another's problems;
- To promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields;
- To strengthen cooperation with other developing countries;
- To strengthen cooperation among themselves in international forums on matters of common interests; and
- To cooperate with international and regional organizations with similar aims and purposes
- Cooperation within the framework of the Association is based on respect for the principles of sovereign equality, territorial integrity, political independence, non-interference in the internal affairs of other states and mutual benefit.
- Such cooperation is to complement and not to substitute bilateral or multilateral cooperation.
- Such cooperation should be consistent with bilateral and multilateral obligations of the member states.
- Decisions at all levels in SAARC are taken on the basis of unanimity.
- Bilateral and contentious issues are excluded from its deliberations.

8.3 Contribution:

Cooperation with international and regional organizations designated SAARC years,*SAARC Regional Fund (SRF,* SAARC funds, regional conventions/agreements), SAARC regional institutions, Promoting people-to-people contact, Trade and economic cooperation, poverty eradication,**Technical committee,** financial arrangements in SAARC.

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UNIT-V

EXPORT-IMPORT BANK

The Export Import Bank of India (also called Exim) was set up by an Act of parliament on 1st January 1982. It is a public sector bank and is the apex banking institution in export financing. It started functioning from March 1982. The Exim Bank is intended to provide financial assistance to exporters and importers and to function as the principal financial institution for coordinating the working of other institutions engaged in financing of foreign trade. It also provides refinance facilities to commercial banks and financial institution against their export financing activities. The export loans and guarantee portfolio of the IDBI was taken over by the Exim Bank.

The Exim Bank Act authorises the Bank for:

(i) financing of exports from and imports into India of goods and services;
(ii) financing of export Joint-Ventures in foreign countries particularly in third countries;
(iii) financing of export of consultancy and related services;
(iv) financing of import and export of machinery and equipment on lease basis.

(i) providing loans to an Indian party so as to enable it to contribute in the share capital of a joint venture in foreign countries;
(ii) financing export-oriented industries in India;
(iii) conducting export market studies;
(iv) undertaking limited merchant banking functions such as underwriting of stocks, shares, bonds or debentures of companies engage in export or import; and
(v) providing technical, administrative and financial assistance to parties in connection with export and import.

Resources of Exim Bank

The authorised capital of the Bank is Rs. 200 crores which can be increased to Rs. 500 crores. Its paid up capital initially was Rs. 50 crores which has been increased to Rs. 147.5 crores, fully subscribed by the Government of India. The Bank can also raise its resources from

(i) the open market by the issue of bonds and debentures,
(ii) the Government of India.
(iii) the Reserve Bank of India from its National Industrial credit (Long Term Operations) Fund, and
(iv) the international markets. It can borrow foreign currency in India or outside India.

To begin with, the whole of the business of Industrial Development Bank of India relating to export financing was handed over to the Exim Bank.

As on 31st Dec. 1985, the position of Banks's financial resources were:

(a) Paid up capital of Rs. 100 crores fully subscribed by the Government (ii) a loan Rs. 125 crores from the Reserve Bank of India. (iv) outstanding loan of IDBI on transfer of loans to the Bank at the time of its beginning in 1982, and (v) a reserve of Rs. 32.5 crores,

During 1982, the Exim Bank borrowed Rs. 53 crores from the Indian capital market and U.S. $ 50 million through two Euro dollar loans.

The bank has also issued its third series of bonds for Rs. 39.5 crores redeemable at par at the end of 13 years, as on 5th Feb 1986. The Government of India has guaranteed the repayment of the principal and the interest on the bonds.

Operations of Exim Bank

The Export-Import Bank of India is operating various lending programmes.

(b) **Direct financial assistance to exporters.** This facility is extended to Indian exports, extending term credit to overseas importers who purchase Indian capital goods i.e., machinery and equipment. The rate of interest under this scheme is 9%

(ii) **Overseas investment financing.** This facility is also extended to Indian exporters who assist in the promotion of joint ventures set up abroad and contribute towards equity capital of the project. The rate of interest on loan advanced under the scheme is 12.5%

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(iii) **Pre-shipment credit.** Under this scheme, the Bank finances the Indian exporters for the purchase of raw materials and other inputs required to produce capital equipment that is to be exported.

(iv) **Lines of credit.** The Bank finances, under the scheme, overseas financial institutions, foreign Government and agencies to enable them to lend on term loans to finance import of Indian capital goods. The buyer would be in the country where such relenders are located.

(v) **Overseas buyers' credit.** The credit facility is available to overseas buyers to enable them to pay cost of capital goods imported from Indian on deferred terms.

(vi) **Refinance of export credit.** The Bank refinances the commercial banks in India who are authorised to deal in foreign exchange, the advances offered by them to the Indian exporters of capital goods. This refinance facility to banks are available only when the individual export contract is not more than Rs. 10 million.

All these operations enumerated above were taken over by the Bank from the Industrial Development Bank of India.

The Exim Bank has also introduced three new lending programmes during the very first year of its establishment viz. export bill rediscounting, technology and consultancy services, financing and relending facility to banks abroad.

(vii) **Export bills rediscounting.** Commercial banks in India who are authorised to deal in foreign exchange are authorised to rediscount the export bills. It enables banks to find post shipment credit extended to Indian exporters.

(viii) **Technology and consultancy services.** This facility is available to an Indian exporter who is engaged in the trade of exporting consultancy services and technology to extended term credit to importer overseas.

(ix) **Relending Facility.** The Bank enables overseas banks to make available term finance to importers of Indian capital goods.

The Bank has started three new lending schemes to Indian exporters during the year.

(x) Finance for Export Oriented units,

(xi) Finance for deemed exports,

(xii) Export for (SSI) Rediscounting scheme.

The repayment period under each scheme is flexible according to equipment and project but normally does not exceed 10 years except under preshipment credit which depends upon the manufacturing cycle and under Export Bills Rediscounting Scheme, it is 90 days.

Major Functional Groups.

The Bank has formed different functional groups to look after the interest of Indian exporters. Various group are-

(a) **Project finance group.** This group looks after the requirements of Indian exporters engaged in construction and turnkey project exports.

(b) **Trade finance group.** This group looks after the requirement of exporters of goods without services components.

(c) **Overseas investment finance group.** This group studies the requirements of Indian firms or companies desirous of setting up joint ventures abroad.

(d) **Planning group.** This group has been assigned the planning work. This group provides the economic and financial analysis necessary for the formulation of Exim's corporate stategy. The group also analyses the conditions of overseas markets. It identifies foreign markets and the risks involved in exporting goods and services to such markets.

(e) **Coordination group.** Main function of this group is liason work. It disseminates information regarding Banks's activities and liases with institution related to Exim Bank's activities.

The Bank has established contract with international financial institutions and export credit agencies with a view to confinance the projects which can absorb Indian exports. The Bank has initiated an information service which provides advance information to Indian exporters on projects to be financed by IBRD/ADB and the scope of business opportunities in such projects.

The Bank has set up three foreign offices at Abidjan (Ivory coast), Washington D.C. and Singapore to identify project and product export opportunities funded by multilateral agencies. The Bank has also organised a specialist cell at Bombay to coordinate operations with overseas offices to provide advisory and financial services to Indian exporters planning to secure a larger share of projects. A lending programme to support exports from small scale industries has been launched. Under this scheme the S.S.I. export bills are rediscounted.

INTERNATIONAL MONETARY FUND (IMF)

Introduction: -

Even before the Second World War came to an end, monetary experts in USA and UK Started thinking over the monetary problems likely to be faced after the war. Two different plans were chalked out, one by Mr. Keynes an American author and the other by Mr. White-a British author, and were named after them as Keynes Plan and White, Plan. The two sets of proposals were subjected to intensive discussion and served as the basis for the Bretton woods conference.

A landmark in the history of would economic co-opeation is the creation of the IMF. The birth of the fund lies in the breakdown of the gold standard. With the end of the gold standard in the thirties, all countries realized the need for international co-operation in economic affairs, as veritable chaos had resulted in the system of foreign exchange rates and international trade after the end of the gold standard. In short, international trade & investments passed through the worst period in the thirties. It was then recognized that the monetary disorder of the world could be corrected only by mutual agreement between nations having international economic relations. The formation of IMF was decided in the Bretton Woods Agreement, embodying a working mechanism for the smooth settlement of international payments in order to achieve the objectives. The IMF itself was organized in 1946, and commenced operations in March, 1947.

The International Monetary Fund was establishing held on 27th December, 1945 but it actually started operations from 1st March, 1947 and the first transactions were made in May, 1947. The funds of the IMF are subscribed to by the member countries. Each member country subscribes to the Fund as per its quota fixed by the IMF at the time it's joining the Fund 25% of the quota or 10 percent of the members holding of gold and U.S. dollar, whichever is less, is subscribed to gold and the remainder in national currency. Now, the system of depositing gold as a part of its subscription has been discontinued and the accounts of IMF are kept in SDR (Special Drawing Rights) .

The Fund has 146 member countries, accounting for about 80 per cent of the total world production and 90 per cent of the total world trade. Russia is a member of the fund.

Key IMF activities

The IMF supports its membership by providing

- policy advice to governments and central banks based on analysis of economic trends and cross-country experiences;
- research, statistics, forecasts, and analysis based on tracking of global, regional, and individual economies and markets;
- loans to help countries overcome economic difficulties;
- concessional loans to help fight poverty in developing countries; and
- Technical assistance and training to help countries improve the management of their economies.

Objectives of the IMF

1) To promote international monetary co-operation through a permanent institution which provides machinery for consultation and collaboration on international monetary co-operation.
2) To facilitate the expansion of balanced growth of international trade, and to contribute for the promotion of the productive resources of all members as the primary objectives of economic policy.

3) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
4) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade?
5) To lend confidence to members by making the fund's resources available to them under adequate safeguards thus providing them with opportunity to correct maladjustments in their BOP without resorting to measure destruction of national or international prosperity.

Function of IMF

1) It functions as a short term credit institution.
2) It provides machinery for the orderly adjustment of exchange rates.
3) It is reservoir of the currencies of all the members countries, for which a borrower nation can borrow the currency of other nation.
4) It grants loans for financing current transactions only and not capital transactions.
5) It tries to provide for an orderly adjustment of exchange rates, which will improve the long term BOP position of the member countries.
6) It also provides a machinery for international consultations.

The IMF & India –

- Till recently, India's official economic policy during the planning era has been to assign a commanding position to the public sector in the mixed economy, with a view to preventing the concentration of economic power in the hands of few private sectors & to check the inflow of foreign capital as well as imports in order to provide protection to the domestic industries.
- Indian industrial strategy has always remained dependent on foreign capital inflows. This is because India has never made any serious efforts in developing indigenous technologies.
- Whenever India experienced a FOREX Crisis, these international authorities tried their best to dilute Indian industrial and trade policies.
- In 1966, for instance, when India had a severe BOP deficit the World Bank insisted on a degree of imports liberalization for its financial support for BOP adjustments.
- In the 70s and onwards, India had to change her economic policies quite often. Most of such changes were towards the process of liberalization, attributed to the IMF pressure.
- In 1991, When India was confronted by a severe FOREX and financial crisis, the IMF & World Bank came to its rescue not with sympathy but to fulfill their long cherished objective.
- India was forced to accept all the conditions of IMF for such assistances.
- India was asked to globalize its economy very rapidly with an open door policy of free trade.
- The country had to change the planning strategy & to redesign it on market friendly approach.
- Under the zeal of globalization of the Indian economy less attention was paid to its age old problems of poverty, inequality & chronic unemployment.

WORLD BANK OR IBRD

The International Bank for Reconstruction and Development (popularly known as World Bank) was set up as a result of the decision taken in Bretton woods Conference, New Hampshire. The conference was held in July 1944 and attended by 44 nations. It decided to set up two organizations the IMF and the IBRD to solve the monetary and financial problems of the less developed countries likely to be faced in post-World War II period. The IMF (International Monetary Fund) has already been discussed in question **2.4.** In this question, we shall discuss the other organization IBRD (International Bank for Reconstruction and Development).

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International Bank for Reconstructions and Development (IBRD)
The IBRD or World Bank was set up on December 27, 1945 when their article of agreement was signed by 29 Governments in Washington D.C. On 30th June 1983, 144 countries were its members. **The Principal purposes** as set forth in its articles of agreement (charter) are as follows-

(i) **to assist in the reconstruction and development of its member countries by facilitating** the investment of capital for productive purposes, thereby promoting long range growth of international trade and improvements in standard of living;
(ii) **to promote private foreign investment** by guarantees of, and participation in, loans and other investments made by private investors; and
(iii) when private capital is not available on reasonable terms **to make loans for productive purposes** out of its own resources or the funds borrowed by it.

Activities. In order to achieve these purpose, the charter authorizes the world Bank to engage in the following financing activities-
(i) It may **lend funds directly,** either from its capital funds or from the funds it borrows in private investment markets.
(ii) It may **guarantee loans** advanced by others or it may participate in such loans.
(iii) **Loans may be advanced to member countries** directly or to any of their political subdivisions or to private business or agricultural enterprises in the territories of members.

In its efforts to make loans for developmental purposes, the World Bank has provided loans to the developing countries for developmental projects and programmes because credit rating of many developing countries is poor hence they feel difficulties in raising funds in international capital markets. The World Bank, therefore, is vital source to the developing countries, when the member Government, in whose territory the project is located, is not the borrower, the World Bank asks the member Government for a guarantee.

The Bank's subscribed capital as on 30th June, 1983 was $ 52 billion (SDR 39.41 billion).

Some basic provisions of Bank loan.

Some characteristics of Bank loans are-
(i) They are meant for high priority productive purposes mainly to develop the infrastructure for the development such as generation and distribution of electric power, rail, roads, ports and inland waterways, airlines and airports etc.

(ii) They must be used to meet only the foreign exchange component of the projects.
(iii) The interest rate of the Bank is somewhat lower but related to market rate. The lending rate of the Bank is calculated by adding 0.5 percentage points to the cost of lending to the Bank during the preceding six months of pool outstanding borrowings made since July, 1, 1982. On July, 1, 1982, the bank adopted a policy of resetting its lending rates half-yearly. At that time, the lending rate was every half year. The rate has been used at 8.50 per cent from January 1, 1986 for the half year ending on 30-6-1986. This is seventh consecutive revision since July 1, 1982.
(ii) They are not tied.

There are **two subsidiaries of the World Bank:**

(1) International Development Association (IDA)
Considering the need for structuring the economy of less developed countries, the World Bank set up the International Development Association (IDA) in 1960. It is an aiding centre for several developing countries who look up to it for financial assistance. As such countries (mainly countries of South Asia and Africa) have low domestic resources and on the other hand are not in a position to pay high rate of interest and short maturity periods. The IDA offers credit to the eligible developing countries on extremely favourable terms.

IDA interest-free credits are available to Governments only and may be obtained on payments of nominal service charges at 0.75% per annum. The period of repayment is 40 years, excluding 10 years for initial grace period.

IDA and India. India has been the largest beneficiary from IDA. Since its inception India's share is 40% of IDA funds. India got aid from IDA $ 578 M (current) during Third Plan, which was tripled to about $ 1,556 m (current) during the Fourth Plan. It touched a new height of nearly $ 5,581 m (current) during the Fifth Plan.

(2) **International Finance Corporation (IFC).** It is also an affiliate of the World Bank and was set up in 1956. It extends credits to private business enterprises. "It provides equity and loan capital for private enterprises in association with private investors and management, encourages the development of local capital market and stimulates the international form of private capital.

The project, for which the corporation advances assistance, must satisfy the following conditions-

(i) It should have the prospects of earning profits.
(ii) It should boost the economy of the best country.
(iii) Local investors should be able to participate in the project in the beginning of the project or later.
(iv) The requires funds for the project are not available from private investors at reasonable terms.
(v) The management should be capable and experienced.
(vi) The sponsor of the project has a substantial holding in the enterprise.

UNCTAD

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD, which is governed by its 194 member States, is the United Nations body responsible for dealing with development issues, particularly international trade – the main driver of development.

Its work can be summed up in three words: think, debate, and deliver.

Reflection on development is at the heart of UNCTAD's work. It produces often-innovative analyses that form the basis for recommendations to economic policymakers. The aim is to help them make informed decisions and promote the macroeconomic policies best suited to ending global economic inequalities and to generating people-centered sustainable development.

UNCTAD is also a forum where representatives of all countries can freely engage in dialogue and discuss ways to establish a better balance in the global economy.

In addition, UNCTAD offers direct technical assistance to developing countries and countries with economies in transition, helping them to build the capacities they need to become equitably integrated into the global economy and improve the well-being of their populations.

UNCTAD holds a ministerial-level meeting every four years to discuss major global economic issues and to decide on its programme of work.

It also holds discussions with civil society, including at an annual symposium where members of the public can express their views and interact with country representatives.

Every two years, UNCTAD organizes the World Investment Forum, which brings together major players from the international investment community to discuss challenges and opportunities and to promote investment policies and partnerships for sustainable development and equitable growth.

OBJECTIVES OF UNCTAD

Globalization and development

On the basis of recent statistics – often yet to be published -- UNCTAD's analyses contribute to international debate on the consequences of globalization for developing countries.

- The organization examines global economic trends and the outlook for developing countries;
- Undertakes studies on development strategies;
- Analyzes debt issues;
- Provides developing countries with technical assistance on the management of public debt; and
- Provides assistance to the Palestinian people in support of their economic development.

Trade and commodities

UNCTAD promotes development through international trade.

- Produces analyses and collects data to improve understanding of current and future problems in this area;
- Supports the participation of developing countries in international trade and international trade negotiations on an equitable basis;
- Seeks to strengthen international trade in services and promotes an integrated approach to trade, the environment, and sustainable development;
- Analyzes issues related to competition policy and consumer protection; and
- Focuses on the contribution of the commodity sector to development, advocating diversification and risk management.

Investment and enterprise

UNCTAD offers member States expertise on all issues related to investment and enterprise development.

- Conducts cutting-edge research and analysis in the field of investment for sustainable development;
- Informs policymakers about the structure and evolution of foreign direct investment in the world, and outlines the main trends in investment;
- Provides technical assistance to enable beneficiary countries to attract more investment for sustainable development, including through investment policy reviews;
- Focal point for issues related to international investment agreements;
- Promotes entrepreneurship and enterprise creation and expansion;
- Participates in the setting of international accounting standards; and
- Encourages responsible investment through initiatives such as the establishment of principles for sustainable development in agriculture.

Categories of countries that receive special attention

UNCTAD helps more than 90 countries in their efforts to reach the targets they have set for economic progress. These countries belong to categories that receive special attention from the United Nations, and, in many cases, special treatment to compensate for the disadvantages they face in the global economy.

- UNCTAD helps least developed countries – 49 States were recognized as such in 2013 – to achieve the socioeconomic progress that will allow them to graduate from this category;
- Supports landlocked developing countries which refuse to consider their landlocked nature as an obstacle to development; and
- Supports Small Island developing States in their continuing efforts to become less economically vulnerable, despite the many challenges they face.

Technology and logistics

In a globalized, knowledge-based economy, it is essential to stimulate innovation in developing countries to improve their competitiveness.

- UNCTAD conducts research in science, technology (including information and communication technology) and innovation for development;
- Helps developing countries design and implement technology and innovation policies for economic growth and sustainable development; and
- Carries out a broad programme of work to establish efficient services in transport, trade facilitation, and customs

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WTO (World Trade Organization)

With the birth of WTO the long drawn Uruguay Round has finally came to a successful completion. The new foundation of organization which replaced the GATT (general agreement on Tariffs and Trade). Uruguay Round was the 8th round of GATT. In order to overcome the limitations of GATT WTO was formed on 1st January, 1995. One of the major tasks of WTO will be to take the framework agreement towards more modified trade law regime governing the services trade.
It is visualized that the WTO will form a new trio of international organizations, the other two being IF & World Bank.

Objectives of WTO –
WTO reiterates the objectives of GATT. These are –

1. Raising standards employment
2. Ensuring full employment
3. Expanding production and trade
4. Optimal use of the world's Resources.

The preamble extends these objectives to service and make them more precise –

1. It introduces the idea of "sustainable development in relation to the optimal use of the world's resources, and the need to protect and preserve the environment in a manner/consistent with various levels of national economic development.
2. It recognizes that these is a need for positive efforts to ensure that developing countries, and especially the least developed among them, secure a better share of the growth in international trade.

Functions of WTO
The primary functions of WTO are to hike all the Multilateral Trade agreements together, subject them to a common dispute settlement mechanism and provide a framework for the implementation of the results of negotiations on either a multilateral or a plurilateral basis.

1. The WTO shall facilitate the implementation administration, operation and further the objectives of this agreement and of the multilateral trade agreement and shall also provide the framework for the implementation, administration and operation of the plurilateral trade agreement.
2. The WTO shall provide the forum for negotiations among its members concurring their multilateral trade relations. The WTO may provide forum for further negotiation among its members concurring their multilateral trade relations, and a framework for the implementations of the result of such negotiations as may be decided by the ministerial conference.
3. WTO shall administer the understanding on rules and procedures governing the settlement of disputes.
4. The WTO shall administer the trade policy review mechanism provided for as per agreement.
5. With a view to achieving greater coherence in global economic policy making the WTO shall co-operate with the IMF and IBRD (International Bank for Reconstruction and Development) & its affiliated agencies.

Status of WTO

1. The WTO has legal identity and is recognized by each of its members for such legal capacity as may be necessary for the exercise of its functions.
2. The WTO be accorded by each of its members such privileges and immunities as are necessary for the exercise of its functions.
3. The officials of the WTO and the representative of the members similarly be accorded by each of its members such privileges and immunities as are necessary for the independent exercise for their functions in connection with the WTO.

4. The privileges and immunities to be accorded by a members of the WTO its officials and the representative of its members of the WTO, are similar to the privileges and immunities of specialized agencies, approved by the General Assembly of the Un on Nov. 21, 1947
5. The WTO concludes a headquarters agreement. It is feared that it may it in effect provide a powerful framework for the developed countries to use trade instruments to enforce their priorities on developing countries economic & technological development.

Benefits of WTO

From the money in our pockets and the goods and service that we use to a more peaceful world the WTO and the trading system offer a range of benefits, some well known other not so obvious.

The world is complex. The line highlights some of the benefits of WTO's "multilateral trading system, but it doesn't claim that everything is perfect. Otherwise, there would be no need for further negotiations and for the rules to nor does it claim that everyone agrees with everything in the WTO. That is one of the most important reason for having the system, it is forum for countries to thrash out their difference in trade issues.

Here are the benefits –

1. The system helps promote place.
2. Rules make life easier for all.
3. Disputes are handled constructively
4. Freer trade cuts the cost of living
5. It provides more choice of products and qualities.
6. Trade easier income.
7. Trade stimulates economic growth
8. The basic principle makes life more efficient.
9. Government are shielded from lobbying
10. The system encourages good govt.

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