Unit V

India's Trade Policy: India's Trade policy, export assistance, marketing plan for exports.

India's Trade policy

The Commerce Ministry had released a **product specific draft export policy and the EXIM Policy 2020 – 2025 is awaited**.

- Updated draft comprises of **all existing policy conditions, all notifications and public notices** issued after January 2018 and also includes **non-tariff regulations** imposed by different government agencies.

    - Draft export policy, aimed at consolidating export norms for each product, has accorded **eight-digit HS codes** to every product.

ITC (HS) codes are better known as Indian Trade Clarification (ITC) and are based on Harmonized System (HS) of Coding.

- It was adopted in India for import-export operations. Indian custom uses an eight-digit ITC (HS) code to suit the national trade requirements.
- ITC-HS codes are divided into two schedules. Schedule I describe the rules and **Exim guidelines** related to import policies.
- **Export Policy Schedule II** describe the rules and regulation related to **export policies**.

- This compendium will help an exporter know all the applicable norms pertaining to a particular product, helping them understand policy conditions for that item.

  About Export Import Policy of India

- **Exim Policy** or **Foreign Trade Policy** is a set of guidelines and instructions established by the **DGFT** in matters related to the import and export of goods in India.
- Foreign trade in India is guided by the **EXIM Policy** of the Indian Government and is regulated by the **Foreign Trade Development and Regulation Act, 1992**.

DGFT (Directorate General of Foreign Trade) is the main governing body in matters related to Exim Policy. The main objective of the **Foreign Trade (Development and Regulation) Act** is to provide the development and **regulation of foreign trade** by facilitating imports into, and augmenting exports from India. Foreign Trade Act has replaced the earlier law known as the Imports and Exports (Control) Act 1947

EXIM Policy 2015 – '20

FTP 2015-20 provides a framework for increasing exports of goods and services as well as generation of employment and increasing value addition in the country, in line with the 'Make in India' programme. Government aims to increase India's exports of merchandise and services from USD 465.9 billion in 2013-14 to approximately USD 900 billion by 2019-20 and to raise India's share in world exports from 2 percent to 3.5 percent.

The FTP for 2015-2020 seeks to provide a stable and sustainable policy environment for foreign trade in merchandise and services; link rules, procedures and incentives for exports and imports with other initiatives

such as Make in India, “Digital India” and “Skills India” to create an “Export Promotion Mission; promote the diversification of India’s export basket by helping various sectors of the Indian economy to gain global competitiveness; create an architecture for India’s global trade engagement with a view to expanding its markets and better integrating with major regions, thereby increasing the demand for India’s products and contributing to the “Make in India” initiative; and to provide a mechanism for regular appraisal in order to rationalise imports and reduce the trade imbalance.

Objectives

- **Exim policy or Foreign Trade Policy for the years 2015-20,** aims at doubling the overseas sales to $900 billion by 2019-20 and making India global, while integrating the foreign trade with “Make in India” and “Digital India Programme”.

Features

- **MEIS scheme:** Five existing schemes to promote merchandize exports have been merged into a single Merchandise Exports from India Scheme (MEIS).
  - The incentives are to be provided in the form of duty scrips as % of FOB (free on board) value of exports.
- **Service Exports from India Scheme (SEIS)** will be only for India based service providers and will be based on net foreign exchange earned.
  - Both **SEIS and MEIS schemes are applicable to SEZ units**.
- **Paperless Trade and Online filling of forms** will ensure trade facilitation and ease of doing business.
- **E-commerce export** is applicable to items of worth up to 25,000.

- Provision for **Export oriented units, Export hardware technology park and software technology park**.
- **The Duty-free scrips** (form of credits) are provided to the exporters under various export promotion schemes of the government. The scrips may be transferable or non-transferable.

- **Approach & Role of State/UT Governments** - A major path breaking initiative is to mainstream State and Union Territory (UT) Governments and various Departments and Ministries of the Government of India in the process of international trade. State/UT Governments can play a crucial role in promoting exports and rationalising nonessential imports. Many of the State Governments have nominated Export Commissioners. The Department of Commerce is also helping State Governments to prepare export strategies. An Export Promotion Mission will be constituted to provide an institutional framework to work with State Governments to boost India's exports.

- **Addressing In-House Challenges** - The biggest challenge, however, is to address constraints within the country such as infrastructure bottlenecks, high transaction costs, and complex procedures, constraints in manufacturing and inadequate diversification in our services exports.

- **The Services Sector** - The Services sector is an area of great potential. Efforts will be made to gain effective market access abroad through comprehensive economic partnership agreements with important markets. A Global Exhibition on Services will be

held annually, which will provide a forum for showcasing India's strengths in the Services sector.

- **Building the India Brand** - A long term branding strategy has been conceptualised to enable India to hold its own in a highly competitive global environment and to ensure that Brand India becomes synonymous with high quality. Further, a programme to promote the branding and commercialisation of products registered as Geographical Indications and to promote their exports will be initiated.
- **Institutional Mechanisms for Trade Promotion** - Market Access Initiative (MAI) Scheme and the Market Development Assistance Scheme will continue. The present allocation for the MAI scheme is inadequate; efforts will be made to augment resources for the scheme.
- **Export Promotion Councils are being strengthened**, both in terms of technical capabilities and management structures. Project exports will be encouraged in a big way, especially in the emerging markets with high infrastructure needs, through special lines of credit offered by the Ministry of External Affairs and the Buyers Credit Scheme of the Department of Commerce through EXIM Bank of India. This will, inter alia, enable Indian businesses to develop long term business relationships, facilitate easier acceptance of India's exports and build visibility for Indian products.

  Two institutional mechanisms are being put in place for regular communication with stakeholders, namely, a Board of Trade which will have an advisory role and a Council for Trade Development and Promotion which will have representation from State and UT Governments.

- **Trade Ecosystem** - Several initiatives are underway or in the pipeline for the simplification of procedures and digitization of various processes involved in trade transactions. Steps are being taken by various Ministries and Departments to simplify administrative procedures and reduce transaction costs based on the recommendations of two Task Forces constituted by the Directorate General of Foreign Trade.

  Specific measures will be taken to facilitate the entry of new entrepreneurs and manufacturers in global trade through extensive training programmes. The Niryat Bandhu scheme will be revamped to achieve these objectives and also further dovetailed with the ongoing outreach programmes.

  The Multilateral Trading System and India - The current WTO rules as well as those under negotiation envisage the eventual phasing out of export subsidies. This is a pointer to the direction that export promotion efforts will have to take in future, i.e. towards more fundamental systemic measures rather than incentives and subsidies alone.

  The three mega agreements that are currently being negotiated namely the Trans Pacific Partnership, Trans-Atlantic Trade and Investment Partnership and the Regional Comprehensive Economic Partnership (RCEP) add a completely new dimension to the global trading system. India is a party to the RCEP negotiations. The mega agreements are bound to challenge India's industry in many ways, for instance, by eroding existing preferences for Indian products in established traditional markets such as the US and EU and establishing a more stringent and demanding framework of rules. Indian industry needs to gear up to meet these challenges for which the Government will have to create an enabling environment.

- **Product Strategy**

The focus will be on promoting exports of high value products with a strong domestic manufacturing base, including engineering goods, electronics, drugs and pharmaceuticals. The challenges posed to the pharmaceuticals sector by NTBs in Japan and regulatory hurdles in China have to be addressed. A composite programme for promotion of healthcare products and services will be conducted in various regions to showcase and market India's unique strengths.

Other sectors which require special attention, in light of India's strengths and their contribution to employment generation, are leather, textiles, gems and jewellery and the sectors based on natural resources, which include agriculture, plantation crops, marine products and iron ore exports. Revitalizing plantations, enabling a less controlled regime for agriculture and aiming at greater value addition and processing would help to increase the value of exports from these sectors. The North-Eastern States are a special focus area for organic product exports.

Export Assistance

Export assistance and incentives is a financial help given by the government to the Indian exporters to improve their ability to compete in foreign markets. Common **assistance** and incentives include duty drawback, exemption from income tax, exemption from excise duty, marketing development **assistance**, etc.

Export incentives are regulatory, legal, monetary, or tax programs that are designed to encourage businesses to export certain types of goods or services. Exports are goods that are produced in one country and are then transported to another country for sale or trade.

Export incentives are a form of economic assistance that governments provide to firms or industries within the national economy, in order to help them secure foreign markets. A government providing export incentives often does so in order to keep domestic products competitive in the global market.

Types

Types of export incentives include export subsidies, direct payments, low-cost loans, tax exemption on profits made from exports and government-financed international advertising. While less concerning than import protections such as tariffs, export incentives are still discouraged by economists who claim that they artificially create barriers to free trade and thus can lead to market instability.

How Export Incentives Work

Export incentives make domestic exports competitive by providing a sort of kickback to the exporter. The government collects less tax in order to deflate the exported good's price, so the increased competitiveness of the

product in the global market ensures that domestic goods have a wider reach. Generally, this means that domestic consumers pay more than foreign consumers.

Sometimes, governments will encourage export when internal price supports (measures used to keep the price of a good higher than the equilibrium level) generate surplus production of a good. Instead of wasting that good, governments will often offer export incentives.

Export Incentives and the World Trade Organization

This level of government involvement can also lead to international disputes that may be settled by the World Trade Organization (WTO). As a broad policy, the WTO prohibits most subsidies, except for those implemented by lesser-developed countries (LDCs). The idea is that export protections create market inefficiencies, but that developing countries may need to protect certain key industries in order to promote economic growth and prosperity.

Developing countries have started manufacturing industries only recently. As a result, their cost of production generally tends to be high because of the following reasons:

(i) Total market availability within the country is small with the result that the economies of large-scale production cannot be reaped.

(ii) Productivity of labour is low because the level of mechanization as compared to that in the developed countries is low.

(iii) The cost of production is generally a function of experience, i.e. Learning by Doing. This can be reaped only when the labor employed in manufacturing operations acquires experience over a period of time.

(iv) Manufacturing units in developing countries, being small and new, have considerably less expertise in the field of international marketing and

because the volume of exports is low, the per unit cost of trade promotion expenditure tends to be high.

India has to raise higher resources for development which has to be done through a number of indirect levies which tend to push up the overall cost of production.

Most developing countries have, therefore, resorted to a number of export promotion measures. India has also been providing export assistance to Indian exporters.

However, the WTO Agreement on Subsidies and countervailing duties does not allow specific types of export subsidies. The Government of India is, therefore, removing those export incentives which are not WTO compatible.

New System of Export Assistance:

From 1992, export incentive system in India has been made simple. There are essentially three major incentives. These are:

(1) Market-based Exchange Rate;

(2) Fiscal Concessions, and

(3) Facilities under the Export-Import Policy.

Market based Exchange Rate:

For long, external value of the rupee was managed by the Reserve bank of India (RBI) by pegging the value of the rupee to a basket of currencies. RBI used to keep the value of the rupee at a level which was higher than the real value. In the post-Economic Reforms period, the Government of

India decided to abolish all direct incentives to exports and promote exports through the exchange rate mechanism. Accordingly, the Liberalized Exchange Rate Management System (LERMS) was introduced.

Under this system, there were two exchange rates: one official rate which was determined by the RBI as was the practice earlier; and second, a rate which was quoted by the banks based on the demand-supply position. Exporters had to surrender 40 per cent of their foreign exchange earnings to banks and could sell the residual 60 percent at the market rate which was normally expected to be more attractive than the official rate.

Through this mechanism the Government hoped to achieve two objectives: First the difference between the market rate and the official rate would provide enough incentives to the exporters. Second, this would introduce a self-balancing mechanism for the balance of trade, because only that much imports could be made which could be financed through the market i.e. the resources available through the 60 percent account.

One year's experience revealed that rupee remained stable in the international market. This gave to the Government for full convertibility on the trade account. Accordingly, rupee was made fully convertible for export-import transactions in March 1993.This would provide more financial benefit to the exporters as under the LERMS, they had to surrender 40 per cent of their receivables at a discount which averaged about 15 per cent when LERMS was in operation. Since March 1993, the exchange rate of the rupees is fully determined by the demand supply conditions in the market. Under such a system, exporters will get benefit when rupee depreciates while importers will lose. When rupee appreciates, the balance of benefits will be just the reverse.

Tax Concessions:

(a) In the computation of total income, Section 80-HHC allows a deduction of the whole of the profit derived from the export of goods or merchandise. The requirements of minimum tax contained in Section 115-J does not apply to exporting corporate assesses. This benefit is also available to supporting manufacturers exporting through Export/ Trading Houses provided that the amount of deduction claimed is retained as a reserve for the purpose of the business of the assesses. However, the budget for the year 2000-2001 has reduced this exemption by 20 per cent every year to be phased out in five years.

(b) Exemption from taxation of the profits from overseas projects to the extent of 50 per cent.

(c) Exemption from taxation of 50 per cent of royalty, commission, fees or any similar payment obtained from the exports of technical know-how and technical services.

(d) A 10-year tax holiday for 100 per cent export-oriented units and for units located in Free Trade/Export Processing Zones.

(e) Discounted rates of customs duty on imports of selected items of machinery for export production.

Types of Export Incentive Schemes & Benefits in India

1 Advance Authorization Scheme

2 Advance Authorization for Annual Requirement

3 Export Duty Drawback for Customs, Central Excise, and Service Tax

4 Service Tax Rebate

5 Duty-Free Import Authorization

6 Zero duty EPCG (Export Promotion Capital Goods) Scheme

7 Post Export EPCG Duty Credit Scrip Scheme

8 Towns of Export Excellence (TEE)

9 Market Access Initiative (MAI) Scheme

10 Marketing Development Assistance (MDA) Scheme

11 Merchandise Exports from India Scheme (MEIS)

India's economy is one of the fastest growing economies in the world. As a part of economic reforms, the government has formulated many economic policies which have led to the country's gradual economic development. Under the changes, there has been an initiative to improve the condition of exports to other countries. With this regard, the government has taken up a few actions to benefit businesses in the export trade. The primary objective of these benefits is to simplify the whole export process and make it more flexible. On a broader scale, these reforms have been a blend of both social democratic and liberalization policies.

Since the initiation of the liberalization plan in the 1990s, the economic reforms have emphasized the open market economic policies. Foreign investments have come in various sectors, and there has been good growth in the standard of living, per capita income and Gross Domestic Product. Moreover, there has been a greater emphasis on flexible business and doing away with excessive red tapism and government regulations.

Some of the different types of export incentive schemes and benefits that the government has initiated are:

Advance Authorization Scheme

As part of this scheme, businesses are allowed to import input in the country without having to pay duty payment, if this input is for the production of an export item. Moreover, the licensing authority has fixed the value of the additional export products to not below than 15%. The

scheme has the validity period of 12 months for imports and 18 months for carrying out the Export Obligation (EO) from the date of issue typically.

Advance Authorization for Annual Requirement

Exporters who have a previous export performance for at least two financial years can avail the Advance Authorization for Annual requirement scheme or more benefits.

Export Duty Drawback for Customs, Central Excise, and Service Tax

Under these schemes, the duty or tax paid for inputs against the exported products is refunded to the exporters. This refund is carried out in the form of Duty Drawback. In case the duty drawback scheme is not mentioned in the export schedule, exporters can approach the tax authorities for getting a brand rate under the duty drawback scheme.

Service Tax Rebate

In the case of specified output services for export goods, the government provides rebates on service tax to exporters.

Duty-Free Import Authorization

This is another benefit the government has introduced by combining the DEEC (Advance License) and DFRC to help exporters get free imports on certain products.

Zero duty EPCG (Export Promotion Capital Goods) Scheme

In this scheme, which applies to exporters of electronic products, import of capital goods for production, pre-production, and post-production is

allowed at zero percent customs duty if the export value is at least six times the duty saved on capital goods imported. The exporter needs to verify this value (Export Obligation) within six years of issuing date.

Post Export EPCG Duty Credit Scrip Scheme

Under this export scheme, exporters who aren't sure about paying the export obligation can obtain an EPCG license and pay the duties to the customs officials. Once they fulfil the export obligation, they can claim a refund of the taxes paid.

Towns of Export Excellence (TEE)

Towns that produce and export goods above a particular value in the identified sectors would be known as towns of export status. Towns will be given this status based on their performance and potential in exports to help them reach new markets.

Market Access Initiative (MAI) Scheme

An effort to provide financial guidance to eligible agencies for undertaking direct and indirect marketing activities like market research, capacity building, branding, and compliances in importing markets.

Marketing Development Assistance (MDA) Scheme

This scheme aims to promote export activities abroad, assist export promotion councils to develop their products and other initiatives to carry out marketing activities abroad.

Merchandise Exports from India Scheme (MEIS)

This scheme applies to the export of certain goods to specific markets. Rewards for exports under MEIS will be payable as a percentage of realized FOB value.

Due to all these schemes, exports have increased by a right margin, and there is a favourable atmosphere among the business community.

The government is also upcoming with many other benefits to strengthen the export sector of the country further.

Marketing Plan for Exports

Doing business is increasingly global in extent today. There are several reasons for this. One significant reason is technological – because of improved transportation and communication opportunities today, trade is now more practical.

Increasingly rapid technology lifecycles also increase the competition among countries as to who can produce the newest technological product. Trade between countries is beneficial because these countries differ in their relative economic strengths-some have more advanced technology and some have lower costs. On the basis of these realities, business need to proper international marketing plan for distribute the product through globally.

1.0 Introduction

Planning is a systematized way of relating to the future. It is an attempt to manage the effects of external, uncontrollable factors on the firm's strengths, weaknesses, objectives, and goals to attain a desired end. Further, it is a commitment of resources to a country market to achieve specific goals. In other words, planning is the jobs of making things happen that may not otherwise occur.

Planning relates to the formulation of goals and methods of accomplishing them, so it is both a process and a philosophy. Structurally, planning may be viewed as corporate, strategic, and/or tactical. International corporate planning is essentially long-term, incorporating generalized goals for the enterprise as a whole. Strategic planning is conducted at the highest levels of management and deals with products, capital, and research, and long- and short-term goals of the company. Tactical planning, or market planning, pertains to specific actions and to the allocation of resources used to implement strategic planning goals in specific markets. Tactical

plans are made at the local level and address marketing and advertising questions.

2.0 Evolution to global marketing

Global marketing is not a revolutionary shift, it is an evolutionary process. While the following does not apply to all companies, it does apply to most companies that begin as domestic-only companies.

2.1 Domestic marketing

A marketing restricted to the political boundaries of a country, is called "Domestic Marketing". A company marketing only within its national boundaries only has to consider domestic competition. Even if that competition includes companies from foreign markets, it still only has to focus on the competition that exists in its home market. Products and services are developed for customers in the home market without thought of how the product or service could be used in other markets. All marketing decisions are made at headquarters.

The biggest obstacle these marketers face is being blindsided by emerging global marketers. Because domestic marketers do not generally focus on the changes in the global marketplace, they may not be aware of a potential competitor who is a market leader on three continents until they simultaneously open 20 stores in the North-eastern U.S. These marketers can be considered ethnocentric as they are most concerned with how they are perceived in their home country.

2.2 Export marketing

Generally, companies began exporting, reluctantly, to the occasional foreign customer who sought them out. At the beginning of this stage, filling these orders was considered a burden, not an opportunity. If there was enough interest, some companies became passive or secondary exporters by hiring an export management company to deal with all the customs paperwork and language barriers. Others became direct

exporters, creating exporting departments at headquarters. Product development at this stage is still focused on the needs of domestic customers. Thus, these marketers are also considered ethnocentric.

2.3 International marketing

If the exporting departments are becoming successful but the costs of doing business from headquarters plus time differences, language barriers, and cultural ignorance are hindering the company's competitiveness in the foreign market, then offices could be built in the foreign countries. Sometimes companies buy firms in the foreign countries to take advantage of relationships, storefronts, factories, and personnel already in place. These offices still report to headquarters in the home market but most of the marketing mix decisions are made in the individual countries since that staff is the most knowledgeable about the target markets. Local product development is based on the needs of local customers. These marketers are considered polycentric because they acknowledge that each market/country has different needs.

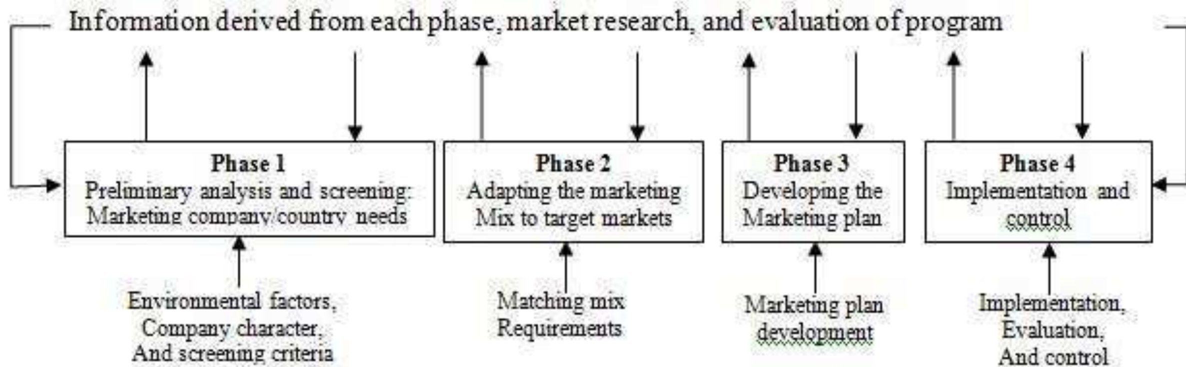
2.4 Multinational marketing

At the multi-national stage, the company is marketing its products and services in many countries around the world and wants to benefit from economies of scale. Consolidation of research, development, production, and marketing on a regional level is the next step. An example of a region is Western Europe with the US. But, at the multinational stage, consolidation, and thus product planning, does not take place across regions; a Regio-centric approach.

2.5 Global marketing

When a company becomes a global marketer, it views the world as one market and creates products that will only require weeks to fit into any regional marketplace. Marketing decisions are made by consulting with marketers in all the countries that will be affected. The goal is to sell the same thing the same way everywhere.

3.0 International marketing planning process



3.1 Preliminary analysis and screening

At this stage one takes a more serious look at those countries remaining after undergoing preliminary screening. Now you begin to score, weight and rank nations based upon macro-economic factors such as currency stability, exchange rates, level of domestic consumption and so on. Now you have the basis to start calculating the nature of market entry costs. Some countries such as China require that some fraction of the company entering the market is owned domestically – this would need to be taken into account. There are some nations that are experiencing political instability and any company entering such a market would need to be rewarded for the risk that they would take. At this point the marketing manager could decide upon a shorter list of countries that he or she would wish to enter. Now in-depth screening can begin.

3.1.1 Company character

The next step is to identify the company's character. These criteria are ascertained by an analysis of company objectives, resources, and other corporate capabilities and limitations. A company's commitment to international business and its objective for going international are important is establishing evaluation criteria. Minimum market potential, minimum profit, return on investment, acceptable competitive levels, standards of political stability.

3.1.2 Home-Country constraints

In this step the marketing plan need to classify the home country restraints. They are like, political and legal forces, economic climate, completive structure. These include home-country restraints can have a direct effect on the success of a international business.

3.1.3 Host-country(s) constraints

In this step the marketing plan require to classify the host-country(s) limitations as like the home countries. Host-country(s) constraints are more that the home country's. They are: Political/legal forces, cultural forces, geography and infrastructure, structure of distribution, level of technology, competitive forces, economic forces.

3.3 Developing the marketing plan

At this stage of the planning process, a marketing plan is developed for the target market – whether it is a single country or a global market set.

3.3.1 Situation analysis

The marketing plan begins with a situation analysis. A situation analysis is the foundation of the strategic planning process for international marketing plan. It includes an examination of both the internal factors (to identify strengths and weaknesses) and external factors (to identify opportunities and threats).

3.3.2 Objective and goals

At this section the marketing plan need to select their objective, like what is to be done, by whom, how it is to be done, and when. . A company's commitment to international business and its objective for going international are important is establishing evaluation criteria. Minimum market potential, minimum profit, return on investment, acceptable competitive levels, standards of political stability.

Goal-setting ideally involves establishing specific, measurable and time-targeted objectives. Work on the theory of goal-setting suggests that it can serve as an effective tool for making progress by ensuring that participants have a clear awareness of what they must do to achieve or help achieve an objective. On a personal level, the process of setting goals allows people to specify and then work towards their own objectives — most commonly financial or career-based goals. Goal-setting comprises a major component of Personal development.

3.3.3 Strategy and tactics

The marketer needs to determine possibilities for applying marketing tactics across national markets. The search for similar segments across countries can often lead to opportunities for economies of in marketing programs.

3.3.4 Selecting mode of entry

Selecting the mode of entry with rare exceptions, products just don't emerge in foreign markets overnight—a firm has to build up a market over time. Several strategies, which differ in aggressiveness, risk, and the amount of control that the firm is able to maintain.

3.3.5 Budgets

Budgeting is the main formal control methods. The budget spells out the objectives and necessary expenditures to achieve these objectives. Included are budgets and sales and profit expectations. Control consists of measuring actual sales against expenditures. If there is tolerable variance then no action is usually taken.

3.3.6 Action programs

After the completing the phase 3, a decision not to enter a specific market may be made if it is determined that company marketing objectives and goals cannot be met. Performance is evaluated by measuring actual against planned performance. The problem is setting a performance

standard. Finally, when marketers are see the plan would be success then they apply the plan for international business. Otherwise they stop the plan at this phase 3.

4.4 Implementation and control

At this stage when Phase 3 decision will be "go" then Phase 3 actives implementation of specific plans and anticipation of successful marketing. However, the planning process does not end at this point. All marketing plans need coordination and control during the period of implementation. Many businesses don't control marketing plans as thoroughly as they could even though continuous monitoring and control could increase their success.

4.4.1 Objectives

The evaluation and control system require performance – objective action, that is, bringing the plan back on track should standards of performance fall short.

4.4.2 Standards

In the global orientation the marketer need to maintain the internationally standard to stable in the international market.

4.4.3 Assign responsibility

As a company expands in to more foreign markets with several products, it becomes more difficult to efficiently manage all products across all markets. Therefore, they need to allocate liability for their international business.

4.4.4 Measure performance

4.4.5 Correct for error

Consumers and businesses now have access to the very best products from many different countries. Increasingly rapid tech nology lifecycles also increase the competition among

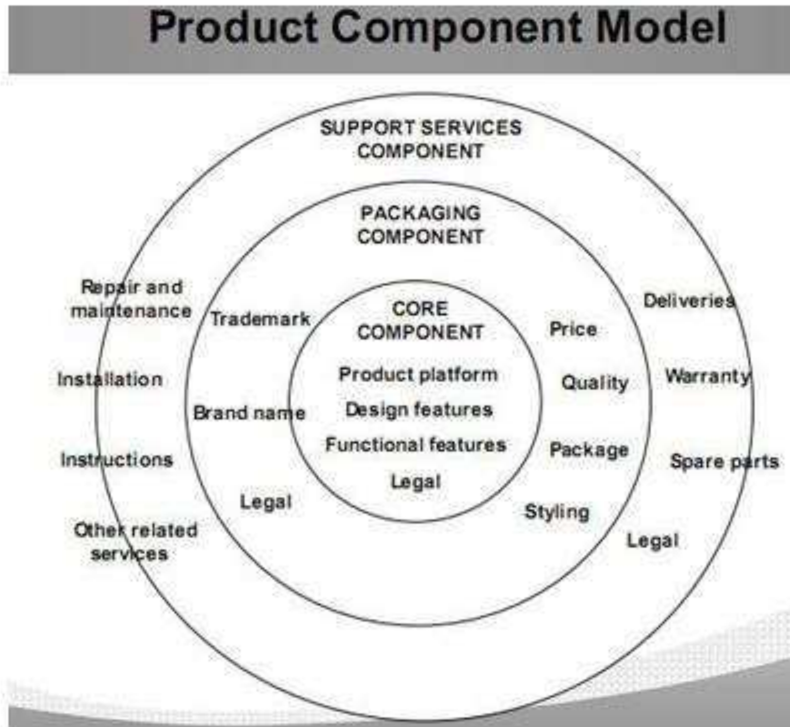
countries as to who can produce the newest in technology. In part to accommodate these realities, countries in the last several decades have taken increasing steps to promote global trade through agreements such as the General Treaty on Trade and Tariffs, and trade organizations such as the World Trade Organization (WTO), North American Free Trade Agreement (NAFTA), and the European Union (EU).

4.2 Adapting the marketing mix to target markets

The "Four P's" of marketing: product, price, placement, and promotion are all affected as a company moves through the five evolutionary phases to become a global company. Ultimately, at the global marketing level, a company trying to speak with one voice is faced with many challenges when creating a worldwide marketing plan. Unless a company holds the same position against its competition in all markets (market leader, low cost, etc.) it is impossible to launch identical marketing plans worldwide.

4.2.1 Product

A global company is one that can create a single product and only have to tweak elements for different markets. For example, Coca-Cola uses two formulas (one with sugar, one with corn syrup) for all markets. The product packaging in every country incorporates the contour bottle design and the dynamic ribbons in some way, shape, or form. However, the bottle or can also include the country's native language and is the same size as other beverage bottles or cans in that country.



4.2.2 Price

Price will always vary from market to market. Price is affected by many variables: cost of product development (produced locally or imported), cost of ingredients, cost of delivery (transportation, tariffs, etc.), and much more. Additionally, the product's position in relation to the competition influences the ultimate profit margin. Whether this product is considered the high-end, expensive choice, the economical, low-cost choice, or something in-between helps determine the price point.

4.2.3 Promotion

After product research, development and creation, promotion (specifically advertising) is generally the largest line item in a global company's marketing budget. At this stage of a company's development, integrated marketing is the goal. The global corporation seeks to reduce costs, minimize redundancies in personnel and work, maximize speed of implementation, and to speak with one voice. If the goal of a global company is to send the same message worldwide, then delivering

that message in a relevant, engaging, and cost-effective way is the challenge.

Effective global advertising techniques do exist. The key is testing advertising ideas using a marketing research system proven to provide results that can be compared across countries. The ability to identify which elements or moments of an ad are contributing to that success is how economies of scale are maximized. Market research measures such as Flow of Attention, Flow of Emotion and branding moments provide insights into what is working in an ad in any country because the measures are based on visual, not verbal, elements of the ad.

4.2.4 Distribution

How the product is distributed is also a country-by-country decision influenced by how the competition is being offered to the target market. Using Coca-Cola as an example again, not all cultures use vending machines. In the United States, beverages are sold by the pallet via warehouse stores. In India, this is not an option. Placement decisions must also consider the product's position in the market place. For example, a high-end product would not want to be distributed via a "dollar store" in the United States. Conversely, a product promoted as the low-cost option in France would find limited success in a pricey boutique.

International Distribution

Promotional tools. Numerous tools can be used to influence consumer purchases:

- Advertising—in or on newspapers, radio, television, billboards, busses, taxis, or the Internet.
- Price promotions—products are being made available temporarily as at a lower price, or some premium (e.g., toothbrush with a package of toothpaste) is being offered for free.
- Sponsorships

- Point-of-purchase—the manufacturer pays for extra display space in the store or puts a coupon right by the product
- *Other method of getting the consumer's attention*—all the Gap stores in France may benefit from the prominence of the new store located on the Champs-Elysees.

Promotional objectives. Promotional objectives involve the question of what the firm hopes to achieve with a campaign—"increasing profits" is too vague an objective, since this has to be achieved through some intermediate outcome (such as increasing market share, which in turn is achieved by some change in consumers which cause them to buy more). Some common objectives that firms may hold:

- Awareness. Many French consumers do not know that the Gap even exists, so they cannot decide to go shopping there. This objective is often achieved through advertising, but could also be achieved through favorable point-of-purchase displays. Note that since advertising and promotional stimuli are often afforded very little attention by consumers, potential buyers may have to be exposed to the promotional stimulus numerous times before it "registers."
- Trial. Even when consumers know that a product exists and could possibly satisfy some of their desires, it may take a while before they get around to trying the product—especially when there are so many other products that compete for their attention and wallets. Thus, the next step is often to try get consumer to try the product at least once, with the hope that they will make repeat purchases. Coupons are often an effective way of achieving trial, but these are illegal in some countries and in some others, the infrastructure to readily accept coupons (e.g., clearing houses) does not exist. Continued advertising and point-of-purchase displays may be effective. Although Coca Cola is widely known in China, a large part of the population has not yet tried the product.

- Attitude toward the product. A high percentage of people in the U.S. and Europe has tried Coca Cola, so a more reasonable objective is to get people to believe positive things about the product—e.g., that it has a superior taste and is better than generics or store brands. This is often achieved through advertising.
- Temporary sales increases. For mature products and categories, attitudes may be fairly well established and not subject to cost-effective change. Thus, it may be more useful to work on getting temporary increases in sales (which are likely to go away the incentives are removed). In the U.S. and Japan, for example, fast food restaurants may run temporary price promotions to get people to eat out more or switch from competitors, but when these promotions end, sales are likely to move back down again (in developing countries, in contrast, trial may be a more appropriate objective in this category).

Note that in new or emerging markets, the first objectives are more likely to be useful while, for established products, the latter objectives may be more useful in mature markets such as Japan, the U.S., and Western Europe.

Entry Strategies

Methods of entry. With rare exceptions, products just don't emerge in foreign markets overnight—a firm has to build up a market over time. Several strategies, which differ in aggressiveness, risk, and the amount of control that the firm is able to maintain, are available:

- Exporting is a relatively low risk strategy in which few investments are made in the new country. A drawback is that, because the firm makes few if any marketing investments in the new country, market share may be below potential. Further, the firm, by not operating in the country, learns less about the market (What do consumers really want? Which kinds of advertising campaigns are most successful?

What are the most effective methods of distribution?) If an importer is willing to do a good job of marketing, this arrangement may represent a "win-win" situation, but it may be more difficult for the firm to enter on its own later if it decides that larger profits can be made within the country.

- Licensing and franchising are also low exposure methods of entry—you allow someone else to use your trademarks and accumulated expertise. Your partner puts up the money and assumes the risk. Problems here involve the fact that you are training a potential competitor and that you have little control over how the business is operated. For example, American fast food restaurants have found that foreign franchisers often fail to maintain American standards of cleanliness. Similarly, a foreign manufacturer may use lower quality ingredients in manufacturing a brand based on premium contents in the home country.
- Turnkey Projects. A firm uses knowledge and expertise it has gained in one or more markets to provide a working project—e.g., a factory, building, bridge, or other structure—to a buyer in a new country. The firm can take advantage of investments already made in technology and/or development and may be able to receive greater profits since these investments do not have to be started from scratch again. However, getting the technology to work in a new country may be challenging for a firm that does not have experience with the infrastructure, culture, and legal environment.
- Management Contracts. A firm agrees to manage a facility—e.g., a factory, port, or airport—in a foreign country, using knowledge gained in other markets. Again, one thing is to be able to transfer technology—another is to be able to work in a new country with a different infrastructure, culture, and political/legal environment.

- Contract manufacturing involves having someone else manufacture products while you take on some of the marketing efforts yourself. This saves investment, but again you may be training a competitor.
- Direct entry strategies, where the firm either acquires a firm or builds operations "from scratch" involve the highest exposure, but also the greatest opportunities for profits. The firm gains more knowledge about the local market and maintains greater control, but now has a huge investment. In some countries, the government may expropriate assets without compensation, so direct investment entails an additional risk. A variation involves a joint venture, where a local firm puts up some of the money and knowledge about the local market.

5.0 Conclusion

Utilizing the planning process encourages the decision maker to consider all variables that affect the success of a company's plan. Furthermore, it provides the basis for viewing all country markets and their interrelationships and as an integrated global unit.

Planning permits for rapid growth of the international function, changing markets, increasing competition, and the ever-varying challenges of different national markets. The plan must blend the changing parameters of external country environments with corporate objectives and capabilities to develop a sound, workable marketing program. A strategic plan commits corporate resources to products and markets to increase competitiveness and profits.

Unit IV

Recent trends in India's foreign trade: Recent trends in India's foreign trade, institutional infrastructure for export promotion in India, projects & consultancy exports.

EXIM POLICY OR FOREIGN TRADE POLICY 2015-20:

KEY HIGHLIGHTS

The Foreign Trade Policy (FTP) 2015-20 was unveiled by Ms Nirmala Sitharaman, Minister of State for Commerce & Industry (Independent Charge), Government of India on April 1, 2015. Following are the highlights of the FTP:

- India aims to increase India's export of merchandise and services from US $ 465 bn. in 2013-14 to approximately US$ 900 bn. by the 2019-20 and to raise India's share in the world export from 2% to 3.5%.
- FTP 2015-20 seek to provide higher incentive to agriculture industry. FTP also seeks to establish an institutional framework to work with state governments to boost India's exports.
- FTP 2015-20 provides a framework for increasing exports of goods and services as well as generation of employment and increasing value addition in the country, in line with the 'Make in India' programme.

- The Policy aims to enable India to respond to the challenges of the external environment, keeping in step with a rapidly evolving international trading architecture and make trade a major contributor to the country's economic growth and development.
- FTP 2015-20 introduces two new schemes, namely 'Merchandise Exports from India Scheme (MEIS)' for export of specified goods to specified markets and 'Services Exports from India Scheme (SEIS)' for increasing exports of notified services.
- Duty credit scrips issued under MEIS and SEIS and the goods imported against these scrips are fully transferable.
- For grant of rewards under MEIS, the countries have been categorized into 3 Groups, whereas the rates of rewards under MEIS range from 2 per cent to 5 per cent. Under SEIS the selected Services would be rewarded at the rates of 3 per cent and 5 per cent.
- Measures have been adopted to nudge procurement of capital goods from indigenous manufacturers under the EPCG scheme by reducing specific export obligation to 75per cent of the normal export obligation.
- Measures have been taken to give a boost to exports of defence and hi-tech items.
- E-Commerce exports of handloom products, books/periodicals, leather footwear, toys and customised fashion garments through courier or foreign post office would also be able to get benefit of MEIS (for values up to INR 25,000).
- Manufacturers, who are also status holders, will now be able to self-certify their manufactured goods in phases, as originating from India with a view to qualifying for preferential treatment under various forms of bilateral and regional trade agreements. This 'Approved

Exporter System' will help manufacturer exporters considerably in getting fast access to international markets.

- A number of steps have been taken for encouraging manufacturing and exports under 100 per cent EOU/EHTP/STPI/BTP Schemes. The steps include a fast track clearance facility for these units, permitting them to share infrastructure facilities, permitting inter unit transfer of goods and services, permitting them to set up warehouses near the port of export and to use duty free equipment for training purposes.
- 108 MSME clusters have been identified for focused interventions to boost exports. Accordingly, 'Niryat Bandhu Scheme' has been galvanised and repositioned to achieve the objectives of 'Skill India'.
- Trade facilitation and enhancing the ease of doing business are the other major focus areas in this new FTP.
- One of the major objectives of new FTP is to move towards paperless working in 24x7 environment.

Recent trends in India’s foreign trade

Through secular growth over the last three financial years, following the major downturn in the face of the global slowdown, merchandise exports for the year 2018-19(P) reached USD 330.07 Billion, the highest ever, surpassing the earlier peak of USD 314.4 Billion achieved in 2013-14. This has been achieved in a challenging global environment.

The following growth drivers have shaped merchandise exports growth:

o Engineering Goods rose from USD 78,695.69 million in 2017-18 to USD 83,704.54 million in 2018-19, a growth of 6.36%.

Petroleum Products rose from USD 37,465.10 million in 2017-18 to USD 47,954.54 million in 2018-19, a growth of 28%.

Organic & Inorganic Chemicals rose from USD 18,508.48 million in 2017-18 to USD 22,573.87 million in 2018-19, a growth of 21.97%.

Drugs & Pharmaceuticals rose from USD 17,282.81 million in 2017-18 to USD 19,188.46 million in 2018-19, a growth of 11.03%.

Cotton Yarn/Fabs. /made-ups, Handloom Products etc., rose from USD 10,260.38 million to USD 11,206.44 million in 2018-19, a growth of 9.22%.

Electronic Goods rose from USD 6,393.12 million in 2017-18 to USD 8,880.96 million in 2018-19, a growth of 38.91%.

Plastic & Linoleum rose from USD 6,851.12 million in 2017-18 to USD 8,609.08 million in 2018-19, a growth of 25.66%.

Key Initiatives

Despite a challenging global environment, reflected in sluggish economic and trade growth and rising protectionism, India’s total exports (goods and services combined) have been growing on a secular basis since 2016-

17 for the last three years and have surpassed the USD half Trillion (500 Billion) mark in 2018-19, for the first time. The overall estimated exports (merchandise and services) have reached a new peak of USD 535.9 billion this year, attaining a growth of 7.47%.

This has been achieved through concerted efforts by the Government working closely with various stakeholders, taking initiatives aimed at reduction in transactions costs through simplification, streamlining and digitization of export / import approval processes, IT enabled online implementation of various export promotion schemes, timely resolution of issues related to GST refunds, improved logistics, access to export competitiveness through targeted incentives etc.

Source: DGCI&S

Source: RBI

Institutional Infrastructure for export promotion in India

Institutions engaged in export effort fall in six distinct tiers. At the top is the Department of Commerce of the Ministry of Commerce and industry. This is the main organization to formulate and guide India's trade policy. At the second tier, there are deliberative and consultative organizations to ensure that export problems are comprehensively dealt with after mutual discussions between the Government and the Industry. At the third tier are the commodity specific organizations which deal with problems relating to individual commodities and/or groups of commodities. The fourth tier consists of service institutions which facilitate and assist the exporters to expand their operations and reach out more effectively to the World Markets. The fifth tier consists of Government trading organizations specifically set up to handle export/import of specified commodities and to supplement the efforts of the private enterprise in the field of export promotion and import management. Agencies for export promotion at the State level constitute the Sixth tier.

The Department of Commerce is the primary government agency responsible for evolving and directing foreign trade policy ad program, including commercial relations with other countries, Various trade promotional measures and development and regulation of certain export-oriented industries.

Apart from the Finance and Administrative Divisions, the principal functional divisions of the Department of Commerce are Economic Divisions, Trade policy Division, Export Products Division, Export Services Division and Export Industries Division.

The main task of the Trade Policy Division is to keep abreast of the developments in the international organizations like UNCTAD, WTO, the Economic Commission for Europe, Africa, Latin America and Asia and Far East (ESCAP). It is also responsible for India's relations with the European Economic Community, European Free trade Association Latin American Free Trade Area, other regional groupings and the

Commonwealth. It also looks after the generalized system of preferences and non-tariffs barriers.

The Foreign Trade Territorial Division is entrusted with the work relating to the development of trade with different countries and regions of the world. This Division also handles matters pertaining to State trading a barter deals, organization of trade fairs and exhibitions, commercial publicity abroad, etc. It also maintains contacts with Indian Trade Missions abroad and attends to the connected administrative work including the protocol functions.

The Export Products Division pays attention to the problem connected with production, generation of surplus and development of markets for the various products under its jurisdiction. These products include plantations, marine products, chemicals, plastics, leather and leather goods, sports goods, films, steel, metals, engineering products, minerals and ores, coal, petroleum products, mica, salt, etc. Although in administrative terms the responsibility for these product remains with ministries concerned, this Division keeps itself in close touch with them to ensure that production is sufficient to realize the full export potential besides meeting the home consumption. This Division is also responsible for the working of export organizations and corporations dealing with above commodities and products.

The Export Industries Division is responsible for development and regulation of rubber, tobacco and cardamom. The division is also responsible for handling export promotion activities relating to textiles, woolens, handlooms, readymade garments, silk and cellulose fibers, jute ad jute products, handicrafts, coir and coir products.

The Export Services Division deals with the problem of export assistance including import replenishment licensing, cash assistance, export credit, export houses, Marketing Development Assistance and grants, transport, free trade zones, dry ports, quality control and pre-shipment inspection,

joint ventures abroad and capacity creation in export-oriented industries including assistance to import capital goods and essential raw materials.

The Economic Divisions, headed by the Economic Adviser, is responsible for the formulation of export strategies, export planning, periodic appraisal and review of policies and also for maintaining coordination and constant contacts with the other Divisions as well as with various organizations which have been set up under the commerce Department to assist the export drive. This Division also monitors work relating to technical assistance, management services for export and overseas investments by Indian entrepreneurs.

Projects & consultancy exports

There has been a substantial transformation of India's export structure in the recent years. India has now emerged as a major exporter of capital equipment and other sophisticated items, including projects and consultancy services.

Projects exports are regarded as a key indicator of technological maturity and industrial capabilities of a country. In fact, the future of India's export trade depends on how far performance in these sectors can be further improved.

Projects exports:

1. Turnkey projects namely those which involve the rendering of services like design, civil construction, erection and commissioning of plant or supervision thereof along with the supply of equipment.
2. Engineering services contracts, involving the supply of services alone, such as design erection commissioning or supervision of erection and commissioning.
3. Consultancy services contracts, which may include the preparation of feasibility studies, project reports, preparation of designs and advice to the project authority on specification for plant and equipment, preparation of tender documents, evaluation of tenders and purchase of plant and equipment.
4. Civil construction contracts with or without preparation of designs or drawings for the civil work to be undertaken.

The categories mentioned above are not to be treated as mutually exclusive. A project contract includes supply of service or equipment, coming under more than one of the categories.

Project Export Profile:

During the last 26 years, India has achieved a moderate success in the export of capital goods, projects and civil engineering jobs. On an average these categories account for about 40 per cent of India's total engineering exports.

The success achieved by Indian companies in the field of construction contracts is, however, much more spectacular. The Middle Eastern countries because of their oil revenue emerged as very important markets for infrastructural projects.

Till the year 1981, the construction projects worth Rs 5,170 crores approximately were secured. About 80 per cent of these contracts were secured by the Indian construction companies in Iraq and Libya.

These contracts were mainly for the constructions of (1) Townships, (2) Airports, (3) High Rise Buildings, (4) Water & Sewerage Treatment plants, (5) Flyovers and (6) New Railway lines. The year 1981 which is considered to be the peak year provided contracts worth Rs 1,594 crores to Indian construction companies. Since 1981 however a decline has set in construction project exports. However, there has been a consistent increase in recent years.

Civil Construction Turnkey projects and consultancy won by Indian Firms:

In the year 1982 Civil Constructions Project value was Rs 451 crores. In the years 2000-01 (Apr-Dec) Civil Construction Project value was Re 1,225 crores and Turnkey Projects was 1,833 and Consultancy services was 4,241 crores.

The decline was basically due to two factors:

1. The fall in oil prices has dramatically reduced the purchasing power of the Middle Eastern countries

2. Most of the basic infrastructural projects have since been completed. Demand is now shifting away from construction to industrial projects.

The contracts secured in the recent years have been quite diverse in nature indicating the growing versatility and technological capabilities of Indian project exporters. The West Asian region still continues to be the major market accounting for half of the total project export contracts. The markets in South East Asia and sub-Saharan African account for the remaining half.

Consultancy Exports

Indian has just made an entry in the field of consultancy exports. Until recently, export of consultancy services was dominated by the developed countries. India which reportedly has the third largest engineering manpower is now in a position to enter this highly sophisticated and expanding segment of world trade. Indian has over 200 consultancy and design organizations. Foreign exchange earned from consultancy exports stood at Rs 1,369 crores during 1993-94 as against only Rs 1 crore in 1974-75. The major areas in which Indian consultancy has achieved considerable success are technical management (O & M) of cement plants, agricultural research services, setting up of molasses based distilleries, sugar projects, petrochemicals industries, design programming, computer software cooling tower systems, fuel firing systems, architectural, structural, electrical and air-conditioning engineering designs, transport and communication management, economic feasibility reports market surveys etc. The major countries where exports of consultancy services were made are France, Japan, Norway, the UK, the USA Russia, Holland, Switzerland, Sweden, Kuwait, Muscat, UAE, Saudi Arabia, Iraq, Algeria, Oman, Ethiopia, Cameroon, Tanzania Singapore, Hong Kong, Sri Lanka, Korea, Indonesia, Pakistan, Malaysia and Laos.

Incentives Available:

The following incentives and facilities are available to Indian consultancy organizations:

1. Consultancy services: exporters whose annual foreign exchange earnings by way of export of services are not less than Rs 5 lakhs, are eligible for foreign exchange facilities for business development, purchase of tender documents, payment of commission bid bonds etc.

2. In order to cover risks, ECGC has designed policies to cover specific transactions services exports.

3. Marketing Development Assistance is provided to consultancy organizations which are registered with FIEO for undertaking market studies opening of foreign offices, publicity campaigns and feasibility studies.

5. Under Section 80-O of the Income Tax Act, consultancy organizations are entitled to a deduction of up 50 per cent of the net foreign exchange earnings in computing total income.

5. EWIM bank has introduced a scheme under which deferred payment facilities are available from EXIM bank in respect of consultancy jobs to be undertaken from India.

6. Facilities are also available for bid preparation as per the details given above projects exports.

7. 100 percent income tax exemption on export profits from computer software.

8. Setting up a "Consultancy Trust Fund" of US $ 0.5 million with the World Bank to be utilized for engaging Indian consultants for World Bank financed projects.

RBI gas simplified the export procedures to promote project exports as follows:

1. Limit for clearance of proposals by the authorized dealers as well as Exim Bank has been revised upward.

2. Need for obtaining Pre-Bid clearance from authorized dealers/ Exim Bank for overseas Projects has been dispensed with.

3. Authorization to Authorized dealers/ Exim bank to clear the proposals involving bridge finance up to 25 per cent of the contract value.

4. Allowing exporters to maintain a single foreign currency account for more than one contract being executed abroad in the same country subject to conditions stipulated by authorized dealer/Exim Bank.

5. In case of third country purchases, it has now been decided that letters of credit may be established by any authorized dealer on back-to-back basis, subject to same terms and conditions.

6. Authorized dealers/Exim Bank Working Group may now consider and approve project export proposals/serve contracts abroad involving all types of guarantees required to be furnished in connection with execution of projects/contracts abroad.

Unit II

Foreign trade & economic growth: Foreign trade & economic growth, balance of trade, balance of payments, free trade, forms and restrictions.

Foreign trade & economic growth

International trade refers to exchange of goods and services between one country and another (bilateral trade) or between one country and the rest of the world (multilateral trade).

The basis of international trade, from the supply side, is the Ricardian theory of comparative cost (advantage).

According to Ricardo the source of comparative advantage is difference in labour cost between two countries. Modern economists have extended Ricardo's theory and identified various other sources of comparative advantage, such as differences in factor endowments, tastes and preferences, technological gaps and product cycles. Ricardo's theory is static in nature.

The same is true of the modern theory of comparative advantage, viz., the Heckscher-Ohlin theory. Given a nation's factor endowments, technology and taste, Heckscher-Ohlin theory proceeded to determine a nation's comparative advantage and the gains from trade. However, factor endowments change over time; technological improvement occurs in the long run; and tastes may also change. Consequently, the nation's comparative advantage also changes over time.

Over time a nation's population grows and with it the size of its labour force. Similarly, a nation increases its capital stock in the long run. Moreover, natural resources (such as minerals) can be depleted or new ones found through discoveries or new applications.

All these changes lead to faster economic growth and changing pattern of comparative advantage over time. Technical change also leads to faster growth of real per capita income and is thus an important source of growth of nations and also a determinant of comparative advantage.

The growth of resources (such as land, labour, capital) and technological progress cause a nation's production possibilities curve (frontier) to shift outward.

There are the two main sources of growth:

1. Increase in the supplies of resources and

2. Technological progress.

The effect of growth on the volume of trade depends on the rates at which the output of the nation's exportable and importable commodities grow and with the consumption pattern of the nation as its real per capita income increases through growth and trade.

The Effect of Growth on Trade: The Small-Country Case:

If the output of the nation's exportable goods increases proportionately faster than that of its importable commodities at constant relative prices (or terms of trade), then growth tends to led to greater than proportionate expansion of trade. Economic growth has natural effect of leading to the same rate of expansion of trade.

On the other hand, if the nation's consumption of its importable commodity increases proportionately more than the nation's consumption of its exportable commodity, at constant prices, then the consumption effect tends to lead to a greater than proportionate expansion of trade. What in fact happens to the volume of trade in the process of growth depends on the net result of these production and consumption effects. This prediction is relevant for a small country which cannot influence world prices of tradable goods.

Growth and Trade: The Large-Country Case:

Economic growth is more relevant for one development of LDCs. If economic growth, what-ever its source may be, expands the nation's volume of trade at constant prices, then the nation's terms of trade (which is the ratio of the price index of exports to that of imports) tend to deteriorate.

On the other hand, if growth reduces the nation's volume of trade at constant prices, the nation's terms of trade will improve. This is known as the terms-of-trade effect of growth.

The effect of economic growth on the nation's welfare depends on the net result of terms-of-trade effect and a wealth effect. The wealth effect refers to the change in output per capita as a result of growth. A favourable wealth effect, by itself, tends to increase the nation's welfare.

Otherwise, the nation's welfare tends to decline or remain unchanged. If the wealth effect is positive and the nation's terms of trade improve as a result of growth and trade, the nation's welfare will surely improve. If they are both unfavourable, there is a loss of social welfare. If the wealth effect and the terms-of-trade effect move in opposite directions, the nation's welfare may deteriorate, improve or remain unchanged depending on the relative strength of these two opposing forces.

Trade Theory and Economic Development:

The classical (Ricardian)-trade theory predicts that if each nation specialises in the production of the commodity of its comparative advantage, world output will be greater, and, through trade, each nation will share in the gains from specialisation and exchange.

According to the modern theory of comparative advantage (known as the factor endowments or Heckscher-Ohlin theory) developing countries should specialise primarily in the production and export of raw materials, fuels, minerals and food to developed nations in exchange for manufactured products.

It is now believed that this pattern of specialisation and trade relegates developing countries to a subordinate position vis-a-vis developed nations and keeps them from deriving the dynamic benefits of industrialising and maximising their welfare in the long run.

The dynamic benefits include a more trained labour force, more innovations, higher and more stable prices for the nation's exports, and higher per capita income. With developing countries specialising in primary commodities and developed nations in manufactured goods, most, if not all, of these dynamic benefits of industry and trade accrue to developed nations, leaving developing countries poor, backward and dependent.

Another reason for this is that all developed nations are primarily industrial, while most developing nations are largely agricultural or engaged in extractive activities such as construction and mining. For these reasons the traditional theory of comparative advantage is static and irrelevant to the process of economic development.

Critics comment that as a developing nation accumulates capital and improves its technology, its comparative advantage shift away from primary products to simple manufactured goods first and then to more sophisticated items. This has recently occurred in Brazil, Korea, Mexico and other developing countries.

Trade as an Engine of Growth:

During the 19th century, the export sector of resource-poor developing countries, mainly Great Britain (where most of the world's modern industrial production was concentrated), was the leading sector that propelled these economies into rapid growth and development.

Thus, international trade acted as an engine of growth for these nations. The expansion of exports stimulated the rest of the economy. For other countries, inclu-ding the USA foreign trade shaped their factor endowments and furnished investment opportune ties for foreign as well as domestic capital.

According to Ragnar Nurkse the industrial revolution happened to originate on a small island with a limited range of natural resources, at a time when synthetic materials were yet unknown. In these circumstances, economic expansion was transmitted to less developed areas by a steep and steady demand for primary commodities which those area was well suited to produce.

Local factors of production overseas, whose growth may in part have been induced by trade, were thus largely absorbed in the expansion of profitable primary production for export. On top of this, the centre's increasing demand for raw materials and foodstuffs created incentives -for capital and labour to move from the centre to outlying areas, accelerating the process of growth transmission from the former to the latter.

Nurkse has argued that the young economies of the 19th century, viz., the USA, Canada and Australia had temperate climates and unusual factor endowments — vast quantities of land and small amounts of labour. They could therefore supply coffee, wheat and other staples needed at the centre of the world economy. Furthermore, the new countries of the 19th century (often called areas of recent

settlement) were peopled by recent immigrants from Europe, who brought with them institutions and traditions conductive to the growth of a modern economy.

However, some economists, notably Kravis, hold a different view on the relation between trade and growth. According to them, rapid growth of such nations as Canada, Argentina and Australia during the 19th century was primarily due to very favourable internal conditions (such as an abundant supply of natural resources), with international trade playing only an important supportive role.

Modem economists generally believe that today's developing nations can rely much less on trade for their growth and development. This is due to less favourable demand and supply conditions.

Prima facie, the demand for food and raw materials is growing much more slowly today than was the case during the 19th century.

There are at least five reasons for this:

1. Low income elasticity of demand:

The income elasticity of demand in developed nations for many of the food and agricultural raw materials exports of developing countries is low (the coefficient is often less than 1). This means that as income rises in developed countries, their demand for the agricultural exports of developing nation's increases proportionately less than the increase in income.

2. Development of synthetics:

The development of synthetics has reduced the demand for natural raw materials. For example, synthetic rubber has reduced the demand for natural rubber, nylon the demand for cotton and plastics the demand for hides and skins. The demand for Indian jute goods has also fallen for the same reason, i.e., use of plastic materials instead of jute bags for packing purposes.

3. Technological progress:

Technological advances have reduced the raw material content of many products, such as tin-plated cans and micro circuits.

4. Growth of service output:

The output of services (with lower raw material requirements than commodities) has grown faster than the output of commodities in developed nations.

5. Trade restrictions:

Developed countries have imposed trade restrictions on many agricultural exports (such as wheat, vegetables, sugar, oils and other products) of developing nations.

On the supply side the following four factors have been identified:

1. Factor endowments:

Most of today's developing countries are much less endowed with natural resources (except for petroleum- exporting countries) than were the western countries during the 19th century.

2. Population growth:

Most of today's developing countries are overpopulated. This means that the major portion of any increase in their output of food and raw materials is absorbed domestically, leaving, very little, if any, export surplus.

3. Factor mobility:

There is much less flow of capital in developing countries today than was observed in the 19th century. At the same time there is outflow of skilled labour from such countries on a fairly large scale.

4. Neglect of agriculture:

Finally, until recently, developing nations have somewhat neglected their agriculture in favour of more rapid industrialisation. This has hampered their export growth in particular and development prospects in general.

The Contributions of Trade to Development:

Today international trade cannot be expected to act as an 'engine of growth'. Yet there are many ways in which it can contribute to the economic growth of today's developing nations.

According to G. Haberler international trade can have the following beneficial effects on economic development:

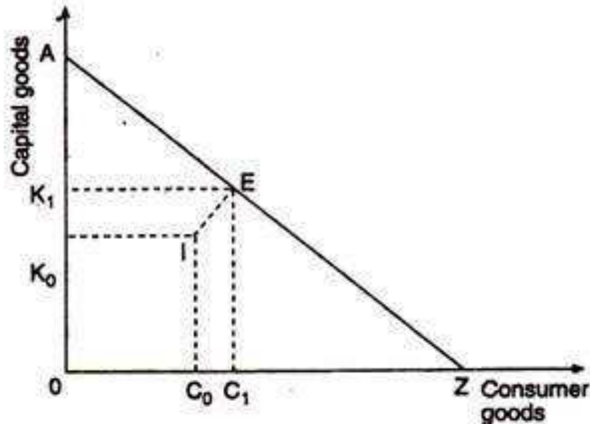


Fig. 8.3. Effect of trade on production

> **Economic Insight : International Trade and Endogenous Growth Theory**
>
> According to Romer and Lucas, who developed endogenous growth theory, there is a positive relationship between international trade and long-term economic growth and development. The theory postulates that lowering trade barriers will speed up the rate of economic growth and development in the long run by (1) allowing developing nations to absorb the technology developed in advanced countries at a faster rate than with a lower degree of openness, (2) increasing the benefits that flow from research and development (R & D), (3) promoting larger economies of scale in production, (4) reducing price distortions and leading to a more efficient use of domestic resources across sectors, (5) encouraging greater specialisation and more efficiency in the production of intermediate inputs, and (6) leading to more rapid innovations — introduction of new products and services.
>
> International trade has over the centuries served as a major motivation for contact among people of different countries and regions, the dissemination of new ideas, and the transfer of new technologies. In addition to the static gains from specialisation and exchange trade spreads knowledge and thereby increases countries' rates of technological progress. In particular, endogenous growth theory seeks to explain how endogenous technological change creates positive externalities which offset any propensity to diminishing returns to capital accumulation. Diminishing returns to capital arise when more units of capital are used with fixed amounts of other inputs.
>
> So there are various ways by which freeser trade can stimulate growth and development. Empirical studies have also shown that openness leads to faster growth.

1. Full utilisation of resources:

Trade can lead to full utilisation of a country's idle and under-employed resources as Fig. 8.3 shows. In the absence of trade, a developing country is operating at point I (an inefficient point). International trade enables it to operate at point E (an efficient point) and thus produce more of both consumption and capital goods.

This is the essence of the vent for surplus theory, developed by Hla Myint. According to this theory, international trade represents an outlet for its potential surplus of agricultural commodities and raw materials. This has really happened in many developing countries, particularly those in South-east Asia and West Africa.

2. Division of labour and specialisation:

There is not much scope for division of labour and specialisation if production of a commodity takes place for the narrow domestic market. If, instead, production is for the wider and unlimited export market there is much greater scope for specialisation. This has actually occurred in the production of light manufacturers in small economies such as Taiwan, Hong Kong and Singapore.

3. Transmission of knowledge:

International trade often acts as a vehicle for the transmission of new ideas, new technology and new managerial and organisational skills. And knowledge is the only factor of production which is not subject to diminishing returns.

4. Capital inflow:

International trade also stimulates and facilitates the flow of financial capital from developed to developing countries. In case of foreign direct investment, where the foreign firms or multinational corporations (MNCs) retain managerial control over its investment, foreign capital is often accompanied by foreign skilled personnel to operate the production units.

5. Stimulating domestic demand:

In case of India, Brazil and other large developing countries, imports of new manufactured goods have stimulated domestic demand in the initial stages when efficient domestic production of these goods were not economically feasible.

Contact with the rest of the world has acted as a powerful factor in creating demand for manufactured goods in the initial stages of industrialisation and stimulating domestic production of import-substitute items at a later stage of industrialisation and economic development.

6. Promoting competition:

International trade often acts as an anti-monopoly weapon by foreign domestic producers to achieve greater efficiency so as to be able to introduced foreign competition and survive in the long run. This is no doubt very important for keeping the cost and price of intermediate and semi-finished products used as the main or subsidiary inputs in the domestic production of various commodities low.

Trade as a Hindrance to Growth:

International trade is not an unmixed blessing for developing countries. It can also act as an obstacle (hindrance) to growth in more ways than one. Firstly, developing

countries suffer from deteriorating terms of trade. Secondly, the gains from trade are not equally shared by all sections of society.

Producers of import-substitute manufactured goods gain at the expense of primary producers. As a result there is more inequality in the distribution of income. These and other issues discussed in the context of trade problems of developing countries. Moreover, many developing countries of today lack the institutions conducive to rapid growth.

In spite of all these most economists continue to believe that trade is the most promising engine of growth for the developing countries, and they argue that the doctrine of comparative advantage applies with particular force to those countries, which should attempt to make the best possible use of their scarce human factor (skills) and limited physical capital.

While making an overall assessment of the effects of trade on growth Peter B. Kenen writes: "Many developing countries did not welcome private foreign capital because it had colonial overtones. Nor were they willing to serve forever as suppliers of raw materials. They feared the instability of raw materials prices and wanted to draw back from export dependence. Above all, they identified economic development with industrialisation and sought to build modern factories to symbolise their independence and assert their maturity. Invoking the infant industry argument, countries in Asia and Latin America engaged in systematic import substitution. They protected their import- competing industries, penalised their export industries and tended to neglect agricultural development."

Protectionism in Developed Countries:

The future success of international trade in serving as an engine of growth for developing economies depends only in part on the developing economies' willingness to eliminate trade barriers and integrate their economies into the world economy. It also depends on the willingness of the developed countries to open their economies to trade with the developing countries.

The truth is that the developed economies are very 'protectionist' against industries in which developing economies are most likely to enjoy a comparative advantage. Given the importance of international trade for economic growth, the protectionism by the developing economies may be a major cause of the lack of convergence in per capita output in the world.

Conclusion:

In summary is becoming increasingly difficult to treat international trade, international investment and immigration as separate phenomena. Trade often requires supporting investments in distribution and marketing facilities.

Improved transportation and communications permit multinational corporations to increasingly establish and spread production centres in accordance with every country's comparative advantage, and thus many foreign investments directly increase imports and exports. And people frequently accompany trade and investment flows.

All of these components of globalisation are also closely related to economic growth. After all, globalisation is just an international extension of the increased specialisation, exchange and interdependence that characterise the process of economic growth.

Balance of Trade

The balance of trade, commercial balance, or net exports (sometimes symbolized as NX), is the difference between the monetary value of a nation's exports and imports over a certain time period. Sometimes a distinction is made between a balance of trade for goods versus one for services. The balance of trade measures a flow of exports and imports over a given period of time. The notion of the balance of trade does not mean that exports and imports are "in balance" with each other.

The difference in value over a period of time between a country's imports and exports of goods and services, usually expressed in the unit of currency of a particular country or economic union (e.g., dollars for the United States, pounds sterling for the United Kingdom, or euros for the European Union). The balance of trade is part of a larger economic unit, the BALANCE OF PAYMENTS (the sum total of all economic transactions between one country and its trading partners around the world), which includes capital movements (money flowing to a country paying high interest rates of return), loan repayment, expenditures by tourists, freight and insurance charges, and other payments…..

If the exports of a country exceed its imports, the country is said to have a favourable balance of trade, or a trade surplus. Conversely, if the imports exceed exports, an unfavourable balance of trade, or a trade deficit, exists. According to the economic theory of mercantilism, which prevailed in Europe from the 16th to the 18th century, a favourable balance of trade was a necessary means of financing a country's purchase of foreign goods and maintaining its export trade. This was to be achieved by establishing colonies that would buy the products of the mother country and would export raw materials (particularly precious metals), which were considered an indispensable source of a country's wealth and power….

The assumptions of mercantilism were challenged by the classical economic theory of the late 18th century, when philosophers and economists such as Adam Smith argued that free trade is more beneficial than the protectionist tendencies of mercantilism and that a country need not maintain an even exchange or, for that matter, build a surplus in its balance of trade (or in its balance of payments).

If a country exports a greater value than it imports, it has a trade surplus or positive trade balance, and conversely, if a country imports a greater value than it exports, it has a trade deficit or negative trade balance. As of 2016, about 60 out of 200 countries have a trade surplus. The notion that bilateral trade deficits are bad in and of themselves is overwhelmingly rejected by trade experts and economists.

The balance of trade is the value of a country's exports minus its imports. It's the biggest component of the balance of payments that measures all international transactions. It's easy to measure since all goods and many services pass through the customs office.

The trade balance is also the biggest part of the current account. It measures a country's net income earned on international assets. It's the trade balance plus any other payments across borders.

The balance of trade forms part of the current account, which includes other transactions such as income from the net international investment position as well as international aid. If the current account is in surplus, the country's net international asset position increases correspondingly. Equally, a deficit decreases the net international asset position.

The trade balance is identical to the difference between a country's output and its domestic demand (the difference between what goods a country produces and how many goods it buys from abroad; this does not include money re-spent on foreign stock, nor does it factor in the concept of importing goods to produce for the domestic market).

Measuring the balance of trade can be problematic because of problems with recording and collecting data. As an illustration of this problem, when official data for all the world's countries are added up, exports exceed imports by almost 1%; it appears the world is running a positive balance of trade with itself. This cannot be true, because all transactions involve an equal credit or debit in the account of each nation. The discrepancy is widely believed to be explained by transactions intended to launder money or evade taxes, smuggling and other visibility problems. While the accuracy of developing countries statistics would be suspicious, most of the discrepancy actually occurs between developed countries of trusted statistics

A country's trade balance equals the value of its exports minus its imports.

The formula is

$$TB = Ex - Im$$

where:

Ex = Exports

Im = Imports

TB = Trade Balance

Factors that can affect the balance of trade include:

The cost of production (land, labour, capital, taxes, incentives, etc.) in the exporting economy vis-à-vis those in the importing economy;

The cost and availability of raw materials, intermediate goods and other inputs;

Currency exchange rate movements;

Multilateral, bilateral and unilateral taxes or restrictions on trade;

Non-tariff barriers such as environmental, health or safety standards;

The availability of adequate foreign exchange with which to pay for imports; and

Prices of goods manufactured at home (influenced by the responsiveness of supply)

In addition, the trade balance is likely to differ across the business cycle. In export-led growth (such as oil and early industrial goods), the balance of trade will shift towards exports during an economic expansion. However, with domestic demand-led growth (as in the United States and Australia) the trade balance will shift towards imports at the same stage in the business cycle.

The monetary balance of trade is different from the physical balance of trade (which is expressed in amount of raw materials, known also as Total Material Consumption). Developed countries usually import a substantial amount of raw materials from developing countries. Typically, these imported materials are

transformed into finished products and might be exported after adding value. Financial trade balance statistics conceal material flow. Most developed countries have a large physical trade deficit because they consume more raw materials than they produce. Many civil society organisations claim this imbalance is predatory and campaign for ecological debt repayment.

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Favourable Trade Balance

Most countries create trade policies that encourage a trade surplus. It's like making a profit as a country. Nations prefer to sell more products and receive more capital for their residents. That translates into a higher standard of living. Their companies also gain a competitive advantage in expertise by producing all the exports. They hire more workers, reduce unemployment, and generate more income.

To maintain this favourable trade balance, leaders often resort to trade protectionism. They protect domestic industries by levying tariffs, quotas, or subsidies on imports. That doesn't work for long. Soon other countries retaliate with their protectionist measures. A trade war reduces international trade for all nations.

Unfavourable Trade Balance

Most of the time, trade deficits are an unfavorable balance of trade. As a rule, countries with trade deficits export raw materials. They import a lot of

consumer products. Their domestic businesses don't gain the experience needed to make value-added products. Their economies become dependent on global commodity prices. Such a strategy also depletes their natural resources in the long run.

Some countries are so opposed to trade deficits that they adopt mercantilism. This is an extreme form of economic nationalism that says remove the trade deficit at all costs. It advocates protectionist measures such as tariffs and import quotas. Although these measures can reduce the deficit, they also raise consumer prices. Worst of all, they trigger reactionary protectionism from the nation's trade partners. It lowers international trade, and economic growth, for everyone involved.

Difference Between Trade Balance and Balance of Payments

The balance of trade is the most significant component of the balance of payments. The balance of payments adds international investments plus net income made on those investments to the trade balance.

A country can run a trade deficit, but still have a surplus in its balance of payments. A large surplus in investments could offset a trade deficit. That can only occur if the financial account runs a huge surplus. For example, foreigners could invest heavily in a country's assets. They could buy real estate, own oil drilling operations, or invest in local businesses.

The capital account records assets that produce future income, such as copyrights. As a result, it would rarely run a surplus large enough to offset a trade deficit.

Balance of Payments

The balance of payments is the record of all international trade and financial transactions made by a country's residents.

The balance of payments accounts of a country records the payments and receipts of the residents of the country in their transactions with residents of other countries. If all transactions are included, the payments and receipts of each country are, and must be, equal. Any apparent inequality simply leaves one country acquiring assets in the others. For example, if Americans buy automobiles from Japan, and have no other transactions with Japan, the Japanese must end up holding dollars, which they may

hold in the form of bank deposits in the United States or in some other U.S. investment. The payments of Americans to Japan for automobiles are balanced by the payments of Japanese to U.S. individuals and institutions, including banks, for the acquisition of dollar assets. Put another way, Japan sold the United States automobiles, and the United States sold Japan dollars or dollar-denominated assets such as Treasury bills and New York office buildings….

Although the totals of payments and receipts are necessarily equal, there will be inequalities—excesses of payments or receipts, called **deficits** or **surpluses**—in particular kinds of transactions. Thus, there can be a deficit or surplus in any of the following: merchandise trade (goods), services trade, foreign investment income, unilateral transfers (foreign aid), private investment, the flow of gold and money between central banks and treasuries, or any combination of these or other international transactions.

The balance of payments has three components. They are

The current account,

The financial account,

The capital accounts

The current account measures international trade, net income on investments, and direct payments.

The financial account describes the change in international ownership of assets.

The capital account includes any other financial transactions that don't affect the nation's economic output.

A country's balance of payments tells whether it saves enough to pay for its imports. It also reveals whether the country produces enough economic output to pay for its growth. The BOP is reported for a quarter or a year.

A balance of payments **deficit** means the country imports more goods, services and capital than it exports. It must borrow from other countries to pay for its imports.

In the long-term, the country becomes a net consumer, not a producer, of the world's economic output. It will have to go into debt to pay for consumption instead of

investing in future growth. If the deficit continues long enough, the country may have to sell off its assets to pay its creditors. These assets include natural resources, land, and commodities.

A balance of payments **surplus** means the country exports more than it imports. It provides enough capital to pay for all domestic production. The country might even lend outside its borders.

A surplus boosts economic growth in the short term. There's enough excess savings to lend to countries that buy its products. The increased exports boost production in its factories, allowing them to hire more people. In the long run, the country becomes too dependent on export-driven growth. It must encourage its residents to spend more.

A larger domestic market will protect the country from exchange rate fluctuations. It also allows its companies to develop goods and services by using its own people as a test market.

Current Account

The current account measures a country's trade balance plus the effects of net income and direct payments. When the activities of a country's people provide enough income and savings to fund all their purchases, business activity, and government infrastructure spending, then the current account is in balance.

Current Account: Deficit

A current account deficit is when a country's residents spend more on imports than they save. To fund the deficit, other countries lend to, or invest in, the deficit country's businesses. The lender country is usually willing to pay for the deficit because its businesses profit from exports to the deficit country. In the short run, the current account deficit is a win/win for both nations.

But if the current account deficit continues for a long time, it will slow economic growth. Foreign lenders will begin to wonder whether they will get an adequate return on their investment. If demand falls off, the value of the borrowing country's currency may also decline. This leads to inflation as import prices rise. It also creates higher interest rates as the government must pay higher yields on its bonds.

Current Account: Trade Balance

The trade balance measures a country's imports and exports. This is the largest component of the current account, which is itself the largest component of the balance of payments. Most countries try to avoid a trade deficit, but it's a good thing for emerging market countries. It helps them grow faster than they could if they maintained a surplus.

Current Account: Trade Deficit Definition

A trade deficit results when a country's imports more than it exports. Imports are any goods and services produced in a foreign country, even if these are produced overseas by a domestic company.

A trade deficit can then occur even if all the imports are being sold by, and sending profit to, a domestic firm. With the rise of multinational corporations and job outsourcing, trade deficits are on the rise.

The Four Current Account Components

The Bureau of Economic Analysis divides the current account into four components: trade, net income, direct transfers of capital, and asset income.[4]

1. Trade: Trade in goods and services is the largest component of the current account. A trade deficit alone is enough to create a current account deficit.[5] A deficit in goods in services is large enough to offset any surplus in net income, direct transfers, and asset income.

2. Net Income: This is income received by the country's residents minus income paid to foreigners. The country's residents receive income from two sources. The first is earned on foreign assets owned by a nation's residents and businesses. That includes interest and dividends earned on investments held overseas. The second source is income earned by a country's residents who work overseas.[6]

Income paid to foreigners is similar. The first category is interest and dividend payments to foreigners who own assets in the country. The second is wages paid to foreigners who work in the country.

If the income received by a country's individuals, businesses, and government from foreigners are more than the income paid out, then net income is positive. If it is less, then it contributes to a deficit.

3. Direct Transfers: This includes remittances from workers to their home country. For example, Mexico receives $24.8 billion from abroad.[7] Although there are no exact figures, it's probable that the majority is from immigrants living in the United States. President Donald Trump threatened to stop those payments if Mexico did not pay for the border wall he wants to build. He would use the Patriot Act to confiscate Western Union payments.[8] That would reduce 1% of Mexico's economic output. But it would double its current account deficit of $29 billion.

Direct transfers also include a government's direct foreign aid. For example, the United States spends $22 billion a year on aid to foreign countries. That adds to America's $488.5 billion current account deficit, the largest in the world.[9]

A third direct transfer is foreign direct investments. That's when a country's residents or businesses invest in ventures overseas. To count as FDI, it has to be more than 10% of the foreign company's capital.[10]

The fourth direct transfer is bank loans to foreigners.

4. Asset Income: This is composed of increases or decreases in assets like bank deposits, the central bank, and government reserves, securities, and real estate. For example, if a country's assets do well, asset income will be high. U.S. assets owned by foreigners are subtracted from asset income. These include:

- A country's liabilities to foreigners such as deposits of foreign residents at the country's banks.
- Loans made by foreign banks abroad to domestic banks.
- Foreign private purchases of a country's government bonds, such as U.S. Treasury securities.
- Sales of the securities, such as stocks and bonds, made by a nation's businesses to foreigners.
- Foreign direct investment, such as reinvested earnings, equities, and debt.
- Other debts owed to foreigners.
- Assets, like those described, held by foreign governments.
- Net shipments of the country's currency to foreign governments.

Again, the opposite will add to asset income and subtract from the deficit. More specifically, this includes:

- Deposits at foreign banks.
- Bank loans to foreigners.
- Sales of foreign-based securities.
- A direct investment made in foreign countries.
- Debts owed to a country's residents and businesses by foreigners.
- Foreign assets owned by a country's government.
- A country's official reserve assets of foreign currency. (Source: "Current Account," Bureau of Economic Analysis.)

Financial Account

The financial account measures changes in domestic ownership of foreign assets and foreign ownership of domestic assets. If foreign ownership increases more than domestic ownership does, it creates a deficit in the financial account. This means the country is selling off its assets, like gold, commodities, and corporate stocks, faster than it is acquiring foreign assets.

The financial account is a measurement of increases or decreases in international ownership of assets. The owners can be individuals, businesses, the government, or its central bank. The assets include direct investments, securities like stocks and bonds, and commodities such as gold and hard currency.

The financial account reports on the change in total international assets held. You can find out if the number of assets held increased or decreased. It does not tell you how much in total assets is currently being held.

The financial account is part of a country's balance of payments. The other two parts are the capital account and the current account. The capital account measures financial transactions that don't affect income, production, or savings. Examples include international transfers of drilling rights, trademarks, and copyrights. The current account measures international trade of goods and services plus net income and transfer payments.

The Two Subaccounts of the Financial Account

The financial account has two main subaccounts. The first is domestic ownership of foreign assets. It measures money flowing out of the country to purchase foreign assets. If this increase, it subtracts from the financial account.[1]

The second subaccount is foreign ownership of domestic assets. It measures money flowing into the country to pay for the asset. If this increase, it adds to a country's financial account.

The financial account components are similar in each subaccount.[2] The only difference is whether the asset is owned by someone in the country or a foreigner.

Domestic Ownership of Foreign Assets

This subaccount is further divided into three types of ownership: private, government, and central bank reserves. No matter which entity owns the foreign asset, increases subtract from the financial account.

Private owners can be either individuals or businesses. Their assets include:

- Deposits at Foreign Banks
- Loans to Foreigners
- Securities of Foreign-Owned Companies
- Direct Investments Made in Foreign Countries
- Commodities, Such as Gold, Held in Other Countries

Government owners can be at the federal, state, or local level. Most foreign assets are owned by the federal government. Its assets can include all of the above, but most are gold and foreign currencies held in reserve. This component also includes the government's reserve position in the International Monetary Fund.

The nation's central bank can own all of the above except for the reserve position in the IMF. Also, it owns currency swaps with other central banks.

Foreign Ownership of Domestic Assets

This subaccount is further divided into two types of ownership: private and foreign official assets. When foreigners increase their ownership of a country's assets, it adds to the financial account.

These domestic assets include:

- Deposits owned by foreigners held at the country's banks.

- Loans made by foreign banks to domestic banks.
- Foreign private purchases of a country's government bond, such as U.S. Treasury notes.
- Corporate securities, such as stocks and bonds, owned by foreigners.
- Foreign direct investment, such as reinvested earnings, equities, and debt.
- Other debts owed to foreigners.
- Hard assets, such as gold and other commodities.
- The country's currency.

Foreign official assets include:

- Assets mentioned above that are held by foreign governments or foreign central banks.
- Net shipments of the country's currency to foreign governments or foreign central banks.

The financial accounts measure the change in international ownership of assets. This should not be confused with the income, such as interest and dividends, that is paid out on the assets owned. That is measured by the current account.

Capital Account

The capital account measures financial transactions that don't affect a country's income, production, or savings. For example, it records international transfers of drilling rights, trademarks, and copyrights. Many capital account transactions happen infrequently, such as cross-border insurance payments. The capital account is the smallest component of the balance of payments.

The capital account is part of a country's balance of payments. It measures financial transactions that affect a country's future income, production, or savings. An example is a foreigner's purchase of a U.S. copyright to a song, book, or film. Its value is based on what it will produce in the future. The Federal Reserve calls these transactions non-produced, nonfinancial assets.

When these transactions generate income, they are transferred to another part of the balance of payments. If they produce investment income, they are transferred to

the financial account. If they produce income from goods or services, they are transferred to the current account.

In the United States, the Bureau of Economic Analysis measures capital account transactions. The capital accounts transactions are large and irregular. They are difficult to measure because they don't show up in the BEA's regular reports.

The BEA puts them in the capital account so they don't affect the gross domestic product or the gross national product reports.

Examples

The capital account includes international transfers of ownership. An example is a purchase of a foreign trademark by a U.S. company. A similar example is a U.S. oil company's acquisition of drilling rights to an overseas location.

International debt forgiveness is another. A cross-border insurance payment could be substantial, but it rarely occurs. When it does, it goes into the capital account.

Subaccounts

The capital account has two main subaccounts:

1. Acquisition and Disposal of Non-produced, Non-financial Assets. This measures the purchase and sale of two types of assets: tangible and intangible assets. Tangible assets include the rights to natural resources, such as mineral rights, parts of the electromagnetic spectrum, and offshore drilling rights.

Intangible assets include patents, copyrights, and trademarks. They also include franchises and leases. An example is the receipts of United States-based sports leagues to establish franchises in Canada. It also includes U.S. State Department receipts for the sale of land in London. Another example is payments made to buy the rights to negotiate with foreign athletes.

The BEA admits there is no reliable way to measure the separate value of most of these transactions. In the net income section of the current account, they are often mixed up in royalties and license fees.

They could also be tied to the business, professional, or technical services accounts in the trade portion of the current account.

2. Capital Transfer. There are three components of the capital transfer sub-account. The first is insured catastrophic losses. These are large, but infrequent, insurance

payments from foreign insurance companies. The BEA determines on a case-by-case basis if it counts as a catastrophic loss.

The second component of this sub-account is debt forgiveness. The only part of the debt that is measured is the principal and any overdue interest payments. Future interest payments that haven't accrued aren't counted. The only data available is on the debt forgiven by a country's government, such as U.S. Treasury notes.

The third component is specific to the transfer of the U.S. government's assets in the Panama Canal Commission to the Republic of Panama.

Deficit

Acquisitions of non-produced, non-financial assets create a deficit in the capital account. An example is the purchase of rights to natural resources. When a country's residents, businesses, or government forgive a debt, their action also adds to the deficit.

Surplus

Disposals of non-produced, non-financial assets create a surplus. An example is the sale of rights to natural resources. When foreign insurance companies pay to cover catastrophic losses, they also add to the surplus.

How the Capital Account Is Part of the Balance of Payments

The other two parts of the balance of payments are the financial account and the current account. The financial account measures the net change in ownership of foreign and domestic assets. The current account measures the international trade of goods and services plus net income and transfer payments.

The capital account is a miscellaneous account. Combined with the financial account, it represents the transfer of capital to help pay for the current account, which includes the trade of goods and services.

The capital account is usually not very large. But when combined with the financial account, it could run a large enough surplus to offset a trade deficit. Unfortunately, that means the country is selling off its assets to buy foreign goods and services.

Free trade

Free trade is a trade policy that does not restrict imports or exports. It can also be understood as the free market idea applied to international trade. In government, free trade is predominantly advocated by political parties that hold liberal economic positions while economically left-wing and nationalist political parties generally support protectionism, the opposite of free trade.

In the modern world, free trade policy is often implemented by means of a formal and mutual agreement of the nations involved. However, a free-trade policy may simply be the absence of any trade restrictions.

A government doesn't need to take specific action to promote free trade. This hands-off stance is referred to as “laissez-faire trade” or trade liberalization.

Governments with free-trade policies or agreements in place do not necessarily abandon all control of imports and exports or eliminate all protectionist policies. In modern international trade, few free trade agreements (FTAs) result in

The Economics of Free Trade

In principle, free trade on the international level is no different from trade between neighbours, towns, or states. However, it allows businesses in each country to focus on producing and selling the goods that best use their resources while other businesses import goods that are scarce or unavailable domestically. That mix of local production and foreign trade allows economies to experience faster growth while better meeting the needs of its consumers.

This view was first popularized in 1817 by economist David Ricardo in his book, On the Principles of Political Economy and Taxation. He argued that free trade expands the diversity and lowers the prices of goods available in a nation while better exploiting its homegrown resources, knowledge, and specialized skills.

Most nations are today members of the World Trade Organization multilateral trade agreements. Free trade was best exemplified by the unilateral stance of Great Britain who reduced regulations and duties on imports and exports from the mid nineteenth century to the 1920s. An alternative approach, of creating free trade areas between groups of countries by agreement, such as that of the European Economic Area and the Mercosur open markets, creates a protectionist barrier between that free trade area and the rest of the world. Most governments still impose some protectionist

policies that are intended to support local employment, such as applying tariffs to imports or subsidies to exports. Governments may also restrict free trade to limit exports of natural resources. Other barriers that may hinder trade include import quotas, taxes and non-tariff barriers, such as regulatory legislation.

Historically, openness to free trade substantially increased from 1815 to the outbreak of World War I. Trade openness increased again during the 1920s, but collapsed (in particular in Europe and North America) during the Great Depression. Trade openness increased substantially again from the 1950s onwards (albeit with a slowdown during the oil crisis of the 1970s). Economists and economic historians contend that current levels of trade openness are the highest they have ever been.

There is a broad consensus among economists that protectionism has a negative effect on economic growth and economic welfare while free trade and the reduction of trade barriers has a positive effect on economic growth and economic stability. However, liberalization of trade can cause significant and unequally distributed losses, and the economic dislocation of workers in import-competing sectors.

Features

Free trade policies may promote the following features:

- Trade of goods without taxes (including tariffs) or other trade barriers (e.g. quotas on imports or subsidies for producers).
- Trade in services without taxes or other trade barriers.
- The absence of "trade-distorting" policies (such as taxes, subsidies, regulations, or laws) that give some firms, households, or factors of production an advantage over others.
- Unregulated access to markets.
- Unregulated access to market information.
- Inability of firms to distort markets through government-imposed monopoly or oligopoly power.
- Trade agreements which encourage free trade.

Forms and Restrictions

Trade agreements are usually unilateral, bilateral, or multilateral.

Unilateral Trade Agreement

These occur when a country imposes trade restrictions and no other country reciprocates. A country can also unilaterally loosen trade restrictions, but that rarely happens. It would put the country at a competitive disadvantage. The United States and other developed countries only do this as a type of foreign aid in order to help emerging markets strengthen strategic industries that are too small to be a threat. It helps the emerging market's economy grow, creating new markets for U.S. exporters.

A unilateral trade agreement is a commerce treaty that a nation imposes without regard to others. It benefits that one country only. It is unilateral because other nations have no choice in the matter. It is not open to negotiation.

The World Trade Organization defines a unilateral trade preference similarly. It occurs when one nation adopts a trade policy that isn't reciprocated. For example, it happens when a country imposes a trade restriction, such as a tariff, on all imports.

It also applies to a state that lifts a tariff on its partner's imports even that's not reciprocated. A large country might do that to help out a small one.

A unilateral agreement is one type of free trade agreement. Another type is a bilateral agreement between two countries. It is the most common because it's easy to negotiate. The third type is a multilateral agreement. It's the most powerful but takes a long time to negotiate.

Some conservatives define unilateral trade policies as the absence of any trade agreement whatsoever.

In that definition, the United States would lift all tariffs, regulations, and other restrictions on trade. It's unilateral because it doesn't require other nations to do the same. The argument is that the government should not restrict the rights of its citizens to trade anywhere in the world.

In that scenario, other countries would keep their tariffs on U.S. exports. That would give them a unilateral advantage. They could ship cheap goods into the United States, but U.S. exports would be priced higher in their countries.

Emerging market nations are afraid of any trade agreements with developed nations. They worry that the imbalance of power would create a unilateral benefit to the developed nation.

Advantages and Disadvantages

Unilateral trade policies such as tariffs work great in the short term. Tariffs raise the price of imports. As a result, the prices of locally made products seem lower in comparison. This boosts economic growth and creates jobs.

Over time, these advantages disappear. That's when other countries retaliate and add their own tariffs. Now the domestic companies' exports drop. As businesses suffer, they lay off recently hired workers. Global trade drops and everyone suffers.

This occurred during the Great Depression. Countries protected domestic jobs by raising import prices through tariffs. This trade protectionism soon lowered global trade overall as country after country followed suit. As a result, global trade plummeted 65%. Discover other effects of the Great Depression.

After World War II, the United States started negotiating lower tariffs with 15 countries. They were Australia, Belgium, Brazil, Canada, China, Cuba, Czechoslovakia, France, India, Luxembourg, the Netherlands, New Zealand, South Africa, and the United Kingdom.

On January 1, 1948, the General Agreement on Tariffs and Trade went into effect with 23 countries. These were the original 15, plus Myanmar, Sri Lanka, Chile, Lebanon, Norway, Pakistan, South Rhodesia, and Syria. This lifted all unilateral trade restrictions and the global economy recovered.

Bilateral Trade Agreements

Bilateral agreements involve two countries. Both countries agree to loosen trade restrictions to expand business opportunities between them. They lower tariffs and confer preferred trade status on each other. The sticking point usually centres around key protected or government-subsidized domestic industries. For most countries, these are in the automotive, oil, or food production industries. The Obama administration was negotiating the world's largest bilateral agreement, the Transatlantic Trade and Investment Partnership with the European Union.

A bilateral trade agreement confers favored trading status between two nations. By giving them access to each other's markets, it increases trade and economic growth. The terms of the agreement standardize business operations and level the playing field.

Each agreement covers five areas. First, it eliminates tariffs and other trade taxes. This gives companies within both countries a price advantage. It works best when each country specializes in different industries.

Second, countries agree they won't dump products at a cheap cost. Their companies do this to gain unfair market share. They drop prices below what it would sell for at home or even its cost to produce. They raise prices once they've destroyed competitors.

Third, the governments refrain from using unfair subsidies. Many countries subsidize strategic industries, such as energy and agriculture. This lowers the costs for those producers. It gives them an unfair advantage when exporting to another nation.

Fourth, the agreement standardizes regulations, labour standards, and environmental protections. Fewer regulations act like a subsidy. It gives the country's exporters a competitive advantage over its foreign competitors.

Fifth, they agree to not steal the other's innovative products. They adopt each other's copyright and intellectual property laws.

Advantages

Bilateral agreements increase trade between the two countries. They open markets to successful industries. As companies benefit, they add jobs.

The country's consumers also benefit from lower costs. They can get exotic fruits and vegetables that can get too expensive without the agreement.

They are easier to negotiate than multilateral trade agreements, since they only involve two countries. This means they can go into effect faster, reaping trade benefits more quickly. If negotiations for a multilateral trade agreement fails, many of the nations will negotiate a series of bilateral agreements instead.

Disadvantages

Any trade agreement will cause less successful companies to go out of business. They can't compete with a more powerful industry in the foreign country. When

protective tariffs are removed, they lose their price advantage. As they go out of business, workers lose jobs.

Bilateral agreements can often trigger competing bilateral agreements among other countries. This can whittle away the advantages that the free trade agreement confers between the original two nations.

Multilateral Trade Agreements

These agreements among three countries or more are the most difficult to negotiate. The greater the number of participants, the more difficult the negotiations are. By nature, they are more complex than bilateral agreements, as each country has its own needs and requests.

Once negotiated, multilateral agreements are very powerful. They cover a larger geographic area, which confers a greater competitive advantage on the signatories. All countries also give each other most-favoured-nation status—granting the best mutual trade terms and lowest tariffs.

Multilateral trade agreements are commerce treaties among three or more nations. The agreements reduce tariffs and make it easier for businesses to import and export. Since they are among many countries, they are difficult to negotiate.

That same broad scope makes them more robust than other types of trade agreements once all parties sign. Bilateral agreements are easier to negotiate but these are only between two countries.

They don't have as big an impact on economic growth as does a multilateral agreement.

- Multilateral trade agreements strengthen the global economy by making developing countries competitive.
- They standardize import and export procedures giving economic benefits to all member nations.
- Their complexity helps those that can take advantage of globalization, while those who cannot often face hardships.

Five Advantages

Multilateral agreements make all signatories treat each other equally. No country can give better trade deals to one country than it does to another. That levels the playing field. It's especially critical for emerging market countries. Many of them are smaller in size, making them less competitive. The Most Favored Nation Status confers the best trading terms a nation can get from a trading partner. Developing countries benefit the most from this trading status.

The second benefit is that it increases trade for every participant. Their companies enjoy low tariffs. That makes their exports cheaper.

The third benefit is it standardizes commerce regulations for all the trade partners. Companies save legal costs since they follow the same rules for each country.

The fourth benefit is that countries can negotiate trade deals with more than one country at a time. Trade agreements undergo a detailed approval process. Most countries would prefer to get one agreement ratified covering many countries at once.

The fifth benefit applies to emerging markets. Bilateral trade agreements tend to favour the country with the best economy. That puts the weaker nation at a disadvantage. But making emerging markets stronger helps the developed economy over time.

As those emerging markets become developed, their middle class population increases. That creates new affluent customers for everyone.

Four Disadvantages

The biggest disadvantage of multilateral agreements is that they are complex. That makes them difficult and time consuming to negotiate. Sometimes the length of negotiation means it won't take place at all.

Second, the details of the negotiations are particular to trade and business practices. The public often misunderstands them. As a result, they receive lots of press, controversy, and protests.

The third disadvantage is common to any trade agreement. Some companies and regions of the country suffer when trade borders disappear.

The fourth disadvantage falls on a country's small businesses. A multilateral agreement gives a competitive advantage to giant multi-nationals. They are already familiar with operating in a global environment. As a result, the small firms can't

compete. They lay off workers to cut costs. Others move their factories to countries with a lower standard of living. If a region depended on that industry, it would experience high unemployment rates. That makes multilateral agreements unpopular.

Different Types of Trade Restrictions

As David Ricardo taught us, when nations specialize and trade total world output is increased. Companies produce for foreign markets as well as domestic markets (markets in the home country). Exports are the goods and services sold in foreign markets. Imports are goods or services bought from foreign producers.

In spite of the benefits of international trade, many nations put limits on trade for various reasons. The main types of trade restrictions are tariffs, quotas, embargoes, licensing requirements, standards, and subsidies.

A **tariff** is a tax put on goods imported from abroad. The effect of a tariff is to raise the price of the imported product. It helps domestic producers of similar products to sell them at higher prices. The money received from the tariff is collected by the domestic government.

There are two types of tariffs: protective and revenue tariffs. **Protective tariffs** are put in place specifically to make foreign goods more expensive to protect domestic industries from competition. **Revenue tariffs** are put in place to raise money for the government. It all depends on the intention of the government that implements the tariff. Oftentimes any tariff will end up accomplishing both goals at once (at the expense of the domestic consumer and the foreign business).

EXAMPLE: The **Smoot-Hawley Tariff Act** of June 1930 raised U.S. tariffs to the second highest levels in our nation's history (the highest was in 1828). The original intention of the tariff was to protect American farmers from foreign competition after WWI. When Europe began to recover after WWI and greatly expanded agricultural production, an oversupply of food caused declining farm prices in America. This tariff was meant to block trade with those foreign food producers. However, when the Depression hit in 1929, the tariff was expanded to include most foreign imports. The new tariff imposed an effective tax rate of 60% on more than 3,200 products and materials imported into the United States. U.S. imports from Europe

declined from a 1929 high of $1.3 billion to just $390 million in 1932, while U.S. exports to Europe fell from $2.3 billion in 1929 to $784 million in 1932. Overall, world trade declined by some 66% between 1929 and 1934. This amounted to less goods being bought or sold at a time when the world economy desperately needed money to flow freely. More generally, Smoot-Hawley also did nothing to foster trust and cooperation among nations in either the political or economic realm during a perilous era in international relations (the years leading up to WWII).

A **quota** is a limit on the amount of goods that can be imported. Putting a quota on a good creates a shortage, which causes the price of the good to rise and allows domestic producers to raise their prices and to expand their production. A quota on shoes, for example, might limit foreign-made shoes to 10,000,000 pairs a year. If Americans buy 200,000,000 pairs of shoes each year, this would leave most of the market to American producers.

An **embargo** stops exports or imports of a product or group of products to or from another country. Sometimes all trade with a country is stopped, usually for political reasons.

Some countries require import or export **licenses**. When domestic importers of foreign goods are required to get licenses, imports can be restricted by not issuing many licenses. Export licenses have been used to restrict trade with certain countries or to keep domestic prices on agricultural products from rising.

Standards are laws or regulations that nations use to restrict imports. Sometimes nations establish health and safety standards for imported goods that are higher than those for goods produced domestically. These have become a major form of trade restriction and are used in different amounts by many countries.

Subsidies can be thought of as tariffs in reverse. Instead of taxing the foreign import, the government gives grants of money to domestic producers to encourage exports. Those who receive such subsidies can use them to pay production costs and can charge less for their goods than foreign producers. A tariff is paid for by the buyers of the foreign goods and the buyers of domestic goods who pay higher prices. But subsidies are paid for by taxpayers who may or may not use the good.

Unit III

International Economic Institutions: International economic institutions, IMF, World Bank, WTO (in brief), Regional economic groupings NAFTA, EU, ASEAN, SAARC.

Introduction to International Economic Institutions:

Several international economic and trade organizations affect the environment of international business in a variety of ways, such as assessing the country's economic environment, extending credit facilities to national governments as well as individual organizations, undertaking equity investments, providing multilateral guarantees for trade and investment, settling disputes, keeping surveillance of international monetary systems, compiling and disseminating information, protecting intellectual property, providing technical assistance, and funding development projects.

A thorough understanding of the institutional framework, both at the international and national level, thus becomes pertinent for international business managers for effective decision making.

The major international and multilateral institutions have come up under the aegis of the UN system, such as the World Trade Organization (WTO), the World Bank (WB), and International Monetary Fund (IMF), United Nations Conference on Trade and Development (UNCTAD), and International Trade Centre (ITC).

The WTO provides a rule-based multilateral framework for international trade and deals with a variety of issues, such as tariffs, non-tariff barriers, market access, intellectual property rights, subsidies, countervailing measures, rules of origin, policy framework, dumping, etc.

Since it has been the most significant organization of the international economic institutions affecting international trade in the present context.

Constituents of the World Bank group, such as the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the

International Centre for Settlement on Investment Disputes (ICSID), represent the most significant framework of international economic institutions.

The IMF came into existence in 1944, subsequent to the Bretton Woods conference, with an aim to maintain regular dialogue and policy advice to each of its member and providing exchange stability.

The UNCTAD helps create development-friendly integration of developing countries into the world economy, which has led to the launch of several useful agreements facilitating developing countries to promote trade. The World Intellectual Property Organization (WIPO) establishes an institutional framework for the protection of intellectual property internationally.

In order to extend credit and technical assistance for improving the welfare of the people in Asia and the Pacific, the Asian Development Bank (ADB) undertakes projects in the region, aimed at pro-poor sustainable economic growth, social development, and good governance.

Besides, some international organizations, such as the ITC, exclusively deal with the promotion of international trade. Most countries have their own independent organizations to promote international trade.

This article provides broad framework of international and national institutions related to international trade. The institutional framework facilitating international business in India involves the Ministry of Commerce, advisory bodies, commodity organizations, and service organizations.

Economic development has been considered vital to improve the quality of life of millions of people across the world and to reduce poverty. A large number of organizations have been set up under the aegis of the UN to facilitate international trade and investment. This provides an institutional framework for multilateral trade, investment, and international economic growth.

International Monetary Fund

Facts:

Abbreviation	IMF
Creation	27 December 1945; 74 years ago,
Conception	7 July 1944 along with The World Bank
Type	International Financial Institution
Purpose	Promote international monetary co-operation, facilitate international trade, foster sustainable economic growth, make resources available to members experiencing balance of payments difficulties.
Headquarters	Washington, D.C. U.S.
Location	Headquartered in Washington, D.C.
Region	Worldwide
Membership	189 countries
Official language	English
Managing Director	Kristalina Georgieva
Chief Economist	Gita Gopinath
Main organ	Board of Governors
Parent organization	United Nations
Staff	2,400
Website	www.imf.org

The **International Monetary Fund (IMF)** is an international organization of **189 countries,** working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. It now plays a central role in the management of balance of payments difficulties and international financial crises. The IMF also works to improve the economies of its

member countries. Created in 1945, the IMF is governed by and accountable to the 189 countries that make up its near-global membership.

The organization's objectives stated in the Articles of Agreement are:

To promote international monetary co-operation, international trade, high employment, exchange-rate stability, sustainable economic growth, and making resources available to member countries in financial difficulty

Other objectives include:

- To facilitate the expansion and balanced growth of International Trade
- To establish a multilateral system of payments

Functions:

The IMF's fundamental mission is to ensure the stability of the international monetary system. It does so in three ways: keeping track of the global economy and the economies of member countries; lending to countries with balance of payments difficulties; and giving practical help to members.

Economic Surveillance

The IMF oversees the international monetary system and monitors the economic and financial policies of its 189 member countries. As part of this process, which takes place both at the global level and in individual countries, the IMF highlights possible risks to stability and advises on needed policy adjustments.

Lending

The IMF provides loans to member countries experiencing actual or potential balance of payments problems to help them rebuild their international reserves, stabilize their currencies, continue paying for imports, and restore conditions for strong economic growth, while correcting underlying problems.

Capacity Development

The IMF works with governments around the world to modernize their economic policies and institutions, and train their people. This helps countries strengthen their economy, improve growth and create jobs.

Organisation & Finance:

The IMF has a management team and 17 departments that carry out its country, policy, analytical, and technical work. One department is charged with managing the IMF's resources. This section also explains where the IMF gets its resources and how they are used.

Management

The IMF has a Managing Director, who is head of the staff and Chairperson of the Executive Board. The Managing Director is appointed by the Executive Board for a renewable term of five years and is assisted by a First Deputy Managing Director and three Deputy Managing Directors.

Staff

The IMF's employees come from all over the world; they are responsible to the IMF and not to the authorities of the countries of which they are citizens. The IMF staff is organized mainly into area; functional; and information, liaison, and support responsibilities.

IMF Resources

Most resources for IMF loans are provided by member countries, primarily through their payment of quotas.

Quotas

Quota subscriptions are a central component of the IMF's financial resources. Each member country of the IMF is assigned a quota, based broadly on its relative position in the world economy.

Special Drawing Rights (SDR)

The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves.

Gold

Gold remains an important asset in the reserve holdings of several countries, and the IMF is still one of the world's largest official holders of gold.

Borrowing Arrangements

While quota subscriptions of member countries are the IMF's main source of financing, the Fund can supplement its quota resources through borrowing if it believes that they might fall short of members' needs.

India & IMF

India is a founder member of IMF. Earlier India was made a permanent Executive Director of the Board of Directors. At present India is no longer a permanent director. India is now an elected member of IMF. India's rank is 13th among 189 member nations.

Advantages from Membership of IMF to India:

- Facility of Foreign Exchange
- Freedom from British Pound
- Membership of the World Bank
- Importance of India in International Sector
- Economic Consultation
- Help during Emergency

- Financial help for five Year Plans
- Special Drawing Rights
- Help in Foreign Exchange Crisis
- Profit from Sale of Gold

→ The relationship between the IMF and India has grown strong over the years. In fact, the country has turned into a creditor to the IMF. India and IMF must continue to boost their relationship this way, as it will prove to be advantageous for both.

→ The IMF's primary purpose is to safeguard the stability of the international monetary system—the system of exchange rates and international payments that enables countries (and their citizens) to buy goods and services from each other.

→ The IMF works to foster global growth and economic stability. It provides policy advice and financing to members in economic difficulties and also works with developing nations to help them achieve macroeconomic stability and reduce poverty.

The World Bank

MOTTO	WORKING FOR A WORLD FREE OF POVERTY
FORMATION	JULY 1944; 75 YEARS AGO,
TYPE	MONETARY INTERNATIONAL FINANCIAL ORGANIZATION
LEGAL STATUS	TREATY
HEADQUARTERS	WASHINGTON, D.C., U.S.
MEMBERSHIP	189 COUNTRIES (IBRD); 173 COUNTRIES (IDA)
KEY PEOPLE	· DAVID MALPASS (PRESIDENT)
	· ANSHULA KANT (MD AND CFO)
	· PENNY GOLDBERG (CHIEF ECONOMIST)
PARENT ORGANIZATION	WORLD BANK GROUP

The World Bank is an international financial institution that provides loans to developing countries for capital programs. It comprises two institutions: **The International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA)**. The World Bank is a component of the World Bank Group, and a member of the United Nations Development Group.

As of November 2018, the largest recipients of World Bank loans were India ($859 million in 2018) and China ($370 million in 2018), through loans from IBRD.

The World Bank's official goal is the reduction of poverty. According to its Articles of Agreement, all its decisions must be guided by a commitment to the promotion of foreign investment and international trade and to the facilitation of Capital investment.

During World War II, in the year 1944, a decision for the establishment of two institutions was taken in a Conference held at Bretton Woods in America. The institutions to be established were

(1) International Monetary Fund and

(2) International Bank for Reconstruction and Development or World Bank.

The objective of IMF was to stabilize exchange rates by removing temporary balance of payments deficits. On the other hand, the objective of the International Bank for Reconstruction and Development (IBRD) or the World Bank was the reconstruction of war-ravaged economies and provision of necessary capital for the economic development of underdeveloped countries. The bank was established in 1945 and started its function in June 1945. The World Bank is an inter-governmental institution and corporate in form. Its capital is wholly owned by its member countries.

The World Bank Group

The World Bank Group is an extended family of five international organizations, and the parent organization of the World Bank, the collective name given to the first two listed organizations, the IBRD and the IDA:

- International Bank for Reconstruction and Development (IBRD)
- International Development Association (IDA)
- International Finance Corporation (IFC)
- Multilateral Investment Guarantee Agency (MIGA)
- International Centre for Settlement of Investment Disputes (ICSID)

Objectives of the World Bank

The main objectives of the World Bank are:

(1) Reconstruction and Development

The main objective of the bank is to reconstruct the war devastated economies like Britain, France, Holland etc. and to provide economic assistance to underdeveloped countries like India, Pakistan, Sri Lanka, Burma etc.

(2) Encouragement to Capital Investment

Another important objective of the Bank is to encourage private investors to invest capital underdeveloped countries, by means of guarantee of participation in loans and other investment made by private investors and when private capital is not available on reasonable terms, to supplement private investment by providing on suitable conditions finance for productive purposes out of its own capital, funds raised by it and its other resources.

(3) Encouragement to International Trade

The third objective of the bank is to encourage international trade. It aims at promoting long-range growth of international trade and maintenance of equilibrium in member's international balance of payments, so that standard of living of the people of member-countries is raised.

(4) Establishment of Peace Time Economy

The fourth objective of the Bank is to help the member-countries changeover from war-time economy to peace-time economy.

(5) Environmental Protection

Global environmental protection is also an objective of Bank. To this end, World Bank gives substantial financial assistance to those underdeveloped countries which are engaged in the task of environmental protection.

(6) Maintenance of equilibrium in balance of payment

To promote long term balanced growth of international trade and the maintenance of equilibrium in balance of payments of member countries by encouraging long term international investment so as to develop productive resources of members and thereby raising its productivity, the standard of living and labour conditions.

Capital of the World Bank

Initially, the authorized capital of the World Bank was to the tune of $ 10,000 million, which was divided into 1,00,000 shares of $ 1,00,000 each. All these shares were made available to member countries only. As per the system of the Bank, out of each share.

(a) 2 per cent is payable in gold or U.S. dollars;

(b) 18 per cent of the subscription is to be paid in terms of member's own currency;

(c) The remaining 80 per cent of the subscription is not immediately collected from the members but can be called up by the Bank as a Callabh fund whenever it requires to meet its obligation. Thus it is observed that only 20 per cent of the total capital is called by the Bank and the same is available for its lending purposes.

The capital of the World Bank has also been increased time to time with the consent of its members. After the admission of new members, the authorized capital of the Bank has been increased to $ 171 billion. In its annual meeting held in September 1983, the World Bank decided to go in for a selective capital increase of 8.4 billion dollars and accordingly the shareholding of different member countries was suitably adjusted.

Achievements

The following are the major achievements of World Bank:

(i) Membership

The International Bank for Reconstruction and Development (IBRD) has 189 member countries, while the International Development Association (IDA) has 173 members. Each member state of IBRD should also be a member of the International Monetary Fund (IMF) and only members of IBRD are allowed to join other institutions within the Bank (such as IDA).

(ii) Increase in Working Capital

The bank has been increasing its Working Capital from time to time. Accordingly, it has raised its capital by selling its securities and bonds at different times to different countries like USA, UK etc. Accordingly, its capital has trebled during the past 40 years. In September, 1987, the Bank approved on increase in general of 74.8 billion dollars in its capital and thereby raised its lendable resources to 170 billion dollars.

(iii) Increase in Subscribed Capital

The Bank has also raised its subscribed capital from $ 10,000 million initially to $ 19,300 million in 1960 and then to $ 91,436 million in 1988. As a result of following such process, the lending capacity of the Bank has expanded.

(iv) Loan Approval

The amount of approval of loan to the member countries has been increasing and accordingly the amount increased from $ 659 million in 1960 to $ 14,762 million in 1988.

(v) Loan Disbursement

The volume of loan disbursement by the Bank among its members has also been increasing and accordingly the volume of loan disbursement has increased from $ 544 million in 1960 to $ 11,636 million in 1988.

(vi) Total Loan

The World Bank has advanced a significant amount of loan to its member countries. During the past 40 years of its existence since inception (up to June, 1989) the Bank had lent to the extent of $ 1,36,596 million to 115 member countries for various developmental projects.

(vii) Loans for Productive Purposes

The World Bank is granting loans to member countries for productive purposes, especially for the development of agriculture, irrigation, electricity and transportation projects. Economic

development of a country depends on the basic infrastructure. Therefore, the Bank is lending for these aforesaid projects for this rapid economic development.

(viii) Technical Assistance

As per provisions of the Bank, the World Bank has been sending technical missions to member countries for collecting necessary information regarding the functioning of their economies. The Bank has been giving technical assistance to its member countries in order to solve their complicated economic problems and for assessing economic resources of the country and setting up of priorities for development programmes.

(ix) New Loan Strategy

In recent years, the Bank has introduced new loan strategy for giving more emphasis of financing different schemes for influencing the wellbeing of the poor masses of member developing countries, especially for the purpose of agricultural marketing, forestry, fishery, development of feeder roads in rural areas, rural electrification, spread of education in rural areas etc. In respect of industry, the Bank made provision for direct lending to industries, more emphasis on heavy industries, fertilizer industry, labour intensive small-scale industry etc.

(x) Assistance to Underdeveloped Countries

(a) Financial assistance for the promotion of development;

(b) Developing 'third window' to advance loan at lower rate of interest to the underdeveloped countries;

(c) Providing technical assistance;

(d) Organizing meetings of creditor countries for providing loan to developing countries such as Aid India Club etc.;

(e) Setting up of subsidiary financial institutions like International Finance Corporation (IFC), International Development Association (IDA) for providing soft and concessional finance to developing countries etc.

(xi) Settlement of Disputes

The World Bank has been playing an important role in the settlement of international disputes successfully for the promotion of world peace. Accordingly, it has resolved Indus river water dispute between India and Pakistan and Suez Canal dispute between England and Egypt.

Sustainability Programmes

Beginning in 1989, in response to harsh criticism from many groups, the bank began including environmental groups and NGOs in its loans to mitigate the past effects of its development policies that had prompted the criticism. It also formed an implementing agency, in accordance with the Montreal Protocols, to stop ozone-depletion damage to the Earth's atmosphere by phasing out the use of 95% of ozone-depleting chemicals, with a target date of 2015. Since then, in accordance with its so-called "Six Strategic Themes", the bank has put various additional policies into effect to preserve the environment while promoting development. For example, in 1991 the bank announced that to protect against deforestation, especially in the Amazon, it would not finance any commercial logging or infrastructure projects that harm the environment.

In order to promote global public goods, the World Bank tries to control communicable disease such as malaria, delivering vaccines to several parts of the world and joining combat forces. In 2000 the bank announced a "war on AIDS" and in 2011 the Bank joined the Stop Tuberculosis Partnership.

Traditionally, based on a tacit understanding between the United States and Europe, the president of the World Bank has always been selected from candidates nominated by the United States. In 2012, for the first time, two non-US citizens were nominated.

On 23 March 2012, U.S. President Barack Obama announced that the United States would nominate Jim Yong Kim as the next president of the Bank. Jim Yong Kim was elected on 27 April

2012 and re-elected for a second five-year term in 2017. He announced that he will resign effective 1 February 2019. He was replaced on an interim basis by now former World Bank CEO, Kristalina Georgieva.

Criteria

Various developments had brought the Millennium Development Goals targets for 2015 within reach in some cases. For the goals to be realized, six criteria must be met:

stronger and more inclusive growth in Africa and fragile states, more effort in health and education, integration of the development and environment agendas, more as well as better aid, movement on trade negotiations, and stronger and more focused support from multilateral institutions like the World Bank.

1. **Eradicate Extreme Poverty and Hunger**: From 1990 through 2004 the proportion of people living in extreme poverty fell from almost a third to less than a fifth. Although results vary widely within regions and countries, the trend indicates that the world as a whole can meet the goal of halving the percentage of people living in poverty. Africa's poverty, however, is expected to rise, and most of the 36 countries where 90% of the world's undernourished children live are in Africa. Less than a quarter of countries are on track for achieving the goal of halving under-nutrition.
2. **Achieve Universal Primary Education**: The percentage of children in school in developing countries increased from 80% in 1991 to 88% in 2005. Still, about 72 million children of primary school age, 57% of them girls, were not being educated as of 2005.
3. **Promote Gender Equality**: The tide is turning slowly for women in the labor market, yet far more women than men- worldwide more than 60% – are contributing but unpaid family workers. The World Bank Group Gender Action Plan was created to advance women's economic empowerment and promote shared growth.
4. **Reduce Child Mortality**: There is some improvement in survival rates globally; accelerated improvements are needed most urgently in South Asia and Sub-Saharan Africa. An estimated 10 million-plus children under five died in 2005; most of their deaths were from preventable causes.

5. **Improve Maternal Health**: Almost all of the half million women who die during pregnancy or childbirth every year live in Sub-Saharan Africa and Asia. There are numerous causes of maternal death that require a variety of health care interventions to be made widely accessible.
6. **Combat HIV/AIDS, Malaria, and Other Diseases**: Annual numbers of new HIV infections and AIDS deaths have fallen, but the number of people living with HIV continues to grow. In the eight worst-hit southern African countries, prevalence is above 15 percent. Treatment has increased globally, but still meets only 30 percent of needs (with wide variations across countries). AIDS remains the leading cause of death in Sub-Saharan Africa (1.6 million deaths in 2007). There are 300 to 500 million cases of malaria each year, leading to more than 1 million deaths. Nearly all the cases and more than 95 percent of the deaths occur in Sub-Saharan Africa.
7. **Ensure Environmental Sustainability**: Deforestation remains a critical problem, particularly in regions of biological diversity, which continues to decline. Greenhouse gas emissions are increasing faster than energy technology advancement.
8. **Develop a Global Partnership for Development**: Donor countries have renewed their commitment. Donors have to fulfil their pledges to match the current rate of core program development. Emphasis is being placed on the Bank Group's collaboration with multilateral and local partners to quicken progress toward the MDGs' realization.

To make sure that World Bank-financed operations do not compromise these goals but instead add to their realisation, environmental, social and legal safeguards were defined. However, these safeguards have not been implemented entirely yet. At the World Bank's annual meeting in Tokyo 2012 a review of these safeguards has been initiated, which was welcomed by several civil society organisations.

World Trade Organisation (WTO)

Formation	1 January 1995; 25 years ago
Type	International trade organization
Purpose	Reduction of tariffs and other barriers to trade
Headquarters	Geneva, Switzerland
Region served	Worldwide
Membership	164 member states
Official language	English, French, Spanish
Director-General	Roberto Azevêdo
Staff	640
Website	www.wto.org

The World Trade Organization (**WTO**) was founded in 1995 by the members of the General Agreement on Tariffs and Trade (GATT). The WTO is the world's only international organization that supervises 95% of the world's global trade. It assists trade related issues of its member nations that produce, export and import goods and services in a smooth manner. Comprising 153 member nations, the agreements pertaining to the WTO have been signed and confirmed by respective member nations.

The predecessor of WTO is General Agreement on Tariffs and Trade (GATT). WTO is an International body dealing with the rules of trade among states and separate customs territories. The agreements in WTO provide the legal ground-rules for international trade and commerce. They are mainly contracting, binding governments to conduct their trade and trade policies according to principles and rules. Although negotiated and signed by governments, the goal is to help producers of goods and services, exporters and importers over the Globe and bringing them under one roof.

The International body has over 148 members as on October 13,2004 accounting for 90% of the world trade and around 30 others are negotiating membership and are WTO observers.

Members of the WTO include:

- All of North America
- All of South America
- Most of Europe, Australia Southeast Asia, sub-Saharan Africa and the south Pacific regions

Why was WTO established?

The WTO was founded with the purpose of liberalizing international trade. Its aim was to help member nations reach cordial solutions to their trade-related problems.

The main principles of WTO are:

- To promote fair competition
- To encourage economic and development reforms
- To increase predictability through transparency
- To lower trade barriers for freer trade
- To ensure fair treatment to locals and foreigners

Objectives of the WTO

With manifold objectives like helping trade flow smoothly, freely, fairly and predictably it has become capable of organizing trade and commerce over the Globe through the mantra of liberalization, privatization and globalization. It is stepping forward with objectives like:

1) Rejecting all forms of protectionism.

2) Removing trade barriers and eliminating discriminatory treatment in international trade through successive multilateral trade negotiations.

3) Providing a fair, predictable and open rule-based trading system through overseeing the implementation of multilateral trade rules and enforcing legally binding obligations.

4) Providing a mechanism for settling trade disputes.

5) Integrates developing and least developed economies into the world trading system.

How the WTO Works

All important decisions are made by the Ministerial Committee which meets every two years. Trade disputes are resolved by the WTO through negotiations. In case any nation puts up trade barriers in the guise of customs duty against another country or for a specific good, the WTO can issue trade related sanctions against the violating country.

Two basic functions of the WTO are:

- To confirm whether the agreements that have been covered are implemented, administrated and executed effectively.
- To settle negotiations and disputes by providing a forum check.

The activities of WTO are managed by a Ministerial Conference that is held once in two years.

Structure of the WTO

WTO is run by its member nations. Decisions are taken by consensus among entire member nations.

The WTO's top-level decision-making body is the ministerial conference, which meets at least once in every two years.

Below this is the general council (normally represented by ambassadors and heads of delegation in Geneva, but sometimes officials sent from members' capitals), which meets several times a year in Geneva. The General Council also meets as the Trade Policy Review Body and the Dispute Settlement Body.

At the next level there are three Councils each handling a different broad area of trade - the Council for Trade in Goods (Goods Council), the Council for Trade in Services (Services Council), and the Council for Trade-Related Aspects of Intellectual Property Rights (TRIPS Council).

There are also specialized committees, working groups and working parties dealing with the individual agreements and other areas such as the environment, development, membership applications and regional trade agreements. They regularly report to the General Council, Goods Council and Services Council as appropriate.

The WTO secretariat in Geneva has around 600 staffs and is headed by a director general. The WTO Secretariat's main duties are to provide administrative support for the running of the system.

Achievements and Limitation of WTO!

Achievements of WTO:

In the short period, the WTO has been in existence it is being credited with the several achievements as listed below:

- The WTO has Enhanced the value and quantity of trade.
- Eradicated trade and non-trade barriers.
- Broadened the trade governance scope to trade in investment, services and intellectual property.

- Emerged as a greater institution than GATT.
- Expanded the WTO agenda by including developmental policies.
- Eased settlement of disputes by enforcing improved rules.
- Improved monitoring by introducing the Trade Policy Review and the World Trade Report
- Increased transparency by removing green room negotiations
- Encouraged sustainable trade development
- Greater market orientation has become the general rule;
- Use of restrictive measures for BOP problems has declined markedly;
- Services trade has been brought into the multilateral system and many countries, as in goods, are opening their markets for trade and investment either unilaterally or through regional or multilateral negotiations;
- Tariff-based protection has become the norm rather than the exception;
- Many UDCs have undertaken radical trade, exchange and domestic reforms which have improved the efficiency of resource use, opened up new investment opportunities, and, thus, promoted economic growth;
- The trade policy review mechanism has created a process of continuous monitoring of trade policy developments;
- It has been agreed to reduce import tariffs on industrial goods, based on Swiss Formula. A Swiss formula is a non-liner formula where tariff-cuts are proportionally higher for tariffs, which are initially higher. For instance, a country, which has an initial tariff of 30 per cent on a product will have to undertake proportionally higher cuts than a country which has an initial tariff of 20 per cent on the same product.

Challenges and Limitation Ahead for WTO

The WTO faces considerable challenges as listed below:

- Decision-making within the organization.
- Streamline reforms related to its dispute settlement system.

- Implement development-oriented policies in an effective manner.
- Facilitate global trade liberalization in agriculture and textiles.
- Encourage Non-Governmental Organizations or NGOs to become an important part of world trade governance.
- Devise ways to increase staff and resources to ensure effective regulation.

In the years 2008 and 2009, the WTO witnessed increased economic uncertainty. Its main function is to ensure the smooth and free flow of global trade. The WTO continues to administer agreements, handle trade disputes and monitors country-specific trade policies while training and cooperating with developing nations and other international organizations.

Limitation of WTO:

The WTO, however, has still to make many progresses or become more sensitive on the following issues:

- i. The trade reform process is incomplete in many countries. For instance, some high tariff still remain on which negotiations are still proceeding at various levels, notably in the areas of basic telecommunications and financial services;
- ii. There appears to have been at least some reversals in the overall liberalisation process in some developing countries. Examples are of increasing anti-dumping measures, selective tariff increases and investment related measures;
- iii. The WTO has also not been sensitive enough to the development of non-tariff barriers to imports from the UDCs, such as antidumping duties;
- iv. The interests of international trade, which are primarily the interests of transnational corporations, take precedence over local concerns and policies even if such a course exposes the local population to serious health and security risks;
- v. The implementation-related issues are becoming a source of serious concern: These issues cover a whole range of demand to correct while asymmetries in TRIPS, TRIMS, anti-dumping, movement of people, etc. remain. Other issues requiring WTO attention relate to agriculture, textiles, industrial tariffs including peak tariffs, and services;
- vi. The policies and rules appropriate or advantageous to the industrialised world are getting established as common rules to be obeyed by the developing world as well. As a result, 'one size fits air approach is increasingly getting embedded in the WTO rules and disciplines;

- vii. The major share of the benefits of the WTO has gone to the countries of the North. Whereas the benefits of free trade accrue primarily to the UDCs, progress has been much slower;
- viii. Concerns has been raised that the combination of globalisation and technological change creates a premium on high-skill as against low-skill with growing social divisions.

Advantages and disadvantages of WTO

Question: What are the advantages and disadvantages of the WTO formally the GATT?

The WTO is a body designed to promote free trade through organizing trade negotiations and act as an independent arbiter in settling trade disputes. To some extent the WTO has been successful in promoting greater free trade. The principles of the WTO are

1. Promote free trade through gradual reduction of tariffs
2. Provide legal framework for negotiation of trade disputes. This aims to provide greater stability and predictability in trade.
3. Trade without discrimination - avoiding preferential trade agreements.
4. WTO is not a completely free trade body. It allows tariffs and trade restrictions under certain conditions, e.g. protection against 'dumping' of cheap surplus goods.
5. WTO is committed to protecting fair competition. There are rules on subsidies, dumping
6. WTO is committed to economic development. For example, recent rounds have put pressure on developed countries to accelerate restrictions on imports from the least-developing countries.

Advantages of promoting free trade

1. **Lower prices for consumers**. Removing tariffs enables us to buy cheaper imports
2. **Free trade encourages greater competitiveness**. Through free trade, firms face a higher incentive to cut costs. For example, a domestic monopoly may now face competition from foreign firms.
3. **The law of comparative advantage** states that free trade will enable an increase in economic welfare. This is because countries can specialise in producing goods where they have a lower opportunity cost.

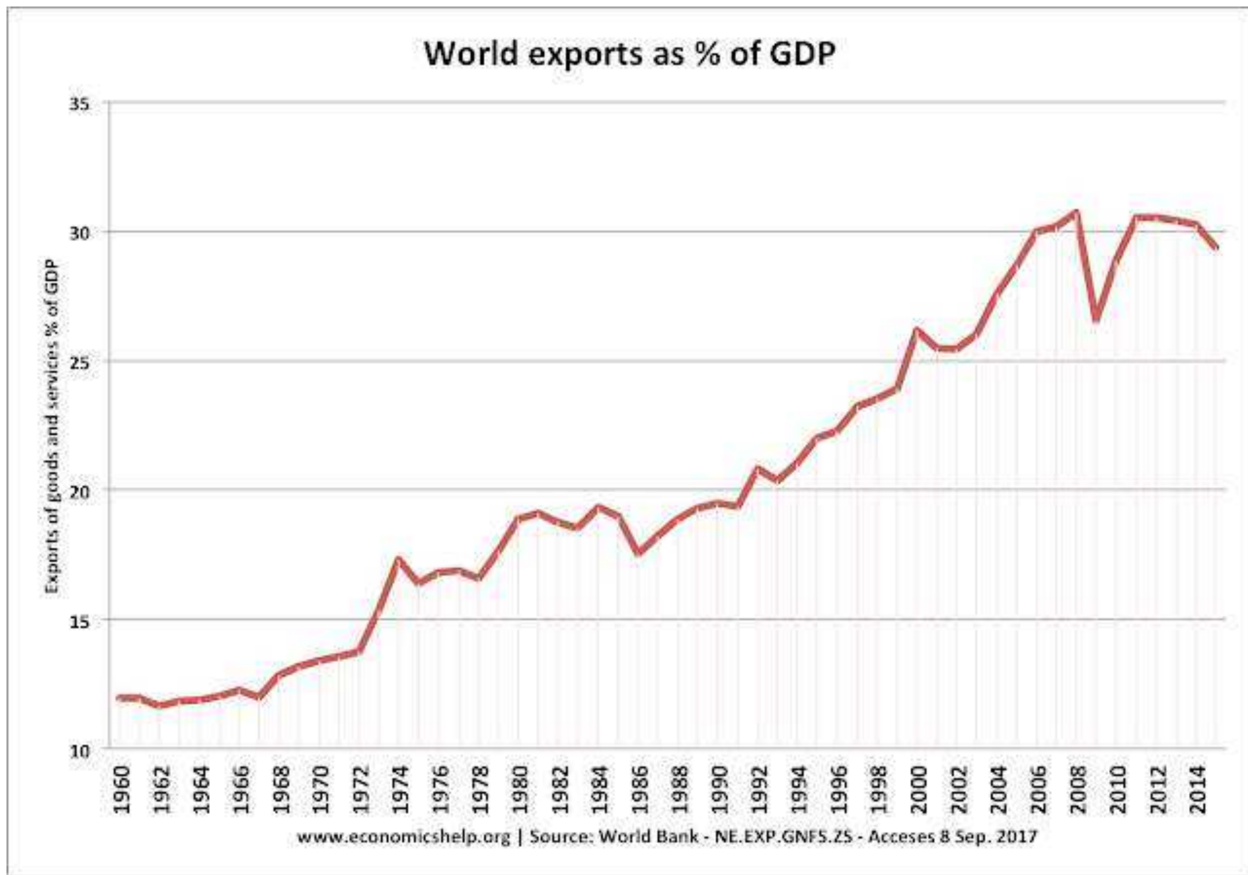
4. **Economies of scale**. By encouraging free trade, firms can specialise and produce a higher quantity. This enables more economies of scale, this is important for industries with high fixed costs, such as car and aeroplane manufacture. In new trade theory, it is this specialisation and exploitation of economies of scale that is most important factor in improving economic welfare.

Successes of WTO

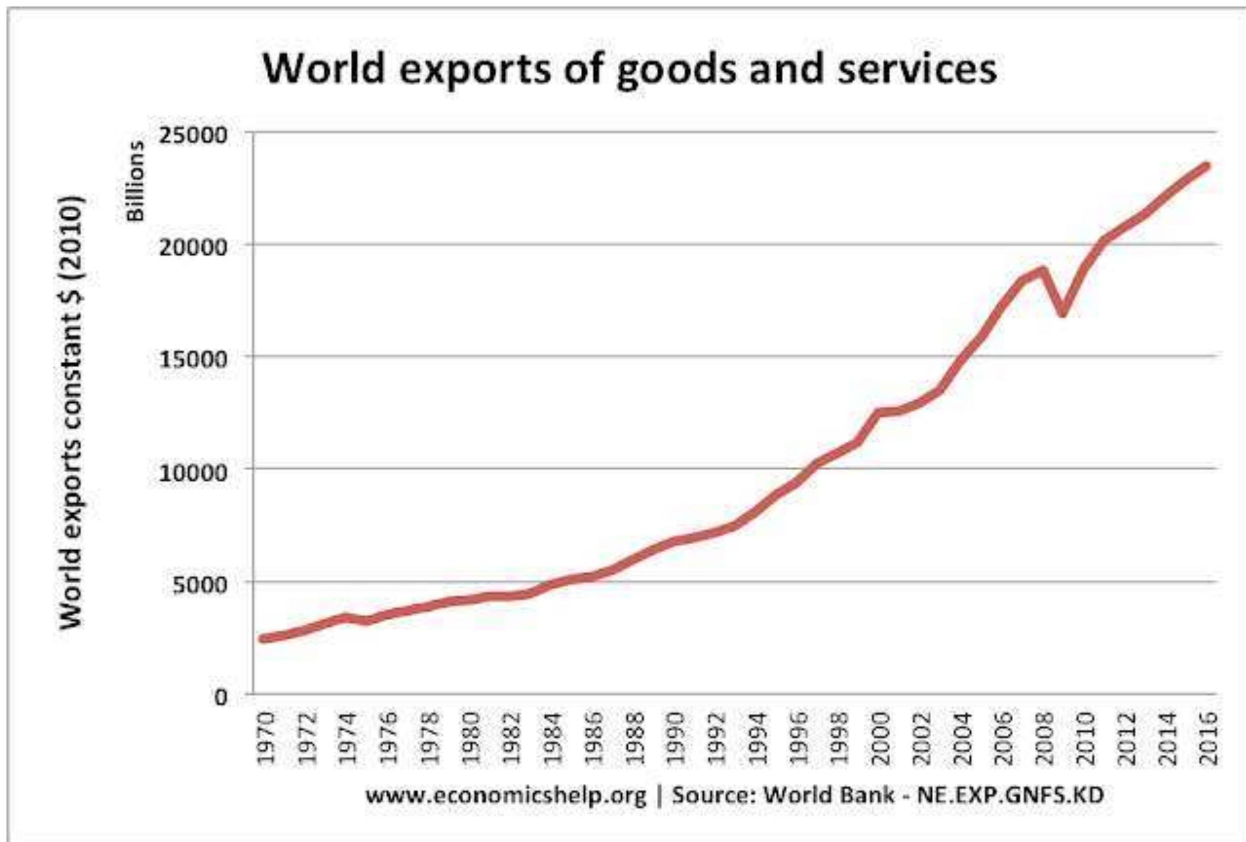
To what extent has the WTO being able to promote free trade?

- The WTO has over 160 members representing 98 per cent of world trade. Over 20 countries are seeking to join the WTO.
- An increased number of trade disputes have been brought to the WTO, showing the WTO is a forum for helping to solve disputes.
- WTO regulations and co-operation helped avoid a major trade war; this was significant during 2008/09 global recession. We could compare this to 1930s, where trade wars broke out causing a fall in global trade. According to (Bagwell and Stager 2002) the average tariff in 1930s was 50%. In 2000s, average tariff is 9% (VOX)
- According to **Ralph Ossa**, "WTO success: No trade agreement but no trade war"

VOX.eu 11 June 2015. the value of WTO in preventing trade wars could be estimated at up to $340 billion per year.



World exports as a % of GDP have increased from 22% of GDP in 1995 (when WTO formed to just under 30% in 2015. Indicating importance of trade to global economy.



Disadvantages of WTO

- However, the WTO has often been criticised for trade rules which are still unfavourable towards developing countries. Many developed countries went through a period of tariff protection; this enabled them to protect new, emerging domestic industries. Ha Joon Chang argues WTO trade rules are like 'pulling away the ladder they used themselves to climb up' (Kicking away the ladder at Amazon)
- Free trade may prevent developing economies develop their infant industries. For example, if a developing economy was trying to diversify their economy to develop a new manufacturing industry, they may be unable to do it without some tariff protection.
- WTO is being overshadowed by new TIPP trade deals. These deals are negotiated away from WTO and focuses mainly on US and EU. It excludes China, Russia, India, Brazil and South Africa. It threatens to diminish the global importance of WTO

- Difficulty of making progress. WTO trade deals have been quite difficult to form consensus. Various rounds have taken many years to slowly progress. It results in countries seeking alternatives such as TIPP or local bilateral deals.
- WTO trade deals still encompass a lot of protectionism in areas like agriculture. Protectionist tariffs which primarily benefit richer nations, such as the EU and US.
- WTO has implemented strong defense of TRIPs 'Trade Related Intellectual Property' rights These allow firms to implement patents and copyrights. In areas, such as life-saving drugs, it has raised the price and made it less affordable for developing countries.
- WTO has rules which favour multinationals. For example, 'most favoured nation' principle means countries should trade without discrimination. This has advantages but can mean developing countires cannot give preference to local contractors, but may have to choose foreign multinationals - whatever their history in repatriation of profit, investment in area.

Evaluation

- In response to this the WTO may say that free trade has been an important engine of growth for developing countries in Asia. Although there may be some short term pain, it is worth it in the long run.
- Also the WTO has sought to give exemptions for developing countries; enabling in principle the idea developing countries should be allowed to limit imports more than developed countries.

WTO and its impact on Indian economy

The WTO has both favourable and non-favourable impact on Indian economy

Favourable impact

1.Increase in export earning

i. Growth in merchandise export; • The establishment of the WTO has increased the exports of developing countries because of reduction in tariff and non-tariff trade barrier India's merchandise have increased from 32 billion US $(1995) to 185 billion US $ (2008-09).

ii. Growth in service exports • The WTO introduced the GATS (General Agreement on Trade in Service) that proved beneficial for countries like India. India's service exports increased from 5 billion US $(1995) to 102 billion US $ (2008- 09) for 45% of India's service.

2.Agriculture export • Reduction of trade barrier and domestic subsidies raise the price of agricultural products in international market, India hopes to benefit from this in the form of higher export earnings from agriculture.

3. Textile and clothing • Textiles and clothing. The phasing out of the MFA (Multi Fiber Arrangements) will help the developing countries like India to increase the export of textile and clothing.

4.Foreign direct investment • As per the TRIMs agreement, restrictions on foreign investment have been withdrawn by the member nations of the WTO. This has benefited developing countries by way of foreign direct investment, euro equities and portfolio investment. In 2008-09 the net foreign direct investment in India was 35 billion US$.

Unfavourable impact

1. TRIPs (Trade Related aspects of Intellectual Property) • Protection of intellectual property rights has been of the major concerns of the WTO. As a member of the WTO, India has to comply with the TRIPs standards. • However, the agreement on TRIPs goes against the Indian patent act 1970, in the following way.

i. Pharmaceutical sector • Under the Indian patent act 1970, only process patents are granted to chemicals, drugs and medicines. Thus, a company can legally manufacture once it had the product patent. So Indian pharmaceutical companies could sell good quality products at low prices. However, under TRIPs agreement, product patents will also be granted that will raise the prices of medicines, thus keeping them out of reach of the poor people, fortunately, most of drugs manufactured in India are off – patents and so will be less affected.

ii. Agriculture • Since the agreement on TRIPs extends to agriculture as well; it will have considerable implications on Indian agriculture. The MNG, with their huge financial resources may also take over seed production and will eventually control food production. Since a large majority of Indian population depends on agriculture for their livelihood, these developments will have serious consequences. • Micro – organisms: under TRIPs agreement patenting has been extended to microorganisms as well. These mills largely benefit MNCS and not developing like India.

2.TRIMs (Trade Related Investment Measures) • The agreement on TRIMs also favours developing nations as there are no rules in the agreement to formulate international rules for controlling business practices of foreign investors. Also, complying with the TRIMs agreement will contradict our objective of self-reliant growth based on locally available technology and resources.

3. GATS (General Agreement on Trade in Services) • The agreement on GATS will also favour the developed nations more. Thus, the rapidly growing services sector in India will now have to compete with now have to complete with giant foreign firms. Moreover, since foreign firms are allowed to remit their profits, dividends and royalties to their parent company, it will cause foreign exchange burden for India.

4. Trade and Non-tariff barriers • Reduction of trade and non-tariff barriers has adversely affected the exports of various developing nations. Various Indian products have been hit by non-tariff barriers. These include textiles, marine product, floriculture, pharmaceutical basmati rice, carpets, leather goods etc.

Anti-Dumping Measure Under WTO

If a company exports a product at a price lower than the price it normally charges on its own home market, it is said to be "dumping" the product. The WTO Agreement does not regulate the actions of companies engaged in "dumping". Its focus is on how governments can or cannot react to dumping — it disciplines anti-dumping actions, and it is often called the "Anti-dumping Agreement".

"Dumping" is defined as a situation in which the export price of a product is lower than its selling price in the exporting country. A bargain sale, in the sense of ordinary trade, is not dumping. Where it is demonstrated that the dumped imports are causing injury to the importing country within the meaning of the WTO Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 ("Anti-dumping Agreement"), pursuant to and by investigation under that Agreement, the importing country can impose antidumping measures to provide relief to domestic industries injured by imports.

The country's imposition of an anti-dumping duty is determined by the dumping margin--the difference between the export price and the domestic selling price in the exporting country. By adding dumping margin to export price, the dumped price can be rendered a "fair" trade price. When it is impossible to obtain a comparable domestic price because there are none or low volume sales in the ordinary course of trade in the domestic market, either export prices to third countries or a "constructed value" is used in price comparison. A "constructed value" is the cost of

production in the country of origin plus a reasonable amount for administrative, selling and general costs and for profits.

Similarly, when the export price is found to be unreliable, the price at which the product is first resold to independent buyers, or another price according to a reasonable basis determined by the authorities may be used in price comparison. Because anti-dumping measures are an exception to the rule of most-favoured-nation treatment, the utmost care must be taken in invoking them. However, unlike safeguard measures, which are also instruments for the protection of domestic industry, the implementation of anti-dumping measures does not require the government to provide offsetting concessions or consent to countermeasures taken by the trading partner. This has increasingly led to the abuse of anti-dumping measures. For example, anti-dumping investigations are often commenced based on insufficient evidence, and anti-dumping duties may be retained long after the conditions for their levy have been eliminated. Some countries have applied anti-dumping measures in an arbitrary manner to restrict imports, rather than to achieve the limited, remedial objective authorized in the Agreement.

In light of this situation, one of the focal points of the Uruguay Round negotiations was to establish disciplines to rein in the abuse of anti-dumping measures as tools for protectionism and import restriction "Injury" includes three cases:

- Material injury to a domestic industry,
- Threat of material injury to a domestic industry, or
- Material retardation of the establishment of such an industry.

Although considerable progress was seen in this process, many countries still express much concern over this abuse.

Case:

The China Steel in USA

In June 2015, American steel companies United States Steel Corp., Nucor Corp., Steel Dynamics Inc., ArcelorMittal USA, AK Steel Corp., and California Steel Industries filed a complaint with the Department of Commerce and the ITC alleging that China (and other countries) were dumping steel on the U.S. market and keeping prices unfairly low.

A year later, the United States, after a review and much public debate, announced that it would be imposing a 500% import duty on certain steel imported from China. In 2018, China filed a complaint with the WTO challenging the tariffs imposed by President Donald Trump. The White House's trade agenda for 2019 said it would continue to use the WTO to challenge what it called unfair trading practices with China and other trading partners.

Case:

WTO authorises Chinese tariffs on US$3.6 billion in US goods in anti-dumping tiff

GENEVA: A World Trade Organization arbitrator on Friday (Nov 1, 2019) authorised China to slap tariffs on US imports worth up to US$3.58 billion annually in a years-long dispute over US anti-dumping practices, a trade official said.

China had asked the WTO for permission to hit the US with more than US$7 billion in tariffs in the case.

But the WTO ruling said it had determined that the illegal US anti-dumping practices had caused "nullification or impairment of benefits accruing to China" to the tune of US$3,579.128 million, and that Beijing could impose tariffs on goods not exceeding that amount per year.

The decision marks the first time the WTO has authorised China to impose tariffs in a trade dispute.

Washington voiced disappointment with the decision, with a US trade official stressing the continued commitment "to using anti-dumping duties to address injurious dumping" and arguing that the ruling "has no foundation in economic analysis".

"Moreover, we do not believe the Arbitrator's Decision will have any impact on continuing trade discussions between the United States and China," the official said, adding that the US government would discuss with stakeholders "on how to move forward".

Beijing still needs to formally request the right to impose that or a lesser sum in tariffs, but it would take opposition from every WTO member to block such a request.

China initially filed its case against the United States back in December 2013, taking issue with the way Washington assesses whether exports have been "dumped" at unfairly low prices onto the US market.

The use of anti-dumping duties are permitted under international trade rules as long as they adhere to strict conditions, and disputes over their use are often brought before the WTO's Dispute Settlement Body.

In this specific case, China alleged that the United States, in violation of WTO rules, was continuing a practice known as "zeroing", which calculates the price of imports compared to the normal value in the United States to determine predatory pricing.

In October 2016, a panel of WTO experts found largely in China's favour in the case, including on the issue of "zeroing".

The United States, which has repeatedly lost cases before the WTO over its calculation method, said in June 2017 that it would implement the panel's recommendations within a "reasonable" time frame.

But it failed to meet an August 2018 deadline set by the WTO's Dispute Settlement Body to bring its practices in line with the ruling.

China then requested permission to impose sanctions, prompting the WTO to appoint an arbitrator in the case to determine the appropriate amount.

Regional economic groupings

One of the significant developments that has taken place in the world economic scenario since the second half of the fifties has been the emergence of regional Econoline groupings. No region in the world appears to be free from regional groupings and most of the countries irrespective of the stage of their economic development, seem to be interested to become full members of or in forging some sort of alliance with one grouping or the other. There is, in fact, a growing feeling among many that, in future, external trade and economic relations may take place and issues pertaining to them may be tackled more among groupings than among nations. Though a large variety of groupings of different types have emerged confining their scope either to the limited objective of achieving exchange of commodities with mutual preferences or enlarging it far beyond, and move towards total economic integration, the main aim is to accelerate the development process and improve the quality of life of the residents of the region by providing them with greater choice both as producers and as consumers. In short, in a regional grouping, the economic significance of national political boundaries is completely lost.

HISTORY

Two distinct waves of regional groupings appear to have swept the world since the end of the second world war. The first one surfaced during the 1950s with the formation of European Common Market (ECM) by the then West Germany, France, Italy, Belgium, Luxemburg and the Netherlands on 1st January 1958. The formation of ECM was only one of a number of steps initiated by West European nations to create a "United States of Europe" or "One Europe from Urals to Atlantic" as a means to revive the war-torn European economy and, more significantly, to avoid future wars among European nations. ECM was preceded by the European Coal & Steel Community (ECSC) during August, 1952 by the same six West European countries. In fact, much before formation of ECSC and ECM an economic union between Belgium and Luxemburg was in operation since 1922 and, with the addition of the Netherlands to the two countries, a customs union, **Benelux** came into existence during 1948. Cooperation among European nations after the Second World War saw a beginning with the establishment of the Organisation for European Economic Cooperation (OEEC) by 16 West European countries during April 1948. Subsequently, a European Payments Union (EPU) was also instituted within OEEC. OEEC was later expanded to include more members including non-European nations and converted into the Organisation for

Economic Cooperation and Development (OECD) on 1st October, 1961. The year 1955 witnessed the establishment of the Western European Union (WEU) with the six ECM countries and the UK as members with the objective of coordination of the defence policies of the member nations and cooperation in their political, social, legal and cultural affairs. Encouraged by the success of Benelux - in one year customs duties on intra-trade were totally abolished and a common tariff on trade with third countries was established aid, during the next year, quota restrictions in intra-trade were completely removed - and the progress made in moving towards greater cooperation and integration among the European nations as evidenced by the establishment of OEEC, WEU and ECSC, attempts were made to establish the European Defence Community (EDC) and the European Political Community (absorbing ECSC and EDC) during the 1950s. The attempts, however, did not succeed. The failure of attempts at political and military integration on the one hand, and, the success, on the contrary, of the functioning of a customs union in the region in the form of Benelux and other institutions such as OEEC, ECSC and WEU had a lesson to the European statesmen. It meant that the path to creation of a "United States of Europe" was through economic integration. Hence, following the report of a committee which formulated proposals for an economic union and an atomic energy pool in the region, the "Rome Treaty" was signed during 1957 which saw the birth of the European Common Market (ECM) on 1st January 1958. Along with ECM, the European Atomic Energy Community (EURATOM) was also established. Following the formation of ECM, 14 other countries in West Europe led by the UK, formed the European Free Trade Association (EFTA) in 1960. Inspired, perhaps, by the above developments in West Europe and to some extent at least, by the substantial growth in in ECM trade during the sixties, regionalism spread through Africa and South America and, to some extent, Asia during the sixties. Thus, the developing world witnessed the establishment of Central American Common Market, Andean Common Market, Latin American Integration Association, Arab Common Market, West African Customs Union, Southern African Customs Union and the Association of South East Asian Nations (ASEAN). When all this was going on in the other parts of the world, North America remained passive to the idea of formation of regional groupings. The first' wave of regionalism can be said to have come to a halt by the end of 1960s or, the latest, by the first half of 1970s.

The second wave surfaced during the mid-1980s with the United States of America (USA) as a significant player. Thus, the Canada-US Free Trade Agreement was negotiated in 1989 and later,

the North American Free Trade Area (NAFTA), with USA, Canada and Mexico as members, came into existence during 1992. The above developments triggered more initiative and activities among many countries. Thus, in South America, MERCOSUR, the Southern Cone Common Market, has been formed; in the Pacific, there is ANZCERT, the Australia-New Zealand Closer Economic Relations Trade Agreement; in Africa, the Preferential Trade Area for Eastern and South African States (PAT) exists, besides the Economic Community of Central African States and, in the Arab world, five countries have formed the Arab-Maghreb Union (AMU). Attempts are continuing towards greater integration and increased cooperation among a number of countries. The ECM, which has evolved into the European Union (EU) with 15 countries as members (many member nations of EFTA, led by the UK, had subsequently left EFTA and joined the ECM and most of the remaining members are also seeking membership of EU), is moving towards not only expanding the size of the Union by admitting more nations as full members but also towards achieving integration in monetary, defence and foreign policies a greater European Economic Area (EEA) has come into existence between the European Free Trade Association (EFTA) and the EU; NAFTA is preparing to enlarge its membership; ,moves are afoot to establish Asia Pacific Economic Cooperation (APEC) and an Indian Ocean Rim Initiative; the original five nation member ASEAN is doubling its membership; the South Asian Association for Regional Cooperation (SAARC) member nations have moved towards a South Asia Free Trade Area (**SAFTA**).

FORMS

Regional Groupings can be classified, conceptually, into five major types:

1. Preferential Trading Arrangement, where the member countries lower barriers to imports of identified products from one another;
2. Free Trade Area, where barriers to trade in respect of all items among member countries are completely eliminated while each member country follows its own policy in regard to trade with lion-member countries;
3. Customs Union, where, apart from elimination of all barriers to trade among themselves, the member countries follow a common policy in regard to their trade with non-members;
4. Common Market, where the region becomes a common market for all factors of production including labour, services and capital; and

5. Economic Community, where the member countries follow common policies in respect of all economic matters.

The regional groupings that exist today fall in one or more of the above categories or are variations/combinations of some form/forms,

the Bangkok Agreement among Bangladesh, India, Laos, South Korea and Sri Lanka is a specimen of a preferential trading arrangement:

SAFTA, EFTA and NAFTA are free trade areas:

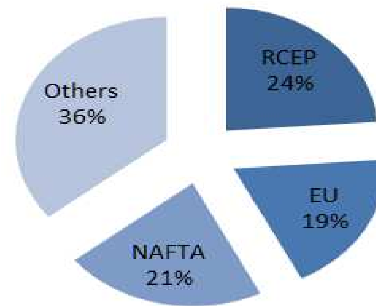
there are a number of examples of customs union and common market: they include Central American Common Market, Caribbean Common Market, ANDEAN Common Market and Arab Common Market while the European Union is perhaps, the best example of evolution of a regional grouping through the stages of customs union to common market to economic community.

North American Free Trade Agreement (NAFTA)

Fact Sheet

Languages	English
	Spanish
	French
Type	Free trade area
Member states	Canada
	Mexico
	United States
Establishment	January 1, 1994; 26 years ago[1]
Area	
• Total	21,578,137 km2 (8,331,365 sq mi)
• Water (%)	7.4
Population	
• 2018 estimate	49,00,00,000
• Density	22.3/km2 (57.8/sq mi)
GDP (PPP)	2018 estimate
• Total	$24.8 trillion[2]
• Per capita	$ 50,700
Website	www.naftanow.org

NAFTA Logo



NAFTA GDP – 2012: IMF – World Economic Outlook Databases (Oct 2013)

The North American Free Trade Agreement (NAFTA) is a treaty entered into by the United States, Canada, and Mexico; it went into effect on January 1, 1994. (Free trade had existed between the U.S. and Canada since 1989; NAFTA broadened that arrangement.) On that day, the three countries became the largest free market in the world; the combined economies of the three nations at that time

measured $6 trillion and directly affected more than 365 million people.

NAFTA was created

- To eliminate tariff barriers to agricultural, manufacturing, and services;
- To remove investment restrictions; and
- To protect intellectual property rights.

This was to be done while also addressing environmental and labour concerns (although many observers charge that the three governments have been lax in ensuring environmental and labour safeguards since the agreement went into effect).

Small businesses were among those that were expected to benefit the most from the lowering of trade barriers since it would make doing business in Mexico and Canada less expensive and would reduce the red tape needed to import or export goods.

Highlights of NAFTA included:

- Tariff elimination for qualifying products. Before NAFTA, tariffs of 30 percent or higher on export goods to Mexico were common, as were long delays caused by paperwork. Additionally, Mexican tariffs on U.S.-made products were, on average, 250 percent higher than U.S. duties on Mexican products. NAFTA addressed this imbalance by phasing out tariffs over 15 years. Approximately 50 percent of the tariffs were abolished immediately when the agreement took effect, and the remaining tariffs were targeted for gradual elimination. Among the areas specifically covered by NAFTA are construction, engineering, accounting, advertising, consulting/management, architecture, health-care management, commercial education, and tourism.
- Elimination of nontariff barriers by 2008. This includes opening the border and interior of Mexico to U.S. truckers and streamlining border processing and licensing requirements. Nontariff barriers were the biggest obstacle to conducting business in Mexico that small exporters faced.
- Establishment of standards. The three NAFTA countries agreed to toughen health, safety, and industrial standards to the highest existing standards among the three countries (which were always U.S. or Canadian). Also, national standards could no longer be used as a

barrier to free trade. The speed of export-product inspections and certifications was also improved.

- Supplemental agreements. To ease concerns that Mexico's low wage scale would cause U.S. companies to shift production to that country, and to ensure that Mexico's increasing industrialization would not lead to rampant pollution, special side agreements were included in NAFTA. Under those agreements, the three countries agreed to establish commissions to handle labour and environmental issues. The commissions have the power to impose steep fines against any of the three governments that failed to impose its laws consistently. Environmental and labour groups from both the United States and Canada, however, have repeatedly charged that the regulations and guidelines detailed in these supplemental agreements have not been enforced.
- Tariff reduction for motor vehicles and auto parts and automobile rules of origin.
- Expanded telecommunications trade.
- Reduced textile and apparel barriers.
- More free trade in agriculture. Mexican import licenses were immediately abolished, with most additional tariffs phased out over a 10-year period.
- Expanded trade in financial services.
- Opening of insurance markets.
- Increased investment opportunities.
- Liberalized regulation of land transportation.
- Increased protection of intellectual property rights. NAFTA stipulated that, for the first time, Mexico had to provide a very high level of protection for intellectual property rights. This is especially helpful in fields such as computer software and chemical production. Mexican firms will no longer be able to steal intellectual property from companies and create a "Mexican" version of a product.
- Expanded the rights of American firms to make bids on Mexican and Canadian government procurement contracts.

One of the key provisions of NAFTA provided "national goods" status to products imported from other NAFTA countries. No state, provincial, or local governments could impose taxes or tariffs on those goods. In addition, customs duties were either eliminated at the time of the agreement or scheduled to be phased out in 5 or 10 equal stages. The one exception to the phase out was specified sensitive items, for which the phase-out period would be 15 years.

Supporters championed NAFTA because it opened up Mexican markets to U.S. companies like never before. The Mexican market is growing rapidly, which promises more export opportunities, which in turn means more jobs. Supporters, though, had a difficult time convincing the American public that NAFTA would do more good than harm. Their main effort centered on convincing people that all consumers benefit from the widest possible choice of products at the lowest possible price-;which means that consumers would be the biggest beneficiaries of lowered trade barriers. The U.S. Chamber of Commerce, which represents the interests of small businesses, was one of the most active supporters of NAFTA, organizing the owners and employees of small and mid-size businesses to support the agreement. This support was key in countering the efforts of organized labor to stop the agreement.

NAFTA AND SMALL BUSINESS

Analysts agree that NAFTA has opened up new opportunities for small and mid-size businesses. Mexican consumers spend more each year on U.S. products than their counterparts in Japan and Europe, so the stakes for business owners are high. (Most of the studies of NAFTA concentrate on the effects of U.S. business with Mexico. Trade with Canada has also been enhanced, but the passage of the trade agreement did not have as great an impact on the already liberal trade practices that America and its northern neighbour abided by.)

Some small businesses were affected directly by NAFTA. In the past, larger firms always had an advantage over small ones because the large companies could afford to build and maintain offices and/or manufacturing plants in Mexico, thereby avoiding many of the old trade restrictions on exports. In addition, pre-NAFTA laws stipulated that U.S. service providers that wanted to do business in Mexico had to establish a physical presence there, which was simply too expensive for small firms to do. Small firms were stuck-; they could not afford to build, nor could they afford the export tariffs. NAFTA levelled the playing field by letting small firms export to Mexico at the same cost as the large firms and by eliminating the requirement that a business establish a physical

presence in Mexico in order to do business there. The lifting of these restrictions meant that vast new markets were suddenly open to small businesses that had previously done business only in the United States. This was regarded as especially important for small businesses that produced goods or services that had matured in U.S. markets.

Still, small firms interested in conducting business in Mexico have to recognize that Mexican business regulations, hiring practices, employee benefit requirements, taxation schedules, and accounting principles all include features that are unique to that country. Small businesses, then, should familiarize themselves with Mexico's foundation of business rules and traditions-;not to mention the demographics culture of the marketplace-;before committing resources to this region.

OPPOSITION TO NAFTA

Much organized opposition to NAFTA centred on the fear that the abolishment of trade barriers would spur U.S. firms to pack up and move to Mexico to take advantage of cheap labor. This concern grew during the early years of the 2000s as the economy went through a recession and the recover that followed turned out to be a "jobless recovery." Opposition to NAFTA was also strong among environmental groups, who contended that the treaty's anti-pollution elements were woefully inadequate. This criticism has not abated since NAFTA's implementation. Indeed, both Mexico and Canada have been repeatedly cited for environmental malfeasance.

Controversy over the treaty's environmental enforcement provisions remained strong in the late 1990s. In fact, North American business interests have sought to weaken a key NAFTA side accord on environmental protections and enforcement. This accord-; one of the few provisions welcomed by environmental groups-;allows groups and ordinary citizens to accuse member nations of failing to enforce their own environmental laws. A tri-national Commission for Environmental Cooperation is charged with investigating these allegations and issuing public reports. "That process is slow, but the embarrassment factor has proven surprisingly high," noted Business Week. As of 2005, the U.S. government has expressed opposition to revisions in the NAFTA agreement. But the Canadian government and many businesses in all three countries continue to work to change this accord.

THE EFFECTS OF NAFTA

Since NAFTA's passage, American business interests have often expressed great satisfaction with the agreement. Trade has grown sharply between the three nations who are parties to NAFTA but that increase of trade activity has resulted in rising trade deficits for the U.S. with both Canada and Mexico-;the U.S. imports more from Mexico and Canada than it exports to these trading partners. Critics of the agreement argue that NAFTA has been at least partially responsible for these trade deficits as well as the striking loss of manufacturing jobs experienced in the U.S. over the last decade. But, manufacturing jobs began to decline before the NAFTA agreement. The debate about NAFTA continues.

Isolating the effects of NAFTA within the larger economy is impossible. It is difficult, for example, to say with certainty what percentage of the current U.S. trade deficit-; which stood at a record $65,677 million at the end of 2005-; is directly attributable to NAFTA. It is also difficult to say what percentage of the 3.3 million manufacturing jobs lost in the U.S. between 1998 and 2004 are the result of NAFTA and what percent would have occurred without this trade agreement. It is not even possible to say with certainly that the increased trade activity among the NAFTA nations is entirely the result of the trade agreement. Those who favour the agreement usually claim credit for NAFTA for the increased trade activity and reject the idea that the agreement resulted in job losses or the rising trade deficit with Canada and Mexico, ($8,039 million and $4,263 million respectively in December 2005). Those who are critical of the agreement usually link it to these deficits and to job losses as well.

What is clear is that NAFTA remains a lightening rod for political opinions about globalization and free trade generally. Opposition to NAFTA has grown and has made it far more difficult, politically, to pass other similar free trade agreements. This was demonstrated clearly in the summer of 2005 when the Central American Free Trade Agreement (CAFTA) was stalled in Congress for lack of support. Two journalists, Dawn Gilbertson and Jonathan J. Higuera, writing in the Arizona Republic at the ten year anniversary of NAFTA, summed things up this way: "The Reality of NAFTA at 10 is this: a still-developing story of winners and losers, split largely by where you work and what you make." The same may be said about the effects of NAFTA on small businesses. For some it has been an opportunity to grow and for others a challenge to be met.

European Union – E U

Fact:

Capital	Brussels
Official languages	24 languages
Official scripts[3]	Latin, Greek and Cyrillic
Demonym(s)	European
Type	Supranational union
Member states	27 states
Government	Intergovernmental and supranational
• President of the Commission	Ursula von der Leyen
• President of the Parliament	David Sassoli
• President of the Council	Charles Michel
Legislature	Legislative procedure
• Upper house	Council of the European Union
• Lower house	European Parliament
Formation[6]	
• Treaty of Rome	01-Jan-58
• Single European Act	01-Jul-87
• Treaty of Maastricht	01-Nov-93
• Treaty of Lisbon	01-Dec-09
• Last polity admitted	01-Jul-13
• Last polity withdrawn	31-Jan-20
GDP (PPP)	2020 estimate
• Total	Increase $20.366 trillion
• Per capita	$ 45,541
GDP (nominal)	2020 estimate
• Total	Increase $16.033 trillion
• Per capita	$ 35,851
Currency	Euro (EUR; €; in eurozone) and
	10 others
Internet TLD	.eu

30° W
15° W
0°
15° E
30° E
45° E
60° N
50° N
40° N
Finland
Sweden
Estonia
Latvia
Lithuania
Ireland
Denmark
Nether-
lands
Poland
Belgium
Germany
Czech
Rep.
Luxembourg
Slovakia
Austria
France
Hungary
Romania
Slovenia
Croatia
Portugal
Spain
Italy
Bulgaria
Greece
Cyprus
Malta

The European Union is a unified trade and monetary body of 27 member countries. It eliminates all border controls between members. The open border allows the free flow of goods and people, except for random spot checks for crime and drugs.

Any product manufactured in one EU country can be sold to any other member without tariffs or duties. Practitioners of most services, such as law, medicine, tourism, banking, and insurance, can operate in all member countries. As a result, the cost of airfares, the internet, and phone calls are typically lower than in the United States.

Purpose

The EU's purpose is to be more competitive in the global marketplace. At the same time, it must balance the needs of its independent fiscal and political members.

Its 27 member countries are

Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, and Sweden.[4]

How It Is Governed

Three bodies run the EU.

The EU Council represents national governments.

The Parliament is elected by the people.

The European Commission is the EU staff.

They make sure all members act consistently in regional, agricultural, and social policies. Contributions of 120 billion euros a year from member states fund the EU.

Here's how the three bodies uphold the laws governing the EU. These are spelled out in a series of treaties and supporting regulations:

1. The European Commission proposes new legislation. The commissioners serve a five-year term.
2. The European Parliament gets the first read of all laws the Commission proposes. Its members are elected every five years.
3. The European Council gets the second read on all laws and can accept the Parliament's position, thus adopting the law. The council is made up of the Union's 27 heads of state, plus a president.

Currency

The euro is the common currency for the EU area. It is the second most commonly held currency in the world, after the U.S. dollar. It replaced the Italian lira, the French franc, and the German Deutschmark, among others.

The value of the euro is free-floating instead of a fixed exchange rate. As a result, foreign exchange traders determine its value each day. The most widely-watched value is how much the euro's value is compared to the U.S. dollar.

The Difference Between the Eurozone and the EU

The eurozone consists of all countries that use the euro. All EU members pledge to convert to the euro, but only 19 have so far. They are Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, and Spain.

The European Central Bank is the EU's central bank. It sets monetary policy and manages bank lending rates and foreign exchange reserves. Its target inflation rate is less than 2%

Goals and values of the EU

Goals

The goals of the European Union are:

- promote peace, its values and the well-being of its citizens
- offer freedom, security and justice without internal borders
- sustainable development based on balanced economic growth and price stability, a highly competitive market economy with full employment and social progress, and environmental protection
- combat social exclusion and discrimination
- promote scientific and technological progress
- enhance economic, social and territorial cohesion and solidarity among EU countries
- respect its rich cultural and linguistic diversity
- establish an economic and monetary union whose currency is the euro.

Values

The EU values are common to the EU countries in a society in which inclusion, tolerance, justice, solidarity and non-discrimination prevail. These values are an integral part of our European way of life:

- **Human dignity**

  Human dignity is inviolable. It must be respected, protected and constitutes the real basis of fundamental rights.

- **Freedom**

  Freedom of movement gives citizens the right to move and reside freely within the Union. Individual freedoms such as respect for private life, freedom of thought, religion, assembly, expression and information are protected by the EU Charter of Fundamental Rights.

- **Democracy**

  The functioning of the EU is founded on representative democracy. Being a European citizen also means enjoying political rights. Every adult EU citizen has the right to stand as a candidate and to vote in elections to the European Parliament. EU citizens have the right to stand as candidate and to vote in their country of residence, or in their country of origin.

- **Equality**

  Equality is about equal rights for all citizens before the law. The principle of equality between women and men underpins all European policies and is the basis for European integration. It applies in all areas. The principle of equal pay for equal work became part of the Treaty of Rome in 1957. Although inequalities still exist, the EU has made significant progress.

- **Rule of law**

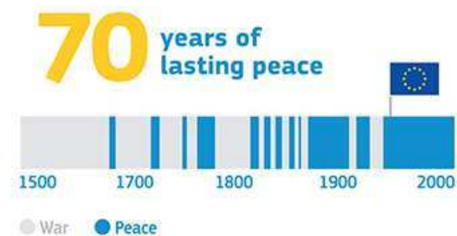
  The EU is based on the rule of law. Everything the EU does is founded on treaties, voluntarily and democratically agreed by its EU countries. Law and justice are upheld by an independent judiciary. The EU countries gave final jurisdiction to the European Court of Justice which judgements have to be respected by all.

- **Human rights**

  Human rights are protected by the EU Charter of Fundamental Rights. These cover the right to be free from discrimination on the basis of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation, the right to the protection of your personal data, and or the right to get access to justice.

These goals and values form the basis of the EU and are laid out in the Lisbon Treaty and the EU Charter of fundamental rights.

In 2012, the EU was awarded the Nobel Peace Prize for advancing the causes of peace, reconciliation, democracy and human rights in Europe.



From economic to political union

The European Union is a unique economic and political union between 27 EU countries that together cover much of the continent.

The predecessor of the EU was created in the aftermath of the Second World War. The first steps were to foster economic cooperation: the idea being that countries that trade with one another become economically interdependent and so more likely to avoid conflict.

The result was the European Economic Community (EEC), created in 1958, and initially increasing economic cooperation between six countries: Belgium, Germany, France, Italy, Luxembourg and the Netherlands.

Since then, 22 other members joined and a huge single market (also known as the 'internal' market) has been created and continues to develop towards its full potential.

On 31 January 2020 the **United Kingdom left** the European Union.

What began as a purely economic union has evolved into an organization spanning policy areas, from climate, environment and health to external relations and security, justice and migration. A

name change from the European Economic Community (EEC) to the European Union (EU) in 1993 reflected this.

Stability, a single currency, mobility and growth

The EU has delivered more than half a century of peace, stability and prosperity, helped raise living standards and launched a single European currency: the euro. More than 340 million EU citizens in 19 countries now use it as their currency and enjoy its benefits.

Thanks to the abolition of border controls between EU countries, people can travel freely throughout most of the continent. And it has become much easier to live, work and travel abroad in Europe. All EU citizens have the right and freedom to choose in which EU country they want to study, work or retire. Every EU country must treat EU citizens in exactly the same way as its own citizens for employment, social security and tax purposes.

The EU's main economic engine is the single market. It enables most goods, services, money and people to move freely. The EU aims to develop this huge resource to other areas like energy, knowledge and capital markets to ensure that Europeans can draw the maximum benefit from it.

Transparent and democratic institutions

The EU remains focused on making its governing institutions more transparent and democratic. Decisions are taken as openly as possible and as closely as possible to the citizen.

More powers have been given to the directly elected European Parliament, while national parliaments play a greater role, working alongside the European institutions.

The EU is governed by the principle of representative democracy, with citizens directly represented at Union level in the European Parliament and Member States represented in the European Council and the Council of the EU.

European citizens are encouraged to contribute to the democratic life of the Union by giving their views on EU policies during their development or suggest improvements to existing laws and policies. The European citizens' initiative empowers citizens to have a greater say on EU policies that affect their lives. Citizens can also submit complaints and enquiries concerning the application of EU law.

The EU in the world

Trade

The European Union is the largest trade block in the world. It is the world's biggest exporter of manufactured goods and services, and the biggest import market for over 100 countries.

Free trade among its members was one of the EU's founding principles. This is possible thanks to the single market. Beyond its borders, the EU is also committed to liberalising world trade.

Humanitarian aid

The EU is committed to helping victims of man-made and natural disasters worldwide and supports over 120 million people each year. Collectively, the EU and its constituent countries are the world's leading donor of humanitarian aid.

Diplomacy and security

The EU plays an important role in diplomacy and works to foster stability, security and prosperity, democracy, fundamental freedoms and the rule of law at international level.

The Association of Southeast Asian Nations - ASEAN

Flag

Emblem

Fact:

Secretariat	Jakarta
Working language	English
Official languages	10 languages
Membership	10 states & 2 observers
10 states	Brunei
	Cambodia
	Indonesia
	Laos
	Malaysia
	Myanmar
	Philippines
	Singapore
	Thailand
	Vietnam
2 observers	Papua New Guinea
	East Timor Timor Leste
Leaders	
• Secretary General	Lim Jock Hoi
Establishment	
• Bangkok Declaration	08-Aug-67
• Charter	16-Dec-08
GDP (PPP)	2020 estimate
• Total	Increase $9.727 trillion
• Per capita	Increase $14,025[8]
GDP (nominal)	2020 estimate
• Total	Increase $3.317 trillion
• Per capita	Increase $5,017[8]
Website	ASEAN.org

The Association of Southeast Asian Nations, or ASEAN, was established on 8 August 1967 in Bangkok, Thailand, with the signing of the ASEAN Declaration (Bangkok Declaration) by the Founding Fathers of ASEAN, namely Indonesia, Malaysia, Philippines, Singapore and Thailand.

Brunei then joined on 7 January 1984, Vietnam on 28 July 1995, Laos (Lao PDR) and Myanmar on 23 July 1997, and Cambodia on 30 April 1999, making up what is today the ten Member States of ASEAN.

AIMS AND PURPOSES

As set out in the ASEAN Declaration, the aims and purposes of ASEAN are:

1. To accelerate the economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of Southeast Asian Nations;
2. To promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries of the region and adherence to the principles of the United Nations Charter;
3. To promote active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields;
4. To provide assistance to each other in the form of training and research facilities in the educational, professional, technical and administrative spheres;
5. To collaborate more effectively for the greater utilisation of their agriculture and industries, the expansion of their trade, including the study of the problems of international commodity trade, the improvement of their transportation and communications facilities and the raising of the living standards of their peoples;
6. To promote Southeast Asian studies; and
7. To maintain close and beneficial cooperation with existing international and regional organisations with similar aims and purposes, and explore all avenues for even closer cooperation among themselves.

Purpose

ASEAN's purpose is to form a common market similar to the European Union. The ASEAN Economic Community was established in 2015. It is working toward free movement of goods and services, investment and capital, as well as skilled labor. It will also create common standards in

agriculture and financial services, intellectual property rights, and consumer protection. These are all necessary to attract foreign direct investment and promote growth. AEC has identified 611 measures it must implement to achieve its goals.

Almost 80% of these measures have been completed.

ASEAN is lowering trade tariffs on 99% of its products to 0.5%. Rice is excepted since it is so important to local economies. ASEAN is working to make regulations and product standards uniform among the nations.

The multilateral trade agreements between ASEAN and its neighbours lessen these countries' need for the World Trade Organization. Communication among these long-standing enemies in the name of trade means that they realize the preeminent importance of economic prosperity for all, regardless of ancient grudges and even democratic principles.

FUNDAMENTAL PRINCIPLES

In their relations with one another, the ASEAN Member States have adopted the following fundamental principles, as contained in the Treaty of Amity and Cooperation in Southeast Asia (TAC) of 1976:

1. Mutual respect for the independence, sovereignty, equality, territorial integrity, and national identity of all nations;
2. The right of every State to lead its national existence free from external interference, subversion or coercion;
3. Non-interference in the internal affairs of one another;
4. Settlement of differences or disputes by peaceful manner;
5. Renunciation of the threat or use of force; and
6. Effective cooperation among themselves.

ASEAN COMMUNITY

The ASEAN Vision 2020, adopted by the ASEAN Leaders on the 30th Anniversary of ASEAN, agreed on a shared vision of ASEAN as a concert of Southeast Asian nations, outward looking, living in peace, stability and prosperity, bonded together in partnership in dynamic development and in a community of caring societies.

At the 9th ASEAN Summit in 2003, the ASEAN Leaders resolved that an ASEAN Community shall be established.

At the 12th ASEAN Summit in January 2007, the Leaders affirmed their strong commitment to accelerate the establishment of an ASEAN Community by 2015 and signed the Cebu Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015.

The ASEAN Community is comprised of three pillars, namely the ASEAN Political-Security Community, ASEAN Economic Community and ASEAN Socio-Cultural Community. Each pillar has its own Blueprint, and, together with the Initiative for ASEAN Integration (IAI) Strategic Framework and IAI Work Plan Phase II (2009-2015), they form the Roadmap for an ASEAN Community 2009-2015.

ASEAN CHARTER

The ASEAN Charter serves as a firm foundation in achieving the ASEAN Community by providing legal status and institutional framework for ASEAN. It also codifies ASEAN norms, rules and values; sets clear targets for ASEAN; and presents accountability and compliance.

The ASEAN Charter entered into force on 15 December 2008. A gathering of the ASEAN Foreign Ministers was held at the ASEAN Secretariat in Jakarta to mark this very historic occasion for ASEAN.

With the entry into force of the ASEAN Charter, ASEAN will henceforth operate under a new legal framework and establish a number of new organs to boost its community-building process.

In effect, the ASEAN Charter has become a legally binding agreement among the 10 ASEAN Member States.

ASEAN and China

China is ASEAN's largest external trading partner. In 2017, it received 14.1% of ASEAN's exports. The EU came next at 12.0%, followed by the United States at 10.8%.

The nations though are also wary of China's ability to dominate the area. They don't want cooperation to lead to their absorption by their neighbour.

RCEP

ASEAN is negotiating the Regional Comprehensive Economic Partnership with Australia, China, India, Japan, Korea, and New Zealand. It is an economic cooperation and trade agreement that began on May 2013.

On July 4, 2019, China hosted the RCEP ministerial conference. The 27th round of negotiations followed later that month. It is eager to conclude negotiations by the end of 2019.

The South Asian Association for Regional Cooperation – SAARC

Fact

Headquarters	Kathmandu
Official languages	English
Demonym(s)	South Asian
Member states	8 members
	9 observers
Leaders	
• Secretary-General	Esala Weerakoon
Establishment	08-Dec-85, Dhaka
Area	
• Total	5,099,611 sq.km
• Water (%)	6.8
Population	
• 2015 estimate	1,71,38,70,000
• Density	336.1/sq.km
GDP (PPP)	2017 estimate
• Total	US$11.64 trillion
GDP (nominal)	2017 estimate
• Total	$3.31 trillion
Currency	8 currencies
Website	www.saarc-sec.org

History

The idea of regional cooperation in South Asia was first mooted in May 1980. The Foreign Secretaries of the seven countries met for the first time in Colombo in April 1981. The Committee which met in Colombo in August 1981, identified five broad areas for regional cooperation. New areas of cooperation were added in the following years.

The South Asian Association for Regional Cooperation (SAARC) was established when its Charter was formally approved on 8 December 1985 by the Heads of State or Government of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

Afghanistan became a member of SAARC during the Fourteenth SAARC Summit held in Delhi, India in April 2007.

Until 2009 China, Japan, Republic of Korea, USA, Iran, Mauritius, Australia, Myanmar and the European Union have joined SAARC as Observers.

SAARC provides a platform for the peoples of South Asia to work together in a spirit of friendship, trust and understanding. It aims to promote the welfare of the peoples of South Asia and to improve their quality of life through accelerated economic growth, social progress and cultural development in the region. During the Fifteenth Summit, the Heads of State or Government emphasized the importance of maintaining the momentum through clear links of continuity between the work already underway and future activities and recognized the need for SAARC to further strengthen its focus on developing and implementing regional and sub-regional projects in the agreed areas on a priority basis. They also renewed their resolve for collective regional efforts to accelerate economic growth, social progress and cultural development and emphasized on key issues like telecommunication, energy, climate change, transport, poverty alleviation, science and technology, trade, education, food security and tourism.

Cooperation in SAARC is based on respect for the **five principles** of sovereign equality, territorial integrity, political independence, non-interference in internal affairs of the member states and mutual benefit.

Regional cooperation is seen as a complement to the bilateral and multilateral relations of SAARC Member States.

The Secretariat of the Association was set up in Kathmandu on 17 January 1987.

The objectives of the Association as outlined in the SAARC Charter are:

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.

Decisions at all levels are to be taken on the basis of unanimity; and bilateral and contentious issues are excluded from the deliberations of the Association.

AREAS OF COOPERATION

Human Resource Development and Tourism

Agriculture and Rural Development

Environment, Natural Disasters and Biotechnology

Economic, Trade and Finance

Social Affairs

Information and Poverty Alleviation

Energy, Transport, Science and Technology

Education, Security and Culture

Others

ECONOMIC AND FINANCIAL COOPERATION

At their Eighteenth SAARC Summit held in Kathmandu on 26-27 November 2014, the Heads of State or Government expressed their strong determination to deepen regional integration for peace, stability and prosperity in South Asia by intensifying cooperation, inter alia, in trade, investment, finance, energy, security, infrastructure, connectivity and culture; and implementing projects, programmes and activities in a prioritized, result-oriented and time-bound manner.

The Leaders renewed their commitment to achieve South Asian Economic Union (SAEU) in a phased and planned manner through a Free Trade Area, a Customs Union, a Common Market, and a Common Economic and Monetary Union.

They acknowledged that SAARC Member States, particularly the Least Developed and Landlocked Member States, face structural constraints and challenges that result in their weak productive capacity affecting their competitiveness in external trade due to, among others, high trade and transit cost.

They committed to enhance support to the Least Developed and Landlocked Member States in their development efforts, with a view to ensuring equitable benefits of free trade arrangements. In this context, they agreed to effectively implement the existing preferential facilities under SAFTA and SATIS.

Connectivity

The Eighteenth SAARC Summit welcomed the significant progress towards finalization of the SAARC Motor Vehicles Agreement and SAARC Regional Railways Agreement. They renewed their commitment to substantially enhance regional connectivity in a seamless manner through building and upgrading roads, railways, waterways infrastructure, energy grids, communications and air links to ensure smooth cross-border flow of goods, services, capital, technology and people. The leaders emphasized the need for linking South Asia with contiguous regions, including Central Asia, and beyond by all modes of connectivity and directed relevant authorities to initiate national, regional and sub regional measures and necessary arrangements.

Regional Economic Integration Study (Phase-II)

As mandated by SAARC Leaders and on the request of SAARC Secretariat, Kathmandu, the Asian Development Bank (ADB) conducted a Study on Regional Economic Integration for SAARC. After in-depth deliberations, the First Special Meeting decided to implement the following recommendations simultaneously on a priority basis:

i. Reduction/Removal of Non-Tariff Barriers (NTBs) and Para-Tariff Barriers (PTBs)
ii. Energy Cooperation
iii. Trade Facilitation Measures
iv. Investment Cooperation
v. Reduction of products in the Sensitive Lists
vi. SAARC Agreement on Trade in Services (SATIS)
vii. Improvement in Connectivity (rail, road, air, maritime) among Member States

Committee on Economic Cooperation (CEC)

The CEC comprising Trade/Commerce Secretaries of SAARC Member States was established to oversee and monitor the trade and economic cooperation under the framework of SAARC in 1991. Fifteen Meetings of CEC have been held so far.

a. Endorsed the action plans enumerated in the SAARC Finance Secretaries' Meeting;

b. Noted that most of the Member Countries have managed crisis situations well, the strong indicators being reduction in fiscal deficit, reduction in the level of poverty;

c. Appreciated the SWAP arrangement for currency put in place by India and noted that Bhutan has already signed an MOU with Reserve Bank of India for US$ 100 million under the arrangement;

d. Private sector may be involved more and more in the economic and financial integration in SAARC, as their role becomes critical in the success of SAFTA process; and

e. Infrastructural development, such as Railways and motor ways and energy grid are important for facilitating regional economic and financial integration.

Principal Organs

- **Meeting of Heads of State or Government**
  - Meetings are held at the Summit level, usually on an annual basis.
- **Standing Committee of Foreign Secretaries**
  - The Committee provides overall monitoring and coordination, determines priorities, mobilizes resources, and approves projects and financing.
- **Secretariat**
  - The SAARC Secretariat was established in Kathmandu on 16 January 1987. Its role is to coordinate and monitor the implementation of SAARC activities, service the meetings of the association and serve as a channel of communication between SAARC and other international organizations.
  - The Secretariat comprises the secretary-general, seven directors, and the general services staff. The secretary-general is appointed by the Council of Ministers on the principle of rotation, for a non-renewable tenure of three years.

SAARC Specialized Bodies

- **SAARC Development Fund (SDF):** Its primary objective is funding of project-based collaboration in social sectors such as poverty alleviation, development, etc.
    - SDF is governed by a Board consisting of representatives from the Ministry of Finance of the Member States. The Governing Council of SDF (Finance Ministers of MSs) oversees the functioning of the Board.
- **South Asian University**
    - **South Asian University (SAU)** is an international university, located in India. Degrees and Certificates awarded by the SAU are at par with the respective Degrees and Certificates awarded by the National Universities/ Institutions.
- **South Asian Regional Standards Organization**
    - **South Asian Regional Standards Organization** (SARSO) has its Secretariat at **Dhaka, Bangladesh**.
    - It was established **to achieve and enhance coordination and cooperation among SAARC member states** in the fields of standardization and conformity assessment and is aimed to develop harmonized Standards for the region to facilitate intra-regional trade and to have access in the global market.
- **SAARC Arbitration Council**
    - It is an **inter-governmental body** having its office in **Pakistan** is mandated to provide a legal framework/forum within the region for fair and efficient settlement of commercial, industrial, trade, banking, investment and such other disputes, as may be referred to it by the member states and their people.

SAARC and its Importance

- SAARC **comprises 3% of the world's area, 21% of the world's population** and **3.8%** (US$2.9 trillion) **of the global economy**.

- **Creating synergies:** It is the world's most densely populated region and one of the most fertile areas. SAARC countries have common tradition, dress, food and culture and political aspects thereby synergizing their actions.
- **Common solutions:** All the SAARC countries have common problems and issues like poverty, illiteracy, malnutrition, natural disasters, internal conflicts, industrial and technological backwardness, low GDP and poor socio-economic condition and uplift their living standards thereby creating common areas of development and progress having common solutions.

SAARC Achievements

- **Free Trade Area (FTA):** SAARC is comparatively a new organization in the global arena. The member countries have established a **Free Trade Area (FTA)** which will increase their internal trade and lessen the trade gap of some states considerably.
- **SAPTA: South Asia Preferential Trading Agreement** for promoting trade amongst the member countries came into effect in 1995.
- **SAFTA: A Free Trade Agreement** confined to goods, but excluding all services like information technology. Agreement was signed to reduce customs duties of all traded goods to zero by the year 2016.
- **SAARC Agreement on Trade in Services (SATIS):** SATIS is following the GATS-plus 'positive list' approach for trade in services liberalization.
- **SAARC University:** Establish a SAARC university in India, a food bank and also an energy reserve in Pakistan.

Significance for India

- **Neighbourhood first:** Primacy to the country's immediate neighbours.
- **Geostrategic significance:** Can counter China (OBOR initiative) through engaging Nepal, Bhutan, the Maldives and Sri Lanka in development process and economic cooperation.
- **Regional stability:** SAARC can help in creation of mutual trust and peace within the region.

- **Global leadership role:** It offers India a platform to showcase its leadership in the region by taking up extra responsibilities.
- **Game changer for India's Act East Policy:** by linking South Asian economies with South East Asian will bring further economic integration and prosperity to India mainly in the Services Sector.

Challenges

- **Low frequency of meetings:** More engagement is required by the member states and instead of meeting biennial meetings should be held annually.
- **Broad area of cooperation** leads to diversion of energy and resources.
- **Limitation in SAFTA:** The implementation of SAFTA has not been satisfactory a Free Trade Agreement confined to goods, excluding all services like information technology.
- **Indo-Pak Relations:** Escalated tension and conflict between India and Pakistan have severely hampered the prospects of SAARC.

Way Forward

- In a region increasingly targeted by Chinese investment and loans, SAARC could be a common platform to demand more sustainable alternatives for development, or to oppose trade tariffs together, or to demand better terms for South Asian labour around the world.
- SAARC, as an organisation, reflects the South Asian identity of the countries, historically and contemporarily. This is a naturally made geographical identity. Equally, there is a cultural, linguistic, religious and culinary affinity that defines South Asia.
- The potential of organisation to maintain peace and stability in the region should be explored by all the member countries.
- SAARC should be allowed to progress naturally and the people of South Asia, who make up a quarter of the world's population should be offered more people-to-people contact.

Case:

The Leaders of SAARC held a Video Conference to discuss measures to contain the spread of COVID-19 in the region.

The Leaders of the Member States of the South Asian Association for Regional Cooperation (SAARC) held a Video Conference on 15 March 2020 to discuss measures to contain the spread of COVID-19 in the region.

H. E. Narendra Modi, Prime Minister of India, who proposed the Video Conference, delivered the opening remarks. He called upon SAARC Leaders to work collectively to fight the spread of the pandemic in the region. He said that all Member States must prepare, act and succeed together. The Prime Minister also proposed the creation of a COVID-19 Emergency Fund with voluntary contributions from all Member States, and pledged an amount of US$ 10 million as an initial contribution from India.

All the Heads of State or Government or their representative addressed the Conference. In their remarks, the Leaders appreciated this timely initiative of the Prime Minister of India.

The Leaders shared country situations and experiences in the aftermath of the outbreak of COVID-19, as well as measures taken by them to control the spread of the virus. They recognized the unprecedented threat posed by the outbreak of COVID-19 and the urgency with which the Member States needed to work together to prevent and contain the spread of the virus. They also recognized the need to analyse and address the long-term economic consequences of the COVID-19 pandemic in the region.

Among the proposals shared by the Leaders included continuing the consultation process through meetings at the ministerial and experts' level; identifying the Nodal Experts to take further action on the proposals discussed during the Conference; and formulating a comprehensive regional strategy against COVID-19 through the SAARC process and other appropriate mechanisms.

The Video Conference of the SAARC Leaders was attended by H. E. Mohammad Ashraf Ghani, President of the Islamic Republic of Afghanistan; H. E. Sheikh Hasina, Prime Minister of the People's Republic of Bangladesh; H. E. Dr. Lotay Tshering, Prime Minister of the Royal Government of Bhutan; H. E. Narendra Modi, Prime Minister of the Republic of India; H. E. Ibrahim Mohamed Solih, President of the Republic of Maldives; Rt. Hon. KP Sharma Oli, Prime Minister of the Federal Democratic Republic of Nepal; H. E. Dr. Zafar Mirza, State Minister for Health of the Islamic Republic of Pakistan; and H. E. Gotabaya Rajapaksa, President of the Democratic Socialist Republic of Sri Lanka.

H. E. Mr. Esala Ruwan Weerakoon, Secretary General of SAARC, attended the Conference. The Conference was also attended by Mr. P. K. Taneja, Director, SAARC Disaster Management Centre (Interim Unit).

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BBA 604 : International Trade

UNIT – I : Basics of International Trade

Prof. Raghwendra Kumar

Asst. Professor - Management Studies

Unit – I :
Basics of international trade, international trade theories, drivers of international trade, restraining forces, recent trends in world trade

- Instructor:
- Prof. Raghwnedra Kumar
- (UGC-NET, PhD (P), M Phil, MBA)

An Overview of Trade Theory

- Free Trade occurs when a government does not attempt to influence, through quotas or duties, what its citizens can buy from another country or what they can produce and sell to another country.
- The Benefits of Trade allow a country to specialize in the manufacture and export of products that can be produced most efficiently in that country.
- The Pattern of International Trade displays patterns that are easy to understand (Saudi Arabia/oil or Mexico/labor intensive goods). Others are not so easy to understand (Japan and cars).

INTRODUCTION

- The reason for the emergence of international trade is that the human wants are varied and unlimited and no single country possesses the adequate resources to satisfy all these wants. Hence there arises a need for interdependence between countries in the form of international trade. So in order to make effective utilisation of the world’s resources international trade is to be boosted and the problems faced by the countries should be dealt with.

BASIS OF INTERNATIONAL TRADE

- No country is self sufficient in producing all the required goods and services from its own resources. This problem can be solved through international trade where the countries obtain those goods which it cannot produce or cannot produce as cheaply as possible in another country. However this is not the only basis for doing international trade, there are other reasons also. Trade economists have laid down different theories for international trade.

Index of Openness

- **Index of Openness**—a measure of how much a country participates in international trade; defined as the ratio of a country's exports to its GDP (or GNP).
- **Open Economy**—a country with a high value of the index of openness.
- **Closed Economy**—a country with a relatively low index of openness.

Globalization

- The expansion of economic, political, and cultural processes to the point that they become global in scale and impact.

Terms to Know

- Imports – Bringing goods or services into a country for sale.
- Exports – Sending goods or services to another country for sale.
- Exchange rates – The price of a nation’s currency in terms of another nation’s currency.
- Balance of Trade – The difference in value between a country’s imports and exports.

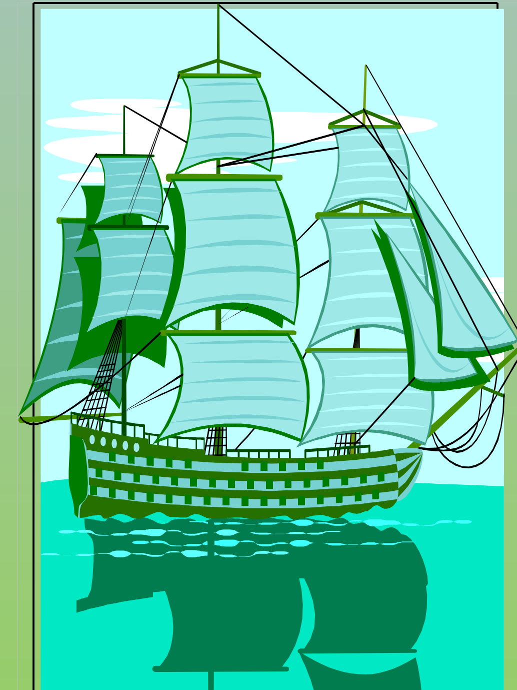
International Trade

Purchase, sale, or exchange of goods and services across national borders

- ✓ **People have larger selection of products**
- ✓ **Important engine for job creation**

Mercantilism: mid-16th century

- A nation's wealth depends on accumulated treasure
- Gold and silver are the currency of trade.
- Theory says you should have a trade surplus.
  - Maximize exports through subsidies.
  - Minimize imports through tariffs and quotas.
- Flaw: "Zero-sum game".



Mercantilism given byDavid Hume - 1752

- Increased exports leads to inflation and higher prices.
- Increased imports lead to lower prices.
- Result: Country A sells less because of high prices and Country B sells more because of lower prices.
- In the long run, no one can keep a trade surplus.

THEORY OF ABSOLUTE COST ADVANTAGE (By Adam Smith)

- Producing a good with fewer inputs (capital, labor, land, raw materials, etc.) per unit of output than other countries
- If input prices are the same in two countries, the country with an absolute advantage in a good will have a lower unit cost of production for that good
- A country should produce and export products in which it has an absolute advantage
- A country should import products in which it has an absolute disadvantage

Per unit cost of production(Rs.)

- Indonesia has absolute cost advantage in the production of cotton and India in the production of tea

- Both countries will gain if Indonesia produces and exports cotton and India produces and exports tea.

Country	Cotton	Tea
India	5	10
Indonesia	10	5

THEORY OF COMPARATIVE COST ADVANTAGE (By David Ricardo)

- Focus on comparative cost advantage not on absolute cost advantage.
- Each country specialises in the production of that commodity in which its comparative cost of production is the least.
- A country will export those commodities in which its comparative costs are less.
- A country will import those commodities in which its comparative costs are high.

Commodities (Per unit cost of production)

Country	A	B	C	D	E
X	10	12	13	14	15
Y	9	5	8	13	14
Cost Difference	1	7	5	1	1

- Country Y has comparative advantage in products B and C
- Country Y will put all its resources in the production of B and C
- Country X will produce other products i.e. A, D, and E.

FACTOR ENDOWMENT THEORY (By Heckscher and Ohlin)

- A country that is relatively abundant in a factor of production should export goods that use a lot of that factor in the production process, and import other goods

- Example: a country like China with a lot of labour should export labour- intensive goods

- Why? If a factor is relatively abundant, it will be relatively cheap, and a country will be more globally competitive in products that use a lot of that factor

THEORY OF COMPETITIVE ADVANTAGE (By Micheal Porter)

- To compete in the world a country requires a strategy to gain a competitive edge over the others.
- Competitive advantage is created by technological and institutional change, not just inherited from a country’s natural endowments.

PRODUCT LIFE CYCLE THEORY (By Vernon)

- Industrialised countries contribute more resources to research and development which results in development of new products
- In early stage they have monopoly on such new products and enjoy easy access to foreign markets
- Later other countries start imitating their products and initial advantage disappears.

THEORY OF IDENTICAL PREFERENCES (By Linder)

- Based on the principle that trade opportunities are more among countries at similar stage of development with similar demand structure
- E.g. USA and Japan are largest trade partners because of identical consumer preferences and similar stage of development.

PRODUCT DIFFERENTIATION

- Another reason or basis for international trade can be the product differentiation.
- It means differentiating a product in some manner such as adding different and new features in the same basic products.

OUTLET FOR SURPLUS

- Most countries involve in international trade because they have surplus production
- Surplus commodities or some unused resources can be exported
- E.g. India had surplus wheat in 2000 and there was no additional storage capacity, so it was decided to export wheat at cheaper rates in the international market.

CONCLUSION

To sum it up, we can say that there are multiple basis for international trade. It can also be said that these are the inevitable factors which force a country to do international trade.

Drivers of International Trade

- As the international environment is constantly changing due to today's economic crisis, where are we going to be able to grow our businesses? You may need to grow your business internationally. At HSI, we have noticed that different companies have different reasons for growing their business and these are summarized below:

Cost

a. Export

i. Some companies require large capital investments in plants and machinery.

ii. Strong incentive to spread the costs of these fixed costs over a large number of units

b. Import / Outsourcing

Drivers of International Trade

II. Competition

a. Companies follow their domestic competitors abroad to maintain their world-wide market share.

b. Companies retaliate against foreign competitors entering their home market by going to these competitors' home markets.

c. Companies counter a competitor's new product entry by offering a similar product, often produced abroad.

Drivers of International Trade

III. Market factors

a. Consumers’ tastes and preferences have become increasingly uniform worldwide.

b. Consumers have become increasingly knowledgeable about products and willing to try new foreign alternatives.

IV. Technology

a. Diffusion of information is universal.

b. Competition for products is worldwide: the Internet allows people to trade with one another.

International Trade Barriers/restrictions

Infrastructure

The physical facilities that support economic activities, including railroads, highways, ports, airfields, utilities, power plants, schools, hospitals, and commercial distribution systems.

International Trade Barriers

Exchange Rates

The ratio at which one nation's currency can be exchanged for another nation's currency.

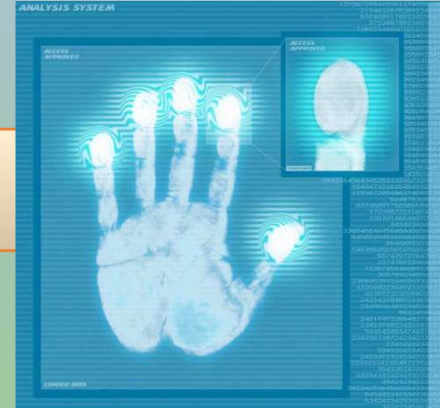
International Trade Barriers

Ethical, Legal, and Political Barriers.

- Complex relationships
- Different laws
- International laws
- Trade restrictions
- Changing political climates
- Different ethical values

International Trade Barriers

Tariffs & Trade Restrictions

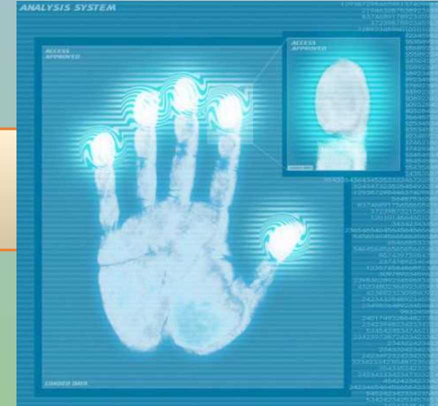


Part of a nation's legal structure – may be established or removed for political reasons.

Import Tariff *– a tax levied by a nation on goods imported into the country*

International Trade Barriers

Tariffs & Trade Restrictions



***Exchange controls** – regulations that restrict the amount of currency that can be bought or sold*

***Quota** – a restriction on the number of units of a particular product that can be imported into a country*

International Trade Barriers

Tariffs & Trade Restrictions

***Embargo**– a prohibition on trade in a particular product*

***Dumping** – the act of a country or business selling products at less than what it costs to produce them*

International Trade Barriers

Political Barriers

- Seldom in writing & change rapidly
- Relative stability of countries is a factor

Cartel – a group of firms or nations that agrees to act as a monopoly and not compete with each other, in order to generate a competitive advantage in world markets.

International Trade Barriers

Cultural Barriers

Cultural Behavioral Differences

Region	Gestures Viewed as Rude or Unacceptable
Japan, Hong Kong, Middle East	Summoning with the index finger
Middle and Far East	Pointing with index finger
Thailand, Japan, France	Sitting with soles of shoes showing
Brazil, Germany	Forming a circle with fingers (e.g., the "O.K." sign in the United States)
Japan	Winking means "I love you"
Buddhist countries	Patting someone on the head

Source: Adapted from Judie Haynes, "Communicating with Gestures," *EverythingESL* (n.d.), www.everythingesl.net/inservice/body_language.php (accessed March 2, 2004).

International Trade Barriers

Technological Barriers

- Technological advances are creating global marketing opportunities

- 10 nations outrank the U.S.

5 Major Current Trends in Foreign Trade

- Current trends are towards the increasing foreign trade and interdependence of firms, markets and countries.
- Intense competition among countries, industries, and firms on a global level is a recent development

5 Major Current Trends in Foreign Trade

1) Forced Dynamism
2) Cooperation among Countries
3) Liberalization of Cross-border Movements
4) Transfer of Technology
5) Growth in Emerging Markets

1) Forced Dynamism

- International trade is forced to succumb to trends that shape the global political, cultural, and economic environment.
- International trade is a complex topic, because the environment it operates in is constantly changing.

2) Cooperation among Countries

- Countries cooperate with each other in thousands of ways through international organizations, treaties, and consultations. Such cooperation generally encourages the globalization of business by eliminating restrictions on it and by outlining frameworks that reduce

2) Cooperation among Countries

- Agreements on a variety of commercially related activities, such as transportation and trade, allow nations to gain reciprocal advantages. For example, groups of countries have agreed to allow foreign airlines to land in and fly over their territories such as Canada's

3) Liberalization of Cross-border Movements

- Every country restricts the movement across its borders of goods and services as well as of the resources, such as workers and capital, to produce them. Such restrictions make international trade cumbersome; further, because the restrictions may change at any time,

4) Transfer of Technology

- Technology transfer is the process by which commercial technology is disseminated. This will take the form of a technology transfer transaction, which may or may not be a legally binding contract, but which will involve the communication, by the transferor, of the relevant knowledge

5) Growth in Emerging Markets

- The growth of emerging markets (e.g., India, China, Brazil, and other parts of Asia and South America especially) has impacted international trade in every way.
- The emerging markets have simultaneously increased the