STATIC GK

International Relations

eBook

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Chapter 1: International Trade

A. Balance of Payments

Balance of Payments is a statistical statement that systematically summarizes for a specific time period, the economic transactions of an economy with the rest of the world. It is the method countries use to monitor all international monetary transactions at a specific period of time. Usually, the BOP is calculated every quarter and every calendar year. All trades conducted by both the private and public sectors are accounted for in the BOP in order to determine how much money is going in and out of a country. If a country has received money, this is known as a credit, and if a country has paid or given money, the transaction is counted as a debit. Theoretically, the BOP should be zero, meaning that assets (credits) and liabilities (debits) should balance, but in practice this is rarely the case. Thus, the BOP can tell the observer if a country has a deficit or a surplus and from which part of the economy the discrepancies are stemming.

1. Components of BOP: The BOP is divided into three main categories: the current account, the capital account and the financial account. Within these three categories

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are sub-divisions, each of which accounts for a different type of international monetary transaction.

The Current Account: The current account is used to mark the inflow and outflow of goods and services into a country. Earnings on investments, both public and private, are also put into the current account. Within the current account are credits and debits on the trade of merchandise, which includes goods such as raw materials and manufactured goods that are bought, sold or given away (possibly in the form of aid). Services refer to receipts from tourism, transportation (like the levy that must be paid in Egypt when a ship passes through the Suez Canal), engineering, business service fees (from lawyers or management consulting, for example) and royalties from patents and copyrights. When combined, goods and services together make up a country's balance of trade (BOT). The BOT is typically the biggest bulk of a country's balance of payments as it makes up total imports and exports. If a country has a balance of trade deficit, it imports more than it exports, and if it has a balance of trade surplus, it exports more than it imports.

Receipts from income-generating assets such as stocks (in the form of dividends) are also recorded in the current account. The last component of the current account is unilateral transfers. These are credits that are mostly worker's remittances, which are salaries sent back into the home country of a national working abroad, as well as foreign aid that is directly received.

The Capital Account: The capital account is where all international capital transfers are recorded. This refers to the acquisition or disposal of non-financial assets (for example, a physical asset such as land) and non-produced assets, which are needed for production but have not been produced, like a mine used for the extraction of diamonds.

The capital account is broken down into the monetary flows branching from debt forgiveness, the transfer of goods, and financial assets by migrants leaving or entering a country, the transfer of ownership on fixed assets (assets such as equipment used in the production process to generate income), the transfer of funds received to the sale or acquisition of fixed assets, gift and inheritance taxes, death levies and, finally, uninsured damage to fixed assets.

The Financial Account: In the financial account, international monetary flows related to investment in business, real estate, bonds and stocks are documented.

Also included are government-owned assets such as foreign reserves, gold, special drawing rights (SDRs) held with the International Monetary Fund (IMF), private assets held abroad and direct foreign investment. Assets owned by foreigners, private and official, are also recorded in the financial account.

2. The Balancing Act: The current account should be balanced against the combined-capital and financial accounts; however, as mentioned above, this rarely happens. We should also note that, with fluctuating exchange rates, the change in the value of money can add to BOP discrepancies. When there is a deficit in the current account, which is a balance of trade deficit, the difference can be borrowed or funded by the capital account. If a country has a fixed asset abroad, this borrowed amount is marked as a capital account outflow. However, the sale of that fixed asset would be considered a current account inflow (earnings from investments). The current account deficit would thus be funded. When a country has a current account deficit that is financed by the capital account, the country is actually foregoing capital assets for more goods and services. If a country is borrowing money to fund its current account deficit, this would appear as an inflow of foreign capital in the BOP.

3. Liberalizing the Accounts: The rise of global financial transactions and trade in the late-20th century spurred BOP and macroeconomic liberalization in many developing nations. With the advent of the emerging market economic boom - in which capital flows into these markets tripled from USD$50 million to $150 million from the late 1980s until the Asian crisis - developing countries were urged to lift restrictions on capital and financial-account transactions in order to take advantage of these capital inflows. Many of these countries had restrictive macroeconomic policies, by which regulations prevented foreign ownership of financial and non-financial assets. The regulations also limited the transfer of funds abroad.

With capital and financial account liberalization, capital markets began to grow, not only allowing a more transparent and sophisticated market for investors, but also giving rise to foreign direct investment (FDI). For example, investments in the form of a new power station would bring a country greater exposure to new technologies and efficiency, eventually increasing the nation's overall GDP by allowing for greater volumes of production. Liberalization can also facilitate less risk by allowing greater diversification in various markets.

4. Balance Of Trade (BOT) VS Balance Of Payment(BOP)

Balance of trade is the difference between a country's imports and its exports. Balance of trade is the largest component of a country's balance of payments (the sum total of all economic transactions between one country and its trading partners around the world). Debit items include imports, foreign aid, domestic spending abroad and domestic investments abroad. Credit items include exports, foreign spending in the domestic economy and foreign investments in the domestic economy. 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.

While a favourable balance of trade is a necessary means of financing a country's purchase of foreign goods and maintaining its export trade; a continuing surplus may, in fact, represent underutilized resources that could otherwise be contributing toward a country's wealth, were they to be directed toward the purchase or production of goods or services. Furthermore, a surplus accumulated by a country (or group of countries) may have the potential of producing sudden and uneven changes in the economies of those countries in which the surplus is eventually spent.

Generally, the developing countries (unless they have a monopoly on a vital commodity) have particular difficulty maintaining surpluses since the terms of trade during periods of recession work against them; that is, they have to pay relatively higher prices for the finished goods they import but receive relatively lower prices for their exports of raw materials or unfinished goods.

Basis of Difference	**Balance of Trade (BOT)**	**Balance of Payment (BOP)**
1. Definition	Balance of trade may be defined as difference between export and import of goods and services.	Balance of payment is flow of cash between domestic country and all other foreign countries. It includes not only import and export of goods and services but also includes financial capital

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		transfer.
2. Formula	BOT = Net Earning on Export - Net payment for imports	BOP = BOT + (Net Earning on foreign investment - payment made to foreign investors) + Cash Transfer + Capital Account +or - Balancing Item **or** BOP = Current Account + Capital Account + or - Balancing item (Errors and omissions)
3. Favourable or Unfavourable	If export is more than import, at that time, BOT will be favourable. If import is more than export, at	Balance of Payment will be favourable, if you have surplus in current account for paying your all past loans in your capital account.

	that time, BOT will be unfavourable.	Balance of payment will be unfavourable, if you have current account deficit and you took more loan from foreigners. After this, you have to pay high interest on extra loan and this will make your BOP unfavourable.
4. Solution of Unfavourable Problem	To Buy goods and services from domestic country.	To stop taking of loan from foreign countries.
5. Factors	Following are main factors which affect BOT a) cost of production b) availability of raw materials c) Exchange rate d) Prices of	Following are main factors which affect BOP a) Conditions of foreign lenders. b) Economic policy of Govt. c) all the factors of BOT

	goods manufactured at home	
6. Meaning of Debit and Credit	If you see RBI' Overall balance of payment report, it shows debit and credit of current account. Credit means total export of different goods and services and debit means total import of goods and services in current account.	Credit means to receipt and earning both current and capital account and debit means total outflow of cash both current and capital account and difference between debit and credit will be net balance of payment.

B. Exchange Rate

The exchange rate is a key financial variable that affects decisions made by foreign exchange investors, exporters, importers, bankers, businesses, financial institutions, policymakers and tourists in the developed as well as developing world. Exchange rate fluctuations affect the value of international investment portfolios, competitiveness of exports and imports, value of international reserves, currency value of debt payments, and the cost to tourists in terms of the value of their currency. Movements in exchange rates thus have important implications for the economy's business cycle, trade and capital flows and are therefore crucial for understanding financial developments and changes in economic policy.

The exchange rate is the value of one currency in terms of another. For example, if a dollar is worth Rs. 45.60 today, the rupee dollar exchange rate is said to be 45.6 to one.

1. Exchange Rate Classifications

Following are different types of exchange rate regimes and how they work.

Single Currency Peg

The country pegs to a major currency-usually the US dollar or the French franc-with infrequent adjustment of the parity.

Composite Currency Peg: The country pegs to a basket of currencies of major trading partners to make the pegged currency more stable than if a single currency peg were used. The weights assigned to the currencies in the basket may reflect the geographical distribution of trade, services, or capital flows. They may also be standardised, as in the SDR and the European Currency Unit.

Limited Flexibility vis-a-vis a Single Currency: The value of the currency is maintained within margins of the peg (this system applies to certain Middle East countries).

Limited Flexibility through Cooperative Arrangements: This applied to countries in the exchange rate mechanism of the European Monetary System (EMS) and was a cross between a peg of individual EMS currencies to each other and a float of all these currencies jointly vis-a-vis non-EMS currencies.

Greater Flexibility through Adjustment to an Indicator: The currency is adjusted more or less automatically to changes in selected indicators. A common indicator is the real effective exchange rate, which reflects inflation-adjusted changes in the currency vis-a-vis major trading partners.

Greater Flexibility through a Managed Float: The Central bank sets the rate but varies it frequently. Indicators for adjusting the rate include, for example, the balance of payments position, reserves, and parallel market developments. Adjustments are not automatic.

Full Flexibility through an Independent Float: Rates are determined by market forces. Some industrial countries have floats-except for the EU countries-but the number of developing countries in this category has been increasing in recent years.

2. Exchange Rate Systems

Broadly, there are two important exchange rate systems, namely the fixed exchange rate system and flexible exchange rate system.

Fixed Exchange Rates: Countries following the fixed exchange rate (also known as stable exchange rate and pegged exchange rate) system agree to keep their currencies. at a fixed, pegged rate and to change their value only at fairly infrequent intervals, when the economic situation forces them to do so. Under the gold standard, the values of currencies were fixed in terms of gold. Until the breakdown of the Bretton Woods System in the early 1970, each member country of the IMF defined the value of its currency in terms of gold or the US dollar and agreed to maintain (to peg) the market value of its currency within:!: I per cent of the defined (par) value. Following, the breakdown of the Bretton Woods System, some countries took to managed floating of their currencies while a number of countries still embraced the fixed exchange rate system.

The important arguments supporting the stable exchange rate system are:

(i) Exchange rate stability is necessary for orderly development and growth of foreign If exchange rate stability is not assured, exporters will be uncertain about the amount they will receive and importers will be uncertain about the amount they will have to pay. Such uncertainties and the associated risks adversely affect foreign trade. A great advantage of the fixed exchange rate system is that it eliminates the possibilities of such uncertainties and risks.

(ii) Especially the developing countries, which have a persistent balance of payment deficits, should necessarily adopt the stable exchange rate system.

(iii) Exchange rate stability is necessary to attract foreign capital investment as foreigners will not be interested to invest in a country with an unstable currency. Thus, exchange rate stability is necessary to augment resources and foster economic growth.

(iv) Unstable exchange rates may encourage the flight of capital. Exchange rate stability is necessary to prevent its outflow.

(v) A stable exchange rate system eliminates speculation in the foreign exchange market.

(vi) A stable exchange rate system is a necessary condition for the successful functioning of regional groupings and arrangements among nations.

Flexible Exchange Rates

Under the flexible exchange rate system, exchange rates are freely determined in open market primarily by private dealings, and they, like other market prices, vary from day-to-day. Under the flexible exchange rate system, the first impact of any tendency toward a surplus or deficit in the balance of payments is on the exchange rate. Surplus in the balance of payments will create an excess demand for the currency and the exchange rate will tend to rise. On the other hand, deficit in the balance of payments will give rise to an excess supply of the country's currency and the exchange rate will, hence, tend to fall.

Automatic variations in the exchange rates, in accordance with the variation in the balance of payment position, tend to automatically restore the balance of payments equilibrium. A surplus in the balance of payments increases the exchange rate. This makes foreign goods cheaper in terms of the domestic currency and domestic goods more expensive in terms of the foreign currency, This, in turn, encourages, imports and discourages exports, resulting in the restoration of the balance of payments equilibrium.

On the other hand, If there is a payments deficit, the exchange rate falls and this makes domestic good cheaper in terms of the foreign currency and foreign goods more expensive in terms of the domestic currency. This encourages exports discourages imports and thus helps to establish the balance of payments equilibrium.

The important arguments for/against the flexible exchange rate system are:

1. Flexible exchange rates present a situation of instability, creating uncertainty and confusion. However it can argued that a flexible exchange rate need not be an unstable exchange rate. If it is, it is primarily because there is underlying instability in the economic conditions governing international trade. And a rigid exchange rate may, while itself remaining nominally stable, perpetuate and accentuate other elements of instability in the economy. The mere fact that a rigid official exchange rate does not change while a flexible rate does is no evidence that the former means greater stability in any more fundamental sense.

2. The system of flexible exchange rates, with its associated uncertainties, makes it impossible for exporters and importers to be certain about the price they will have to pay or receive for foreign exchange. This will have a dampening effect on foreign trade. However this can be countered by pointing out that under flexible exchange rates, traders can almost always protect themselves against changes in the rate by hedging in the future market. Such markets in foreign currency readily develop when exchange rates are flexible. However, it is certainly true that no market exists today that can protect against all the risks connected with a system of flexible exchanges, and it is doubtful if such a market can be established in the future, if a system of flexible exchanges were introduced. A system of flexible exchanges might, therefore, have a considerably dampening effect on the volume of foreign trade.

3. Under flexible exchange rates, there will be widespread speculation, which will have a destabilising effect. Against this, it is argued that normally, speculation has a stabilising influence on exchange rates-if speculation is supposed to be destablising, it implies that speculators lose money on their activity.

4. The system of flexible exchange rates gives an inflationary bias to an economy. When the currency depreciates due to payments deficit, imports become costlier and this stirs up an inflationary spiral. The supporters of the flexible exchange rates, however, counter this criticism by stating that when imports become costlier, the demand for them falls, compelling foreign suppliers to reduce prices. Though it is theoretically possible, it may not be realized. The general feeling is that flexible exchange rates may have an inflationary impact on the economy.

Which system, then, should a country adopt? The answer will depend on circumstances. It will depend on the characteristics of the economy, and it will change with time as the economy changes.

In India, we have a Managed Floating Exchange Rate System. This **means that the Indian government intervenes only if the exchange rate seems to go out of hand by increasing or reducing the money supply as the situation demands.**

Rupee Appreciation & Rupee Depreciation

When rupee is said to be appreciating it means that our currency is gaining strength and its value is increasing with respect to dollar. However, w**hen rupee depreciates it means our currency is getting weaker** & its value is falling with respect to dollar. You can understand it with the following example:

Suppose, currently, the exchange rate is Rs. 45 = $1,

10 months later, either of the following two cases can happen

Case 1: The exchange rate is say Rs. 40 = $1. This means rupee has appreciated or gotten stronger by approx 11% and you would be paying less to for a dollar

Case 2: The exchange rate is at Rs. 50 = $1. This means rupee has depreciated or gotten weaker by approx 11% and you end up paying more for a dollar.

Why does the rupee appreciate or depreciate?

Rupee's appreciation or depreciation against the dollar depends on the change in demand and supply for both the currencies. If the demand for rupee is comparatively high, rupee appreciates; if low, it depreciates. The important question here is **'what factors drive the demand for a currency?'** They are:

Interest Rate: A demand for a currency is ***hugely dependent on the interest rate differential*** between two countries. A country like India where int. rate is around 7-8% experiences greater capital inflow as investors get better return than what they might get in US. (with Interest rates of 2-3%). This results into rupee appreciation.

Inflation Rate: The demand for a country's goods & services by the foreign buyers would be more if the inflation rate is lower in that country compared to other countries. Higher demand for goods & services would mean higher demand for that currency resulting in the appreciation of that currency. For instance if India's inflation rate is lower than that of Zimbabwe then the demand for our goods, services and currency would be higher than that for Zimbabwe's.

Export-Import: If a country is exporting more than its imports from other countries, then this would mean higher demand for that currency, causing appreciation of that currency against others.

Trading in currencies in the Forex market: The exchange rate fluctuates minute by minute because of speculative trading in the Forex market.

Though trading in Forex market causes fluctuations in the exchange rate, over a period the change is backed by the fundamental factors like the growth potential in the economy, interest rate differential and the inflation rate existing in different countries.

In a manage floating exchange rate system like India the government purchases rupee in exchange for the foreign currency to increase money supply in the economy which leads to depreciation of the home currency. Conversely, it purchases foreign currency in exchange for rupee to reduce the money supply in the economy leading to appreciation of the home currency.

Impact of Rupee appreciation/depreciation

Impact on economy: Exchange rate fluctuation has a significant impact on the overall economy of a country. Rupee appreciation against US dollar is an indication of the strengthening of Indian economy with respect to US economy.

Impact on foreign investors: If a foreign investor invests in Indian stock market and even if its value doesn't change in 1 year, he'll earn profit if rupee appreciates and make a loss if it depreciates. You can understand this with an example:

Suppose an FPI Invests Re. 1 Cr. in the Indian stock market and at an exchange rate of $1 = Rs. 50. So, the amount invested is $200,000.

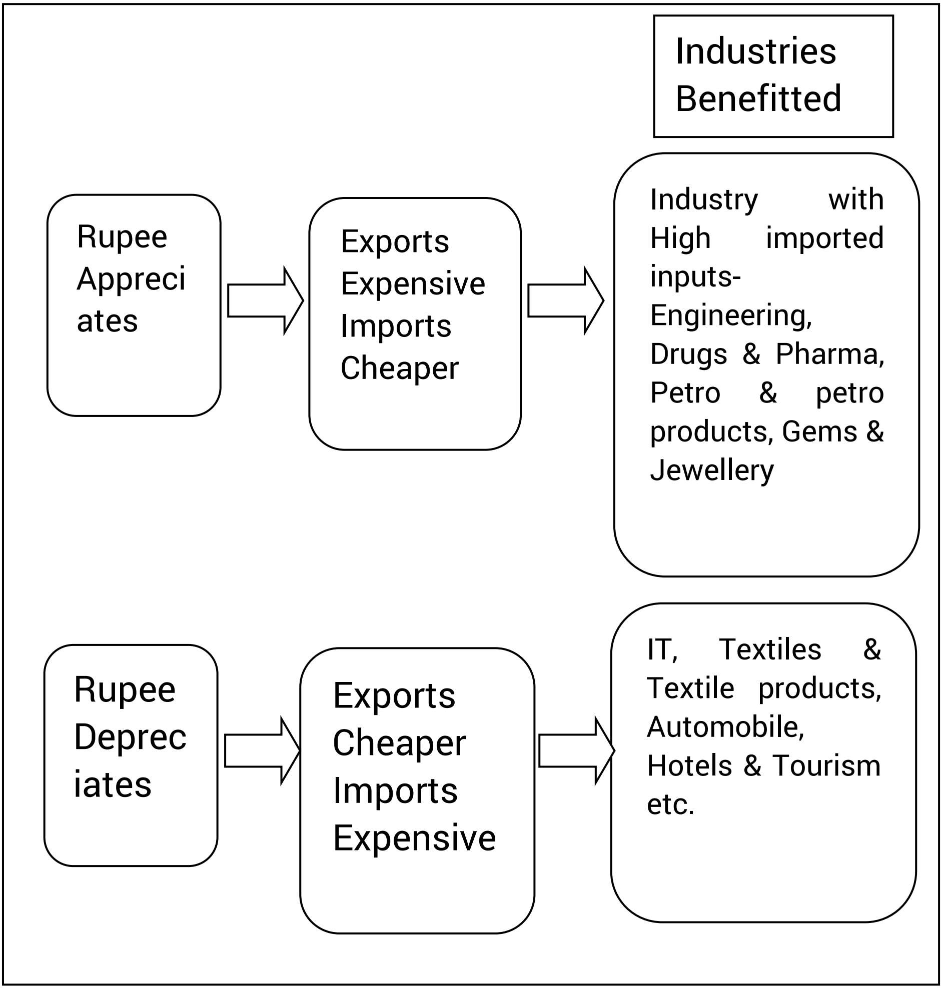
Suppose, after 1 year, even if the value of investment doesn't appreciate the foreign investor can earn a profit if the exchange rate has changed to $1 = Rs. 40 (Rupee appreciation)

If the investor sells his investment and converts the currency, he would get $ 250,000. So, he would earn $ 50,000 as a profit thanks to a change in the exchange rate i.e. rupee appreciation

So, a continuously appreciating rupee would lead to greater investment by the FPIs.

Impact on industry/companies: ***Appreciation of the rupee makes imports cheaper and exports expensive***. So, it can spell **good news for companies who rely on import of goods** like heavy machinery, technology, micro chips etc. According to reports by Associated Chambers of Commerce and Industry of India (ASSOCHAM) sectors like P**etro & Petro Products, Drugs & Pharma and**

Engineering Goods which have import inputs of as much as 77%, 19% and 21% respectively **would stand to gain the most if rupee appreciates**. *They would have to pay less for the imported raw materials which would increase their profit margins.*



Similarly, a depreciating rupee makes exports cheaper and imports expensive. So, it is welcome news for sectors like IT, Textiles, Hotel & Tourism etc. which generates revenue mainly from exporting their products or services. Rupee depreciation makes Indian goods & services cheaper for the foreign buyers thus leading to increase in demand and higher revenue generation. The foreign tourist would find it cheaper to come to India thus increasing the business of hotel, tours & travel companies.

3. Exchange Rate Policy in India: A Review: India's exchange rate policy has evolved over time in line with the gradual opening up of the economy as part of the broader strategy of macroeconomic reforms and liberalization since the early 1990s. In the post independence period, India's exchange rate policy has seen a shift from a par value system to a basket-peg and further to a managed float exchange rate system. With the breakdown of the Bretton Woods System in 1971, the rupee was linked with pound sterling. In order to overcome the weaknesses associated with a single currency peg and to ensure stability of the exchange rate, the rupee, with effect from September 1975, was pegged to a basket of currencies till the early 1990s.

The initiation of economic reforms saw, among other measures, a two-step downward exchange rate adjustment by 9 per cent and 11 per cent between July 1 and 3, 1991 to counter the massive draw down in the foreign exchange reserves, to install confidence in the investors and to improve domestic competitiveness. The Liberalised Exchange Rate Management System (LERMS) was put in place in March 1992 involving the dual exchange rate system in the interim period. The dual exchange rate system was replaced by a unified exchange rate system in March 1993. The experience with a market determined exchange rate system in India since 1993 is generally described as 'satisfactory' as orderliness prevailed in the Indian market during most of the period. Episodes of volatility were effectively managed through timely monetary and administrative measures.

An important aspect of the policy response in India to the various episodes of volatility has been market intervention combined with monetary and administrative measures to meet the threats to financial stability while complementary or parallel recourse has been taken to communications through speeches and press releases. In line with the exchange rate policy, it has also been observed that the Indian rupee is moving along with the economic fundamentals in the post-reform period. Moving forward, as India progresses towards full capital account convertibility and gets more and more integrated with the rest of the world, managing periods of volatility is bound to pose greater challenges in view of the impossible trinity of independent monetary policy, open capital account and exchange rate management. Preserving stability in the market would require more flexibility, adaptability and innovations with regard to the strategy for liquidity management as well as exchange rate management. With the likely turnover in the foreign exchange market rising in future, further development of the foreign exchange market will be crucial to manage the associated risks.

Structure of the Indian Foreign Exchange Market and Turnover

Prior to the 1990s, the Indian foreign exchange market (with a pegged exchange rate regime) was highly regulated with restrictions on transactions, participants and use of instruments. The period since the early 1990s has witnessed a wide range of regulatory and institutional reforms resulting in substantial development of the rupee exchange market as it is observed today. Market participants have become sophisticated and have acquired reasonable expertise in using various instruments and managing risks.

The foreign exchange market in India today is equipped with several derivative instruments. Various informal forms of derivatives contracts have existed since time immemorial though the formal introduction of a variety of instruments in the foreign exchange derivatives market started only in the post reform period, especially since the mid-1990s. These derivative instruments have been cautiously introduced as part of the reforms in a phased manner, both for product diversity and more importantly as a risk management tool. Recognising the relatively nascent stage of the foreign exchange market then with the lack of capabilities to handle massive speculation, the ‘underlying exposure’ criteria had been imposed as a prerequisite. Trading volumes in the Indian foreign exchange market has grown significantly over the last few years.

Capital Flows and Exchange Rates: The Indian Experience

The movement of the Indian rupee is largely influenced by the capital flow movements rather than traditional determinants like trade flows. Though capital flows are generally seen to be beneficial to an economy, a large surge in flows over a short span of time in excess of the domestic absorptive capacity can, however, be a source of stress to the economy giving rise to upward pressures on the exchange rate, overheating of the economy, and possible asset price bubbles.

In India, the liquidity impact of large capital inflows was traditionally managed mainly through the repo and reverse repo auctions under the day-to-day Liquidity Adjustment Facility (LAF). The LAF operations were supplemented by outright open market operations (OMO), i.e. outright sales of the government securities, to absorb liquidity on an enduring basis. In addition to LAF and OMO, excess liquidity from the financial system was also absorbed through the building up of surplus balances of the Government with the Reserve Bank, particularly by raising the notified amount of 91-day Treasury Bill auctions, and forex swaps. In view of the large capital flows during the past few years, relaxations were effected in regard to outflows, both under the current and capital accounts. In addition, changes in policies are made from time to time to modulate the debt-creating capital flows depending on the financing needs of the corporate sector and vulnerability of the domestic economy to external shocks.

In the face of large capital flows coupled with declining stock of government securities, the Reserve Bank of India introduced a new instrument of sterilisation, viz., the Market Stabilisation Scheme (MSS) to sustain market operations. Since its introduction in April 2004, the MSS has served as a very useful instrument for medium term monetary and liquidity management. The cost of sterilisation in India is shared by the Central Government (the cost of MSS), Reserve Bank (sterilization under LAF) and the banking system (in case of increase in the reserve requirements).

With the surge in capital flows to EMEs (emerging market economies), issues relating to management of those flows have assumed importance as they have bearings on the exchange rates. Large capital inflows create important challenges for policymakers because of their potential to generate overheating, loss of competitiveness, and increased vulnerability to crisis. Reflecting these concerns, policies in EMEs have responded to capital inflows in a variety of ways. While some countries have allowed the exchange rate to appreciate, in many cases monetary authorities have intervened heavily in forex markets to resist currency appreciation. EMEs have sought to neutralize the monetary impact of intervention through sterilization.

Cross-country experiences reveal that in the recent period most of the EMEs have adopted a more flexible exchange rate regime.

Why do fundamentals and policies matter in exchange rate determination?

Fundamentals like employee productivity, transportation costs, input prices like energy, communications costs, taxation levels, quality of government and the fiscal state determine an economy's efficiency. These affect export performance and the ability of a country to absorb imports and investments. These influence the supply of local vs. overseas currencies, and determine exchange rates.

Policy matters a lot. Greater openness exposes nations to overseas trade and investment flows. This can cut both ways. Countries with good fundamentals do well; however, open economy policies also expose fundamental weaknesses rapidly. Perhaps the most important job for policymakers in economies trying to open up is to align domestic policies to global standards. Countries like India, having rickety economic foundations, are cautious and retain controls on overseas trade and investment.

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Why do expectations matter for exchange rates?

Many countries, including India, follow a policy of dirty floats, where the exchange rate fluctuates but is controlled by the central bank. It often tries to hold currencies to targets or bands, which fundamentals can't support. Given these uncertainties, it is profitable to bet on future values of exchange rates, either for speculative gains or to insure against sudden movements. It's better for each player to act earlier than later: hence forex markets move on expectations, and often fully discount the effects of changes in fundamentals before they actually happen.

A phenomenon known as Sunspots syndromes — when expectations become self-fulfilling and trigger actual changes — is common in forex markets. Eventually fundamentals, which depend on polices, influence interest rates, prices and eventually exchange rates. But forex markets move much faster than the government policies. Often movements are caused by simple rumours about policy changes.

Are exchange rate movements bad for the economy?

No. Movements in exchange rates do two important things. One, they tend to correct trade or capital flow imbalances which would cause tremendous damage if allowed to persist. For example, a sudden depreciation makes imports more expensive and tends to bring trade deficits down. On the other hand, an appreciation caused by capital inflows due to high interest rates will choke back exports and some forex earnings, and eventually arrest the appreciation. However, large sea-saws in relatively short time are not desirable. One, they make it tough for people to reckon what a reasonable rate is.

Foreign exchange controls are various forms of controls imposed by a government on the purchase/sale of foreign currencies by residents or on the purchase/sale of local currency by nonresidents.

Common foreign exchange controls include:

- Banning the use of foreign currency within the country
- Banning locals from possessing foreign currency
- Restricting currency exchange to government-approved exchangers
- Fixed exchange rates
- Restrictions on the amount of currency that may be imported or exported

Countries with foreign exchange controls are also known as "Article 14 countries," after the provision in the International Monetary Fund agreement allowing exchange controls for transitional economies. Such controls used to be common in most countries, particularly poorer ones, until the 1990s when free trade and globalization started a trend towards economic liberalization. Today, countries which still impose exchange controls are the exception rather than the rule.

Often, foreign exchange controls can result in the creation of black markets to exchange the weaker currency for stronger currencies. This leads to a situation where the exchange rate for the foreign currency is much higher than the rate set by the government, and therefore creates a shadow currency exchange market. As such, it is unclear whether governments have the ability to enact effective exchange controls.

Foreign exchange control in India

The exchange control regulations have been liberalized over the years to facilitate the remittance of funds both into and out of India. The changes have been introduced on a continuous basis in line with the government policy of economic liberalization. Still, in few cases, specific approvals are required from the regulatory authorities for foreign exchange transactions/remittances.

The exchange control regulations in India are governed by the Foreign Exchange Management Act (FEMA). The apex exchange control authority in India is the Reserve Bank of India (RBI) which regulates the law and is responsible for all key approvals.

The **Foreign Exchange Management Act (FEMA)** is a 1999 Indian law "to consolidate and amend the law relating to foreign exchange with the objective of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange market in India". It was passed in the winter session of Parliament in 1999, replacing the Foreign Exchange Regulation Act (FERA). This act seeks to make offenses related to foreign exchange civil offenses. It extends to the whole of India., replacing FERA, which had become incompatible with the pro-liberalisation policies of the Government of India. It enabled a new foreign exchange management regime consistent with the emerging framework of the World Trade Organisation (WTO). It is another matter that the enactment of FEMA also brought with it the Prevention of Money Laundering Act of 2002, which came into effect from 1 July 2005. FEMA regulates all aspects of foreign exchange and has direct implications on external trade and payments. FEMA is an important legislation which impacts foreign nationals who are working in India and also Indians who have gone outside India. FEMA is not only applicable to all parts of India but is also applicable to all branches, offices and agencies outside India which are owned or controlled by a person resident in India.

C. Convertibility of Rupee

Free convertibility of a currency means that the currency can be exchanged for any other convertible currency, without any restriction, at the market determined exchange rates. Convertibility of the rupee, thus means that the rupee can be freely converted into dollar, pound sterling', yen, Deutsche mark, etc. and vice versa at the rates of exchange determined by the demand and supply forces. After the collapse of the Bretton Woods System in 1971, the rupee was pegged to pound sterling for four years after which it was linked to a basket of 14 and later 5 major currencies. In 1981, a rise in dollar due to high interest rates in the US led to rupee appreciation which adversely affected India's exports due to fall in the export profitability. It prompted the Reserve Bank of India to experiment with a managed float, pegging the rupee to dollar and pound sterling alternatively depending on which was going down, to guard against the appreciation of the rupee that would adversely affect the exports. A considerable exchange rate adjustment (devaluation) was made in July 1991. As a part of the economic policy reforms, partial convertibility of the rupee on the current account was announced by the Finance Minister in his Budget speech for 1992-93 and the rupee became partially convertible since March 1992. The move towards convertibility of the rupee was in line with the worldwide trend towards currency convertibility.

ing to the IMF, 70 countries accepted current account convertibility by 1990 while another 10 joined them in 1991. Many other countries including the East European countries and Russia have been contemplating the convertibility move. According the Liberalised Exchange Rate Management System (LERMS) introduced in March 1992, 60 per cent of all receipts under current transactions (merchandise exports and invisible receipts) could be converted at the free market exchange rate quoted by the authorised dealers. The rate applicable for the remaining 40 per cent was the official rate fixed by the Reserve Bank. This 40 per cent of the total foreign exchange receipts under the current account was exclusively meant to cover government needs and to import essential commodities. In addition, foreign exchange at official rate was to be made available to meet 40 per, cent of the value of the advance licenses and special import licenses. In short, it was a dual exchange rate system.

One major reason for introducing partial convertibility was to make foreign exchange available at a low price for essential imports so that the prices of the essentials would not be pushed up by the high market price of the foreign exchange. It was risky to introduce full convertibility when the current account showed large deficit. While introducing the partial convertibility, the government announced its intentions to introduce full convertibility on the current account in three to five years. However, full convertibility on trade account was introduced by the Budget for 1993-94. The fact that the free market rate was ruling fairly stable at a reasonable level might have encouraged the government to introduce full convertibility. **Rupee was showing remarkable stability in the months which followed the Introduction of the full convertibility.**

Capital Account Convertibility

The convertibility on the capital account is usually introduced only after certain period of time after the

hitbullseye

introduction of the current account convertibility capital account convertibility is usually introduced only after experimenting with the current account convertibility for a reasonable time, stabilisation programmes have been successfully carried out and favourable conditions have been ensured. The introduction of capital account convertibility for certain types of capital flows-helps attract resources from abroad. It also enables residents to hold internationally diversified investment portfolios, thereby having more risk bearing capacity. However, capital account convertibility cannot be introduced until certain conditions are satisfied. "In the absence of confidence in the macroeconomic stability and the competitiveness of domestic enterprises, establishment of capital account convertibility entails the risks of capital flight and greater volatility in exchange rate, external reserves or, interest rate. It is because of this, many countries have maintained various restrictions on various types of capital flows until their economies are well developed." It may be noted that under completely free capital account convertibility an Indian can sell his property here and take the money out of the country. Due, to such factors, even when capital account convertibility is introduced, several restrictions may have to be attached.

Merits of Convertibility

The convertibility or the floating of the Rupee has certain avowed merits.

(i) It gives an indication of the real value of the rupee.

(ii) It encourages exports by increasing the profitability of the exports

(iii) Profitability increases as the free market rate is higher than the official exchange rate.

(iv)It encourages those exports with no or less import intensity. As the proportion of the imported inputs in the exportables increases, the profitability cause of the higher free market exchange rate gets correspondingly reduced. This could encourage import substitution in export production.

(v) The high cost of foreign exchange could encourage import substitution in other areas also It provides incentives for remittances by NRIs.

(vi) The convertibility and the liberalisation of gold imports have been expected to make illegal remittances and gold smuggling less attractive thereby increasing the remittances through proper channels.

(vii) It is described as a self-balancing mechanism because the total imports and other current account payments will be confined to the total current account receipts unless there are imports financed by foreign currency loans.

Problems:

The convertibility would cause some problems unless certain conditions are satisfied.

(i) Convertibility could cause an increase in prices because of the increase in the import prices.

(ii) Under full convertibility, if the tree market exchange rate is very high, the cost of essential imports will correspondingly increase.

(iii) If the current account balance is not kept under control, the free market rate would rise very high.

Pre-requisites

For the successful functioning of the convertible system, certain essential conditions will have to be satisfied. These include:

(i) Maintenance of domestic economic stability

(ii) Adequate foreign exchange reserves

iii) Restrictions on inessential imports as long as the foreign exchange position is not very comfortable

(iv) Comfortable current account position

(v) An appropriate industrial policy and a conducive investment climate

(vi) An outward oriented development strategy and sufficient incentives for export growth.

Is the Indian economy ready to switch over to full convertibility on capital account?

Convertibility of the domestic currency is one of the prerequisite for complete globalisation of any economy. Along with de-controls, freer movement of goods and services, removal of tariff and non-tariff restrictions and easier mobility of the workforce, convertibility is one of the important cornerstones of the process of globalisation and economic reforms. **Currently the Indian rupee is fully convertible on current account but only partially convertible on capital account.**

Current account convertibility is already there and the stringent controls of pre-nineties over the foreign exchange have also been relaxed to a great extent. The stringent Foreign Exchange Regulation Act (FERA) was replaced by a relaxed Act called Foreign Exchange

Management Act (FEMA), making the movement of foreign exchange easier. Resident Indians and companies now have access to foreign exchange for various purposes, including education and travel. They can also receive and make payments in foreign currencies on trade account.

Full convertibility implies that the existing restrictions on the capital account would also be withdrawn. Corollary of this step would be that the domestic assets, including the real estate and stocks, could be sold to the foreigners and the payments in foreign currency could be received in the country without prior regulatory clearances.

Some steps have already been taken to facilitate the full capital account convertibility in the country. Foreign exchange has been allowed to flow into Indian stock markets through registered institutional investors. In addition, many categories of the resident Indians have been allowed to open foreign currency accounts abroad. Indian companies have also been making overseas acquisitions for which they have been given access to foreign currency resources.

It would, however, be wrong to presume that full convertibility on the capital account would result in lifting of all the restrictions. Even the developed countries like the USA block foreign investment in some of the sectors. Despite the government decision in this regard, it has not been easy for the non-resident Indians to acquire property and real estate in the country. The government of India, though has allowed Direct Foreign Investment (FDI) in most of the fields, yet certain caps have been put by the government on the FDI in some of the sectors. Most of these restrictions may continue even after the capital account convertibility is introduced. Benefits would be in terms of more flow of foreign capital into the economy, resulting in higher investment and the resultant growth rate. Further, the financial and capital markets would bring more profits to the domestic investors.

There are certain prerequisites for introduction of capital account full convertibility. The economy must be nearer to the global standards in the matter of fiscal deficit, inflation rate, interest rates, foreign exchange reserves, etc. It is said that the economy can be said to be ripe for capital account convertibility only if interest rates are low and de-regulated and the inflation rate in the three consecutive years had been around three per cent.

In addition, fiscal deficit should be low at around 3 per cent and foreign exchange reserves should be reasonably high. Further, the economy has to be in good shape, as full convertibility would result in bringing in the instabilities and fluctuations of the outside world into the economy, as it gets more connected to the outside world. Further, imperfections in the economy, like the urban-rural dichotomy and difference in the growth rates in various sectors like agriculture and industries, as well as services, must be removed.

Considering the above prerequisites it appears that the Indian economy is not yet prepared for switching over to the capital account convertibility. The only requisites which have been met are reasonably high level of foreign exchange reserves, mostly deregulated interest rates and relatively good condition of the economy as a whole. In most of the other areas there is lot more to be done. Interest rates as well as the inflation rate are higher than the required levels. Further, the imperfections of the economy are glaring as the services and industrial sectors are booming, but the agricultural sector which employs over 65 per cent of the total work force, is growing at a much lower rate of 2 to 3 per cent per annum.

Chapter 2: FDI and FPI

Distinction between FDI and FPI

FDI	FPI
1. It is long-term investment	1. It is generally short-term investment
2. Investment in physical assets	2. Investment is financial assists
3. Aim is to increase enterprise capacity or productivity or change management control	3. Aim is to increase capital availability
4. Leads to technology transfer, access to markets and management control	4. FPI results in only capital inflows
5. FDI flows into the primary market	5. FPI flows into the secondary market
6. Entry and exit is relatively difficult	6. Entry and exist is relatively easy
7. FDI is eligible for profits of the company	7. FPI is eligible for capital gain
8. Does not tend be speculative	8. Tends to be speculative
9. Direct impact on	9. No direct impact on

employment of labour and wages	employment of labour and wages
10. Abiding interest in mgt.	10. Fleeting interest in mgt.

- Cabinet approves numbers of amendments in FDI policy on January 10, 2018.
- The union cabinet was headed by the Prime Minister Shri Narendra Modi.

Important amendments in FDI policy

S. no.	Particulars	%
1.	Automatic route for Single Brand Retail Trading	100
2.	Automatic route in Construction Development	100
3.	Air India	49
4.	FPIs (foreign institutional investment)/FPIs (foreign portfolio investment) are allowed to invest in Power Exchanges by primary market	
5.	Medical devices also amended in FDI policy	

Single Brand Retail Trading

- Single Brand Retail Trading means when a seller sells multiple varieties of goods of the same brand under a roof. For example, Apple Company set up stores in India in which foreign parents of Apple invest. In such stores, Apple can sell only Apple products like Ipad, Iphone etc. under the category of single brand retail trading.
- As per the existing policy, the government allowed only FDI up to 49% in Single Brand Retail Trading and above 49% investors need approval from the government.
- But now the government has been decided to allow 100% FDI under single brand retail trading.

Civil Aviation

- According to present policy foreign airlines are permitted to invest in the capital of Indian companies, operating scheduled and non-scheduled air transport services under government approval route up to 49% of their paid-up capital.
- But this provision was not applicable to Air India flight.

- After this amendment, the government allowed investors to invest in Air India up to 49% under approval route in Air India.

Conditions to invest in Air India are:

- Foreign investment In Air India shall not go beyond 49% (directly or indirectly).
- Real ownership and control of Air India shall remain in the hands of Indian National.

Construction Development

- Construction development includes townships, housing, built-up infrastructure, and real estate broking services.
- According to the recent amendment, it has been decided that real-estate broking service amount to real estate business. So, it is permitted for 100% FDI under automatic route in construction development.

Power Exchange by Primary Market

- According to the present policy, the government allowed to invest 49% by power exchange by the automatic route which comes under the central electricity regulatory commission (power market) regulation, 2010. But it was restricted to the secondary market only. No FPIs/FPIs can invest through the Primary Market

- But, now it has been decided that FPIs/FPIs can also invest in Power exchange by the Primary Market up to 49%.

Approval under FDI Policy

- Earlier, an issue of equity share against non-cash like import of machinery, pre-incorporation expenditures and so on are allowed under the approval route.
- But now it has been decided to issue of shares against non-cash like import of machinery, pre-incorporation expenditures and so on shall be allowed by automatic route if the sector in which an investor invests comes under the automatic route.
- Foreign investors engaged in the activity of investing in the capital of other Indian companies and LLP (Limited Liability Partnership) and in the core investing companies are presently permitted up to 100% with the Government approval.

- But now it has been decided that if the above activities are regulated by financial sector then foreign investment up to 100% comes under automatic route and if they not regulated by financial sector then foreign investment up to 100% comes under government approval.

Authorized authority for studying FDI proposals from country of concern

- Earlier, FDI applications for investment from the country of concern (unfavorable countries) need security clearance as per the present FEMA 20.
- If foreign investors from country of concern invest in automatic route activities and sector then FDI policy and security clearance are to be processed by the Ministry of Home Affairs
- And if investors invest in the government approval activities and sector then security clearance is to be done by respective administration departments and ministries.
- But now it has been decided that foreign investment in automatic route from the country of concern prior need approval from Department of Industrial Policy & Promotion (DIPP) for

Government approval and for the government route the procedure will remain same.

Medical devices

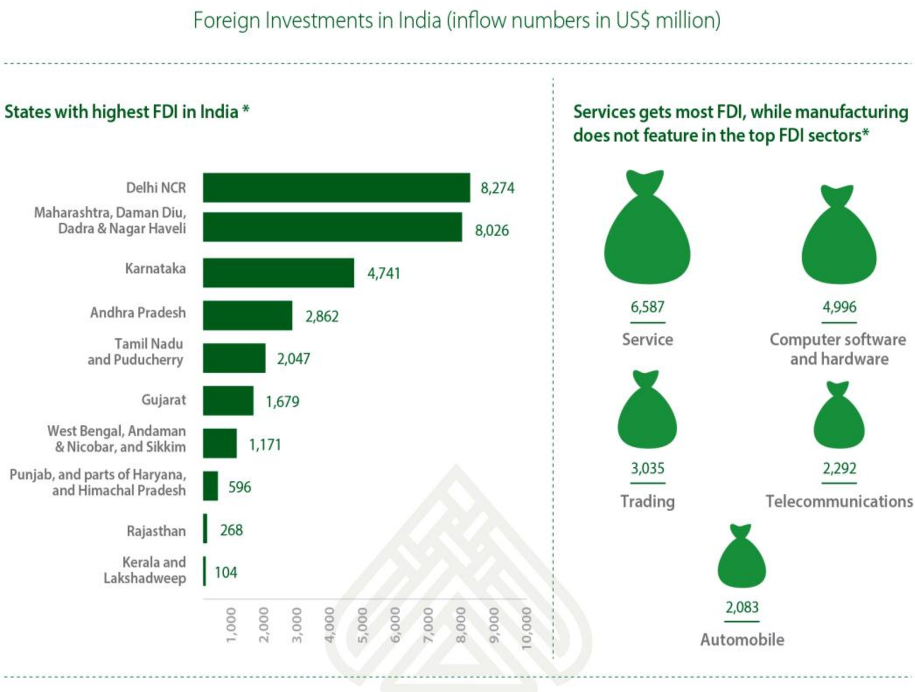
- Definition of medical devices states that instruments which help to assist monitoring and diagnose like appliances, kit, instrument, apparatus, control material, and so on are considered to be as medical devices.
- Now it has been decided to drop the reference to drug and cosmetics Act from FDI policy and to amend the definition of medical devices as mentioned in FDI policy.

A. FDI Growth in India

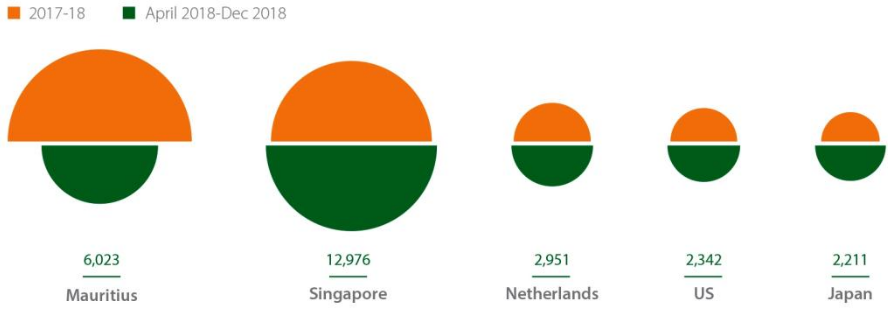
India is among the world's fastest growing economies and remains a top market for foreign direct investments (FDI) globally.

According to the Department of Industrial Policy and Promotion (DIPP), total FDI investments in India in the first nine months of fiscal year (FY) 2019 (April – December 2018) were approximately US$ 33.5 billion. The services sector attracted the highest FDI equity inflow of US$ 6.5 billion, followed by computer software and hardware – US$ 4.9 billion, and telecommunication – US$ 2.2 billion.

The top sources for the FDI were Singapore, with US$12.9 billion, Mauritius US$6 billion, Netherland US$2.9 billion, and Japan US$2.2 billion. Mauritius is a favorite hotspot for foreign investors, Indians living overseas, as well as Indian companies to route money into or out of India.



Top Sources of FDI



*Data for April – December 2018
Source: Department of Industrial Policy and Promotion (DIPP)

Sectors where 100 percent FDI is permitted under automatic route

OTHER SECTORS THAT PERMIT 100 PERCENT FDI

Pharmaceuticals(green field), industrial parks (new and existing), duty free shops, food product retail trading, and Credit Information Companies (CIC)

PLANTATION SECTOR

Tea sector including tea plantations, and plantations of coffee plantations rubber, cardamom, palm oil tree, and the olive oil tree.

PETROLEUM AND NATURAL GAS

Exploration activities of oil and natural gas fields, marketing of petroleum products and natural gas.

CONSTRUCTION DEVELOPMENT

Townships, housing, built-up infrastructure.

AVIATION

Airports – greenfield and brownfield Air transport services – non-scheduled, helicopter services, and seaplane services; flying training institute and technical training institutions.

MINING

Mining and exploration of metal and non-metal ores including diamond, gold, silver and precious ores (excluding titanium bearing minerals and its ores), as well as coal and lignite.

TRADING

Exports, bulk imports with ex-port/ex-bonded warehouse ,sales, cash and carry wholesale, and single brand retail.

E-COMMERCE ACTIVITIES

E-commerce entities engaged only in Business to Business (B2B) e-commerce and not in Business to Consumer (B2C) e-commerce.

FINANCIAL SERVICES

White label ATM operations, asset reconstruction companies, non-banking finance companies, and activities regulated by the Reserve Bank of India, Securities Exchange Board of India, Insurance Regulatory Development Authority or any other regulator.

RAILWAY INFRASTRUCTURE

Suburban corridor projects, high speed train projects, dedicated freight lines, manufacturing and maintenance facilities, railway electrification, signaling systems, freight and passenger terminals, infrastructure in industrial park pertaining to railway line, and mass rapid transport systems.

MEDIA & BROADCASTING

Broadcasting carriage services - teleports, DTH, cable networks, mobile TV Broadcasting content services - up-linking of non-news and current affairs TV channels, down-linking of TV channels.

AGRICULTURE AND ANIMAL HUSBANDRY

Floriculture, horticulture, apiculture, and cultivation of vegetables, and mushrooms under controlled conditions, development and production of seeds and planting material, animal husbandry, pisciculture, aquaculture, and services related to agro and allied sectors.

Sectors where 100 percent FDI requires government approval

MINING

Mining and mineral separation of titanium bearing minerals and ores, its value addition and integrated activities.

SATELLITES

Establishment and operation, subject to the sectoral guidelines of Department of Space/ISRO

TELECOM SERVICES

All services, including telecom infrastructure providers.

PRINT MEDIA

Publishing or printing of scientific and technical magazines, specialty journals or periodicals, or facsimile edition of foreign newspapers

AVIATION

Scheduled, and regional air transport service

PHARMACEUTICALS

Brownfield projects

Graphic© Asia Briefing Ltd.

B. FPI Performance of India:

Foreign portfolio investor (FPI) flows to the equity market till May 2019 have been the best in the past six years. Till May 2019, FPIs have pumped in nearly $11 billion on expectation of more business-friendly measures and continuity in ongoing policies post the outcome of the general elections.

And their bet proved correct with the Narendra Modi – led National Democratic Alliance (NDA) winning the 2019 general election with a thumping majority. FPIs remained net buyers for the fourth straight month in May.

In the first five months (January – May) of the current calendar year 2019 (CY19), FPIs have invested a net of Rs 76,051 crore ($ 10.9 billion) into the Indian equities. During the same period of CY18, they were net sellers of Rs 1,599 crore. On Monday, June 3, 2019, FPIs turned net buyers of Rs 994 crore, taking their total net investments in equities to Rs 77,045 crore for CY19, as per data available with NSDL.

Mutual funds, on the other hand, have been cautious and have mostly been fence-sitters. On a YTD basis, their investment in equities totals Rs 3,027 crore, as compared to Rs 59,372 crore in the corresponding period in 2018.

The strong FPI inflow has taken the benchmark indices to their respective all-time high with the S&P BSE Sensex closing above the 40,000 mark for the first-time ever on Monday. Thus far in CY19, the S&P BSE Sensex and Nifty 50 index have rallied 12 per cent and 11 per cent, respectively.

“Market discourse was dominated by politics for the larger part of H1CY19, with apprehensions around potential fractured verdict. With the return of Mr Modi as Prime Minister with a bigger majority for the Bharatiya Janata Party (BJP) and near two-thirds majority for the NDA, those worries are more than adequately addressed. From market’s perspective, the focus should now shift to fundamentals and the economy,” said analysts at Motilal Oswal Securities in a recent report.

Though India will remain on foreign investor’s radar, the pace of flows seen over the last few months going ahead may slow, analysts say. Foreign investors, according to them, will now wait-and-watch how the economy takes shape in the backdrop of doubts over monsoon, interest rate trajectory and other global events such as the US – China trade war.

“FPIs have invested at a scorching pace since the past few months. It is in the anticipation of policy reforms they have come in a big way. I think they will wait for the Budget announcements and other policy measures before the flow to India resumes in a big way. That said, the market valuation, too, is also a cause for concern," explains U R Bhat, managing director at Dalton Capital.

A silver lining amid this is the fall in oil prices over the past few weeks. In the midst of the global trade war, crude prices have seen a significant fall (down by over $10/barrel) and global interest rates have almost crashed (US 10-yr yields down by 60 basis points in last three months). Both these augur well for India on the external / fiscal / monetary front, analysts say. The backdrop is well set for the government to capitalise on these trends and drive the growth outlook higher.

Most foreign brokerages, too, remain bullish on Indian equities and have revised their targets for the S&P BSE Sensex / Nifty50 post the general election outcome. Morgan Stanley, for instance, expects the S&P BSE Sensex to hit 45,000 by June 2020 as their base case – up 12.5 per cent from the current levels. Their bull-case level for the index is 50,000 by June 2020. BNP Paribas, too, sees the S&P BSE Sensex at 42,000 by December 2019-end.

Net investment in Rs crore		
Year	**FPIs**	**Mutual fund**
2019	76,051	3,027
2018	-1,599	59,372
2017	49,737	32,070
2016	15,454	9,648
2015	42,425	22,550
2014	45,804	-10,343
2013	83,205	-12,604
Between January-May 2019		
Source: NSDL		

Finance Minister in the maiden Budget 2019 speech proposed the merger of investments made thorough NRI portfolio route with the foreign portfolio investment. The move will usher the single regime for foreign investors and regulate investments and funds brought in by the non-resident Indians and person of Indian Origin. Earlier in the year, SEBI came out with the rules for the merger and also exempted both housing finance and non-banking financial companies. From now, none of them will have to disclose the rise and fall in the shareholding due to encumbrance or release of encumbered shares. Currently, only the scheduled commercial banks and public financial institutions are exempted from disclosures.

The Securities and Exchange Board of India said if single and aggregate NRI/OCI holdings in assets under management of FPIs are below 25% and 50%, respectively, then such persons will be allowed to be constituents of the FPI.

In case of breach, the FPI will need to comply within 90 days and in case it remains non-compliant even after 90 days, no fresh purchases will be permitted and such FPIs will have to liquidate their existing position in the Indian securities market within 180 days.

Chapter 3: Foreign Trade of India

A. Exports

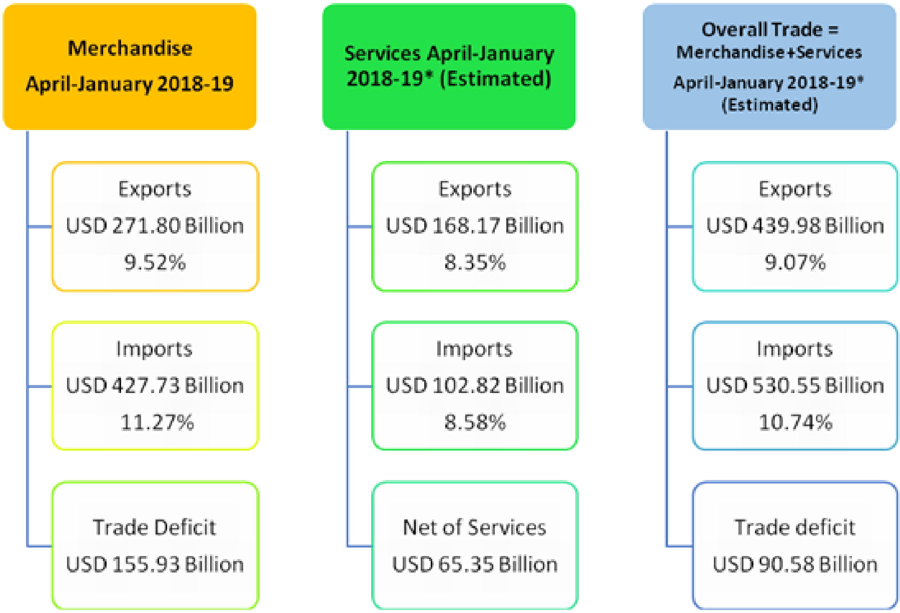
Exports measure the amount of goods or services that domestic producers provide to foreign consumers by. It is a good that is sent to another country for sale. In the past, export of commercial quantities of goods normally required involvement of the customs authorities in both the country of export and the country of import. More recently, with the advent of small trades over the internet such as through Amazon and e-Bay, exports have largely bypassed the involvement of Customs in many countries due to the low individual values of these trades. Nonetheless, these small exports are still subject to legal restrictions applied by the country of export.

Exports in India is reported by the Ministry of Commerce and Industry, India.

INDIA'S FOREIGN TRADE: January 2019

India's overall exports (Merchandise and Services combined) in April-January 2018-19* are estimated to be USD 439.98Billion, exhibiting a positive growth of 9.07per cent over the same period last year. Overall imports in April-January2018-19* are estimated to be USD

530.55Billion, exhibiting a positive growth of 10.74per cent over the same period last year.



*Note: Services data pertains to April-December 2018-19 as December 2018 is the latest data available as per RBI's Press Release dated 15th February 2019. It is arrived at by adding quarterly data of RBI for Q1 & Q2 of 2018-19 with Month-wise QE data of RBI's press release for October to December 2018-19. This data is provisional and subject to revision by RBI. In addition, it may be noted that data for January 2019 is estimated and added to the April-December 2018-19 data of RBI to calculate the Overall Trade Deficit for April-January 2018-19. It will be revised based on RBI's next press release for January 2019.

I. MERCHANDISE TRADE

EXPORTS (including re-exports)

Exports in January 2019 were US $ 26.36 Billion, as compared to US $ 25.41 Billion in January 2018, exhibiting a positive growth of 3.74 per cent. In Rupee terms, exports were Rs. 1,86,453.23Crore in January 2019, as compared to Rs. 1,61,697.38Crore in January 2018, registering a positive growth of 15.31per cent.

In January 2019, major commodity groups of export showing positive growth over the corresponding month of last year are

- Engineering Goods (1.07%)
- Gems & Jewellery (6.67%)
- Organic & Inorganic Chemicals (15.56%)
- Drugs & Pharmaceuticals (15.2%)
- RMG of all Textiles (9.33%)

Cumulative value of exports for the period April-January 2018-19 was US $ 271.80Billion (Rs.18,98,358.83 Crore) as against US $ 248.18Billion (Rs.15,98,311.63 Crore) during the period April-January 2017-18, registering a positive growth of 9.52per cent in Dollar terms (18.77per cent in Rupee terms).

Non-petroleum and Non Gems and Jewellery exports in January 2019 were US $ 19.90Billion, as compared to US $ 18.40Billion in January 2018, exhibiting a positive growth of 8.17per cent. Non-petroleum and Non Gems and Jewellery exports in April-January 2018-19 were US $ 197.56Billion, as compared to US $ 183.05Billion for the corresponding period in 2017-18, an increase of 7.92per cent.

B. IMPORTS

Imports in January 2019 were US $ 41.09Billion (Rs. 2,90,611.86Crore), which was 0.01per cent higher in Dollar terms and 11.16per cent higher in Rupee terms over imports of US $ 41.08Billion (Rs.2,61,441.48Crore) in January 2018. Cumulative value of imports for the period April-January 2018-19 was US $ 427.73Billion (Rs.29,87,918.68Crore), as against US $ 384.42Billion (Rs.24,75,812.40Crore) during the period April-January

2017-18, registering a positive growth of 11.27per cent in Dollar terms (20.68per cent in Rupee terms).

Major commodity groups of import showing negative growth in January 2019 over the corresponding month of last year are:

- Petroleum, Crude & products (-3.59%)
- Transport equipment (-21.43%)
- Pearls, precious & Semi-precious stones (-36.51%)
- Vegetable Oil (-19.89%)
- Metaliferrous ores & other minerals (-48.87%)

CRUDE OIL AND NON-OIL IMPORTS:

Oil imports in January 2019 were US $ 11.24Billion (Rs. 79,508.06 Crore), which was 3.59percent lower in Dollar terms (7.16percent higher in Rupee terms), compared to US $ 11.66Billion (Rs. 74,195.96Crore) in January 2018. Oil imports in April-January 2018-19 were US $ 119.34Billion (Rs. 8,34,763.84 Crore) which was 36.65 per cent higher in Dollar terms (48.45 percent higher in

Rupee terms) compared to US $ 87.33Billion (Rs. 562,321.87Crore), over the same period last year.

In this connection it is mentioned that the global Brent price ($/bbl) has decreased by 14.09% in January 2019 vis-à-vis January 2018 as per data available from World Bank (Pink Sheet).

Non-oil imports in January 2019 were estimated at US $ 29.85Billion (Rs. 2,11,103.80 Crore) which was 1.43 per cent higher in Dollar terms (12.74 percent higher in Rupee terms), compared to US $ 29.42Billion (Rs. 187,245.52Crore) in January 2018. Non-oil imports in April-January 2018-19 were US $ 308.39 Billion (Rs.21,53,154.84Crore) which was 3.80 per cent higher in Dollar terms (12.52percent higher in Rupee terms), compared to US $ 297.09Billion (Rs. 19,13,490.53Crore) in April-January2017-18.

Non-Oil and Non-Gold imports were US $ 27.53billion in January 2019, recording a negative growth of 0.78per cent, as compared to Non-Oil and Non-Gold imports in January 2018. Non-Oil and Non-Gold imports were US $ 281.42billion in April-January 2018-19, recording a positive growth of 4.69per cent, as compared to Non-Oil and Non-Gold imports in April-January 2017-18.

II. TRADE IN SERVICES (for December, 2018, as per the RBI Press Release dated 15th February 2019)

EXPORTS (Receipts)

Exports inDecember2018 were US $ 17.93 Billion (Rs.1,26,799.64Crore) registering a positive growth of 7.50 per cent in dollar terms, vis-à-vis November 2018. (as per RBI's Press Release for the respective months).

IMPORTS (Payments)

Imports inDecember2018 were US $ 11.38 Billion (Rs.80,463.70Crore) registering a positive growth of 12.53 per cent in dollar terms, vis-à-vis November 2018. (as per RBI's Press Release for the respective months).

III. TRADE BALANCE

MERCHANDISE: The trade deficit for January 2019 was estimated at US $ 14.73Billion as against the deficit of US $ 15.67Billion in January 2018.

SERVICES: As per RBI's Press Release dated 15th February 2019, the trade balance in Services (i.e. Net Services export) for December, 2018 is estimated at US $ 6.55Billion.

OVERALL TRADE BALANCE: Taking merchandise and services together, overall trade deficit for April-January 2018-19* is estimated at US $ 90.58 Billion as compared to US $ 75.73 Billion in April-January 2017-18.

*Note: Services data pertains to April-December 2018-19 as December 2018 is the latest data available as per RBI's Press Release dated 15th February 2019. It is arrived at by adding quarterly data of RBI for Q1 & Q2 of 2018-19 with Month-wise QE data of RBI's press release for October to December 2018-19. This data is provisional and subject to revision by RBI. In addition, it may be noted that data for January 2019 is estimated and added to the April-December 2018-19 data of RBI to calculate the Overall Trade Deficit for April-January 2018-19. It will be revised based on RBI's next press release for January 2019.

MERCHANDISE TRADE

EXPORTS & IMPORTS: (US $ Billion) (PROVISIONAL)		
	JANUARY	**APRIL-JANUARY**
EXPORTS (including re-exports)		
2017-18	25.41	248.18
2018-19	26.36	271.80
%Growth 2018-19/ 2017-18	**3.74**	**9.52**
IMPORTS		
2017-18	41.08	384.42
2018-19	41.09	427.73
%Growth 2018-19/ 2017-18	**0.01**	**11.27**
TRADE BALANCE		
2017-18	-15.67	-136.25
2018-19	-14.73	-155.93

EXPORTS & IMPORTS: (Rs. Crore)		
(PROVISIONAL)		
	JANUARY	APRIL-JANUARY
EXPORTS(including re-exports)		
2017-18	1,61,697.38	15,98,311.63
2018-19	1,86,453.23	18,98,358.83
%Growth 2018-19/ 2017-18	**15.31**	**18.77**
IMPORTS		
2017-18	2,61,441.48	24,75,812.40
2018-19	2,90,611.86	29,87,918.68
%Growth 2018-19/ 2017-18	**11.16**	**20.68**
TRADE BALANCE		
2017-18	-99,744.10	-8,77,500.77
2018-19	-1,04,158.63	-10,89,559.85

hitbullseye

SERVICES TRADE

EXPORTS & IMPORTS (SERVICES) : (US $ Billion)		
(Provisional)	**DECEMBER 2018**	**APRIL-DECEMBER 2018-19**
EXPORTS (Receipts)	17.93	149.69
IMPORTS (Payments)	11.38	90.91
TRADE BALANCE	6.55	65.35
EXPORTS & IMPORTS (SERVICES): (Rs. Crore)		
(Provisional)	**DECEMBER 2018**	**APRIL-DECEMBER 2018-19**
EXPORTS (Receipts)	1,26,799.64	10,58,752.62
IMPORTS (Payments)	80,463.70	6,42,988.14
TRADE BALANCE	46,335.94	4,62,240.62

C. EXIM Policy

Exim Policy or Foreign Trade Policy is a set of guidelines and instructions established by the DGFT (Directorate General of Foreign Trade) in matters related to the import and export of goods in India. The Foreign Trade Policy of India is guided by the Export Import in known as in short 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 t he main governing body in matters related to Exim Policy. After five years foreign trade policy needs amendments in general, aims at developing export potential, improving export performance, encouraging foreign trade and creating favorable balance of payments position. The Export Import Policy (EXIM Policy) or Foreign Trade Policy is updated every year on the 31st of March and the modifications, improvements and new schemes becomes effective from April month of each year.

- Main objectives of the EXIM policy of India:
    - To accelerate the economy from low level of economic activities to high level of economic activities by making it a globally oriented vibrant

economy and to derive maximum benefits from expanding global market opportunities.

- To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components,' consumables and capital goods required for augmenting production.
- To enhance the techno local strength and efficiency of Indian agriculture, industry and services, thereby, improving their competitiveness.
- To generate new employment.
- Opportunities and encourage the attainment of internationally accepted standards of quality.
- To provide quality consumer products at reasonable prices.

➢ Foreign Trade Act has replaced the earlier law known as the imports and Exports (Control) Act 1947.

➢ In the year 1962, the Government of India appointed a special

Exim Policy Committee to review the government previous export import policies. The committee was later on approved by the Government of India. Mr. V. P. Singh, the then Commerce Minister and announced the Exim Policy on the 12th of April, 1985. Initially the EXIM Policy was introduced for the period of three years with main objective to boost the export business in India. In order to liberalize imports and boost exports, the Government of India for the first time introduced the Indian Exim Policy on April I, 1992. In order to bring stability and continuity, the Export Import Policy was made for the duration of 5 years. With time the Exim Policy 1992-1997 became old, and a New Export Import Policy was needed for the smooth functioning of the Indian export import trade. Hence, the Government of India introduced a new Exim Policy for the year 1997-2002. This policy further simplified the procedures and reduced the interface between exporters and the Director General of Foreign Trade (DGFT) by reducing the number of documents required for export by half. Import was further liberalized and better efforts were made to promote Indian exports in international trade. The Exim Policy: 1997 – 2002 also accorded a status of exporter to the business firm exporting services with effect from 1.4.1999. Such business firms are known as Service Providers.

D. Foreign Trade Policy 2014-20

The salient features of the Foreign trade 2014-20 are as follows:-

- Increase exports to $900 billion by 2019-20, from $466 billion in 2013-14
- Raise India's share in world exports from 2% to 3.5%.
- Merchandise Export from India Scheme (MEIS) and Service Exports from India Scheme (SEIS) launched.
- Higher level of rewards under MEIS for export items with High domestic content and value addition.
- Chapter-3 incentives extended to units located in SEZs.
- Export obligation under EPCG scheme reduced to 75% to Promote domestic capital goods manufacturing.
- FTP to be aligned to Make in India, Digital India and Skills India initiatives.

- Duty credit scrips made freely transferable and usable For payment of custom duty, excise duty and service tax.
- Export promotion mission to take on board state Governments
- Unlike annual reviews, FTP will be reviewed after two-and-Half years.
- Higher level of support for export of defence, farm Produce and eco-friendly products.

E. Business Cycle

The following points highlight the four main phases of a trade/business cycle.

The phases are:

1. Slump

2. Recovery

3. Boom

4. Deflation.

Business Cycle Phase # 1. Slump or Depression:

This is the most critical and fearful stage of a trade cycle. Harberler has described depression as "a state of affairs in which real income consumed or volume of production per head and the rate of employment are falling and are sub-normal in the sense that there are idle resources and unused capacity, especially unused labour."

A slump or depression shows itself first in a substantial decline in general output and employment.

The decline in economic activity is not, of course, uniform. Contraction in output might be much more in manufacturing such as machinery and equipment, mining, construction and transport than in retail trade or agriculture.

While output and employment tend to fall fast during the slump, prices and wages continue to decline. This is really agonizing experience for both the producers and the workers. Prices decline because of the expectations of producers in general that these would continue to fall in spite of all governmental efforts.

While the producers try to dispose of their stocks at the current market prices, the consumers tend to postpone their purchases in the hope that the prices would fall further and they would be able to benefit from it.

Scared by the general slump in the economy, the financial institutions press the producing firms to return their advances according to the contract. This forces the producers to meet their contractual obligations through unintended sales of their inventories in a market where prices are already declining.

This deepens the depression further. Most firms reduce their output and as such are forced to lay-off workers. As unemployment increases, the wages tend to fall under its pressure.

Four Phases of a Trade Cycle

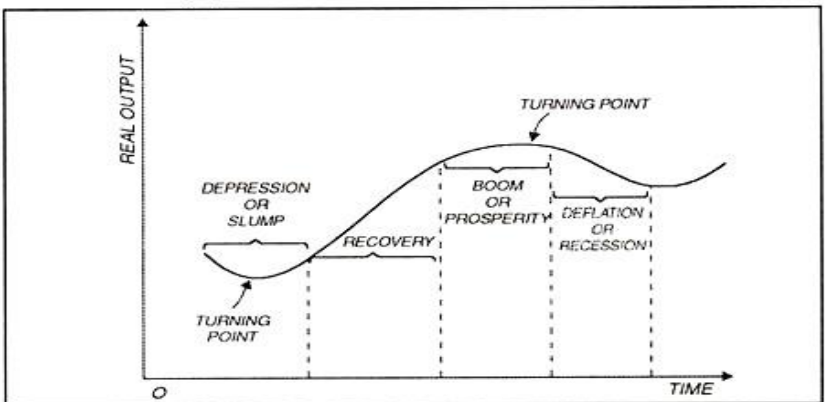


Fig. 12.1 The four phases of a trade cycle.

However, the fall in wages is less than the fall in prices. This is because workers' unions strongly oppose wage reductions. The rate of fall in prices of agricultural raw materials is generally more than chat of manufactured goods.

This is because the producers are not prepared to lift off the supplies of the raw materials which causes a sharper fall in their prices than the prices of manufactures. The wholesale prices fall faster than the retail prices. These sudden changes in the relative price structure of the economy cause dislocations in production and exchange.

Depression or slump leads to redistribution of the national income. Profits and wages fall faster relatively to rent and other fixed incomes. Incomes of shareholders go down fast. This reduces the deposits with banks and other financial institutions.

They, in turn, follow the policy of credit contraction. While producers are reluctant to borrow because of dull trade conditions, the financial institutions are hesitant in lending for fresh investments. This causes the depression to persist for a longer period than it would have lasted on its own.

Business Cycle Phase # 2. Recovery:

- Recovery shows the upturn of the output and employment of the economy from the state of depression. Recovery is most probably the result of the fresh demand for plant and equipment arising from the consumer goods industries which had been postponing this investment during depression.

- The capital goods have a limited life. They wear out completely after some time and need replacement. This replacement demand starts the recovery process.
- Although prices remain more or less stable, wages and other incomes show a noticeable rise. Profits and hence dividends start rising which spurs the producers to float fresh investment proposals in the stock market. Since incomes rise, consumer spending also rises to encourage increased production. Soon the other business activity also picks up.
- The appearance of new demand for capital goods, existence of low interest rates, willingness of financial institutions to extend credit and optimistic expectations of the investors about the future, all generate a favourable climate for new investment. The stock exchanges bear out the signs of recovery in the form of rising dividends and bullish share markets.
- It must be pointed out here that a non-intervention policy from the government fails to start the

recovery phase. Recover)' is a slow and halting process. The government has to pursue stabilisation policies and show special initiatives in dispelling the pessimistic mood of the investors. The economic system, left to itself is likely to stagnate in the state of depression for an intolerably long period for the working class.

Business Cycle Phase # 3. Boom or Prosperity:

- During the recovery phase, rise in output and incomes of the people induces substantial increase in aggregate spending. This has a multiplier effect. As effective demand increases, income rises faster than before. The whole process becomes self-reinforcing.
- The cumulative process of rising investment and employment forges ahead. As investors become more confident, expanding productive activity takes the economy to a boom or prosperity phase.
- According to Haberler, prosperity is “a state of affairs in which the real income consumed, real income produced and the level of employment are high or rising, and there are no idle resources or unemployed workers or very few of cither”. This means that the ideals of full employment of the

labour force and full utilisation of productive capacity are realized in the prosperity phase. There is a state of exuberance and enthusiasm in the business community.

- Industrial and commercial activity, both speculative and non-speculative, shows remarkable expansion. Construction activity gets a big boost. Share markets reflect the general state of exuberation of the investors. Share markets give handsome gains to investors which encourages accumulation of inventories of durable capital goods.
- Financial institutions tend to expand credit as the interest rates and discount rates go up. Thus, everyone seems to be happy during the state of prosperity which ultimately, of course, proves to be short-lived.

Business Cycle Phase # 4. Recession:

- The end to prosperity phase comes because of certain tendencies in the private-enterprise economy prevalent during the boom conditions.
- Firstly, as prices rise, wages tend to lag behind. As a result, purchasing power of workers, who form a

majority of the people, tends to lag behind the supply of consumer goods.

- Secondly, expansion of production is hampered by shortages of some inputs and bottlenecks in production.
- Thirdly, excessive demand for labour and materials pushes up both the factor and the product prices but in a disproportionate fashion.
- Fourthly, the non-availability of credit beyond a particular rate of expansion might also act as a serious break on prosperity. Financial institutions including banks cannot expand credit beyond a limit put by their reserve requirements. As this limit is reached, they start recovering their loans. Shortages of finance crop up.
- Firms are forced to liquidate their stocks when most firms try to sell their output at the same time, the price level starts falling. When some firms get involved in losses in this way a wave of pessimism runs through the share markets.
- Production schedules by firms are curtailed, workers are laid off and outstanding orders for raw materials are cancelled. In this way the wave of

pessimism gets transmitted to other sectors of the economy. The whole economic system thereby runs into a crisis. Thus the next stage of the trade cycle, called recession of deflation starts.

- When sure signs of recession appear on the stock and financial markets, over- pessimism, nervousness and fear born out of uncertainty overtake the businessmen. In this atmosphere, new projects are shelved. Even the projects in hand may be abandoned. Some firms go sick. Others simply go bankrupt. All this hastens the process of economic contraction.
- The fall in the purchasing power of the general public reduces demand for consumer goods which aggravates the slackening demand for machines and equipment. Construction activity falls significantly. The business world goes panicky.
- In this way, as M. W. Lee has remarked, “a recession, once started, tends to build upon itself much as forest fire. Once underway, it tends to create its own drafts and give internal impetus to its destructive ability”. What was recession or deflation for some time now converts itself into depression.

Chapter 4: International Financial Organizations & Others Groups of Countries

I. Major International Organizations

a. United Nations

The United Nations Organisation is an association of states which have pledged to maintain international peace and security and cooperate in solving international political, economic, social, cultural and humanitarian problems towards achieving this end.

The United Nations officially came into existence on Oct. 24,1945, with the requisite number of ratifications of the Charter, the constituting instrument of the UN with the US Department of State. United Nations Day is celebrated on 24 Oct. each year. The headquarters of the UNO is in New York.

Objects: To maintain international peace and security.

- To develop friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples.
- To cooperate in solving international economic, social, cultural and humanitarian problems and in

promoting respect for human rights and fundamental freedoms.

- To be a centre for harmonizing the actions of nations in attaining these common ends.

Flag : White UN Emblem (two bent olive branches open at the top and in between them in world map) on a light blue background.

Official Languages: Arabic, Chinese, English, French, Russian and Spanish.

Structure: The United Nations has six principal organs according to the Charter which are indicated as below :

The General Assembly: It consists of all 193 member nations and functions as the main deliberative body. It meets once a year on the third Tuesday of the month of September and session lasts for two weeks. It has the under mentioned aspects :

Important Years Observed by UNO

2000	Designated as Development Decade
2001	International Year of Women Empowerment
2002	International Mountain Year
2003	International Fresh Water Year
2004	International Rice Year

2005	Year of Physics
2006	International Year of Desert and Desertification
2008	International Year of the Potato
2009	International Year of Reconciliation
2010	International Year of Biodiversity
2011	International Year of Forests
2012	International Year of Cooperatives
2013	International Year of Water Cooperation
2014	International Year of Family Farming
2015	International Year of Soils International Year of Light and Light-base technologies
2016	International Year of Pulses
2017	International Year of Sustainable Tourism for Development
2019	International Year of Indigenous Languages

Contemporary United Nations International Decade

1990 to 1999	Third Disarmament Decade
1990 to 1999	International Decade for Prevention of Natural Climate
1991 to 2000	United Nations Decade for International Law
1991 to 2000	United Nations Fourth Development

	Decade
1991 to 2000	Second Decade in Africa for Communication and Traffic
1993 to 2002	Second Decade of Industrial Development in Africa
1993 to 2002	Asian and Pacific Decade for Handicapped People
1993 to 2002	Third Decade Against Racialism and Racial Discrimination
1994 to 2004	International Decade for Indigenous People in the World
1995 to 2004	United Nations Decade for Human Right Education
1997 to 2006	United Nations Decade for Abolition of Poverty
2001 to 2010	Second International Decade for Abolition of Colonialism
2001 to 2010	International Decade for Peace and Non-violence Culture in Children
2010 to 2020	International Decade for Deserts and fight against Desertification

b. Organisation of Petroleum Exporting Countries (OPEC)

Established in — September 1960

Headquarters — Vienna (Austria)

Member States — 14 (Algeria, Angola, Congo, Ecuador, Equatorial Guinea, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, United Arab Emirates, Venezuela)

Official Language — English

Type of Organisation and Brief History

The Organisation of the Petroleum Exporting Countries (OPEC) is a permanent, intergovernmental Organisation, created at the Baghdad Conference on September 10-14, 1960, by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. The five Founding Members were later joined by nine other Members : Qatar (1961); Indonesia (1962)—suspended its membership from January 2009; Libya (1962); United Arab Emirates (1967); Algeria (1969); Nigeria (1971); Ecuador (1973)—suspended its membership from December 1992–October 2007; Angola (2007) and Gabon (1975-1994), OPEC had its headquarters in Geneva, Switzerland, in the first five years of its existence. This was moved to Vienna, Austria on September 1, 1965.

OPEC's Objective and Mission

OPEC's objective is to coordinate and unify petroleum policies among Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry.

In accordance with its Statute, the mission of the Organisation of the Petroleum Exporting Countries (OPEC) is to coordinate and unify the petroleum policies of its Member Countries and ensure the stabilization of oil markets in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers and a fair return on capital for those investing in the petroleum industry.

Member States — The Organisation of the Petroleum Exporting Countries (OPEC) was founded in Baghdad, Iraq, with the signing of an agreement in September 1960 by five countries namely Islamic Republic of Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. They were to become the Founder Members of the

c. **World Health Organisation (WHO)**

Established in/on — April 7, 1948

Headquarters — Geneva (Switzerland)

Official Languages — Arabic, Chinese, English, French, Russian and Spanish

Member States — 194 Member States

Type of Organisation

WHO is the directing and coordinating authority for health within the United Nations system. It is responsible for providing leadership on global health matters, shaping the health research agenda, setting norms and standards, articulating evidence-based policy options, providing technical support to countries and monitoring and assessing health trends.

In the 21st century, health is a shared responsibility, involving equitable access to essential care and collective defence against transnational threats.

Brief History

When diplomats met to form the United Nations in 1945, one of the things they discussed was setting up a global health organization. WHO's Constitution came into force on April 7, 1948 a date we now celebrate every year as World Health Day.

WHO Agenda

WHO operates in an increasingly complex and rapidly changing landscape. The boundaries of public health action have become blurred, extending into other sectors that influence health opportunities and outcomes. WHO responds to these challenges using a six-point agenda. The six points address two health objectives, two strategic needs, and two operational approaches. The overall performance of WHO will be measured by the impact of its work on women's health and health in Africa.

"I want my leadership to be judged by the impact of our work on the health of two populations : women and the people of Africa."

—Dr. Margaret Chan, Director-General

d. Interpol

INTERPOL is the world's largest international police organisation, with 194 member countries. Created in 1923, it facilitates cross-border police co-operation, and supports and assists all organisations, authorities and services whose mission is to prevent or combat international crime.

INTERPOL aims to facilitate international police co-operation even where diplomatic relations do not exist between particular countries. Action is taken within the limits of existing laws in different countries and in the spirit of the Universal Declaration of Human Rights. INTERPOL's constitution prohibits 'any intervention or activities of a political, military, religious or racial character.

e. Economic Cooperation Organisation (ECO).

Established in — 1984

Headquarters — Tehran (Iran)

Member States — (10) Islamic State of Afghanistan, Azerbaijan Republic, Islamic Republic of Iran, Republic of Kazakhstan, Kyrgyz Republic, Islamic Republic of Pakistan, Republic of Tajikistan, Republic of Turkey, Turkmenistan and Republic of Uzbekistan

Finance Source — Member contributions

Language — English

Key Executive — Secretary General

Type of Organisation: Economic Cooperation Organisation (ECO), is an intergovernmental regional organisation established in 1985 by Iran, Pakistan and Turkey for the purpose of promoting economic, technical and cultural cooperation among the Member States.

ECO is the successor organisation of Regional Cooperation for Development (RCD) which remained in existence since 1964 up to 1979.

In 1992, the Organisation was expanded to include seven new members, namely : Islamic Republic of Afghanistan, Republic of Azerbaijan, Republic of Kazakhstan, Kyrgyz Republic, Republic of Tajikistan, Turkmenistan and Republic of Uzbekistan. The date of the Organisation's expansion to its present strength, November 28, is being observed as the ECO Day.

The ECO region is full of bright trading prospects. Despite its young age, ECO has developed into a thriving regional organisation. Its international stature is growing. Nevertheless, the organisation faces daunting challenges with respect to realisation of its objectives and goals. Most importantly, the region is lacking in appropriate infrastructure and institutions which the Organisation is seeking to develop, on priority basis, to make full use of the available resources in the region.

f. **BRICS** is the title of an association of leading emerging economies, arising out of the inclusion of South Africa into the BRIC group in 2010. As of 2012, the group's five members are **B**razil, **R**ussia, **I**ndia, **C**hina and **S**outh Africa. With the possible exception of Russia, the BRICS members are all developing or newly industrialized countries, but they are distinguished by their large, fast-growing economies and significant influence on regional and global affairs. As of 2015, the five BRICS countries represent over 3 billion people, or 42% of the world population. The five nations have a combined nominal GDP of US$16.039 trillion, equivalent to approximately 20% of the gross world product, and an estimated US$4 trillion in combined foreign reserves.

President of the People's Republic of China Hu Jintao has described the BRICS countries as defenders and promoters of developing countries and a force for world peace. However, some analysts have highlighted potential divisions and weaknesses in the grouping, such as India and China's disagreements over Tibetan and border issues, the failure of the BRICS to establish a World Bank-analogue development agency, and disputes between the members over UN Security Council reform.

Summit	Participants	Date	Host country	Host leader	Location
1st	BRIC	June 16, 2009	Russia	Dmitry Medvedev	Yekaterinburg
2nd	BRIC	April 16, 2010	Brazil	Luiz Inácio Lula da Silva	Brasília
3rd	BRICS	April 14, 2011	China	Hu Jintao	Sanya
4th	BRICS	March 29, 2012	India	Manmohan Singh	New Delhi
5th	BRICS	*2013*	South Africa	Jacob Zuma	*Durban*
6th	BRICS	2014	Brazil	Dilma Rousseff	Fortaleza
7th	BRICS	2015	Russia	Vladimir Putin	Ufa
8th	BRICS	2016	India	Narendra Modi	New Delhi
9th	BRICS	2017	China	Xi Jinping	Xiamen
10th	BRICS	2018	South	Cyrial	Johannesburg

			Africa	Ramaphosa	
11th	BRICS	2019	Brazil	Jair Bolsonaro	Brasilia

g. International Monetary Fund (IMF)

It was established on December 27, 1945 at the Bretton Woods Conference, but it started its operations on March 1, 1947. It has 189 members.

Objectives

According to 'Articles of Agreement' of the IMF, its main objectives are as follows:

1. To promote international monetary co-operation.

2. To ensure balanced international trade.

3. To ensure exchange rate stability.

4. To grant economic assistance to member countries for eliminating the adverse imbalance in balance of payment

Constitution, Membership and Capital of IMF

The main source of IMF resources is the quotas allotted to member countries. Earlier, quotas and the assistance provided were denominated in US dollars, now they are expressed in SDRs (Special Drawing Rights), which is also known as Paper Gold.

India and IMF

IMF has played an important role in Indian economy. IMF has provided economic assistance from time to time to India and has also provided appropriate consultancy in determination of various policies in the country. India is a founder member of IMF. The Finance Minister is ex-officio Governor on the IMF Board of Governors.

h. International Bank For Reconstruction And Development (IBRD)

The IBRD and its associates as a group are known as the World Bank, set up to rehabilitate the World War II-damaged economies. In 1945, it was decided to concentrate on reconstructing these war-affected economies. Besides, it was also planned to develop under-developed economies in a planned way. IBRD was established in December 1945 with the IMF on the basis of the recommendation of the Bretton Woods Conference. That is the reason why IMF and IBRD are called 'Bretton Wood Twins'. IBRD started functioning in June 1946. Currently, member countries are 189

Objectives

According to the Agreement at the time of establishment of World Bank, it was assigned the following objectives:

- To provide long-run capital to member countries for economic reconstruction and development
- To promote capital investment in member countries by following ways:

IMF VS World Bank

Since both these were together formed at the Bretton Woods Conference, they are referred to as “Bretton Woods Twins”. Both the institutions were established to promote international economic co-operation but a basic difference is found in the nature of economic assistance given by these two institutions. The World Bank provides long-term loans for promoting balanced economic development and finances developmental projects, while the IMF provides short-term loans to member countries for eliminating BOP disequilibrium. Both these institutions are complementary to each other.

Membership

Generally every member country of the IMF automatically becomes the member of World Bank. Similarly, any country that quits IMF is automatically expelled from the World Bank’s membership. But under a certain provision a country leaving the membership of IMF can continue its membership with World Bank if 75% members of their Bank give their vote in its favour.

i. International Development Association (IDA)

The IDA is an associate institution of the World Bank known as soft loan window of World Bank. IDA was established on September 24, 1960. It kept its membership open to all members of World Bank. At present 173 countries are its members and no interest is charged on these long-term loans. These soft loans are provided to the poor countries. The resources of IDA include subscribed capital by member countries, general replenishments by developed countries, net income transferred by IBRD etc. The IDA is administered by the same group, which manages the working of World Bank.

j. International Finance Corporation (IFC)

Established in July 1956, this corporation provides loans to private industries of developing nations without any government guarantee and also promotes the additional capital investment in these countries. Total member countries are 184

k. General Agreement on Tariffs And Trade (GATT)

During the Great Depression of the 1930s (actually, it began in 1929), international trade was badly affected and various countries imposed import restrictions for safeguarding their economies. This resulted in a sharp decline in world trade. In 1945, the USA put forward many proposals for extending international trade and employment. In 1947, 23 countries at Geneva, signed an agreement related to tariffs imposed on trade. This agreement is known as General Agreement on Tariffs and Trade (GATT). It came into force in 1948. Initially GATT was established in the form of a temporary arrangement but later on it took the shape of a permanent agreement. The World Trade Organization (WTO), which came into existence on January 1, 1995 after many years of Uruguay Round negotiations, replaced GATT.

I. World Trade Organisation (WTO)

The Uruguay Round of GATT gave birth to the World Trade Organization. The members of GATT signed an agreement of Uruguay Round in April 1994 in Marrakesh (Morocco) for establishing a new organization named WTO. It was officially constituted on January 1, 1995, which replaced GATT as an effective informal organization. Contrary to GATT, WTO is a permanent organization and has international status like IMF and

IBRD, but it is not an agency of the UNO. Total member nations are164

Objectives of WTO

1. To improve standards of living of people in the member countries.
2. To ensure full employment and broad increase in effective demand.
3. To enlarge production and trade of goods.

   The above three objectives were also included in the GATT agreement, but the WTO also included some other objectives which are:
4. To enlarge production and trade of services.
5. To ensure optimum utilization of world resources.
6. Accept the concept of sustainable development.
7. To protect environment.

m. United Nations Conference on Trade And Development:

At present, UNCTAD has become a permanent organization for promoting international trade. Its headquarters is at Geneva, Switzerland. Generally, UNCTAD has its session after every 4 years. IMF has got a permanent representation in all its bodies. That is why IMF includes all UNCTAD proposals in its policies. UNCTAD recommendations are only suggestions and no country can be compelled to accept them.

Objectives

1. To promote international trade.
2. To make policies and principles for international trade and economic development.
3. To make a plan for implementing these principles and policies.
4. To assist the Economic and Social Council of the UNO.
5. To provide a suitable platform for trade dialogues.

Though UNCTAD is functioning as a permanent agency of the UNO, but its membership is fully optional. Any country may join or quit the UNCTAD.

n. Asian Development Bank (ADB)

The ADB was established in Dec. 1966 on the recommendations of ECAFE (Economic Commission for Asia and Far East). The aim of this Bank was to promote economic development in Asian countries. The head office of the Bank is located at Manila, Philippines. Total member countries are 67

o. South Asian Association For Regional Co-Operation (SAARC)

India, Maldives, Pakistan, Bangladesh, Sri Lanka, Bhutan and Nepal constituted an organization known as SAARC, on the recommendations of Dhaka Conference in 1985. Its headquarters has been established at Kathmandu. Afghanistan was made a member in 2005. A conference of heads of the countries is held every year but the conferences have been generally delayed for one reason or the other. The mutual misunderstandings among member nations have created a big question mark on its ability to achieve its objectives.

The latest Summit was held in Nepal in 2014. In 2016, the summit to be held in Pakistan was boycotted by member nations due to Uri attack in India.

In 1995, the Eighth SAARC Summit at New Delhi decided to establish SAFTA by 2001 (earlier it was decided to establish it by 2005). Agreement was finally signed on January 2004 at the 12th SAARC summit.

- Agreement entered into force from January 1st 2006

- Members include: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka
- Requires developing countries in South Asia: India, Pakistan and Sri Lanka, to bring duties down to 20 percent in the first phase of the two year period ending in 2007
- Final five year phase ending 2012, 20 percent duty be reduced to zero
- Least developed nations: Afghanistan, Nepal, Bhutan, Bangladesh and Maldives have additional three years to reduce tariffs to zero

p. Association of Southeast Asian Nations (ASEAN)

ASEAN is a union of South-East Asian Nations. Indonesia, Philippines, Malaysia, Singapore and Thailand constituted this association in 1967. Brunei also joined the ASEAN in 1984 and Vietnam joined in 1995. At present, 10 countries are the members of ASEAN. The object of ASEAN is to promote economic co-operation in South-East Asia and also to ensure economic stability in the region. Its headquarters is in Jakarta but a Secretary of ASEAN lives in the capital of each member country. The post of General Secretary of ASEAN is rotated among each member country alphabetically, after every two years. In 1996, ASEAN gave advisory status or full-dialogue partner status to India. Besides India, China and Russia also got this status. India cannot join the ASEAN as a member due to its geographical location.

However, India entered into a Free Tree Agreement with this grouping on Jan 1, 2010.

q. East Asia Summit

It has 16 members constituting all the members of ASEAN (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam) and six neighbouring nations of India, China, Japan, South Korea, Australia and New Zealand. Its first summit was held in 2005. At the Fourth Summit held in October 2009 in Thailand, it was decided to reestablish Nalanda University in Bihar. It is also moving towards Comprehensive Economic Partnership in East Asia (CEPEA).

r. G-7

The Group of Eight is a forum, created by France in 1975, for governments of six countries in the world: France, Germany, Italy, Japan, the United Kingdom, and the United States. In 1976, Canada joined the group (thus creating the G7). In becoming the G8, the group added Russia in 1997. In addition, the European Union is represented within the G8, but cannot host or chair.

Together the eight countries making up the G7 represent about 14% of the world population, but they represent about 60% of the Gross World Product as measured by gross domestic product,

Lately, both France and the United Kingdom have expressed a desire to expand the group to include five developing countries, referred to as the Outreach Five (O5) or the Plus Five: Brazil, China, India, Mexico, and South Africa. These countries have participated as guests in previous meetings, which are sometimes called G8+5. Currently, G8 has become G7 after suspension of Russia in March 2015 owing to the Crimean (Ukraine) crisis.

s. Organization For Economic Co-Operation And Development

To rehabilitate the weak economies of Europe after Second World War, an organization named OECD (Organization for Economic Co-operation and Development) was founded. Its headquarter is in Paris (France). The aim of the OECD is to co-ordinate the welfare policies of the member countries and also to induce member countries for promoting welfare activities in their respective economies.

t. European Union

The EU (formerly known as European Community or European Economic Community) is a union of 28 independent states based on the European Communities and founded to enhance political, economic and social co-operation.

Six European countries known as 'Inner Six' (France, Belgium, Netherlands, Luxembourg, W. Germany and Italy) constituted EEC on the basis of Rome Treaty (1957) which was constituted for promoting economic co-operation among non-communist countries of Europe. EEC started its functioning since January 1, 1958. EEC attempted to unite economic policies of all 15 members. In 1991, important decisions relating to political, monetary and economic unification of Europe were taken by Heads of States of the then 12 member countries. This treaty was a major effort in the direction of European unification and is known as the Maastricht Treaty.

Since, November 1, 1993 this treaty was implemented for political and economic unification of these countries. This treaty gave birth to a new organization known as

European Union. This treaty and documents of European Union, signed in February 1992, state that all the countries of the union will make all efforts to implement homogeneous economic and monetary policies.

u. Asia-Pacific Economic Co-Operation (APEC)

APEC is a new economic grouping appearing on the international forum after EEC and NAFTA. APEC was constituted on the initiative of Australian Prime Minister Mr. Bob Hawk. All the developing and developed economies of the world ranging from Himalayas to Andes and from New Zealand to Canada are the members of APEC. The countries having membership of APEC share more than 40% of the total world trade. Member countries are making all efforts to develop APEC as a free trade zone like EEC and NAFTA. It has been decided to convert Asia Pacific region of the world into a Free Trade Area by 2020 A.D. As on date, APEC is the biggest economic bloc in terms of total business transacted.

II. International Treaties and Agreements.

a. The Shimla Agreement

Signed by the P.M. of India and the President of Pakistan in 1971, the Agreement had following provisions:

- to normalise relationship between the two countries,
- to withdraw from the territories seized by them,
- communications would be resumed.

b. Antarctic Treaty

It is an agreement signed on December 1, 1959 between 12 nations with an interest in Antarctic. These countries are: Argentina, Australia, Belgium, Chile, France, Japan, New Zealand, Norway, South Africa, the erstwhile USSR (CIS), the U.K. and the US. In all, 53 countries became party to it by 2016. The treaty reserves the Antarctic area south of 60' south latitude for peaceful purposes, provides for international cooperation in scientific investigation and research, and preserves.

c. Nuclear Non-Proliferation Treaty (NPT)

Signed in 1968, NPT came into force in 1970. Its main points are as follows:

- Nuclear powers will not transfer nuclear weapons or control over them to any recipient.
- Non-nuclear countries agree neither to receive the weapons nor to manufacture them.

- Nuclear know-how will be made available to the non-nuclear states for peaceful purposes.

Originally, for a period of 25 years, NPI was extended indefinitely in 1995. India, Israel and Pakistan have not signed the NPI citing various reasons.

d. Comprehensive Test Ban Treaty (CTBT)

This treaty was approved by US General Assembly in 1996. India, Iran and Libya voted against it. India is under constant pressure to sign it.

e. Indo-Russian Friendship Treaty

This treaty was signed by the then P.M. of India and the then President of Russia in 1993. Its main provisions are as follows:

- to develop cooperation in political, trade, economic, scientific, technical, cultural and other fields.
- to promote relations in defence, commerce, science and technology and culture.
- to work together for achievement of a world without armaments.
- to support territorial intensity of each other.

f. Strategic Arms Reduction Treaty (START-II)

Signed by the then Russian and American Presidents in 1993, its main provisions are:

- to reduce nuclear warheads.
- to eliminate all Intercontinental Ballistic Missiles.
- to reduce nuclear warheads at submarine-based ballistic missiles.
- to limit nuclear warheads with which heavy bombers can be equipped.

g. Chemical Weapons Convention

The Chemical Weapons Convention came into force on April 29, 1997. The signatory states have undertaken to destroy existing stock of chemical weapons by 2007. As of September 2015, 192 states have given their consent to be bound by the CWC. Israel has signed but not ratified the agreement. Egypt, North Korea and South Sudan have neither signed nor acceded to the treaty. Most recently, Angola deposited its instrument of accession to the CWC on 16 September 2015.

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h. Human Cloning Agreement

On January 12, 1998, Nineteen European nations signed an agreement banning human cloning. On January 17, 186 member states of UNESCO adopted a declaration denouncing human cloning.

Specialized organisations and agencies of the United Nations					
Acronyms	**Agency**	**Headquarters**	**Head**	**Est.**	**Role**
FAO	Food and Agriculture Organization	Italy	José Graziano da Silva	1945	Leads international efforts to defeat hunger
IAEA	International Atomic Energy Agency	Austria	Yukiya Amano	1957	Seeks to promote the peaceful use of nuclear energy
ICAO	International Civil Aviation Organization	Montreal, Canada	Raymond Benjamin	1947	Codifies the principles and techniques of international air navigation
IFAD	International Fund for	Rome, Italy	Kanayo F. Nwanze	1977	Dedicated to eradicating

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	Agricultural Development				rural poverty in developing countries
ILO	International Labour Organization	Geneva, Switzerland	Guy Rider	1919	Deals with labour issues, particularly international labour standards and decent work for all
IMO	International Maritime Organization	London, United Kingdom	Efthimios E. Mitropoulos	1948	Develops and maintains a comprehensive regulatory framework for shipping
IMF	International Monetary Fund	Washington, D.C., USA	Christine Lagarde	1945	To foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth

ITU	International Telecommunication Union	Geneva, Switzerland	Hamadoun Touré	1865	Responsible for issues that concern information and communication technologies
UNESCO	United Nations Educational, Scientific and Cultural Organization	Paris, France	Irina Bokova	1946	To contribute to peace and security by promoting international collaboration through education, science, and culture
UPU	Universal Postal Union	Berne, Switzerland	Edouard Dayan	1947	Coordinates postal policies among member nations, in addition to the worldwide postal system
WB	World Bank	Washington, D.C, USA	Jim Yong Kim	1945	Provides loans to developing countries for capital programs
WIPO	World	Geneva,	Francis	1974	To promote

	Intellectual Property Organization	Switzerland	Gurry		the protection of intellectual property throughout the world
WMO	World Meteorological Organization	Geneva, Switzerland	Alexander Bedritsky	1950	Authoritative voice on the state and behavior of the Earth's atmosphere, its interaction with the oceans, the climate it produces and the resulting distribution of water resources
UNWTO	World Tourism Organization	Madrid, Spain	Taleb Rifai	1974	Responsible for the promotion of responsible, sustainable and universally accessible tourism
UNODC	United Nations Office on Drugs and Crime	Vienna, Austria	Yuri Fedotov	1997	To assist the UN in better addressing a coordinated, comprehensiv

					e response to the interrelated issues of illicit trafficking in and abuse of drugs, crime prevention and criminal justice, international terrorism, and political corruption
UNDIO	United Nations Data and Information Organization	Kampala, Uganda	Louis R. Rutinduka	2013	Brings UN statistical databases within easy reach