Unit 4: Entrepreneurship Development Programmes: Meaning, needs, objectives, phrases, evaluation and problems of EDP; FDI and Technology Transfer, Globalization and Technology Intermediation; Balance of Trade and Balance of Payments, Barriers to Trade, Benefits of Trade/Comparative Advantage. Foreign Currency Markets/Exchange Rates, International trade relevance to Manipur.

Topic number 2: Foreign direct investment in India

Foreign direct investment (FDI) in India is a major monetary source for economic development in India. Foreign companies invest directly in fast growing private Indian businesses to take benefits of cheaper wages and changing business environment of India. Economic liberalization started in India in wake of the 1991 economic crisis and since then FDI has steadily increased in India, which subsequently generated more than one crore (10 million) jobs. According to the *Financial Times*, in 2015 India overtook China and the United States as the top destination for the Foreign Direct Investment. In first half of the 2015, India attracted investment of $31 billion compared to $28 billion and $27 billion of China and the US respectively.

On 17 April 2020, India changed its foreign direct investment (FDI) policy to protect Indian companies from "opportunistic takeovers/acquisitions of Indian companies due to the current COVID 19 pandemic", according to the Department for Promotion of Industry and Internal Trade. While the new FDI policy does not restrict markets, the policy ensures that all FDI will now be under scrutiny of the Ministry of Commerce and Industry.

Routes

There are two routes by which India gets FDI:

1. Automatic route: By this route FDI is allowed without prior approval by Government or Reserve Bank of India.

2. Government route: Prior approval by government is needed via this route. The application needs to be made through Foreign Investment Facilitation Portal, which will facilitate single window clearance of FDI application under Approval Route. The application will be forwarded to the respective ministries which will act on the application as per the standard operating procedure.

Foreign Investment Promotion Board (FIPB) which was the responsible agency to oversee this route was abolished on May 24, 2017. It held its last meeting on 17 April, which was the 245th meeting of the Board. On 24 May 2017, Foreign Investment Promotion Board was scrapped by the Union Government. Henceforth, the work relating to processing of applications for FDI and approval of the Government thereon under the extant FDI Policy and FEMA, shall now be handled by the concerned Ministries/Departments in consultation with the Department for Promotion of Industry and Internal Trade(DPIIT) , Ministry of Commerce, which will also issue the Standard Operating Procedure (SOP) for processing of applications and decision of the Government under the extant FDI policy Government initiatives.

The Government of India has amended FDI policy to increase FDI inflow. In 2014, the government increased foreign investment upper limit from 26% to 49% in insurance sector. It also launched Make in India initiative in September 2014 under which FDI policy for 25 sectors was liberalized further. As of April 2015, FDI inflow in India increased by 48% since the launch of "Make in India" initiative. India was ranking 15th in the world in 2013 in terms of FDI inflow; it rose up to 9th position in 2014 while in 2015 India became top destination for foreign direct investment. The Department for Promotion of Industry and Internal Trade and Invest India has developed the India Investment Grid

(IIG) which provides a pan-India database of projects from Indian promoters for promoting and

facilitating foreign investments.

Coronavirus pandemic impact:

On 18 April 2020, the government of India passed an order that would protect Indian companies from FDI during the pandemic. All countries sharing a land border with India would now face scrutiny from the Ministry of Commerce and Industry before any FDIs.

Sectors:

During 2014–16, India received most of its FDI from Mauritius, Singapore, Netherlands, Japan and the US. On 25 September 2014, Government of India launched Make in India initiative in which policy statement on 25 sectors were released with relaxed norms on each sector. Following are some of major sectors for Foreign Direct Investment.

1. **Infrastructure**:

10% of India's GDP is based on construction activity. Indian government has invested $1 trillion on infrastructure from 2012–2017. 40% of this $1 trillion had to be funded by private sector. 100% FDI under automatic route is permitted in construction sector for cities and townships. In January 2016, Chinese conglomerate Dalian Wanda Group announced that it would construct an industrial, residential and tourism city in Haryana at the cost of ₹68,000 crore ($10 billion). However the project was deadlocked as on 28 April 2017 because the company management was resisting a demand by the Haryana state government for a 26% equity share.

2. **Automotive**

FDI in automotive sector was increased by 89% between April 2014 to February 2015.India is 7th largest producer of vehicles in the world with 25.5 million vehicles annually. 100% FDI is permitted in this sector via automatic route. Automobiles shares 7% of the India's GDP.

- General Motors announced an investment of US$1 billion to manufacture automobiles in Maharashtra.
- In April 2017, Kia announced that the company would invest over $1.1 billion to build a car manufacturing plant in Anantapur, Andhra Pradesh. The facility is the company's first manufacturing plant in India. Kia stated that it would hire 3,000 employees for the plant, and it would produce 300,000 cars annually. Construction of the plant began in mid-2017, and is expected to be completed by March 2019. The first vehicles are scheduled to roll off production lines in mid-2019. Kia president Han-Woo Park announced that the first model produced at the plant would be an SUV (sport utility vehicle) specifically designed for the Indian market. Park also added that Kia would invest over $2 billion and create 10,000 jobs in India by 2021.
- In March 2016, B.K Modi group announced that it is going to set up an electric bus manufacturing plant near Moradabad, Uttar Pradesh. The investment is through a technological tie-up with BYD.
- In July 2017, SAIC Motor announced that it is going to invest ₹2,000 crore ($300 million) to build a car manufacturing plant in Halol, Gujarat.
- In mid-2017, European automobile major PSA announced that in a partnership with CK Birla Group, it is going to build a car manufacturing plant in Tamil Nadu at the cost of ₹7,000 crore ($1.03 billion).
- Elon Musk has recently reiterated his intent to join Make In India with all electric car manufacturer Tesla commencing partial operations by 2019 and full operations by 2020.

- Hitachi announced an auto-component plant in Chennai by 2016 with an increase in their India employees count from 10,000 to 13,000.

3. Pharmaceuticals

Indian pharmaceutical market is 3rd largest in terms of volume and 13th largest in terms of value. Indian pharma industry is expected to grow at 20% compound annual growth rate from 2015 to 2020. 74% FDI is permitted in this sector.

In April 2018, during PM Modi's visit to Sweden, Biopharmaceutical firm AstraZeneca said it will invest around ₹ 590 crore ($90 million) in India over the next five years.

4. Service

FDI in service sector was increased to 46% in 2014–15. It is US $1.88 billion in 2017. Service sector includes banking, insurance, outsourcing, research & development, courier and technology testing. FDI limit in insurance sector was raised from 26% to 49% in 2014.

5. Railways

100% FDI is allowed under automatic route in most of areas of railway, other than the operations, like High speed train, railway electrification, passenger terminal, mass rapid transport systems etc. Mumbai-Ahemdabad high speed corridor project is single largest railway project in India, other being CSTM-Panvel suburban corridor. Foreign investment more than ₹90,000 crore (US$13 billion) is expected in these projects so far.

• Alstom/GE Transportation: The French and American rolling stock manufacturers announced ₹400 billion (US$5.6 billion) locomotive manufacturing factories in Madhepura and Marhaura in Bihar.

• Hyperloop One: The American company working to commercialize Hyperloop, signed a Framework Agreement with govt. of Maharashtra to begin the development of the route from Mumbai to Pune, starting with an operational demonstration track.

• Train 18 began operating tests in October 2018. It is a semi-high speed train, 80% domestically sourced.

• CRRC: The Chinese Giant announced in 2016 that it is going to set up a Railway equipment plant in Bavo, Haryana in DMIC with an investment of $69.5 million.

6. Chemicals

Chemical industry of India earned revenue of $155–160 billion in 2013. 100% FDI is allowed in Chemical sector under automatic route. Except Hydrocynic acid, Phosgene, Isocynates and their derivatives, production of all other chemicals is de-licensed in India. India's share in global specialty chemical industry is expected to rise from 2.8% in 2013 to 6–7% in 2023.

7. Textile

Textile is one major contributor to India's export. Nearly 11% of India's total export is textile. This sector has attracted about $1647 million from April 2000 to May 2015. 100% FDI is allowed under automatic route. During year 2013–14, FDI in textile sector was increased by 91%. Indian textile industry is expected reach up to $141 billion till 2021.

8. Airlines

Foreigner investment in a scheduled or regional air transport service or domestic scheduled passenger airline is permitted to 100%.

French drone manufacturer LH Aviation announced a manufacturing plant in India to produce drones. During Magnetic Maharashtra: Convergence 2018, Thurst Aircraft Pvt Ltd signed a MOU with Govt. of Maharashtra to build an aeroplane manufacturing plant near Palghar district (roughly 140 km north of Mumbai) with an investment of ₹35,000 crore($5.2 billion).

9. Defence manufacturing

As part of Prime Minister Narendra Modi's Narendra Modi Atma Nirbhar Bharat Abhiyan (Self Reliant India Campaign), India's ministry of defence last month reserved 26 items that will only be procured from the local suppliers.

Modi government did it by amending clause (3)A of the Defence Procurement Order of 2017. India and Russia have deepened their Make in India defence manufacturing cooperation by signing agreements for the construction of naval frigates, KA-226T twin-engine utility helicopters (joint venture (JV) to make 60 in Russia and 140 in India), Brahmos cruise missile (JV with 50.5% India and 49.5% Russia). A defence deal was signed during Prime Minister Narendra Modi's visit to Russia in December 2015 which will see the Kamov Ka-226 multi-role helicopter being built in India, was widely seen as the first defence deal to be actually signed under the Make in India campaign.[45][46] In August 2015, Hindustan Aeronautics Limited (HAL) began talks with Russia's Irkut Corp to transfer technology of 332 components of the Sukhoi Su-30MKI fighter aircraft under the Make in India program. These components, also called line replacement units (LRUs) refer to both critical and non critical components and fall into four major heads such as Radio and Radar; Electrical & Electronics System; Mechanical System and Instrument System.

Lockheed Martin announced in February 2016 its plans to manufacture F-16 in India, although it did not announce any time frame. In February 2017, Lockheed stated that it intended to manufacture the F-16 Block-70 aircraft with a local partner in India, if the Indian Air Force agreed to purchase the aircraft.

Boeing announced setting up a factory to assemble fighter planes, either the Apache or Chinook defence helicopter in India,[50] as well as the manufacture of F/A-18 Super Hornet.

In May 2018, the Indian Army announced a ₹50,000 crore (US$7.0 billion) ammunition production project to be implemented in phases over a 10-year period. Under the project, 11 private firms will manufacture and supply ammunition for the Army's tanks, rockets, air defence system, artillery guns, infantry combat vehicles, grenade launchers, and other field weapons. The Army noted that the objectives of the program were to cut dependence on foreign imports and to establish an inventory of ammunition that would sufficient to fight a 30-day war.

10. Defence exports

India confirmed that it will upgrade Myanmar's T-72 tanks, supply DRDO's radars to Armenia, Kamov 226 T multi-utility helicopters to Jordan, indigenously developed lightweight torpedoes to Myanmar (previously sold to Sri Lanka and Vietnam), Astra 70-kilometer range air- to air missile and 40,000 pieces of a component used in Bofors artillery guns for ₹322 crore to UAE, and manufacture DRDO weapons in Saudi Arabia by 2018 (Dec 2017 update).

Make in India, a type of Swadeshi movement covering 25 sectors of the Indian economy, campaign was launched by the Prime Minister Narendra Modi on 25th of September in 2014 to encourage companies to manufacture their products in India and enthuse with dedicated investments into manufacturing. It is an initiative to make a call to the top business investors all across the world for investment in India. It is a big opportunity for all the investors to set up their business in any field anywhere in the country. This attractive plan has resourceful proposals for foreign companies to set up manufacturing units in India. Make in India campaign launched by the Indian government focuses on building effective physical infrastructure. It also meant for improving the market of digital network in the country to create a global hub for business.

As per the current policy, 100% Foreign Direct Investment (FDI) is permitted in all 100 sectors, except for Space industry (74%), defence industry (49%) and Media of India (26%). Japan and India had also announced a US$12 billion "Japan-India Make-in-India Special Finance Facility" fund to push investment. In line with the Make in India, individual states too launched their own local initiatives, such as "*Make in Odisha*", "*Tamil Nadu Global Investors Meet*", Vibrant Gujarat, "*Happening Haryana*" and "*Magnetic Maharashtra*". India received US$60 billion FDI in FY 2016–17.

11. Electronic systems

With the demand for electronic hardware expected to rise rapidly to US$400 billion by 2020, India has the potential to become an electronic manufacturing hub and government is targeting to achieve net zero imports of electronics by 2020. After the launch of this project, 24.8% of smartphones sold in India in the April–June quarter of 2015 were made in India, up from 19.9% the previous quarter. By 2019 that number has jumped to 95%. Mobile manufacturing made the most of Make in India.

Various companies pledged investment in India to begin manufacturing

- Foxconn: US$5 billion investment over 5 years in research and development and hi-tech semiconductor manufacturing facility in Maharashtra but it backed out from the MOU as it could not acquire the land parcel at the terms it wanted.
- Huawei: new research and development (R&D) campus in Bengaluru with an investment of US$170 million and telecom hardware manufacturing plant in Chennai.
- Lenovo: manufacturing of Motorola at Sriperumbudur near Chennai run by Flextronics.
- Micromax: 3 new manufacturing units in Rajasthan, Telangana and Andhra Pradesh with ₹3 billion (US$42 million) investment).
- Qualcomm: "Design in India" programme to mentor ten Indian hardware companies with the potential to come up with innovative solutions and help them reach global scale.[70]
- Samsung: 10 "MSME-Samsung Technical Schools" and manufacturing of Samsung Z1 in its plant in Noida).
- Spice Group: ₹5 billion (US$70 million) mobile phone manufacturing unit in Uttar Pradesh.
- Vivo Mobile India began manufacturing smartphones at a plant in Greater Noida with 2,200 employees .
- Wistron: Taiwanese company to start manufacturing of Blackberry, HTC and Motorola devices at a new factory in Noida.
- Xiaomi: smartphones to be manufactured at a Foxconn-run facility in Sri City made operational by producing Xiaomi Redmi 2 Prime.
- HMD Global: Finnish company announced in early 2018 that it will start manufacturing all the parts of Nokia phones in Foxconn run facility in Chennai.

12. Food processing

India is among the largest producers of fruits, vegetables, rice and milk globally with trade surplus in food items export.

Pitha of Odisha, Gushtaba of Kashmir, Chicken Curry of Punjab, Khakhra and Khandvi of Gujarat, Bamboo Steam Fish, Vada and Medhu Vada of Karnataka, Khaja and Inarsa of Bihar, Kebab of Uttar Pradesh and Puran poli of Maharashtra have been selected as traditional regional food to be promoted in the ongoing campaign.

Marine Products Export Development Authority announced the deal to supply shrimp eggs to farmer in India for eventual exports of shrimp from India to other countries.

In Odisha Investor Summit, Poseidon Aquatech announced plans to undertake shrimp farming and processing in the state at the cost of ₹100 crore ($14.7 million).

Noodles manufacturer Indo Nissin Foods Ltd also announced that it intended to invest additional ₹50 crore ($7.3 million) to expand the existing facility in Odisha by 2017.

13. Exports

In December 2017, India announced it will shortly announce a new agricultural exports policy to promote Indian and organic foods, enhance compliance of phytosanitary international food-safety requirements, development of farm-to-port and farm-to-airport cold chain with focus on 25 farm export clusters

Three major objectives: (a) to increase the manufacturing sector's growth rate to 12-14% per annum in order to increase the sector's share in the economy; (b) to create 100 million additional manufacturing jobs in the economy by 2022; and (c) to ensure that the manufacturing sector's contribution to GDP is increased to 25% by 2022 (later revised to 2025).

The policy approach was to create a conducive environment for investments, develop modern and efficient infrastructure, and open up new sectors for foreign capital. The initiative targeted 25 economic sectors for job creation and skill enhancement, and aimed "to transform India into a global design and manufacturing hub".

14. Mining

During Odisha investor summit, NLC India signed an MOU with govt. of Odisha to set up a coal mining processing plant at the cost of ₹7,500 crore ($1.1 billion).[83]

15. Oil and gas

In April 2018, Saudi Arabian Oil giant Aramco signed an initial deal with a consortium of Indian refiners to build a $44 billion refinery and petrochemical project on India's west coast. The project will include a 1.2 million-barrels-per-day (bpd) refinery, integrated with petrochemical facilities with a total capacity of 18 million tonnes per year.

16. Renewable energy

In February 2018, during Uttar Pradesh investors summit. Avaada Power and ReNew Power announced Solar projects worth ₹ 10,000 crore ($1.4 billion) and ₹8,000 crore ($1.1billion) each.[88]
During Magnetic Maharashtra: Convergence 2018, ReNew Power signed a MOU with govt. of Maharashtra and announced a solar projects worth $2.17 billion.[89]
In August 2016, NLC India announced that it is going to set up a 500MW Solar Power Plant in Odisha at the cost of ₹3,000 crore ($441 million)[83]

17. Thermal power

In May 2017, the Union Cabinet approved the construction of 10 indigenously-built Pressurised Heavy Water Reactors (PHWRs). The contracts for the reactors worth an estimated ₹70,000 crore (US$9.8 billion) will be awarded to Indian companies. The construction 10 reactors with a combined nuclear capacity of 7 GW is also expected to create 33,400 direct and indirect jobs.
During Odisha investor summit, NLC India signed an MOU with govt. of Odisha to set up a 2,000MW Thermal power plant at the cost of ₹15,000 crore($2.2 billion)

18. Wellness and Healthcare

International healthcare firm Columbia Asia announced in June 2017, that it will invest over ₹400 crore ($60 million) to set up two new hospitals in India by the end of 2019 as it looks to expand presence in the country.
In Assam investor summit, Indo-UK Institute of Health announced that it will set up a medical city in Guwahati at cost of ₹1600 crore ($231 million).
During Happening Haryana summit, Patanjali group announced that it would set up a Healthcare university and a healthcare centre with an investment of ₹5,000 crore ($735 million).

In April 2015, Patanjali Ayurved announced that it is going to open 10000 Yoga Gym in Haryana to promote wellness, develop positive thinking among youths and immunise them from day-to-day ailments.

Government Initiatives

In May 2020, government increased FDI in Defence manufacturing under the automatic route from 49 per cent to 74 per cent.
In April 2020, government amended existing consolidated FDI policy for restricting opportunistic takeovers or acquisition of Indian companies from neighboring nations.
In March 2020, government permitted non-resident Indians (NRIs) to acquire up to 100 per cent stake in Air India.
In December 2019, government permitted 26 per cent FDI in digital sectors.
In August 2019, government permitted 100 per cent FDI under the automatic route in coal mining for open sale (as well as in developing allied infrastructure like washeries).

In Union Budget 2019-20, the government of India proposed opening FDI in aviation, media (animation, AVGC) and insurance sectors in consultation with all stakeholders. 100 per cent FDI is permitted in insurance intermediaries.

As of February 2019, the government of India has been working on a road map to achieve its goal of US$ 100 billion worth of FDI inflow.

In February 2019, the government of India released the Draft National E-Commerce Policy to encourage FDI in the marketplace model of E-commerce. Further, it stated that the FDI policy for E commerce sector was developed to ensure a level playing field for all participants. Government of India had been planning to consider 100 per cent FDI in Insurance intermediaries in India to give a boost to the sector and attract more funds.

In December 2018, the government of India revised FDI rules related to E-commerce. As per the revised rules, 100 per cent FDI was allowed in the marketplace-based model of E-commerce. Also, sales of any vendor through an E-commerce marketplace entity or its group companies was limited to 25 per cent of the total sales of such vendor.

https://www.investindia.gov.in/foreign-direct-investment

Topic 3.1: Balance of Trade and Balance of Payments

Balance of Trade

One of the ways that a country measures global trade is by calculating its balance of trade. **Balance of trade** is the difference between the value of a country's imports and its exports, as follows:

Value of exports – value of imports = balance of trade

NOTE: It's important to use this formula just as it's presented, without altering the sequence of values.

The calculation of the balance of trade yields one of two outcomes: a trade deficit or a trade surplus.

A **trade deficit** occurs when a nation imports more than it exports. Since 1976, the United States has consistently run trade deficits **due to high imports of oil and consumer products**. In recent years, the biggest trade deficits were recorded with China, Japan, Germany, and Mexico. This shouldn't come as a surprise to you if you emptied your backpack and counted up all the items *not* made in the United States. In contrast, a **trade surplus** occurs when a nation exports more than it imports. Although the United States has run an overall trade deficit since 1976, it doesn't mean that we import more from *every* country than we export. **On the contrary, the United States records trade surpluses with Hong Kong, the Netherlands, the United Arab Emirates, and Australia**.

Because the balance of trade is calculated using **all** imports and exports, it's possible for the United States to run a surplus with some nations and a deficit with others. As with your checkbook, the balance reflects the difference between *total* exports (sales, which result in a deposit in your account or "deposits") and *total* imports (purchases, which result in a withdrawal from your account or "withdrawals"). When a nation exports, other nations pay it for goods or services, so it gets to take their money and make a deposit. When a nation imports, it pays other nations for their goods and services, and they would need to make a withdrawal to pay for them.

INDIA'S BALANCE OF TRADE

Let us assume that **INDIA** is located in a region that lacks phosphate as a natural resource. However, it does have an abundance of sugarcane. As a result of its comparative advantages, **INDIA** imports phosphate from Christmas Island (it's a real place in Australia—look it up!) to fertilize the sugarcane it grows, and it uses the sugarcane to manufacture saltwater taffy, which it exports to Christmas Island.

The following table shows **INDIA**'s imports and exports with Christmas Island in 2017.

Year	Imports (phosphate)	Exports (taffy)

2017 Rs 45,000,000 Rs 75,000,000

INDIA 2017 Import and Exports with Christmas Island

Using these figures, we can easily calculate **INDIA**'s balance of trade in 2014: Rs **75,000,000 (exports)** − Rs **45,000,000 (imports)** = Rs **30,000,000**

This means that **INDIA** had a trade surplus of Rs 30,000,00 with Christmas Island, since exports exceeded imports. We can also say that **INDIA** was a "net exporter," meaning they exported more than they imported.

However, the picture changed in 2018 when the Australian government closed the phosphate mine on Christmas Island. **INDIA** had to import phosphate from Morocco, instead, and was not able to get the same favourable pricing as before. Consequently, sugarcane farmers paid more for fertilizer, the price of sugarcane went up, and **INDIA** had to raise the price on its saltwater taffy. Sadly, the people of Morocco aren't really big fans of saltwater taffy, so exports fell. The following table shows Imagine Nation's imports and exports with Morocco in 2018.

Year Imports (phosphates) Exports (taffy)

2018 Rs 65,000,000 Rs 55,000,000

INDIA 2018 Imports and Exports with Morocco

We can use the figures to calculate **INDIA**'s balance of trade:

Rs **55,000,000 (exports)** − Rs **65,000,000 (imports)** = − Rs **10,000,000**

The negative number indicates a trade deficit of Rs 10,000,000 showing that **INDIA** imported more from Morocco than it exported. We would say that **INDIA** became a "net importer"—importing more than it was exporting.

Obviously this is a simple example. A country's global business doesn't amount to just trading phosphate and taffy or cell phones and blue jeans. It includes all kinds of financial transactions: goods and services imported and exported, foreign investments, loans, transfers, and so on. Tracking all these payments provides another way to measure the size of a country's international trade: the balance of payments.

Balance of Payments

Balance of Payments is the difference between the total flow of money coming into a country and the total flow of money going out of a country during a period of time. Although related to the balance of trade, balance of payments is the record of **all** economic transactions between individuals, firms, and the government and the rest of the world in a particular period. Thus the balance of payments includes **all** external transactions of a country, including payments for the country's exports and imports of goods, services, foreign investments, loans and foreign aid, financial capital, and financial transfers.

For instance, if a US company buys land or a factory in another country, that investment is included in the US balance of payments as an *outflow*. Likewise, if a US company is sold to a foreign company, it's included in the balance of payments. Just recently, Didi Chuxing, the Chinese ride-hailing service, bought Uber's subsidiary in China in a deal valued at $35 billion. This sale will create a *cash inflow* to the United States, but over the long term it will decrease the revenue flowing in from China through Uber.

If a nation receives foreign aid or borrows money from another country, this amount is also reflected in its balance of payments as a *cash inflow***.** For example, the bailout Greece received from the Eurozone and IMF in 2010 to help stabilize its failing economy affected the balance of payments for

all of the nations involved. Greece recorded the €110 billion loan as an *inflow* in its balance of payments, while the Eurozone members recorded it as an *outflow* in their balance of payments.

A country's balance of payments is calculated as follows:

Total money coming into a country (inflow)− total money going out (outflow) = balance of payments

NOTE: It's important to use this formula just as it's presented, without altering the sequence of values.

IMAGINE NATION'S BALANCE OF PAYMENTS

Let's examine Imagine Nation's balance of payments in 2018. The following table shows all of its external transactions during the year.

Year	Imports	Exports (phosphates) (taffy)	Foreign aid (loan) from Hooperland	Purchase of Wandaland assets
2018	Rs 65,000,000	Rs 55,000,000	Rs 25,000,000	Rs30,000,000

Imagine Nation 2018 External Transactions

When we calculated Imagine Nation's balance of trade in 2018, we *did not* take into account the following two transactions:

1. Imagine Nation received foreign aid in the form of a loan from the government of Hooperland in the amount of Rs 25,000,000. This *inflow* of funds will affect Imagine Nation's balance of payments.
2. Imagine Nation invested in a factory in Wandaland and purchased the factory from the government for Rs 30,000,000. This *outflow* of funds will affect Imagine Nation's balance of payments.

When we calculate Imagine Nation's 2018 balance of payments, by taking the inflows (revenue from exports and foreign aid) and subtracting the outflows (payments for imports and purchase of foreign assets), the balance is negative, as shown below:

(Rs 55,000,000 + Rs 25,000,000) (total inflow) – (Rs 65,000,000 + Rs 30,000,000) (total outflow) = − Rs 15,000,000

What effect will this have on Imagine Nation? Well, when Imagine Nation's leader is briefed by her council of international economic advisers, they will inform her that the country currently has an "unfavorable balance of payments." That is, less money is coming into the country than is going out. If, on the other hand, the balance of payments were a positive number (inflow exceeded outflow), Imagine Nation could say that it has a "favorable balance of payments."

At this point it's tempting to make judgments about these different types of trade measurements and conclude that trade surpluses and favourable balance of payments are always indicators of a strong economy, but unfortunately it's not so cut and dried.

Components

The current account shows the net amount of a country's income if it is in surplus, or spending if it is in deficit. It is the sum of the balance of trade (net earnings on exports minus payments for imports), factor income (earnings on foreign investments minus payments made to foreign investors) and unilateral transfers. These items include transfers of goods and services or financial assets between the home country and the rest of the world. **Private transfer payments** refer to gifts made by individuals and nongovernmental institutions to foreigners. **Governmental transfers** refer to gifts or grants made by one government to foreign residents or foreign governments. When investment income and unilateral transfers are combined with the balance on goods and services, we arrive at the **current** account balance. It is called the *current* account as it covers transactions in the "here and now" – those

that don't give rise to future claims.
The capital account records the net change in ownership of foreign assets. It includes the reserve account (the foreign exchange market operations of a nation's central bank), along with loans and investments between the country and the rest of world (but not the future interest payments and dividends that the loans and investments yield; those are earnings and will be recorded in the current account). If a country purchases more foreign assets for cash than the assets it sells for cash to other countries, the capital account is said to be negative or in deficit.
The term "capital account" is also used in the narrower sense that excludes central bank foreign exchange market operations: Sometimes the reserve account is classified as "below the line" and so not reported as part of the capital account.
Expressed with the broader meaning for the *capital account*, the BoP identity states that any current account surplus will be balanced by a capital account deficit of equal size – or alternatively a current account deficit will be balanced by a corresponding capital account surplus:

The *balancing item*, which may be positive or negative, is simply an amount that accounts for any statistical errors and assures that the current and capital accounts sum to zero. By the principles of double entry accounting, an entry in the current account gives rise to an entry in the capital account, and in aggregate the two accounts automatically balance. A balance isn't always reflected in reported figures for the current and capital accounts, which might, for example, report a surplus for both accounts, but when this happens it always means something has been missed – most commonly, the operations of the country's central bank – and what has been missed is recorded in the statistical discrepancy term (the balancing item).
An actual balance sheet will typically have numerous sub headings under the principal divisions. For example, entries under **Current account** might include:

- *Trade* – buying and selling of goods and services

  - *Exports* – a credit entry
  - *Imports* – a debit entry
    - *Trade balance* – the sum of Exports and Imports
- *Factor income* – repayments and dividends from loans and investments
  - *Factor earnings* – a credit entry
  - *Factor payments* – a debit entry
    - *Factor income balance* – the sum of earnings and payments.

Especially in older balance sheets, a common division was between visible and invisible entries. Visible trade recorded imports and exports of physical goods (entries for trade in physical goods excluding services is now often called the *merchandise balance*). Invisible trade would record international buying and selling of services, and sometimes would be grouped with transfer and factor income as invisible earnings.
The term "balance of payments surplus" (or deficit – a deficit is simply a negative surplus) refers to the sum of the surpluses in the current account and the narrowly defined capital account (excluding changes in central bank reserves). Denoting the balance of payments surplus as BoP surplus, the relevant identity is

The IMF definition of the Balance of Payments

The International Monetary Fund (IMF) use a particular set of definitions for the BoP accounts, which is also used by the Organisation for Economic Co-operation and Development (OECD), and the United Nations System of National Accounts (SNA).
The main difference in the IMF's terminology is that it uses the term "financial account" to capture transactions that would under alternative definitions be recorded in the *capital account*. The IMF uses the term *capital account* to designate a subset of transactions that, according to other usage,

previously formed a small part of the overall current account. The IMF separates these transactions out to form an additional top level division of the BoP accounts. Expressed with the IMF definition, the BoP identity can be written:

The IMF uses the term *current account* with the same meaning as that used by other organizations, although it has its own names for its three leading sub-divisions, which are:

· The *goods and services account* (the overall trade balance)

· The *primary income account* (factor income such as from loans and investments) ·

The *secondary income account* (transfer payments)

balance of payments are also known as "balance of international trade"

Topic 4: Barriers to Trade

Tariffs

Tariffs are taxes levied on goods entering or exiting a country, and have consequences for both domestic consumers and producers.

Key Points

· Tariffs can be levied on goods being imported in a country (import tariff), or exported from a country (export tariff). They may be levied in order to protect domestic producers (protective tariff), or to raise revenue for the government (revenue tariff).

· Specific tariffs levy a fixed duty on a good. Ad valorem tariffs are based on a percentage of the good's value. Compound tariffs are a combination of specific and ad valorem tariffs.

· Tariffs often increase domestic producer surplus and the quantity of a good supplied domestically, but hurt domestic consumer surplus.

Key Terms

· **tariff**: A system of government-imposed duties levied on imported or exported goods; a list of such duties, or the duties themselves.

One barrier to international trade is a tariff. A tariff is a tax that is imposed by a government on imported or exported goods. They are also known as customs duties.

Types of Tariffs

Tariffs can be classified based on what is being taxed:

· Import tariffs: Taxes on goods that are imported into a country. They are more common than export tariffs.

· Export tariffs: Taxes on goods that are leaving a country. This may be done to raise tariff revenue or to restrict world supply of a good.

Tariffs may also be classified by their purpose:

· Protective tariffs: Tariffs levied in order to reduce foreign imports of a product and to protect domestic industries.

· Revenue tariffs: Tariffs levied in order to raise revenue for the government.

Tariffs can also be classified on how the duty amount is valued:

· Specific tariffs: Tariffs that levy a flat rate on each item that is imported. For example, a specific tariff would be a fixed $1,000 duty on every car that is imported into a country, regardless of how much the car costs.

· Ad valorem tariffs: Tariffs based on a percentage of the value of each item. For example, an ad valorem tariff would be a 20% tax on the value of every car imported into a country. · Compound tariffs: Tariffs that are a combination of specific tariffs and ad valorem tariffs. For example, a compound tariff might consist of a fixed $100 duty plus 10% of the value of every imported car.

Quotas

Quotas are limitations on imported goods, come in an absolute or tariff-rate varieties, and affect supply in the domestic economy.

Key Points

- There are two types of quotas: absolute and tariff -rate. Absolute quotas are quotas that limit the amount of a specific good that may enter a country. Tariff-rate quotas allow a quantity of a good to be imported under a lower duty rate; any amount above this is subject to a higher duty.
- Justifications for the use of quotas include protection for domestic employment and infant industries, protection against unfair foreign trade practices, and protection of national security.
- Quotas often hurt domestic consumers and benefit domestic producers. Quotas may also provide incentives for administrative corruption and smuggling.

Key Terms

- **absolute quota**: A limitation of the quantity of certain goods that may enter commerce during a specific period.
- **quota**: A restriction on the import of something to a specific quantity.
- **tariff-rate quota**: Allows a specified quantity of imported goods to be entered at a reduced rate of duty during the quota period, with quantities entered in excess of the quota limit subject to a higher duty rate.

Barriers to trade exist in many forms. A tariff is a barrier to trade that taxes imports or exports, thus increasing the cost of a good. Another barrier to trade is an import quota, which places a limit on the amount of a good that may enter a country.

Sugar: Tariff-Rate Barriers: In the US, the import of sugar is regulated by tariff-rate barriers. In 2012, the US allowed over 150,000 tons of raw cane sugar to be imported from Brazil at a reduced tariff rate.

Reasons to Implement Quotas

Quotas are often implemented for similar reasons as other trade barriers. Often, quotas are instituted to:

- Protect domestic industries and employment: By reducing the number of foreign imports, domestic suppliers must produce more to meet domestic demand. By producing more, the suppliers must hire more domestic workers, increasing employment. Additionally, setting quotas to reduce foreign competition allows domestic "infant industries," or young, small industries, to grow and mature to a competitive level.
- Protect against unfair trade practices: Setting a quota helps protect a domestic economy from unfair trade practices such as dumping, the pricing of imports below production cost. By restricting imports, quotas minimize the impact of such activities.
- Protect national security: Import quotas discourage imports and encourage domestic production of goods that may be necessary to the security of the country. By protecting and encouraging the growth of these defense-related industries, a country will not have to be dependent on foreign imports in the event of a war.

Consequences of Quotas

Like other trade barriers, quotas restrict international trade, and thus, have consequences for the domestic market. In particular, quotas restrict competition for domestic commodities, which raises prices and reduces selection. This hurts the domestic consumer, who experiences a loss in consumer surplus. On the other hand, this very action benefits the domestic producer, who sees an increase in producer surplus. Often, the increase in producer surplus is not enough to offset the loss in consumer surplus, so the economy experiences a loss in total surplus.

Quotas may also foster negative economic activities. Import quotas may promote administrative

corruption, especially in countries where import quotas are given to selected importers. There are incentives to give the quotas to importers who can provide the most favors or the largest bribes to officials. Quotas may also encourage smuggling. As quotas raise the price of domestic goods, it becomes profitable to try and circumvent the quota by bringing in goods illegally, or in excess of the quota.

Other Barriers

Barriers to trade include specific limitations to trade, customs procedures, governmental participation, and technical barriers to trade.

Key Points

· Specific limitations to trade barriers include local content requirements and embargoes. This category of barriers comes from trade regulations.

· Customs and administrative procedure barriers include bureaucratic red tape and anti dumping practices. This category of barriers comes from government procedures. · Governmental participation barriers include government procurement programs, export subsidies, and countervailing duties. This category of barriers involves the direct participation of government in trade.

· Technical barriers to trade include sanitary regulations, measurement and labeling standards, and ingredient standards. This category of barriers involves health, safety, and measurement standards.

Key Terms

· **Dumping**: Selling goods at less than their normal price, especially in the export market. · **Countervailing duty**: A tax levied on an imported article to offset the unfair price advantage it holds due to a subsidy paid to producers or exporters by the government of the exporting country if such imports cause or threaten injury to a domestic industry.

· **Embargo**: A ban on trade with another country.

In addition to tariffs and quotas, other barriers to trade exist. They can be divided into four separate categories: specific limitations to trade, customs and administrative procedures, government participation, and technical barriers to trade.

Specific Limitations to Trade

This category of trade barriers stems from regulations on international trade. Some examples include: · Local content requirements, or domestic content requirements, are rules that mandate how much of a product must be produced domestically in order to qualify for lowered tariffs or other preferential treatment.

· Embargoes are prohibitions on trade ban imports or exports, and may apply to certain categories of products, or strictly to goods supplied by certain countries.

Customs and Administrative Procedures

This category of trade barriers refers to trade impediments that stem from governmental procedures and controls. Some examples include:

· Bureaucratic delays: Delays at ports or other country entrances caused by administrative or bureaucratic red-tape increase uncertainty and the cost of maintaining inventory. · Anti-dumping duties: In international trade, dumping refers to a form of predatory pricing in which exported products are priced below the cost of production or below the price charged in the home market. Anti-dumping duties are usually extra taxes levied on the product to neutralize the predatory pricing and bring the price closer to the "normal value. " **Government Participation**

This category of trade barriers represents direct governmental involvement in international trade. Some examples include:

· Government procurement programs: Public authorities, such as government agencies, are much like private interests in that they must also buy goods and services. Unlike private interests, governments are more likely to buy domestically produced goods and services, rather than the lowest-cost commodities. Because government procurement often represent a significant

portion of a country's GDP, foreign suppliers are at a disadvantage to domestic ones when it comes to these programs.

· Export subsidies: Export subsidies are production subsidies granted to exported products, usually by a government. With export subsidies, domestic producers can sell their commodities in foreign markets below cost, which makes them more competitive.

· Countervailing duties: Countervailing duties, or anti-subsidy duties, are extra duties levied on imports in order to neutralize an export subsidy. If a country discovers that a foreign country subsidizes its exports, and domestic producers are injured as a result, a countervailing duty can be imposed in order to reduce the export subsidy advantage. In that respect, countervailing duties are similar to anti-dumping duties in that they both bring a imported product's value closer to the "normal value. "

Technical Barriers to Trade

Technical barriers to trade are non-tariff barriers to trade that refer to standards implemented by countries. Because these standards must be met before goods are allowed to enter or leave a country, they represent international trade barriers. Some examples include:

· Sanitary and phytosanitary measures: These are health standards for plants, animals, and other products, and are designed to protect humans, animals, and plants from pests or diseases. · Rules for product weights, sizes, or packaging.

· Standards for labeling and testing products.

· Ingredient or identity standards.

Topic 5: What is a Comparative Advantage?

In economics, a comparative advantage occurs when a country can produce a good or service at a lower opportunity cost than another country. The theory of comparative advantage is attributed to political economist David Ricardo, who wrote the book *Principles of Political Economy and Taxation (1817)*.

Ricardo used the theory of comparative advantage to argue against Great Britain's protectionist Corn Laws, which restricted the import of wheat from 1815 to 1846. In arguing for free trade, the political economist stated that countries were better off specializing in what they enjoy a comparative advantage in and importing the good in which they lack a comparative advantage.

What is an Opportunity Cost?

To understand the theory behind a comparative advantage, it is crucial to understand the idea of an opportunity cost. An opportunity cost is the foregone benefits from choosing one alternative over others.

For example, a laborer can use one hour of work to produce either 1 cloth or 3 wines. We can think of opportunity cost as follows: What is the forgone benefit from choosing to produce one cloth or one wine?

Therefore:

· By producing one cloth, the opportunity cost is 3 wines.

· By producing one wine, the opportunity cost is ⅓ cloth.

Comparative Advantage and Free Trade

Comparative advantage is a key principle in international trade and forms the basis of why free trade is beneficial to countries. The theory of comparative advantage shows that even if a country enjoys an absolute advantage in the production of goods, trade can still be beneficial to both trading partners.

Practical Example: Comparative Advantage

Consider two countries (France and the United States) that use labor as an input to produce two

goods: wine and cloth.

· In France, one hour of a worker's labor can produce either 5 cloths or 10 wines. · In the US, one hour of a worker's labor can produce either 20 cloths or 20 wines.

The information provided is illustrated as follows:

	Cloth	Wine
Europe	5	10
The United States	20	20

It is important to note that the United States enjoys an absolute advantage in the production of cloth and wine. With one labor hour, a worker can produce either 20 cloths or 20 wines in the United States compared to France's 5 cloths or 10 wines.

· The United States enjoys an absolute advantage in the production of cloth and wine.

To determine the comparative advantages of France and the United States, we must first determine the opportunity cost for each output:

France:

Opportunity cost of 1 cloth = 2 wine

Opportunity cost of 1 wine = ½ cloth

The United States:

Opportunity cost of 1 cloth = 1 wine

Opportunity cost of 1 wine = 1 cloth

When comparing the opportunity cost of 1 cloth for both France and the United States, we can see that the opportunity cost of cloth is lower in the United States. Therefore, the United States enjoys a comparative advantage in the production of cloth.

Additionally, when comparing the opportunity cost of 1 wine for France and the United States, we can see that the opportunity cost of wine is lower in France. Therefore, France enjoys a comparative advantage in the production of wine.

Several benefits that can be identified with reference to international trade are as follows: 1) Greater Variety of Goods Available for Consumption:

International trade brings in different varieties of a particular product from different destinations. This gives consumers a wider array of choices which will not only improve their quality of life but as a whole it will help the country grow.

2) Efficient Allocation and Better Utilization of Resources:

Efficient allocation and better utilization of resources since countries tend to produce goods in which they have a comparative advantage. When countries produce through comparative advantage, wasteful duplication of resources is prevented. It helps save the environment from harmful gases being leaked into the atmosphere and also provides countries with a better marketing power.

3) Promotes Efficiency in Production:

International trade promotes efficiency in production as countries will try to adopt better methods of production to keep costs down in order to remain competitive. Countries that can produce a product at me lowest possible cost will be able to gain larger share in the market.

Therefore an incentive to produce efficiently arises. This will help to increase the standards of the product and consumers will have a good quality product to consume.

4) More Employment:

More employment could be generated as the market for the countries' goods widens through trade. International trade helps generate more employment through the establishment of newer industries to cater to the demands of various countries. This will help countries to bring-down their unemployment rates.

5) Consumption at Cheaper Cost:

International trade enables a country to consume things which either cannot be produced within its borders or production may cost very high. Therefore it becomes cost cheaper to import from other countries through foreign trade.

6) Reduces Trade Fluctuations:

By making the size of the market large with large supplies and extensive demand international trade reduces trade fluctuations. The prices of goods tend to remain more stable.

7) Utilization of Surplus Produce:

International trade enables different countries to sell their surplus products to other countries and earn foreign exchange.

8) Fosters Peace and Goodwill:

International trade fosters peace, goodwill, and mutual understanding among nations. Economic interdependence of countries often leads to close cultural relationship and thus avoid war between them.

9) Make use of surplus raw materials

Middle Eastern countries such as Qatar are very rich in reserves of oil, but without trade, there would be not much benefit in having so much oil.

Japan, on the other hand, has very few raw materials; without trade, it would have low GDP. **10) Tariffs may encourage inefficiency**

If an economy protects its domestic industry by increasing tariffs industries may not have any incentives to cut costs.

11) Economies of scale

If countries can specialise in certain goods they can benefit from economies of scale and lower average costs; this is especially true in industries with high fixed costs or that require high levels of investment. The benefits of economies of scale will ultimately lead to lower prices for consumers and greater efficiency for exporting firms.

12) Increased competition

With more trade, domestic firms will face more competition from abroad. Therefore, there will be more incentives to cut costs and increase efficiency. It may prevent domestic monopolies from charging too high prices.

The disadvantages of trade

Despite the benefits, trade can also bring some disadvantages, including:

Trade can lead to over-specialisation, with workers at risk of losing their jobs should world demand fall or when goods for domestic consumption can be produced more cheaply abroad. Jobs lost through such changes cause severe structural unemployment. The recent credit crunch has exposed the inherent dangers in over-specialisation for the UK, with its reliance on its financial services sector.

Certain industries do not get a chance to grow because they face competition from more established foreign firms, such as new infant industries which may find it difficult to establish themselves.

Local producers, who may supply a unique product tailored to meet the needs of the domestic market, may suffer because cheaper imports may destroy their market. Over time, the diversity of output in an economy may diminish as local producers leave the market.

Topoc 6: What Is the Forex Market?

Forex is a portmanteau of foreign currency and exchange. Foreign exchange is the process of changing one currency into another currency for a variety of reasons, usually for commerce, trading, or tourism. According to a recent triennial report from the Bank for International Settlements (a global bank for national central banks), the average was more than $5.1 trillion in daily forex trading volume.

What Is the Forex Market?

The foreign exchange market is where currencies are traded. Currencies are important to most people around the world, whether they realize it or not, because currencies need to be exchanged in order to conduct foreign trade and business. If you are living in the U.S. and want to buy cheese from France, either you or the company that you buy the cheese from has to pay the French for the cheese in euros (EUR). This means that the U.S. importer would have to exchange the equivalent value of U.S. dollars (USD) into euros. The same goes for traveling. A French tourist in Egypt can't pay in euros to see the pyramids because it's not the locally accepted currency. As such, the tourist has to exchange the euros for the local currency, in this case the Egyptian pound, at the current exchange rate.

The market for foreign exchange

Currencies are bought and sold, just like other commodities, in markets called foreign exchange markets. The world's three most common transactions are exchanges between the dollar and the euro (30%) the dollar and the yen (20%) and the dollar and the pound Sterling (12%). How currency values are established depends upon whether they are determined solely in free markets, called *freely floating*, or determined by agreements between governments, called *fixed* or pegged. Like most currencies, the pound has at times been both fixed, and floating. Between 1944 and 1971, most of the world's currencies were fixed to the US Dollar, which in turn was fixed to gold. After a period of floating, the pound joined the *European Exchange Rate Mechanism* (ERM) in 1990, but quickly left in 1992, and has floated freely ever since. This has meant that its value is largely determined by the interaction of demand and supply.

The demand for currency

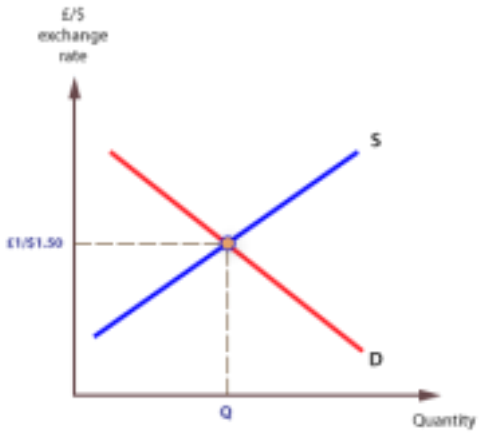
The demand for currencies is derived from the demand for a country's exports, and from speculators looking to make a profit on changes in currency values.

The supply of currency

The supply of a currency is determined by the domestic demand for imports from abroad. For example, when the UK imports cars from Japan it must pay in yen (¥), and to buy yen it must sell (supply) pounds. The more it imports the greater the supply of pounds onto the foreign exchange market. A large proportion of short-term trade in currencies is by dealers who work for financial institutions. The London foreign exchange market is the World's single largest international exchange market.

Exchange rates

The equilibrium exchange rate is the rate which equates demand and supply for a particular currency against another currency.



Example

If we assume the UK and France both produce goods that the other wants, they will wish to trade with each other. However, French producers require payment in Euros and the British producers require

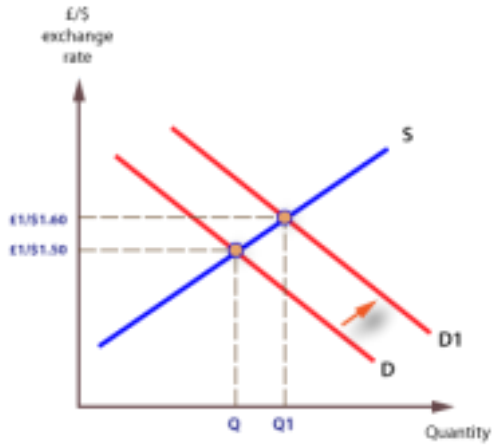
payments in pounds Sterling. Both need payment in their own *local* currency so that they can pay their own production costs in their local currency. The foreign exchange market enables both French and British producers to exchange currencies so that trades can take place.

The market will create an equilibrium exchange rate for each currency, which will exist where demand and supply of currencies equates.

Changes in exchange rates

Changes in the value of a currency like Sterling reflect changes in demand and supply. On a demand and supply graph, the price of Sterling is expressed in terms of the other currency, such as the $US. An increase in the exchange rate

For example, an increase in exports would shift the demand curve for Sterling to the right and push up the exchange rate. Originally, one pound bought $1.50, but now buys $1.60, hence its value has risen.



Exchange rates and interest rates

Changes in a country's interest rates also affect its currency, through its impact on the demand and supply of financial assets in the UK and abroad. For example, higher interest rates relative to other countries, makes the UK attractive the investors, and leads to an increase in the demand for the UK's financial assets, and an increase in the demand for Sterling.

Conversely, lower interest rates in one country relative to other countries leads to an increase in supply, as speculators sell a currency in order to buy currencies associated with rising interest rates. These speculative flows are called *hot money*, and have an important short-term effect on exchange rates.

Why the demand for a currency is downward sloping

When the exchange rate of a currency increases, other countries will want less of that currency. When a currency appreciates (in other words, the exchange rate increases), then the price of goods in the country whose currency has appreciated are now relatively more expensive than those in other countries. Since those goods are more expensive, less is imported from those countries, and therefore less of that currency is needed.

For example, suppose the price of a cell phone in the U.S. is \$400$400dollar sign, 400, and the current exchange rate in Japan is 90 ¥ per dollar. That means that it takes: 90 \times \$400 = 36{,}000 ¥90×$400=36,000¥90, times, dollar sign, 400, equals, 36, comma, 000, ¥ to buy the same cell phone in Japan. If two cell phones are imported into Japan, then a total of 800 US dollars will be needed to buy these phones.

However, if the dollar appreciates so that it now takes 100 ¥100¥100, ¥ to buy a dollar, the same cell phone now costs 100 \times \$400 = 40{,}000 ¥100×$400=40,000¥100, times, dollar sign, 400, equals, 40, comma, 000, ¥. Because cell phones are more expensive, only one is imported into Japan

from the United States, so the quantity of US dollars that Japan wants will fall from \$800 USD$800*USD*dollar sign, 800, U, S, D to \$400 USD$400*USD*dollar sign, 400, U, S, D.

Spot Market and the Forwards & Futures Markets

There are actually three ways that institutions, corporations and individuals trade forex: the spot market, the forwards market, and the futures market. Forex trading in the spot market has always been the largest market because it is the "underlying" real asset that the forwards and futures markets are based on. In the past, the futures market was the most popular venue for traders because it was available to individual investors for a longer period of time. However, with the advent of electronic trading and numerous forex brokers, the spot market has witnessed a huge surge in activity and now surpasses the futures market as the preferred trading market for individual investors and speculators. When people refer to the forex market, they usually are referring to the spot market. The forwards and futures markets tend to be more popular with companies that need to hedge their foreign exchange risks out to a specific date in the future.

More specifically, the spot market is where currencies are bought and sold according to the current price. That price, determined by supply and demand, is a reflection of many things, including current interest rates, economic performance, sentiment towards ongoing political situations (both locally and internationally), as well as the perception of the future performance of one currency against another. When a deal is finalized, this is known as a "spot deal." It is a bilateral transaction by which one party delivers an agreed-upon currency amount to the counter party and receives a specified amount of another currency at the agreed-upon exchange rate value. After a position is closed, the settlement is in cash. Although the spot market is commonly known as one that deals with transactions in the present (rather than the future), these trades actually take two days for settlement.

Unlike the spot market, the forwards and futures markets do not trade actual currencies. Instead they deal in contracts that represent claims to a certain currency type, a specific price per unit and a future date for settlement.

□ Topic 7: TRADE WITH MYANMAR

Manipur has the advantage of acting as India's Gateway to the East through Moreh town, which is the only feasible land route for trade between India and Myanmar and other South East Asian Countries. It shares 398 km long international border with Myanmar. A Land Custom Station (LCS) already exists at Moreh for the existing traffic volume of trade. Following the signing of Indo-Myanmar Border Trade on January 21st, 1994 and operationalised on April 12, 1995 through Moreh Border, trading activities have assumed importance in the State of Manipur. Indo-Myanmar border was

formally opened by the Commerce Ministry of the both the countries. Subsequently, 22 items have been allowed as exchangeable by the residents across the border. The main role of the Department of Commerce and Industries is to act as a link agent for promotion of border trade between India and Myanmar. It can be said that Indo-Myanmar Trade can help in increasing the economic growth of the economy of Manipur.

There are 40 (forty) tradable items under Barter Trade mechanism through Moreh (India-Myanmar Border). Major exportable items include cement, engineering goods, transport equipment, motor cycles, iron and steels, medicine, chemicals and allied products, cotton yarn, etc. The major items now imported from Myanmar through barter mechanism are betel nuts, turmeric, red kidney beans (Rajma), kuth roots, gram, resin, dry ginger, etc. The volume of trade at Moreh-Tamu Border Point in 2001-02 was ` 95.48 million and in 2009-10 ` 298.19 million - an average increase of 39% p.a.

Further, Ministry of Finance, Govt. of India has also cleared the operational of "Normal Trade" through Land Customs Station, Moreh.

India's "Look East" Policy and several new measures taken by both the Central and State Governments to promote and enhanced trade link with SE Asia, provide Manipur with a competitive advantage. In recognition of the potential of Moreh, the Government of India has notified an ICP at Moreh.

Integrated Check Post (ICP) at Moreh

The setting up of Integrated Check Post (ICP) at Moreh is one of the 13 Integrated Check Posts being developed by Central Government along India's international borders. These ICPs are being developed by the MHA through the Land Ports Authority of India (LPAI). The proposed ICP will facilitate speedy movement of export-import consignments and redress the inconveniences suffered by general public in the emerging scenario of India's Look East Policy. State Govt. has identified 45.50 acres of land near Gate No.1 within Customs notified area. RITES, a Central Public Sector undertaking have prepared a DPR for Moreh ICP costing ` 136 crores and is under the process of implementation.

The proposed centre shall have (i) Immigration Department, (ii) local Police including Women Constables for immediate security, (iii) Land Customs Department, (iv) Customs Preventive Department, (v) Forests, (vi) Narcotics & Drug Control Department, (vii) Postal Department, (viii) Bank Counter, (ix) Telecom, (x) Animal Quarantine, (xi) Plant Quarantine, (xii) Quality Certification Inspection Agencies/Export Promotion Councils, (xiii) Trade Facilitation Counter and Trade related Public Bodies, (xiv) Food Testing Lab, (xv) Truck Parking facility, (xvi) Staff Quarters, basic amenities such as Canteen, Truck Drivers' Rest House, etc.

The Stale Government has also approached the North Eastern Council for assistance in setting up one Export Promotion Zone project but so far there is no positive response. The total cost of EPZ is estimated at Rs.100.00 crores. H.E Jaswant Singh also recommended the enthusiasm of his Government to assist with the Myanmar Government in accomplishing other mutually useful infrastructural projects including the proposed Tamanthi Hydro-Electric Project near the India Myanmar border across Naga land, the proposed Kaladan River navigation, Road and Pipeline Project in the Rakhine State providing a link to southern Mizoram state in India and India's North East as a whole.

Dr. Khin Maung in his, A New Chapter in Indo-Myanmar Relations advocated that "In the fields of

trade and industry there are ample openings for Indian investors and entrepreneurs. Myanmar people have a traditional liking for Indian textile goods especially pulicat and calico materials for men's wear and women's wear respectively. There are Indian leather goods, light machineries for domestic use and heavy machineries especially for rail train locomotives and carriages and ships that had made their brand names known in Myanmar. What about Indian luxuries – cosmetics, costume jewellery, finery and what not that have both attraction and competitiveness in any market? There is also the entertainment world in which Indian film, music, song and dance have enjoyed their heyday in Myanmar. Reciprocally Myanmar agricultural products like pulses, mineral products like precious stones, ruby & sapphire and other semi-precious stones and many other products have their market in India. Such are the fields the new generations of Indian and Myanmar businessmen, industrialists and

investors should explore in consultation with old generations in both countries that have vast experiences."

In the light of the above, it is quite evident that there is large scope for increasing the volume of export for Manipur with the removal of various existing infrastructural constraints. The economy of Manipur can also maximize the net state domestic product by increasing the share of trade. This can be possible by specializing in the production of few goods which have comparative advantage and import those goods which have comparative disadvantage. A State intervention in this area for providing a congenial atmosphere is desirable for making Investment friendly and at the same time a strong political will is highly needed.

All these development will help in generating more employment opportunities to the Manipuri.

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