

INTERNATIONAL BUSSINESS

IMF (INTERNATIONAL MONETARY FUND)

- **IMF was established with IBRD (INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT) also known as world bank at the conference of 44 nations held at Bretton woods new hemisphere USA July 1944.**
- **IMF came into force on 27th December 1945**
- **Member countries is 188 last south Sudan has joined it.**
- **India is a founder member of IMF**
- **Headquarter is at Washington DC**
- **Managing director is Christine laggard**
- **IMF is controlled and managed by a Board of directors**
- **Each governor has got the right of 250 votes on the basis of the membership and one additional vote for each SDR100000 of quotas. SDR(special drawing rights)**
- **Voting rights depends on the quantum of quota of a particularly country**
- **Till 1971 amount of quotas & assistance provided were denominated in USdollar but since dec 1971 all quotas & transactions of IMF are expressed in SDR(special drawing rights) which is also known as paper gold**
- **Since 1st January 2011 the value of SDR is being determined by the basket of 4 currencies-**
 - 1) **Euro- 34%**
 - 2) **Japanese yen- 11%**
 - 3) **Pound sterling- 11%**
 - 4) **USDollar- 44%**
- **IMF financial year is from 1st May to 30th April**

- Various facilities like extended fund facility, standby facility, contingent credit lines, compensatory facility.
- Poor countries helped by poverty reduction and growth facility
- India's 8th place in IMF general quota
- India to be the 8th largest shareholders in IMF
- India is a founder member of the IMF
- The finance minister is the ex-officio governor in IMF board of governors
- India participates in FTP(Financial transactional plan) of the IMF 2002
- ESAF(enhanced structural adjustment facility) was established in 1987 to help low income and debt burden countries
- Main objectives of IMF-
 - 1) To promote international monetary co-operation
 - 2) To ensure balanced international trade
 - 3) To ensure exchange rate stability
 - 4) To eliminate & minimize exchange restrictions by promoting the system of multilateral payments
 - 5) To grant economic assistance to member countries for elimination the adverse imbalance in BOP(balance of payment)
 - 6) To minimize imbalances in quantum & duration of International trade
- IMF was established to provide short term assistance to correct the balance of payment disequilibrium
- IMF fund regarded as guardian of good conduct in area of balance of payment
- IMF controlled and managed by board of governors, executive board, managing director, IMF secretariat, Interim committee, development committee.

IBRD (INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT) OR WORLD BANK

- **IBRD and its associates institutions as a group are known as world bank**
- **In 1945 it was realized to concentrate on reconstructing the war affected economies**
- **IBRD was established on 5th December 1945 with IMF on the basis of the recommendations of the Bretton wood conference. That is the reason why IMF & IBRD are called Bretton wood twins.**
- **IBRD started functioning in June 1946**
- **World bank and IMF are complementary institutions**
- **Aims to reduce poverty in middle Income & creditworthy poorer countries by promoting sustainable development**
- **The World Bank group today consist of five closely associated institutions propitiating the role of development in the member nations in different areas. These five are**
 - 1) **IBRD (International bank for reconstructions and development)**
 - 2) **IDA (International development association)**
 - 3) **IFC (International finance corporations)**
 - 4) **MIGA (Multilateral investment guarantee agency)**
 - 5) **ICSID (International center for settlement of investment disputes)**
 - 6) **BIPA (Bilateral investment protection & promotion agreement)**
- **India is a member of four constituents of the world bank group i.e IBRD, IFC, IDA & MIGA**
- **Objective of World Bank are as follows-**

- 1) To provide long run capital to member countries for economic reconstruction & development (for rehabilitate war ruined economies %peace requirement)
 - 2) For assuring balance of payment equilibrium & balanced development of International trade
 - 3) To promote capital Investment
 - 4) To provide guarantee for loans granted to small & large units and other projects member countries
 - 5) To ensure the implementation of development project so as to bring about a smooth transference from a war time to peace economy
- Difference between IMF and IBRD are world bank provides long term loans for promoting balanced economic development, while IMF provides short term loans to member countries for eliminating BOP disequilibrium
 - The eminent world economist George Schultz had suggested in American economic association conference in Jan 1995 for the merger of IMF & world bank
 - Every country of the IMF automatically becomes the member of world bank
 - If a country leaving the membership of IMF can continue its membership with world bank if 75% members of their banks give their vote in its favor
 - Similarities between IMF %WORLD BANK are as follows-
 - 1) Owned & directed by the government of member nations
 - 2) Almost every country on earth is a member of both Institutions
 - 3) Both concern themselves with economic issues
 - 4) Both focus on broadening & strengthening the economies of their member nations

- 5) Hold joint annual meeting
- 6) Headquarter is at Washington DC
- 7) Share joint task forces sessions& research efforts
- 8) India is a founder member of IBRD
- 9) The voting rights of member countries is determined on the basis of member country's share in the total capital of the Bank
 - Each member has 250 votes plus one additional vote for each 100,000 shares of the capital stock held.
 - World bank also provides technical services to the member countries for this, bank has established the Economic Development Institute & staff college in Washington
 - In 1958 bank played an important role in establishing India Aid club for providing special economic assistance to India now its called India Development forum
 - India borrow from IBRD & IDA
 - PESTEL-Political, economic, socio-cultural, technological, environment & legal
 - CAGE- Cultural, administrative, geographic & Economic
 - Organization structure are Board of governors, executive directors, president act as a chairman of executive directors
 - World bank provides 30% of total loans to power sector, 30 %to transport sector and remaining 40% to agriculture, fisheries, mining, forestry, Industrial sector, technical assistance, population control, tourism, urbanization drainage etc.

ADB (ASIAN DEVELOPMENT BANK)

- It was established in Dec 1966 on the recommendations of ECAFE (European commission for Asia & far east)
- Aim of this bank is to accelerate economic & social development in Asia & Pacific region
- Started its functions on 1st Jan 1967
- Headquarter is at Manila Philippines
- Georgia is the 67th and newest member having joined ADB effective Feb 2, 2007
- Asian Development Bank constituted Asian Development Fund in 1974 which provides loans to Asian countries on concessional interest rate
- OCR-ordinary capital resources
- Finance Minister is India's governor on the Board of Governors of Asian Development Bank & finance secretary is the alternative governor
- ADB aid to India for Infrastructure, solar power development through PPP (Public private partnership)
- ADB is a multilateral development financial institutions

IFC (INTERNATIONAL FINANCIAL CORPORATIONS)

- It was established in July 1956
- Main objectives were
 - 1) To provide loan to private sector without any government guarantee
 - 2) To co-ordinate capital & management
 - 3) To induce capitalist countries to invest in developing countries

MIGA (MULTILATERAL INVESTMENT GUARANTEE AGENCY)

- It was established on 1st April 1988
- Its mission is to promote FDI (foreign direct investment) in to developing countries to help support economic growth , reduce poverty and improve people's lives

ICSID (INTERNATIONAL CENTER FOR SETTLEMENT OF INVESTMENT DISPUTES)

- It was established on 18th March 1965
- Came into force on 14th oct 1966
- The primary purpose is to provide facilities for conciliation & arbitration of international Investment disputes
- ICSID is considered to be the leading international arbitration institution devoted to investor state dispute settlement

SAARC (SOUTH EAST ASIAN ASSOCIATION OF REGIONAL CO-OPERATION)

- India , Maldives, Pakistan, Bangladesh, Srilanka, Bhutan, Nepal and Afghanistan constituted an organization known as SAARC
- On the recommendations of Dhakha conference on 7th /8th Dec 1985
- Headquarter has been established at Kathmandu, Nepal
- Idea of SAARC mooted in 1979 by zia ur rehman the then president of Bangladesh
- Objectives of SAARC are as follows-

- 1) To promote the welfare of the peoples of south Asia and to improve their quality of life
- 2) To accelerate economic growth social progress and cultural development in the region & to provide all individuals the opportunity to live in dignity& to realize their full potential
- 3) To promote & strengthen collective self- reliance, among the countries of south Asia
- 4) To contribute to mutual trust, understanding & appreciation of another's problems
- 5) To promote active collaboration and mutual assistance in the economic, social, cultural, technical & scientific fields
- 6) To strengthen co-operation with other developing countries
- 7) To strengthen co-operative among themselves in international forums on matters of common interests
- 8) To co-operate with International& regional organization with similar aims & purposes

- 16th SAARC summit Thimpu Bhutan 2010- Thimpu silver jubilee declaration towards a green & happy south Asia
 - Organizational structure are summit meetings of the heads of the state or governor, council of ministers/ foreign ministers, standing committee, technical committee, action committee
 - 17th SAARC summit held in Aducity maldives 2011 nov
 - 18th SAARC summit held in Kathmandu nov 2014 the theme of 18th SAARC summit was deeper integration for peace & prosperity, focused on enhancing connectivity between the member states for easier transit transport across the region
 - 19th SAARC summit will be held in Islamabad Pakistan in 2016
 - SAARC important years are –
- 1) 1990- year for girls

- 2) 1991- year for house
- 3) 1992- year for environment
- 4) 1993- year for handicap
- 5) 1995- year for poverty removal
- 6) 1996- year for literacy
- 7) 1991-2000- decades for girl
- 8) 2005- year of south Asia tourism
- 9) 2008- year of good governance

ASEAN (ASSOCIATION OF SOUTH EAST ASIAN NATIONS)

- Indonesia, Philippines, Malaysia, Singapore and Thailand constituted this association on 8th August 1967
- The object of ASEAN is to promote economic co-operation in south east Asia & also to ensure economic stability in the region
- Headquarter is at Jakarta
- 10 member countries
- ASEAN summit motto- one vision, one identity, one community
- 13th summit of ASEAN 2007 theme One ASEAN at the heart of the dynamic Asia
- 23rd July 1996 ASEAN gave advisory status to India
- Sign blueprint for the proposed ASEAN economic community that will take effect in 2015
- Open skies agreement 2015(whereby airlines of member states can fly to each other's capital cities , they can fly to any destinations within ASEAN)
- ASEAN recent summit- 25th summit at Nay Pyi Taw Myanmar nov 2014, 24th summit at Nay Pyi Taw Myanmar may 2014, 23rd summit at Brunei Oct 2013, 22nd summit at Brunei April 2013,

21st summit phnom penh Cambodia nov 2012, 20th summit at phnom penh Cambodia april 2012

- 1st summit at Bali , Indonesia feb 1976

NAFTA(NORTH AMERICA FREETRADE AREA)

- On 12th August 1992 a trilateral agreement between USA, Canada, Mexico took place which declared North American region as Free trade Area
- It came in to force on 1st Jan 1994
- It was constituted to meet the challenges of EEC(European economic community) and Japanese economic policies
- Rule of origin was developed, which implied that the economic resources of the countries in the political region should be utilized for economic development of people belonging to that country only
- NAFTA is a free trade area among the United States of America, Canada & Mexico.
- This is the largest and most important trading bloc of the world.
- In 1989 NAFTA agreement between Canada & USA
- NAAEC- North America agreements on environment co-operation
- NAALC- North America agreements on labor co-operation

SAFTA(SOUTH ASIAN FREETRADE AGREEMENT)

- 12TH summit of SAARC Islamabad 2004 gave rise to SAFTA
- It came into force 1st Jan 2006 replacing SAPTA(South Asian preferential trade agreement) which was operative among

SAARC countries in 7th summit Dhakha 1993 , operative since Dec 1995

- **SAFTA Presupposes abolition of all kinds of trade & tariffs restrictions.**

EFTA(EUROPEAN FREETRADE AGREEMENT)

- **It was established at Stockholm on 3rd may 1960**
- **It was established with a view to curtails custom duties & other tariffs among member countries.**
- **Headquarter is at Geneva**

IDA (INTERNATIONAL DEVELOPMENT ASSOCIATION)

- **IDA is an associate institution of world bank known as soft loan window of world bank**
- **It was established on 24th Sep 1960**
- **IDA provides loan to the member countries and no interest is charged on these long term loans**
- **These soft loans are provided to the poor countries of the world**

IFAD (INTERNATIONAL FUNDS FOR AGRICULTURE DEVELOPMENT)

- **Established in 1977**
- **India is a member country**

URUGUAY ROUND & DUNKEL PROPOSAL

- The 8th round of GATT Popularly known as Uruguay round
- Established in 1986
- Mr Arthur Dunkel , director general of GATT compiled a very detailed document popularly known as Dunkel proposal(15th dec 1993, signed 15th april 1994)
- Uruguay round contained the mandate to have negotiations in 15 areas-

Part 1) 14 areas

- 1) Tariffs
- 2) Non tariffs
- 3) Tropical products
- 4) National resource based products
- 5) Textiles & clothing
- 6) Agriculture
- 7) GATT articles
- 8) Safeguards
- 9) Multilateral trade agreement & arrangements
- 10) Subsidies
- 11) Dispute settlements
- 12) TRIPS & TRIMS
- 13) GATT function

Part 2

- 1) Trade in services
- 2) Market access
- 3) Agriculture
- 4) Textiles
- 5) TRIMS (TRADE RELATED INVESTMENT MEASURES)

6) TRIPS (TRADE RELATED INTELLECTUAL PROPERTY RIGHTS)

7) Institutional matters

BENELX

- **Belgium, Netherland & Luxemburg**
- **1958**
- **Headquarter is at brussels, Belgium.**
- **To promote mutual commercial co-operation among three member countries.**

GATT (GENERAL AGREEMENT ON TRADE & TARIFFS)

- **8th round of GATT known as Uruguay round which gave birth to World Trade Organization.**
- **On 30th Oct 1947, 23 countries at Geneva signed an agreement related to tariffs imposed on trade. This agreement is known as General Agreement on trade & tariffs**
- **Came in to force on 1st Jan 1948**
- **Headquarter is at Geneva**
- **On 12th Dec 1995, GATT was abolished and replaced by world trade organization which came into existence on 1st jan 1995**
- **Objectives- To provide equal opportunities to all countries in international market for trading purpose without any favour.**
- **GATT also introduced MFN (most favoured nations clause) according to which every members country was considered as MFN country.**
- **5th round of GATT- Dillion Round**
- **6th round of GATT- kenedy Round**

- 7th round of GATT- tokoyo round
- 8th round of GATT- Urugauy round

UNCTAD- UNITED NATIONS CONFERENCE ON TRADE & DEVELOPMENT

- Established on 1964
- Headquarter is at Geneva
- Allec Irwin present chairman
- UNCTAD has its session after every 4 years
- To look after all trade and development

EUROPEAN UNION

ECSC- EUROPEAN COAL AND STEEL COMMUNITY

- It was established on 10th Aug 1952
- On the basis of Paris Agreement made on 18th April 1951
- Aim if this community was to improve employment and better living conditions in member countries by ensuring co-operative attitude for coal & steel trading

EUROPEAN UNION

- Treaty of Rome gave birth to European Union in 1957
- European economic community & European common market both are same
- Inner six countries (France, Federal Republic of Germany, Italy, Belgium, Netherlands and Luxemburg formed into European Economic community by the Treaty of Rome 1957

- **Came into force on 1st Jan 1958**
 - **Its headquarter is at Brussels Belgium**
 - **The aim of European Economic Community was to ensure complete free trade among member countries.**
 - **After joining Croatia on 1st July 2013, the membership of European Union became 28.**
 - **It is the largest commercial community of the world**
 - **CAP- Common agriculture policy**
 - **CFP- Common fisheries policy**
 - **RDP- Regional development policy to promote regional development of member countries by reducing regional disparities by developing rapidly the backward region.**
 - **European Investment Bank- 1958**
 - **On 1st Jan 1999 one of the largest steps towards European Unification took place with the introduction of the Euro as the official currency**
 - **Euro Bank notes & coins 1st Jan 2002**
 - **Euro 3- It is related to pollution environment**
 - **ECB- European central bank 1st Jan 1998**
 - **The treaty of Maastricht in 1993 stands out as an important moment, its when the real economic union was created**
 - **Croatia recent member, but Iceland , Macedonia, turkey for next membership.**
 - **EU countries signed the Treaty of Lisbon , it is designed to make the EU more democratic, efficient & transparent & to tackle global challenges, such as climate change, security & sustainable development.**
 - **EEA- European economic area on 1st Jan 1994**
 - **European governance are as follows-**
- 1) **European council**

- 2) **European commission**
 - 3) **European parliament**
 - 4) **Council of European union**
 - 5) **Court of justice**
- **Biggest advantage of EU membership is the monetary union**
 - **Euro has become the second largest reserve currency behind the US dollar**
 - **Europa- official website of EU**
 - **The Europe 2020 strategy put forth by the European commission sets out a vision of the EU'S social market economy for the 21st century. It shows how the EU can come out stronger from this crisis & how it can be turned into a smart, sustainable & inclusive economy delivering high levels of employment, productivity & social cohesion. It calls for stronger economic governance in order to deliver rapid & lasting results.**

APEC-ASIA PACIFIC ECONOMIC CO-OPERATION

- **Founded in Nov 1989**
- **Institutionalized in 1992 June**
- **It's a commercial group like NAFTA EU**
- **It was constituted on the initiative of Australian Prime minister Mr Bob Hawk who called APEC as voice for the Asia pacific in world affairs**

ACU-ASIAN CLEARING UNION

- **It was established in 1974 with a view to provide the clearing facilities in current international transactions among Asian countries.**

- Headquarter is in Tehran (Iran)

ASEM- ASIA EUROPE MEETING 1996

MERCOSUR-It is a trading bloc of Latin America, established on 1st Jan 1995.

Pan American Nations- 34 countries of north- south and middle America , which was known as Pan American Region also declared to make a free trade area in the western hemisphere by 2005 AD . US president has called it historical event.

IORARC- INDIAN OCEAN RIM ASSOCIATION FOR REGIONAL CO-OPERATION 1997

FAO- FOOD AGRICULTURE ORGANISATION

- It was established on 16th oct 1945
- Headquarter is at Rome(Italy)
- It organize world food summit

OPEC-ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES

- Founded in Baghdad
- Sept 1960
- To control the production & price of petroleum so as to safeguard the interest of oil exporting countries.
- Headquarter is at Vienna (Austria)

India is not a member of G-7/G-8

India is a member of G-5/G-20/G-15/G-24

OECD-ORGANIZATION FOR ECONOMIC CO-OPERATION & DEVELOPMENT

- Earlier it was organization of European economic co-operation & development.
- Headquarter is in Paris (France)
- Welfare of economies

BRICS- BRAZIL RUSSIA INDIA CHINA AND SOUTH AFRICA

- With a view to strengthen banking co-operation
- 16th May 2008 established
- 6th BRICS Summit was held at Fortaleza Brazil 2014, it marked its first full BRICS summit. Inauguration of New Development Bank and KV KAMNATH going to be a chairman of it will be opened at Shanghai.
- 7th BRICS summit will be going to host in July 2015 in Russia

INTERNATIONAL LIQUIDITY

- It is also known as international reserve
- It includes-
 - 1) Bullion
 - 2) International borrowings
 - 3) Commercial credit operations
 - 4) Hard currencies
 - 5) Foreign securities
 - 6) SDRs

- 7) Gold
- 8) Foreign exchange surplus
- 9) Private holdings
- 10) Borrowed funds

THEORIES OF TRADE

- 1) **Mercantilism-** one of the oldest trade theories. This theory stated that a country's wealth was determined by the amount of its gold & silver holdings
 - Mercantilist believed that a country should increase its holdings of gold & silver by promoting exports & discouraging imports.
- 2) **Absolute Advantage Theory-**
 - 1776 by Adam Smith
 - Wealth of Nations
 - Absolute advantage is there where a country produces goods with less labour cost.
 - It focused on the ability of a country to produce a good more efficiently than another nation
 - Smith reasoned that trade between countries shouldn't be regulated or restricted by government policy or intervention
 - He stated that trade should flow naturally according to market forces
 - If a country could produce a good cheap or faster/ or both than country B, then country A had the advantage and could focus on specializing on producing that good.
- 3) **Comparative Advantage theory-**
 - 1817 by David Ricardo
 - A person or country will specialize in doing what they do relatively better

- He talked about opportunity cost i.e the next best forgone cost.
- A country has comparative advantage in producing a good if the opportunity cost of producing that goods is lower at home than in the other country
- Ricardo has uses the main differences with Adam smith is in technological difference.

4) Hechscher ohlin theorem/ two factor/ factor proportion theory/ factor endowment theory

- Hechscher ohlin samuelson theory states that if country like India is abundant in labor then India would mainly specialize in labor intensive goods that would form a large share of its export basket. In the same vein India would import capital intensive goods from countries that are capital abundant.
- The ration of aggregate endowment of capital to the aggregate endowment of labor is used to define relative factor abundance between countries.
- We can say that US is a capital abundant relative to India & India is a labor abundant relative to US.
- According to H-O Model trades take place in a gainful manner with important effects upon prices, wages & rents (factor prices)
- H-O theorem states that a capital abundant country will export the capital intensive goods while the labor abundant country will export the labor intensive goods.
- Difference between Ricardo & Hecksher ohlin

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| <ul style="list-style-type: none"> ➤ RICARDO 1) Difference in technology in comparative advantage 2) One factor of production (| <ul style="list-style-type: none"> ➤ HECKSHER-OHLIN 1) He talks about same technology 2) Two factor production (|
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| labor) 3) No factor mobility 4) It talks about opportunity cost & comparative advantage | capital & labor) 3) Factor mobility (free between industries) 4) It talks about resource endowment & factor intensity |
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- One of the most notable empirical critiques of H-O theorem is well known as the Leontief paradox
- Loentief in his study 1953, states that despite the USA was a capital abundant country , it was exporting importantly labor intensive products which is against as according to H-O theorem. It depicts the situation of factor intensity model
- Because whatever labor it was exported it was more skilled one labor.

BALANCE OF PAYMENT

- Balance of payment is a double entry system of record of all economic transactions between the residents of a country and the rest of the world carried out in a specific period of time.
- Balance of trade takes into account only the transactions arising out of the export and import of visible items. It does not take into account the exchange of invisible items like services of banking sector, insurance sector, transport sector, tourism industry, interest payments and receipts and dividend payments.
- Balance of trade is a narrow term whereas balance of payment is a wider term includes both visible & invisible items.
- Components of Balance of Payment are as follows-
 - 1) Current account (it includes both visible and invisible items)
 - 2) Capital account (private capital, banking capital, official capital)

- 3) Unilateral payment account (when there is a single sided transactions)
- 4) Official settlement account
 - Export= import = 0 then we said that it is balanced equilibrium
 - Balancing items include official reserve, error omission, statistical error
 - Balance of payment = balance of current account + balance of capital account +or- balancing items
 - Causes of disequilibrium of balance of payment- when the demand for and supply of foreign currency of a country are equal , it is viewed that the balance of payments of that country is in equilibrium position
 - Some countries enjoys a surplus position(supply of foreign currency is more than that of the demand for foreign currency. Both the surplus and deficit positions represent the disequilibrium in balance of payments
 - Causes are
 - 1) Economic factors- development disequilibrium , cyclical disequilibrium, secular disequilibrium, structural disequilibrium
 - 2) Political factors like internal disturbances and war
 - 3) Social factors like the additions and drops of different cultures

METHODS OF CORRECTION OF DISEQUILIBRIUM

- If BOP disequilibrium is due to surplus balance, the country enjoys the positions as it would be most desirable but the countries worry when their balance of payment show deficit. In case of disequilibrium due to deficit, the countries take measures to eliminate deficit.

- 1) Automatic corrections- devaluation of domestic currency in terms of foreign currency then export will be cheaper and import will be costlier**
 - 2) Deliberate measures – these measures are taken by the government to control deficit BOP, it includes monetary measures and trade measures. Monetary measures include reduction in money supply, devaluation of money and exchange control. Trade measures include export promotion measures and import substitutions measures**
 - 3) Miscellaneous measures includes loan in foreign currency, attracting foreign investments, attracting NRI deposits, development of tourisms. These measures help in reduction of imports & enhancing export thus contributes for the reduction of deficit BOP.**
- **There are several measures to control or manage BOP crisis-**
- 1) Import control**
 - 2) Export promotion**
 - 3) Attraction of NRI deposits, loans & advances**
 - 4) Liberalized exchange rate of Management**
 - 5) Unified exchange rate**
 - 6) Current account convertibility- under this system exchange rate was unified & transactions on current account were freed from exchange control in March 1993**
 - 7) Liberalized export policy**
 - 8) Development of import substitution and to reduce import burden**

WTO (WORLD TRADE ORGANIZATION)

- **8TH round of Uruguay (1986-1993) gave birth to world trade organization**
- **Members of GATT signed on an agreement of Uruguay round on 15th April 1994 in Morocco for establishing a new organization named WTO**
- **WTO was officially constituted on January 1st 1995 which took place of GATT as an effective formal organizations.**
- **On 12th Dec 1995 GATT was abolished and replaced by World Trade Organization which came into existence on 1st Jan 1995**
- **Its headquarter is at Geneva**
- **WTO is a permanent organization which has been established on the basis of an international treaty approved by participating countries**
- **WTO is not an agency of UNO**
- **WTO has a general council for its administration which includes one permanent representative of each member nation. Generally it has one meeting per month which is held at Geneva**
- **The highest authority of policy is WTO ministerial conference which is held after every 2 years.**
- **India is founder member of both GATT & WTO**
- **WTO has recent 160th member countries .latest Yemen country has joined it in 9th ministerial conference at Bali 2013**
- **161st member country which will join WTO will be Seychelles on 26th April 2015 at 10th ministerial conference which will be going to held at Nairobi, Kenya Dec 2015**
- **WTO is designed to play the role of watchdog in the spheres of trade in goods, trade in services, foreign investment, intellectual property rights.**

- **The basic purpose of WTO is to promote international trade among member countries without any discrimination**
- **There are number of important committees for administration of WTO, out of which two committee play the pivotal roles in WTO**
 - 1) **DSB– (Disputes settlement body)- it considers the complains of member countries against violation of rules by any member country. This body appoints a group of experts to investigate into such complains. This body meets twice a month for such cases.**
 - 2) **TPRB-(Trade policy review body)- it review the trade policy of member countries. The trade policy of all big trade powers of the world are reviewed after every 2 years. All the members of WTO are the members of TPRB.**
 - 3) **Other important bodies of WTO are council for trade in goods , council for trade in services, council for trade related aspects of intellectual property rights.**
- **Objectives of WTO are as follows-**
 - 1) **To improve standard 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**
 - 4) **To enlarge production and trade in services**
 - 5) **To ensure optimum utilization of world resources**
 - 6) **To accept the concept of sustainable development**
 - 7) **To protect the environment**
- **Functions of WTO**
 - 1) **To provide facilities for implementation administration and operation of multilateral and bilateral agreements of the world trade.**

- 2) To provide a platform to member countries to decide future strategies related to trade & tariff
 - 3) To administer the rules and processes related to dispute settlement
 - 4) To implement rules and provisions related to trade policy review mechanism
 - 5) To assist IMF & IBRD for establishing coherence in universal economic policy determination
 - 6) To ensure optimum use of world resources
- Organization structure of WTO are
- 1) Ministerial conference
 - 2) General councils
 - 3) Councils
 - 4) Committees & management bodies

➤ WTO agreement includes-

- 1) Agreement on agriculture
- 2) Agreement in trade & textiles
- 3) Agreement on market access
- 4) TRIMS (Trade related investment measures)
- 5) TRIPS (Trade related intellectual property rights)
- 6) Services and disputes settlement body

- The highest decision making body of the WTO is the ministerial conference which has to meet at least every 2 years
- Ministerial conference can take decisions on all matters under any of the multilateral trade agreements
- Ministerial conferences are as follows-

- 1) 1st ministerial conference – held at Singapore in 1996, main focus on International labor organization (ILO), Competition in international trade of textiles and information technology, issue related to investment solved under TRIMS.
- 2) 2ND Ministerial conference – held at Geneva in 1998, to focus full and Faithfull implementation of existing multilateral agreements.
- 3) 3rd ministerial conference – held at Seatal, America in 2000, this meeting was failure as the developing nations protested against the lack of transparency and imposition of the view of rich countries on the poor countries in negotiations and slogan rises that WTO is wrong trade organizations as it exploits the developing countries for the benefit of advanced countries under the slogan of globalization
- 4) 4th ministerial conference – held at Doha, Qatar in 2001. Doha ministerial declaration calls for negotiations on the issues such as reductions in industrial tariffs, phasing out of agriculture export subsidies, promoting trade in services and provide special treatment to developed countries
- 5) 5th ministerial conference – held at Cancum, Mexico in 2003, it was failure as the developing nations jointly opposed the high agriculture subsidies in the USA and EU. Two issues are there 1) agriculture subsidies (financial assistance) and Singapore issues
- 6) 6th ministerial conference – held at Hong-kong in 2005, it focus on Doha Development agenda which includes negotiations on agriculture and non -agriculture market access, reductions in tariffs on thousands of products and on farm subsidies, negotiations in services.
- 7) 7TH ministerial conference – held at Geneva in 2009, the general theme of the conference “ The WTO is the multilateral trading

system and the current global environment” it was a failure conference.

- 8) 8th ministerial conference – held at Geneva in 2011, it covers three topics 1) importance of multilateral trading systems & the WTO 2) Trade & development 3) The Doha Development Agenda negotiations. Easter package in 2011, Pascal Lamy the director general of WTO said that the biggest stumbling block was what is called NAMA (NON- AGRICULTURE MARKET ACCESS)
- 9) 9th Ministerial conference– held at Bali, Indonesia in 2013, Bali package, accepted Yemen as a new member. The round is historic because WTO reached its first ever global trade reform deal approved by 160 ministers after 12 years of negotiations. The deal seeks to lower barriers to trade worldwide through a global trade facilitation agreement (FTA) that seeks to reduce red tape, cut cost & improve efficiencies by taking measures such as digitization of procedure. Azevedo was elected to succeed Pascal Lamy.
- 10) 10th ministerial conference – will be held at Nairobi, Kenya in Dec 2015.
 - DFQF- Duty free quota free
 - LDCplus Package were trade facilitation and the export competition pillar of the agriculture negotiations
 - India trade policy review carried out every four Years
 - SPS- Sanitary phyto-sanitary
 - TBT- technical barrier to trade
- The subsidies provided by the government to the agricultural sector is termed by the WTO as Aggregate Measures of support (AMS)

- **AMS is calculated in terms of product & input subsidies.**
- **The WTO argues that the product subsidies (non-product) like credit, fertilizers, irrigation and power will cut the production cost of farming and will give undue advantage to such countries in their access to the world market such subsidies are called to cause distortions to the world trade.**
- **Such subsidies are not permitted in one sense as they have a minimum permissible limit de minimis under the provisions which is 5% and 10% of their total agricultural output in the case of developed and developing countries.**
- **Agriculture subsidies in WTO is identified by Boxes such as green box, amber box, red box, blue box and S&D Boxes**
- **Amber box- all subsidies which are supposed to distort production & trade fall into the Amber box i.e all agricultural subsidies except those which fall into the blue & green boxes. These include government policies of minimum support prices. Reduction 5% to 10%**
- **Blue box- this is the amber box with conditions. The conditions are designed to reduce distortions. Any subsidy that would normally be in the amber box is placed in the blue box if it requires farmers to go for a certain production level. These subsidies are nothing but certain direct payments made to farmers by government in the form of assistance Programme to encourage agriculture rural development. At present there are no limit on spending on the blue box subsidies.**

- **Green box-** The agriculture subsidies which cause minimal or no distortions to trade are put under the green box. This is a very wide box and includes all government subsidies like public storage for food security, pest and disease control, research and extension and some direct payments to farmers that do not stimulate production like restructuring of agriculture, environmental protection, regional development, crop and income insurance. The green box subsidies are allowed without limits provided they comply with the policy specific criteria. It means this box is exempt from the calculations under subsidies under the WTO provisions because the subsidies under it are not meant to promote production thus do not distort trade. That is why this box is called production neutral box.
- **S& D box-** The social and Development box allows the developing countries for some subsidies to the agriculture sector under certain conditions. These conditions revolve around human development issues such as poverty, minimum social welfare, health support etc, specially for the segment of population living below poverty line. Developing countries provide subsidies of less than 5% of their total agriculture output.
- **The SWISS formula** was proposed by Switzerland in the Tokyo round negotiations of GATT 1973-1979

CONVERTIBILITY OF RUPEES

- It means it can be freely converted into any other currency

- **Government of India announced partial convertibility of the rupee from 1st March 1992 in order to integrate the Indian economy with the rest of the world.**
- **Under partial convertibility 40% of earnings were convertible in rupees at officially determined exchange rate & 60% at the market determined exchange rate.**
- **On 19th August RBI declared Indian rupee has been made fully convertible in current account transactions related to goods & services.**
- **Convertibility on current account is defined as the freedom to buy or sell foreign exchange**
- **Capital account convertibility refers to the removal of the restrictions in payments relating to the capital transactions like inflow & outflow of short term & long term capital**
- **Government not announcing convertibility on capital account because the crisis in south east Asian nations, Brazil & Mexico made the Indian government to shelve the proposal in cold storage**
- **Government on 1st March 1993 introduced a fully unified market determined exchange rate. Unification of exchange rate and floating of rupee was started in 1993-1994.**
- **Full convertibility of rupee in the current account is one of the measures taken by government for improving Balance of Payment.**
- **Tarapore reports on full convertibility of capital account**
- **Convertibility of money implies such a system in which country currency becomes convertible in foreign exchange & vice versa. Since August 19, 1994 Indian rupee has been made fully convertible in current account transactions related to goods and services.**

GDR (GLOBAL DEPOSITORY RECEIPT)

- **Global depository receipt is a certificate issued by a depository bank, which purchase shares of foreign companies and deposits it on the account.**
- **It represents ownership of an underlying numbers of shares.**
- **Normally 1 GDR=10 shares but not always**
- **It is a negotiable instrument which is denominated in some freely convertible currency**
- **It is a negotiable certificate denominated in USdollars which represents non USCompany's publicly traded local equity.**
- **EDR- European depository receipt.**

FIs (FOREIGN INSTITUTIONAL INVESTORS)

- **These are the foreign institutions like pension fund, mutual funds, investment trusts and portfolio managers**
- **According to the regulations issued by the government of India foreign institutional investors (FIs) , non-Resident Indians(NRIs), persons of Indian origin (PIOs) are allowed to invest in the primary & secondary capital markets in India through portfolio Investment scheme.**
- **The ceiling for overall investment for FIs is 24% of the paid up capital of the Indian company & 10%/24% for NRIs/ PIOs. The limit is 20% of paid up capital in case of public sector banks.**
- **Government of India issued the regulations on foreign Institutional Investors on 14th Nov 1995.**

ADR (AMERICAN DEPOSITORY RECEIPT)

- An American depository receipt is a negotiable security represents securities of a non US company that trade in the US financial market. Securities of a foreign company that are represented by an ADR are called American depository shares.
- First ADR was introduced by JPMorgan in 1927 for the British retailer Selfridges.

EXIM BANK (EXPORT IMPORT BANK OF INDIA)

- It was established under the EXIM act 1981 and on 1st Jan 1982 as a statutory corporation wholly owned by the central government.
- It grants loans in India & outside for the purpose of exports & imports, refines loans of banks and other notified financial situations for purposes of International trade, rediscount exports bill for banks etc.
- It is also a Co-ordinating agency in the field of international finance and it undertakes development of merchant banks activities in relation to export oriented industries.

DUMPING- It means selling of goods at higher price in domestic country & selling at low price in foreign countries

EXIM POLICY (EXPORT IMPORT POLICY)

- It is prepared and announced by the central government (Ministry of commerce). India's export Import policy is also known as foreign trade policy in general aims at developing export potential, improving export performance, encouraging

foreign trade and creating favourable balance of payment position. The commerce Minister V.P singh has announced the EXIM policy on 12th April 1985. Initially it was introduced only for 3 years. It is also known as trade policy.

FOREIGN TRADE POLICY 2015-2020

- It was declared on 1st April 2015 at Vigyan Bhawan
- Department of Commerce, Government of India under the Ministry of Commerce & Industry.
- Highlights are
 - 1) Export from India schemes- MEIS (Merchandise exports from India schemes) SEIS (Service exports from India scheme)
 - 2) SFIS (Served from India scheme) is replaced by SEIS (SERVICE EXPORT India scheme)
 - 3) CECA- comprehensive economic co-operation agreements
 - 4) CEPA- comprehensive economic partnership agreement
 - 5) EUC- End user certificate
 - 6) Boost to Make in India
 - 7) DEOP- Defence export offset policy
 - 8) DGFT- Directorate general of foreign trade
 - 9) SCOMET – special chemicals organisms materials equipments & technologies (12 month to 24 months now)
- EPCG- Export promotion capital goods authorization holders shall be required to maintain records for a period of 24 years only
- EODC- Export obligation discharge certificate
- NEE- Net foreign exchange earning

- Time period for LO letter of permission for EOU/EHTP/STP/BTP revised for 2 years to enable the unit to construct the plant and machinery.
- DFTP-Duty free tariff preference
- CQCTD-Committee on quality complaints & trade disputes.
- Vishakhapatnam and Bhimavaram added as towns of export excellence
- MEIS (Merchandise export from India schemes) has replaced 5 different schemes
 - 1) Focus product scheme
 - 2) Market linked focus product scheme
 - 3) Focus market scheme
 - 4) Agri infrastructure incentive scrip
 - 5) VKGUY-vihesh krishi & gram uduogyojana.

MNCs- MULTINATIONAL COMPANIES

- A company which extends its activities in more than one country and which provides productive & service facilities outside its mother country is known as Multinational company or corporation.
- Categories are
 - 1) Ethnocentric (policy based on home market)
 - 2) Polycentric (based on different countries)
 - 3) Geocentric (takes the whole world as common)
 - 4) Regiocentric (takes region wise)
- Domestic company > international company > multinational company > global company > transnational company

MISCELLANEOUS

- **PPP-purchasing power parity it is in essence, an economic theory that adjusts the exchange rate between countries to ensure that a goods is purchased for the same price in the same currency.**
- **Balance of payment of a country on current account is equal to balance of payment minus capital flows**