FOREIGN TRADE AND BALANCE OF PAYMENTS

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PALLAVI
ASST. PROFESSOR
DEPARTMENT OF COMMERCE
PATNA WOMEN'S COLLEGE

BALANCE OF PAYMENTS (BOP)

- The outcome of the total transactions of an economy with the outside world in one year is known as the balance of payment (BoP) of the economy.
- It is the net outcome of the current and capital accounts of an economy.
- It might be favourable or unfavourable for the economy.
- However, negativity of the BoP does not mean it is unfavourable.
- A negative BoP is unfavourable for an economy if only the economy lacks the means to fill the gap of negativity.

- The BoP of an economy is calculated on the principles of accountancy (double-entry bookkeeping) and looks like the balance sheet of a company—every entry shown either as credit (inflow) or debit (outflow).
- If there is a positive outcome at the end of the year, the money is automatically transferred to the foreign exchange reserves of the economy.
- And if there is any negative outcome, the same foreign exchange is drawn from the country’s forex reserves.
- If the forex reserves are not capable of fulfilling the negativity created by the BoP, it is known as a BoP crisis and the economy tries different means to solve the crisis in which going for forex help from the IMF is the last resort.

CURRENT ACCOUNT

It has two meanings—one is related to the banking sector and the other to the external sector (We will deal with external sector here)

- It refers to the account maintained by every government of the world in which every kind of current transactions is shown—basically this account is maintained by the central banking body of the economy on behalf of the government.
- Current transactions of an economy in foreign currency all over the world are—export, import, interest payments, private remittances and transfers.
- All transactions are shown as either inflow or outflow (credit or debit). At the end of the year, the current account might be positive or negative.
- The positive one is known as a surplus current account, and the negative one is known as a deficit current account.
- India had surplus current accounts for three consecutive years (2000–03)— the only such period in Indian economic history.

CAPITAL ACCOUNT

- Every government of the world maintains a capital account, which shows the capital kind of transactions of the economy with outside economies.
- Every transaction in foreign currency (inflow or outflow) considered as capital is shown in this account—external lending and borrowing, foreign currency deposits of banks, external bonds issued by the Government of India, FDI, PIS and security market investment of the QFIs (Rupee is fully convertible in this case).
- There is no deficit or surplus in this account like the current account .

NEW FOREIGN TRADE POLICY

- The GoI announced the new Foreign Trade Policy 2015–20 on April 1, 2015.
- The new five year Foreign Trade Policy, 2015–20 provides a framework for increasing exports of goods and services as well as generation of employment and increasing value addition in the country, in keeping with the Make in India.
- The focus of the new policy is to support both the manufacturing and services sectors, with a special emphasis on improving the 'ease of doing business'.

The special features of the FTP 2015–20 are as follows:

- Two new schemes have been introduced, namely— (a) Merchandise Exports from India Scheme (MEIS) for export of specified goods to specified markets. (b) Services Exports from India Scheme (SEIS) for increasing exports of notified services, in place of a plethora of schemes earlier, with different conditions for eligibility and usage.
- Measures have been adopted to nudge procurement of capital goods from indigenous manufacturers under the EPCG scheme by reducing specific export obligation to 75 per cent of the normal export obligation. This will promote the domestic capital goods manufacturing industry. Such flexibilities will help exporters to develop their productive capacities for both local and global consumption.
- Measures have been taken to give a boost to exports of defense and hi-tech items. At the same time e-Commerce exports of handloom products, books/periodicals, leather footwear, toys and customized fashion garments through courier or foreign post office would also be able to get benefit of MEIS (for values upto INR 25,000). These measures would not only capitalize on India’s strength in these areas and increase exports but also provide employment.

- In order to give a boost to exports from SEZs, government has now decided to extend benefits of both the reward schemes (MEIS and SEIS) to units located in SEZs. It is hoped that this measure will give a new impetus to development and growth of SEZs in the country.
- Trade facilitation and enhancing the ease of doing business
- A number of steps have been taken for encouraging manufacturing and exports under 100 per cent schemes. The steps include a fast track clearance facility for these units, permitting them to share infrastructure facilities, permitting inter unit transfer of goods and services, permitting them to set up warehouses near the port of export and to use duty free equipment for training purposes.
- Considering the strategic significance of small and medium scale enterprise in the manufacturing sector and in employment generation, MSME Clusters-108 have been identified for focused interventions to boost exports. Outreach activities will be organized in a structured way at these clusters with the help of EPCs and other willing Industry Partners and Knowledge Partners.
- Niryat Bandhu Scheme has been galvanized and repositioned to achieve the objectives of Skill India.

THANK YOU