CH :- International Trade

Unit -1 :- Theories of International trade.

→ International Trade is the exchange of goods & services as well as resources between countries.

→ Benefits / Demerits

Benefits	Demerits
- Economic effeciency and contributes to encönomic grawth & rising income.	- Often not equally benefical to all nations.
- Gretor effeciency in use of natural, human, industrial and financial resources ensures "productivity gains."	- Economic exploitation of underdeveloped nations.
- Access to new markets and new materials.	- Sustantial enviornment.
- stimulates Innovation	- Exhaustion of natural resources.
- Improvement in Quality of goods & services.	- Trade cycles are also likely to get transmitted rapidly to other countries.
- Contribute to human resource development.	- Dependence of underdeveloped countries on foreign nations.
- Strengthen bonds between contries.	- There is often lack of transparency.
etc etc. etc.	- Too much of export orientation.
	etc etc etc.

(2) "Important Theories"

(1) The ~~mercha~~ mercantilists ~~view~~ of International Trade.

derived from mercantile → ~~Trad~~ "Trade & commercial affairs.

Key points :- Exports > Imports

Favourable BOT / BOP

→ According to microsoft encarta dictionary (2009). Mercantilism is the economic policy trending in Europe from 16^{th} to 18^{th} century where the government used power to control industry and trade with the belief that national power is achieved and sustained by having constant large ~~questions~~ quantities of exports over imports.

(ii) Theory of absolute advantage. (Adam Smith)

→ In this theory, Adam smith assumed :—

a). Trade between two countries.
b). Two commodity.
c). ~~Two commodity~~ No ~~transpo~~ transportation cost.
d). Labour was Mobile within country but immobile between countries.
e). He assumed that any trade between the two countries considered would take place. if each of the two countries had an absolutely lower cost in the production of one of the commodities.

Adam smith thought that the basis of International Trade was Absolute COST advantage. The principle of absolute advantage refers to the ability of a party to produce greater quantity of a good, using the same amount of resources.

(Simple comparison of Labour productivity)

country A → 4 Burger
1 → 1 hr → 8 Pizza
Resources same

3 burger ← country B
1 → 1 hr → 9 Pizza
resources same

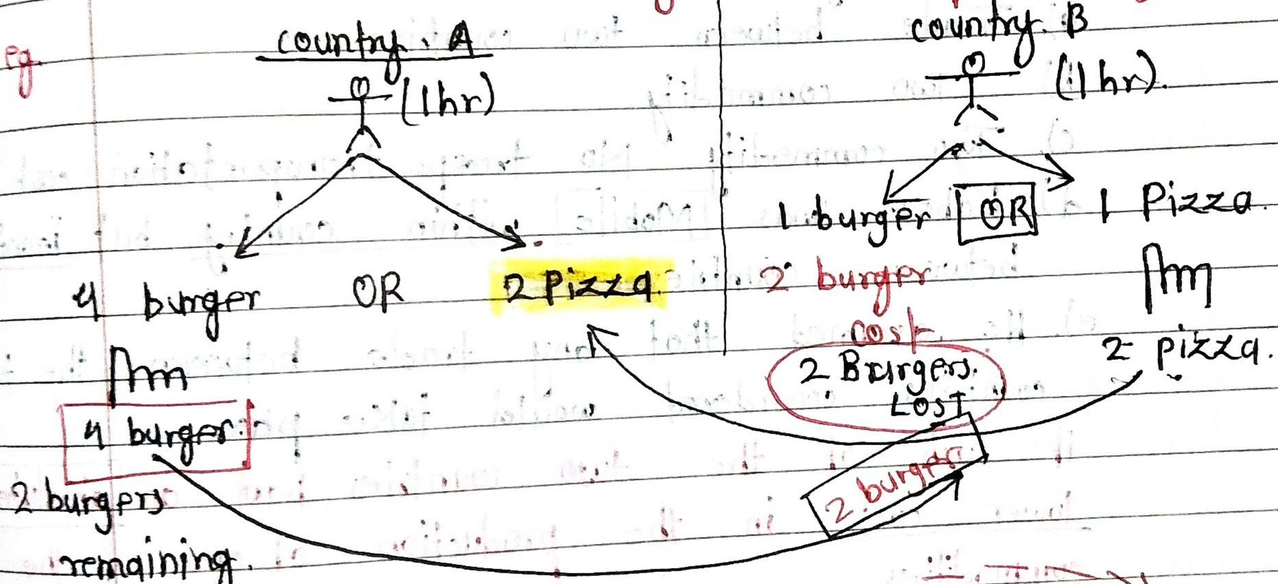
(iii) **Theory of Comparative Advantage**

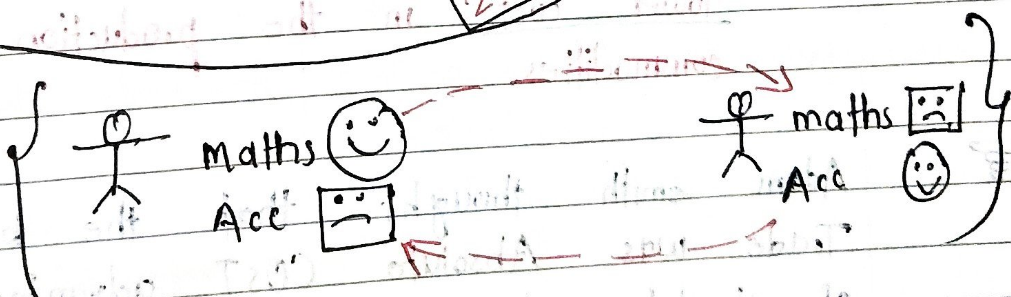
> One of the most important concepts in economics is given by DAVID RECARDO.

> Ricardo observed that trade was driven by comparative rather than absolute cost.

> Ricardo's insight was that such a country would still benefit from trading according to comparative advantage — exporting products in which absolute advantage was greatest and importing products in which absolute advantage was comparatively.

eg.





(iv) **Heckscher - Ohlin Theory**

> This theory is also known as Factor Endowment theory or mordern theory ~~by~~ of Trade.

> It states that comparative advantage in cost of production is exclusiely by the difference factor endowment.

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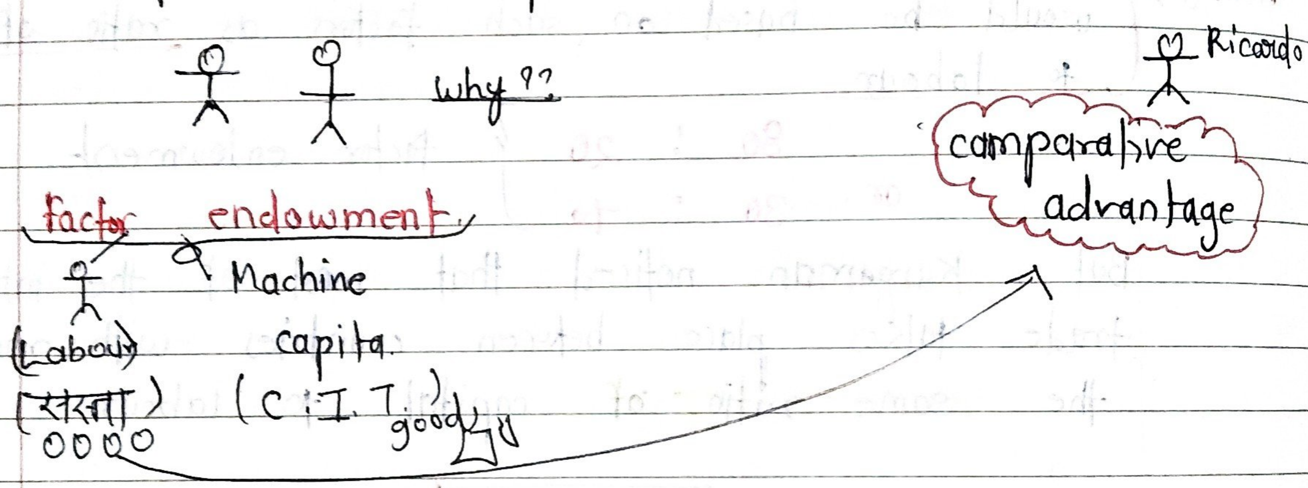
→ A country tends to specialise :—

In Exports - whose production required intensive use of its **abundant** resource.

In Imports - whose production requires intensive use of its **scarce** resource.

→ Capital Abundant economy will produce and export capital intensive goods and labour abundant economy will produce and export labour intensive goods.



Theory of comparative cost (Ricardo)	Morder Theory (दो गोला)
• Based on Labour theory of value	• Based on money cost which is more realistic.
• Considered labour as sole factor.	• Considered labour as well capital as important factors.
• Studies only comparative costs of goods concerned.	• It is considers relatives prices of the factors (labour & capital)
• It is Normative in nature. → **Should be** "क्या होना चाहिए"	• It is positive in nature → **What is** "क्या है"

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(v) Globalisation & new international Trade Theories

→ American economist & journalist **Paul Krugman** received **2008 Nobel Prize** for economics for his work in economic geography and in identifying international Trade patterns. In late 1970s, Krugman noticed that the earlier model did not fit into the international trade data.

Refer (iv) — The Heckscher - Ohlin model predicted that trade would be based on such factors as ratio of capital to labour.

80 : 20
or 30 : 10 } factor endowment

But **Kurgaman** noticed that **most** of the international trade takes place between countries with roughly the **same ratio** of capital to labour.

→ Krugman definded $\boxed{\text{free trade}}$

"In Praise of cheap Labour" published in state in 1997

cheap labour को outsource करो

→ Paul A samuelson :— The factor Prize **equalization** theoram

international trade equalizes the factor prices between trading nations.

→ NTT (New Trade Theory) gave two advantage to the countries that import goods to compete with domestic goods :-

a) Economic of scale.

Scale of production(↑) cost(↓).

b) Network effect (Bandwagon effect):

(eg: whatsapp or microsoft windows)

The way one person's value of for a good or service is affected by value of that good or service ~~are~~ to others.

The value of product or service is enhanced as the number of individuals of individuals using it increases.

Unit-2 Instruments of Trade Policy

- Tariff
  - 16 Types
- Non Tariff measures (NTM)
  - Technical — 2 types
  - Non technical — 13 types
- Export Related measures
  - 4 types.

I TARIFF

→ Tariff is known as custom duties imposed on goods and services which are imported or exported.

→ In this unit, tariff would refer to imports duties.

* Tariff leave the world market price of the goods uneffected, while raising their prices in the domestic market.

1. Specific Tariff – fixed amount of money per physcial unit. eg - ₹ 1000 per big bicycle.

2. Ad Valorem tariff – fixed % of the value of a commodity. eg. – 20% on value of bicycle.
   ₹2000 ₹10000 ₹100000
   ₹20000 ←

* Generally, it leads to deliberate undervaluation.

3. Mixed Tariff – Tariffs is expressed either on the basis of quantity or on the basis of value.
   Ad valorem tariff
   specific tariff

eg.- Tariff on cheese at 5% ad valorem or ₹ 100 per kg whichever is HIGHER.

* Compound Tariff/Duty - combination of both advalorem and specific tariff और

eg Tariff on cheese 5% advalorem & ₹ 100 per kg.

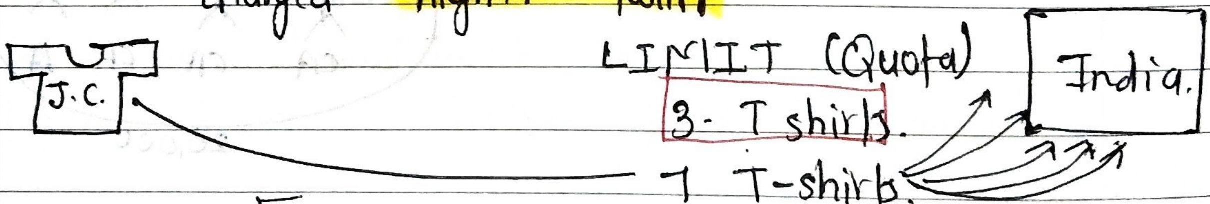
(d) Technical / Othe Tariff

- calculated on basis of specific content of imported goods.

eg:- ₹ 3000 on solar panel and ₹ 50 per kg on the battery installed.

(5) Tariff Rate Quotas (T&Q)

- combines two policy intruments: Quotas & tariff.
- Imports entering under the specific quote portion are usually ~~the specific~~ charged lower tariff and imports above the threshold usually charged higher tariff

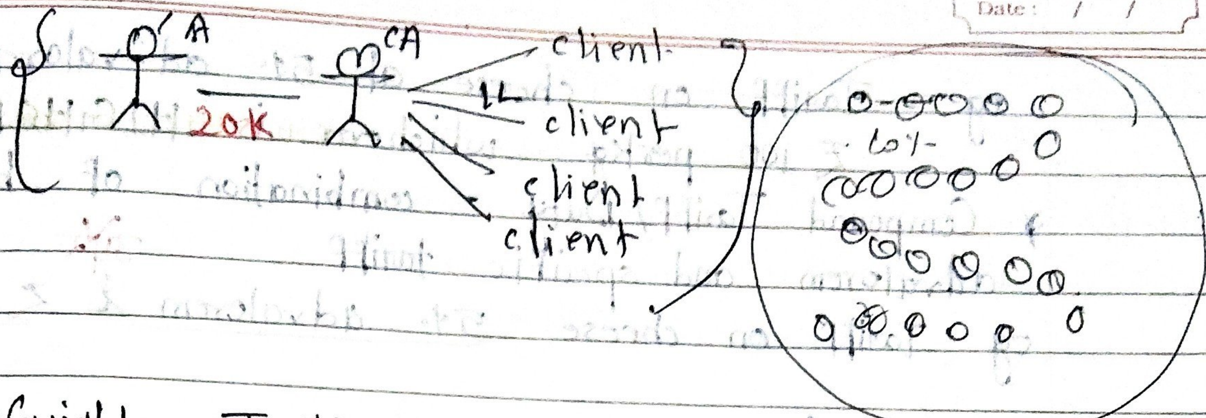


[3 T-shirt → Tax 0.5%]

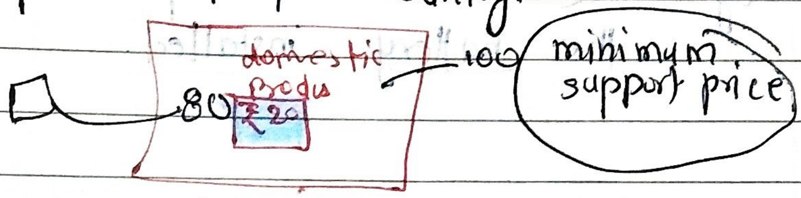
extra 4 T-shirt → Tax 25%

(6) Most Favoured nation Tariffs (MFN)

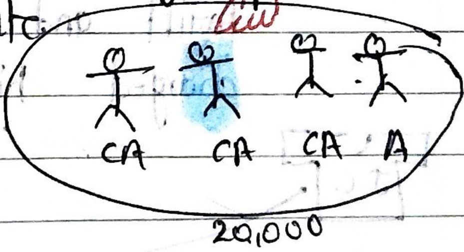
- refers to import tariffs while countries promise to improve on imports from other members of WTO
- MFN rates ~~are~~ are the highest that WTO members charge each other.



(7) Variable Tariff
- duty typically fixed to bring the price of an important commodity up to level of the domestic support price of the country.

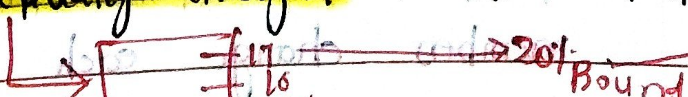


(8) Preferential tariff
- nearby all countries are part of atleast one preferencial trade agreement under which they promise to give other country's product lower tariff then MFN rate.

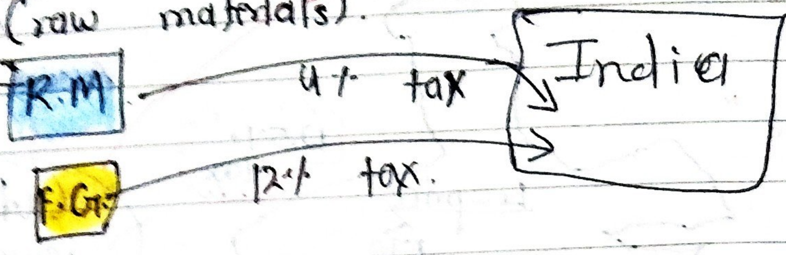


(9) Bound Tariff
- Under this WTO number binds itself with a legal commitment not to raise tariff rate above a certain level.

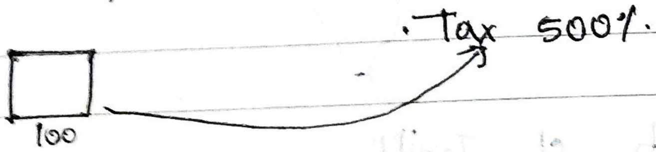
(10) Applied tariff
- It is the actually charged tariff on MFN basis.



(11) Escalated Tariff - It is a system where in the nominal tariff rates on import of manufactured goods are higher than the nominal tariff rates on intermediate inputs (raw materials).

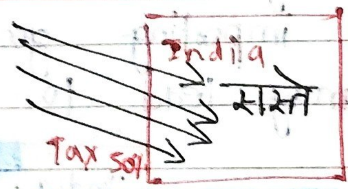


(12) Prohibitive tariff · It is a tariff set so high that no imports can enter.

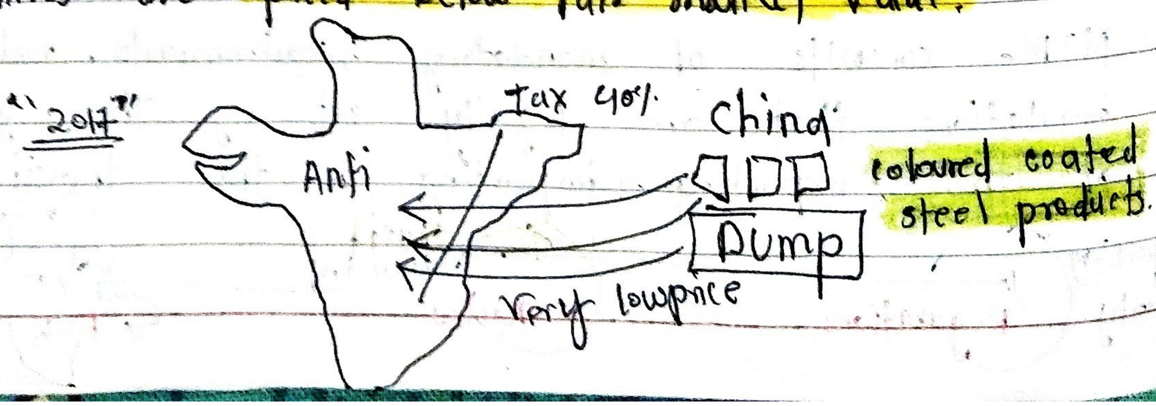


(13) Imports Subsidies - An import subsidy is simply a payment per unit or as% of value on goods imported.

(14) Tariff as Response of "Trade Distortion"
The affected importing countries, upon confirmation of distortion, respond quickly by measures in form of Tariff response.
(Also Known as Trigger -price machanism)



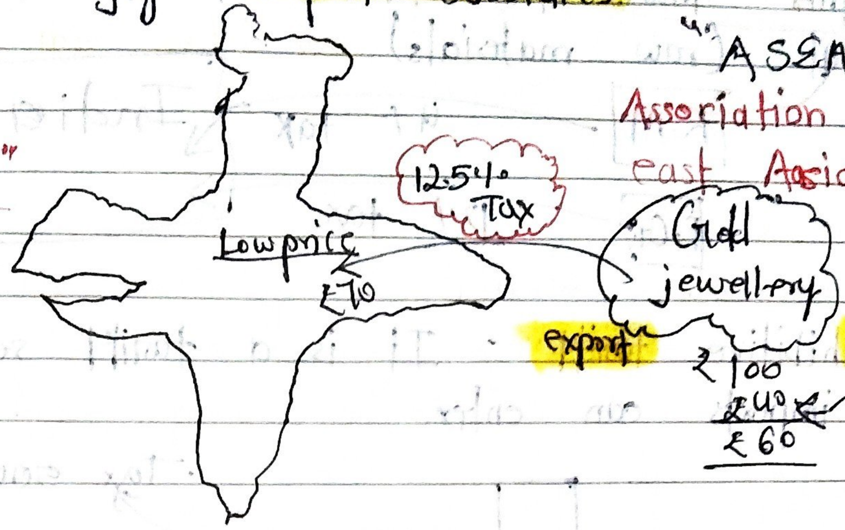
(15) Anti - Dumping duty · It is a protectionist tariff that domestic government imposes on foreign imports that it believes are priced below fair market value.



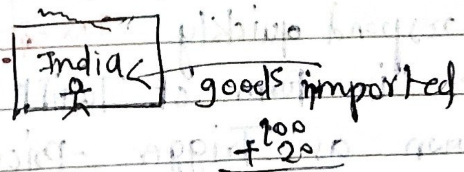
(16). Countervailing duties - Tariff that aim to offset the artificially low prices charged by exporters who enjoy export subsidies.

"ASEAN"
Association of South east Asian Nation

"2016"



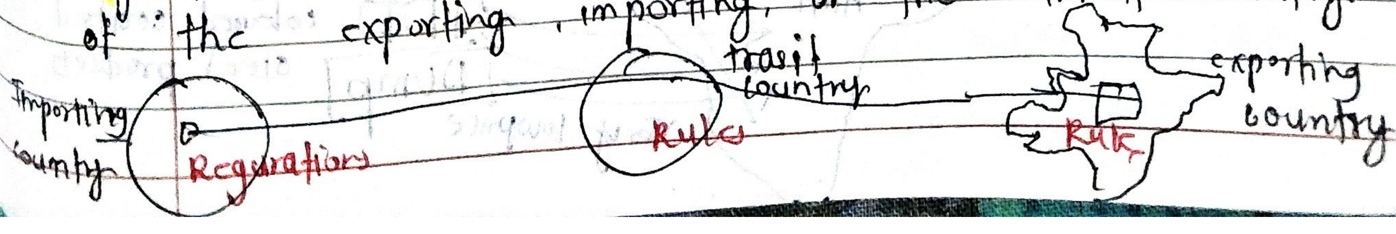
* Effects of Tariff
→ It creates obstacle to trade
→ Imported Goods becomes expensive
→ Tariff encourges production & consumption of domestically produced good.
→ Producers importing goods may charge higher prices, which may lead to increase in their profits



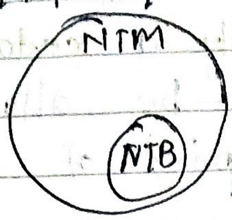
→ Tariff also increases government revenue

II NON TARIFF Measures. (NTM)

→ NTMs consults of mandatory requirements, rule, or regulations that are legally set by the government of the exporting, importing, or the transit country



→ NTM, are not the same as non- traiff barrers
[NTM ≠ NTO].



NTB is subset of NTM.

→ Two types :-

① Technical Measures.

a) Sanitary and Phytosanitary (SPS) measures

- To protect human, animal or plant life from risks arising from pets, toxins, contaminants etc. & to protect biodiversity.

eg: Prohibition of Poultry from countries affected by flu.

b). Technical Barriers to Trade (TBT).

- It covers both food and non- food traded products refer to mandatory "Standards and Technical Regulations" that defines the specific characteristics that product should have.

eg:- Food Laws, labelling.

② Non techincal measures · It relates to trade requirments like shipping requirements, custom, formalities, trade rules, taxation policies etc.

Hard measures → (Price & quantity Control).

Threat measures → (Anti dumping & safeguards).

Other measures.

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i) Import Quotas

- Import quota is a direct "restrictions" which specifies that only a certain physical amount of the good will be allowed into the country during a given pried of time (generally 1year).

ii) Price Control measures - Steps taken to control or influence the prices of imported goods in order to support the domestic prices of certain products.

eg:- Minimum import price ~~estab~~ estaiblished for sulphur.

iii). Non-automatic licensing & Prohibilitions

- These measures are normally aimed to limiting the quatity of goods that ~~cant~~ can be imported, regardless of whether they originate from different sources or from one particular supplier.

for example textiles may be allowed only on discretionary license by the importing country.

iv). Financial measures - The objective of this measures is to increase the import costs by regulatory the access to the and cost of foreigh exchange for imports and to define the terms of payments.

(v). Measures affecting competitions

- This measures are aimed at granting exclusive or special prefrences / ~~priveleges~~ priveledgs to one or few limited group of economic operations.

X ———— X ———— X ———— X ————

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सरकार खरीदना

(vi) Government Procurement Policies
- Government may give preference to the local tendrs rater than ~~fro~~ foreign.

(vii) Trade related investment measures.
→ Requirements to use certain minimum levels of locally made components.
→ Restricting the level of imported components.
→ Limithing the purchase / use of imported products.

(viii) Distribution Restrictions. - These are limitations imposed on distribution of goods in the importing country involving additional license or certificatication requirement
eg. Restriction that imported fruits may be sold only through outlets having refrigeration facilities

ix). Restriction on Road - sales services. - services may be reserved to local service companies of the importing country.

x). Administrative procedures.
- Any kind of particular procedure and formalities

xi). Rules of Origin.
- Important procedural obstacle occur in the home country for making available certification regarding origin of goods.

(xii) ~~Safegart~~ Safeguard measures - Restrict imports of a product temporarily.

(xiii) Embarges. - It is a total ban imposed by government on import /export of particular product of indefinite period.

III Export Related measures.

1). Ban on exports. - During the period of shortage export of agricultural products may be prohibited to make them available for domestic consumption.

2). Exports taxes. - Exports tax is a tax collected on exported goods and may be specific or ad valorem.

(fixed %)   fixed amount

3). Exports subsidies & Incentives.
→ like duty drawback, duty free access to ~~implied~~ imported components etc

रोकना

4). Voluntary Export Restraints - VER is type of ~~in~~ informal ~~good~~ quota administered by exporting country voluntarily restraining the quantity of goods that can be exported out of the country during a specified period of time.

जान बूझकर

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* Recent development.
→ Free trade agreement with mauritius on 1.April.2021.
→ 18. Feb. 2022 comprehensive economic partnership agreement (CEPA) with UAE
→ Economic cooperation & Trade Agreement (ECTA) with Australia on 2nd April 2022.

Unit 3 Trade Negotiations

RTA GATT WTO

1. Regional Trade Agreement (RTA)

> RTA are defined as grouping of countries which are formed with the objective of reducing barriers to trade between member countries.

{As on 1st feb 2021, between maker countries, 339 RTAs were in force.

> Types of RTA

① **Unilateral Trade Agreements** - Under this an importing country offers "trade incentives" in order to encourage the exporting country.

one way

(eg. Generalised system of prefrences).

(importing country)
US
developed nation

exporting country
Pakistan
Developing Nation

GSP - it promotes economic development by eliminating duties on various products.

② **Bilateral agreements** - agreements that set rules of Trade between two countries, two blocs or a bloc and a country. (eg:- ASEAN - India Free trade area).

Two way

Bloc

country

group of country

(3) **Regional Prefential Trade agreements** - Agreements among a group of countries to reduce trade ~~between~~ barriers on a reciprocal & preferential basis only for the ~~on a~~ member of group [eg. GSTP].
↓
Global system of Trade prefrences.

(4). **Trading Bloc.** - group of countries that have free trade agreement between themselves and may apply a common external tariff to other countries. Eg - Arab league (AL), European free trade association (EFTA).

(5). **Free Trade Area** - It is a group of countries that eleminate all tariff & quotta barriers on trade with objective of increasing exchange of goods among themselves. - (eg - ASEAN - India Free Trade Area).

(6). **A customs union** - is a group of countries that eliminate all tariffs on trade among themselves, but ~~maintain~~ maintain a common external tariff on trade with other countries. (It is technically violation of MFN.

(7) **Common Market** - A common markets deepens a custom union by providing for free flow of output and of factors of production by reducing or eliminating internal tariff and by creating common external tariff (eg. EU, ASEAN).

(8). **Economic & monetary Union** - Free transit of goods & services through the borders. (eg. EU)
"single currency"

② [General Agreements on Tariff & Trade (GATT)]

> GATT covers International trade in goods.
> The working of GATT agreements are the responsibility of the council for Trade in Goods (Goods council).
> The Goods Council has 10 committees. These committees consist of all member countries.
> The GATT Lost its relevance by 1980s because.

a). Intellectual property ~~goods~~ rights & trade in services were not covered.

b). Ambiguities is multilateral system.
confusion

c). World merchandise Trade increased a lot and it was beyond the scope of GATT.
Goods का Trade

d). Efforts of liberalizing agriculture were not sucessful.

e). Inadequacies in "dispute ~~st~~ settlement system"

f). It was "NOT a treaty"

~~* URUGUAY RO~~

* URUGUAY ROUND

• Uruguay ~~goa~~ round brought about the biggest reform of the world's trading system. Members eastablished 15 groups to work on limiting restrictions

> The Round started in Punta del Este in uruguay In September 1986. In December 1993, the uruging round (8th) was the most ambitious & largest ever round with 123 countries participat, was completed.

→ The agreement was signed by most countries on 15 April 1994 and effect from 1 July 1995 marked the ~~bit~~ birth of WTO.

3 World Trade Organisation (WTO)

→ Six Key objectives :-

i). To set and enforce rules for information trade.

ii). To provide forum (मंच) for negotiations.

iii). To resolve disputes.

iv). To increase transparency.

v). To involve in global economic management

"international आर्थिक management".

vi). To help developing nations.

→ Structure of WTO

WTO activities are supported ~~ba~~ by a secretariart located in GENEVA by Director General.

It has three tier system of decision making.

Top
↓
Middle
↓
Lower

WTO accounts for almost 95% of world trades and currently having 164 member countries. (Of which 117 are developing countries).

→ "Guiding Principle of WTO"

(1) Most favoured Nation (MFN) - treating other people equally.

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② National Treatment - Treating ~~fro~~ foreigners and local equally.

This principle of National Treatment is also found in all three main WTO agreements.

(Article 3 of GATT Article 17 of GATS and Article 3 of Trips)

GATT → Goods

GATS → General agreement on trade in services

Trips → Agreement on Trade related aspects of Intellectual property Rights.

③ Free Trade - WTO allows progressive liberalistion

(धीरे-2 Barriers खत्म करने है)

④ Predictability - In WTO, when countries agree to open their markets for goods or services, they "bind" their commitments. Countries should make trade rules as clear as possible (transparent).

⑤ Promoting fair competition - WTO promotes ~~four~~ fair competition in agriculture, intellectual property, services etc.

⑥ Encouraging development & economic reform.

- Developed countries have started at allow duty free & quota free imports for almost all products from least developed countries.

→ WTO Agreements :-

- Agreement on Agriculture.
- Agreement on Application of SPS measures.
- Agreement on Textiles & Clothing replaced the multi-Fibre Agreement (MFA) since 1974.
- Agreements on TBT (Techinal Barrier in Trade).
- Agreements on TRIMS (Trade related investment measures).
- Agreements relating Anti-dumping.
- Custom valuation agreements.
- Agreements relating to pre-shipment Inspection. (PSI)
- Agreements on rules of origin.
- Agreements on import licensing procedure.
- Agreements on subsidies and countervailing measures.
- GATS and TRIPS.
- Trade Policy Review mechanism (TPRM).
- Plurilateral Agreements.
  - It involves several countries with common interest but do not involve all WTO countries.

* DOHA ROUND (9th)
  - Qatar in Novermber 2001.
  - Talks about negotiations including 20 areas of Trade.
  - Most controvertial topic was "agriculture trade".

* G20
  - "Group of 20" is the preouer forum for international economic coorporation - India holds

the Presidency of G20 from 1 dec 2022 to 30 Nov. 2023

→ G20 was founded in 1999 after the Asian financial crises.

→ Since begining of COVID-19, trade related measures were implemented by G20 and 61% measures were trade facilitating.

(39% measures were trade Restrictive).

By October 2022, 77% of export restrictions has been repealed.

Unit-4.

Exchange Rates and its economic effects.

1. Introduction.

→ A foreign currency transaction that is denominated in or requires settlement in foreign exchange.

→ Exchange Rate it is the rate at which the currency of one country is exchanged for the ~~economy~~ currency of another country.

eg. $\boxed{1\$ = ₹80}$

1 pen = ₹10
1 pizza = ₹100

→ A direct quote (European currency quotation) is the number of units of local currency exchangeable for one unit of foreign currency.

$\boxed{₹80 / \$}$

⇒ 1\$ = ₹80

Date : / /

→ An indirect quote (American Currency Quotation) is the number of units of foreign currency exchangable for one unit of local currency.

$\boxed{\$ 0.0125 / ₹}$ ≡ 1₹ = 0.0..

(2). Exchange rate Regimes. (3 reginnes).

i). Free- floating exchange rate system.

→ Rate determined by market forces of demand & supply.
→ No Government intervention.
→ self regulating.
→ No need to maintain foreign currency reserves
→ Less stability
→ Speculation can be there
→ International trades are risker.

ii). Managed Floating system.

→ Government & central Banks often seek to increase or decrease their exchange rates by buying or selling their own currencies.
→ Such intervention is likely to have only a smell impact.

(iii). Fixed exchange rate system.

→ Set by Government.
→ Stability
→ Less speculation
→ Avoids currency fluctuations

→ Government has to keep huge foreign currency reserves.

→ It enhances internationational trade & Investment.

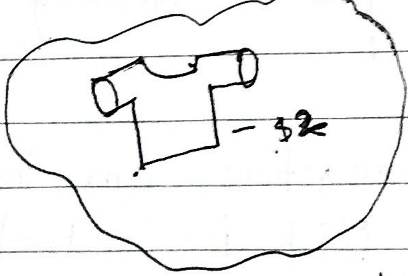
* Basically, free floating exchange rate system is efficient and transparent. It allows central Bank to pursue its own independent monetary policy.

③ **Nominal and Real exchange rate.**

→ Nominal exchange rate is expressed in units of one currency per unit of other currency. A real exchange rate adjusts this for changes in price levels.

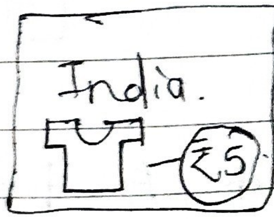
→ A real exchange rate is the rate at which a person can trade the goods & services one country for the goods or services of another.

$$\boxed{\text{Real exchange rate} = \frac{\text{Nominal exchange rate} \times \text{Domestic Prices}}{\text{Foreign prices}}}$$



Nominal exchang rate.

1 $ = ₹1.



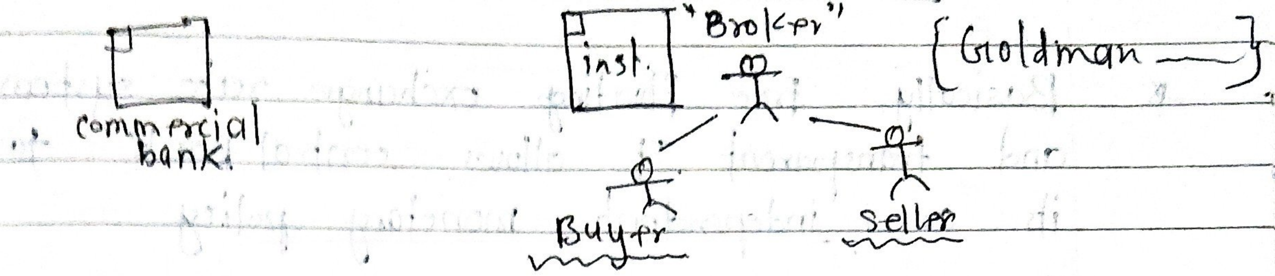
$$\text{Real exchange rate} = ₹1 \times \frac{5}{2}$$

$$= 2.5$$

$$\boxed{\text{Real effective exchange rate (REER)} = \frac{\text{Nominal exchange rate}}{\text{Price deflator}}}$$

4) Foreign exchange Market.

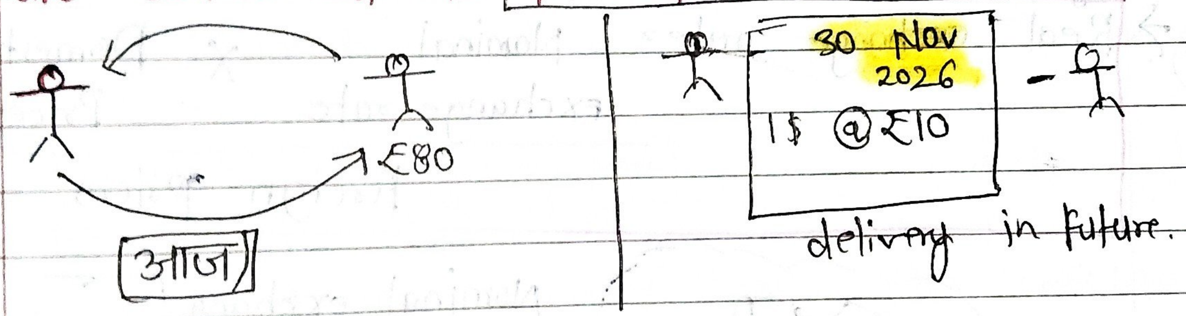
→ Forex market mainly consist of commercial banks & brokerage houses. (Known as market makers).



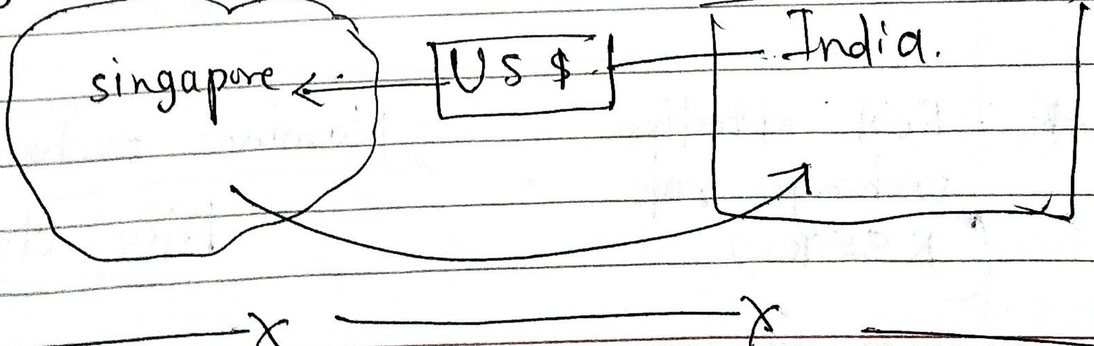
→ In foreign exchange market, there are two types of transactions :-

a) Currency transactions which are carried out in the spot market and exchange involves immediate delivery

b) Future transactions wherein contracts are agreed upon to buy or sell currencies for future delivery which are carried out in forward/ Furture market



* A foreign exchange transactions can involve any two currencies, but mostly US$ is involved (even though it is not the national currency of either of the currency). Thus, US$ is 'Vehicle Currency'



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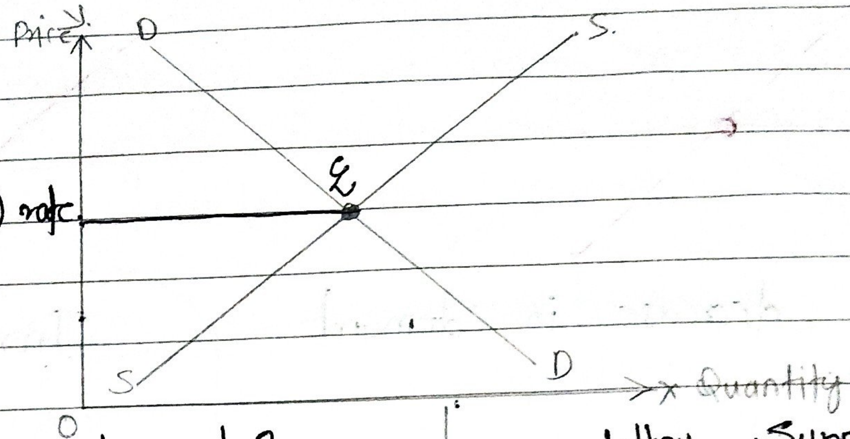
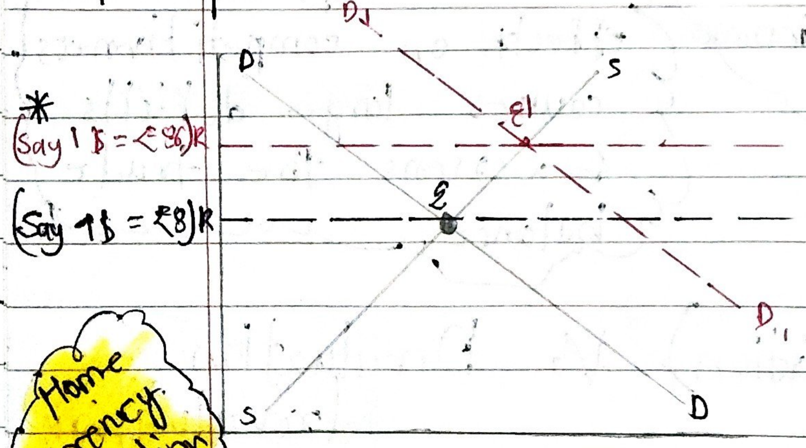
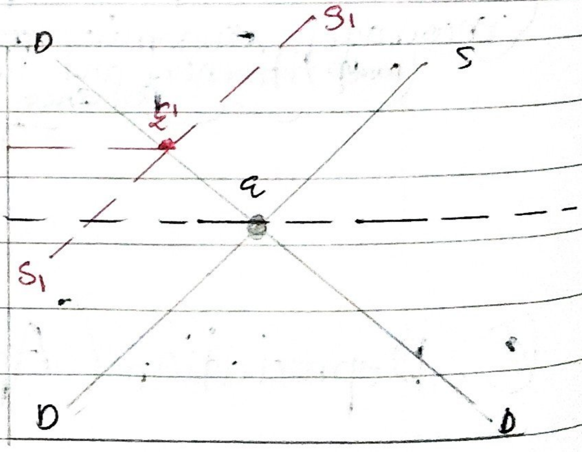
(5) determination of Nominal exchange rate.



Why demand.? (Why $ is demanded.?)	Why Supply? (Why inflow of $?)
→ To purchase goods & services from foreign country.	→ Exports
→ Foreign Tour.	→ Investments by foreigners in our country.
→ To make unilateral transfer	→ Unilateral transfer received.
→ To make investment in foreign countries.	→ foreigners visiting India
→ To open foreign bank a/c	→ Speculation
→ for speculation	etc etc.





Home currency depreciation

Increase in demand

decrease in supply.

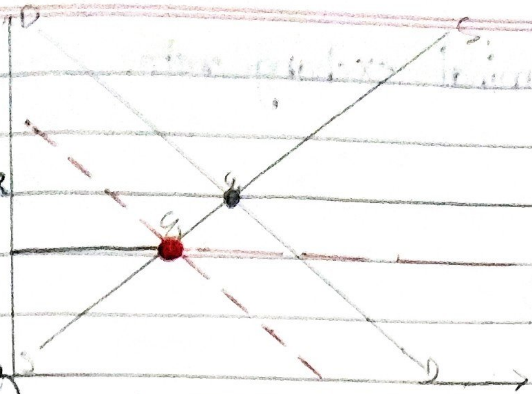
रुपया कमजोर

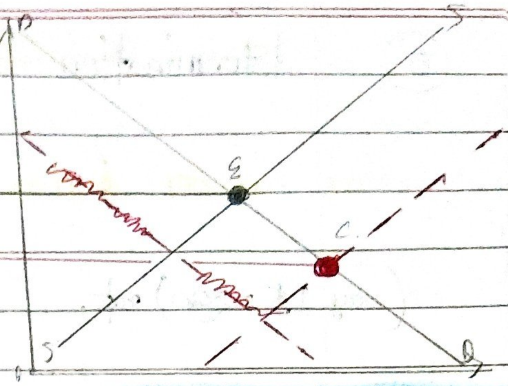
*

say 1$ = ₹80) R

say 1$ = ₹75 ~~80~~) R

into





Home currency appreciation

रुपया मजबूत

decrease in demand

Increase in demand

RBI

s.

* Effects of currency depreciation & currency appreciation

Exchange rate depreciation lower the relative (export rises). raises the relative price of its imports (import falls). leads to output expansion. encourages economic activity, increase competitiveness and improves Balance of Trade

currency appreciation rasies the price of exports, (decrease exports) Increases imports, adverse effect on competitiveness causes larger deficits & worsens the trade balance.

⑥ Depreciation (Appreciation) Vs. Devaluation (revaluation)

Earlier 1$ = ₹ 80.
Now 1$ = ₹ 85
depreciation

Earlier 1$ = ₹80.
Now 1$ = ₹85.
devaluation

रुपया कमजोर हो गया

It occours due to market forces of demand & supply

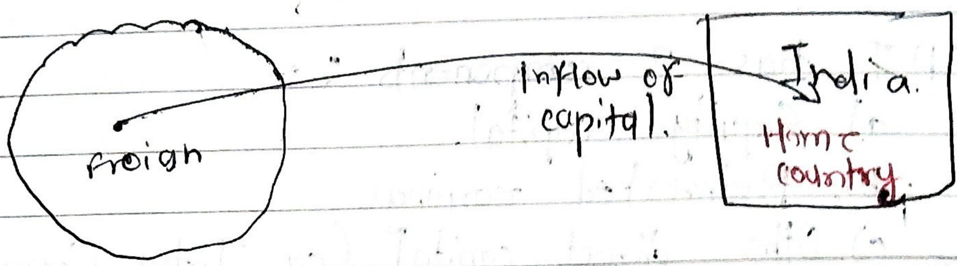
deliberately done by government

CH: 9 — **International Capital Movements**

Unit-5.

① Foreign Capital.

→ Foreign capital includes any inflow of capital into the home country from abroad.



1. Foreign aid or assistance. (मदद).

- → $\boxed{\text{Bilateral}}$ or direct inter government grants.
- → $\boxed{\text{Multilateral}}$ aid from many government.
- → $\boxed{\text{Tied}}$ aid with stipulation. → condition.
- → $\boxed{\text{United}}$ and with no stipulation.
- → foreign grants (voluntary) from institutions or organisations.

2. Borrowings. (Loan).

- → direct inter government loans.
- → loans from international instituations
- → $\boxed{\text{Soft' lons.}}$ (no harsh conditions).
- → External "commercial" ~~browi bro~~ borrowings
- → Trade credit facilities.

3. Deposits from NRI (non resident India).

4. Investments. (निवेश)

- → Foreign Portfolio Investment (FPI).
- → Foreign Direct Investment (FDI).

② Foreign Direct Investment (FDI).

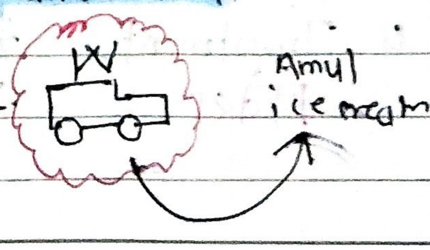
- According to IMF and OECD, the acquisition of at least 10% of ordinary shares or voting power in a public or private enterprise by non-resident investors makes FDI.

→ FDI has 3 components :-
a) Equity capital.
b). Reinvested earnings.
c). Other direct capital (eg. Intra Company loans).

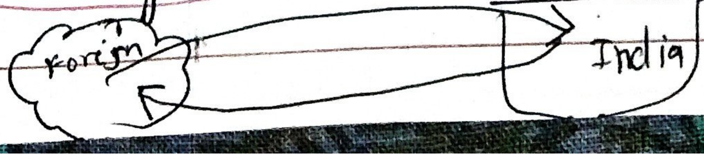
→ FDI are real investments in factories, assets, land, inventories etc and involve foreign ownership of production facilities.

→ FDI May be catgoriesd as :-

Horizontal	Vertical	Conglomerate.
It takes places when investor establishes same type of business operation in foreign country.	It take places when Investors establishes a different activity from its main business activity but may be supportive. eg. - Germany volkswagon acquired plastic moldding company in India.	- It take places when an investor makes investment in a business that is altogether unrelated.



* Two way direct foreign investment

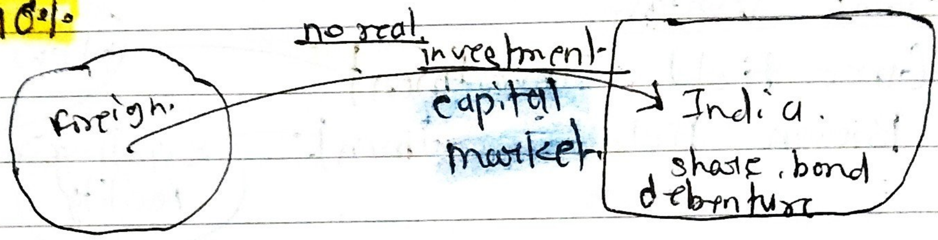


(3) **Foreign Portfolio Investment (FPI).**

> Foreign portfolio investment is the flow of financial capital rather than real capital (doesnot involve owership or control on part of Investor).

> These flows are generally <u>short term</u> and have their immediate effect on BoP and exchange rate. (No major effects on production or income generations).

> Portfolio Investment are characterised by lower stakes in companies with their total stake at **below 10%**



* Speculation → FPI (✓).
* Direct impact on Employment → FDI (✓).
* Diffcult to withdraw → FDI (✓).
* Interest in management → FDI (✓).
* Financial assets → FPI (✓).
* Physcial assets → FDI (✓).
* Short term → FPI (✓).

× × × ×

(4). REASONS FOR FDI

The ~~more~~ main reasons for FDI are :-

i) Profits.
ii). higher rate of return. ↑
iii). Possible economics of large scale operations
पैमाना
iv). River diversification.
v). Capture of emerging market

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vi). lower host country environmental & labour standards
vii). By passing tariff & non tariff barriers.
viii). Cost effective availability of Inputs.
ix). Tax benefits.

* FDI takes place through :-
a). Opening subsidiary company or associate.
b). equity injection. - lumpsum/ek sath investment
c). acquiring control.
d) mergers & acquisitions.
e). Joint Venture.
f). Green field Investment — New facility
g). Brown field Investment — Existing facility

⑤ Problems of FDI
→ Use of inappropriate capital intensive methods in ~~lad~~ labour abundant country
→ Increase in regional disparity.
→ Crowding out of domestic investment.
→ Diversion of Capital resulting in destorted pattern of production.
→ Instability in BOP & exchange rates
→ Repatriation of Profits.
→ Anti ethical market distortions.
→ off - shoring or shifting of Jobs.
→ Over exploitation of ~~nature~~ natural resources.
→ Decrease in competitiveness of domestic companies.
→ Jeopardizing national security
→ Worsening commodity terms of trade etc etc

$$\frac{\text{Prices of exports}}{\text{Prices of imports}}$$

(6). **Benefits** of FDI

* New innovation.
→ Higher efficiency.
→ Higher employment.
→ Better products
→ Lower prices.
→ welfare for consumers.
→ Better access to foreign markets.
→ Improvement in BOP etc etc.

* MAURITIUS is the leading country in respect of inflow of FDI to India.

* If A foreign investor may enter india :-

through automatic route | through government route | through equity in domestic enterprises.

* FDI is prohibited in Chit fund & Nidhi Company

* According to RBI, Overseas direct investment stood at US $ 1,922.51 million in sep 2022.

Investment made by Indian companies in forgin company

* According to World Investment Report 2022, India was ranked 8th among the worlds major FDI receipient (US $ 81973 million during 2020-21).