UNIT III

BALANCE OF PAYMENTS (BOP)

It is a systematic record of all its economic transactions with the outside world on a given year. It is a statistical record on the character and dimensions of the country's economic relationship with the rest of the world.

DEFINITION OF BOP

According to Bo Sodersten, "The BOP is merely a way of listing receipts and payments in international transactions for a country"

According to B.J. Cohen, "It shows the country's trading position, changes in its net position as foreign lender or borrower, and changes in its official reserve holdings".

BALANCE OF TRADE

Balance of trade (BOT) is the difference between the value of a country's exports and the value of a country's imports for a given period. Balance of trade is the largest component of a country's balance of payments. Sometimes the balance of trade between a country's goods and the balance of trade between its services are distinguished as two separate figures.

The balance of trade is also referred to as the trade balance, the international trade balance, commercial balance, or the net exports.

DIFFERENCES BETWEEN BOT AND BOP

BOT	BOP
a. It is difference between the value of goods and services exported and Imported.	a. It is a systematic record of receipts and payments in international Transaction in a given year.
b. It contains the first two item of BOP Account on credit and debt side.	b. Each transaction is entered on the Credit and debt side of balance sheet.
c. If the difference between X & M is Zero, BOT balances.	c. If receipts and payments is equal to Zero, BOP is equilibrium.
d. If X is greater than M BOT is favourable or surplus BOT.	d. If receipts greater than payments or credit exceeds debt – favourable.
e. If X less than M BOT is unfavourable or Deficit BOT.	e. If payments greater than receipts the BOP is unfavourable.

BOP ALWAYS IN EQUILIBRIUM

BOP always balance means the algebraic sum of net credit and debt balance of current account, capital account and official settlements account must equal to zero.

$B = R_j - P_j$

Where B= BOP, R_j = receipts from foreigners, P_j = payments made to foreigners.

When $B = R_j - P_j = 0$ BOP is in equilibrium.
When $R_j - P_j$ greater than 0. Receipt exceeds the payments is surplus BOP. (Or $Rj-Pj > 0$).
When $R_j - P_j$ less than 0. Payments exceeds receipts is deficit BOP. (Or $Rj-Pj<0$).

MEASURING DEFICIT OR SURPLUS IN BOP

There are three ways of measuring deficit or surplus BOP.

a. Basic Balance.
b. Net Liquidity Balance.

c. Official Settlement Balance.

DISEQUILIBRIUM IN BOP

If autonomous credit receipts exceed autonomous debt payments, there is surplus in BOP and the disequilibrium is said to be favourable.

If autonomous debt payments exceed credit receipts, there is deficit in BOP and disequilibrium is said to be unfavourable.

CAUSES OF DISEQUILIBRIUM IN BOP

There are many factors lead to a BOP deficit or surplus. They are 12 such as:

a. Short term misfortunes.
b. Trade Cycle.
c. Fundamental disequilibrium.
d. Secular Trends in the Economy.
e. Structural Changes.
f. Changes in Exchange Rate.
g. Changes in National Income.
h. Price Changes.
i. Stage of Economic Development.
j. Capital Movement.
k. Political Condition.
l. Sociological Condition.

MEASURES TO CORRECT DISEQUILIBRIUM IN BOP

They can be classified in to two ways

a. Automatic correction
b. Planned measures
    a. Monetary Measures
       Deflation
       Devaluation
       Exchange Control
       Exchange Depreciation
    b. Non- Monetary Measures
       Import Duties
       Import Quotas
       Export Promotion Policies and Programmes
       Import Substitution.

BOP POSITION IN INDIA

The balance of payments position of the country reflects on its economic health. The balance of payments of any country is a comprehensive and systematic accounts of all the different transactions occurred between the residents of a country and the rest of the world during a particular period of lime.

The balance of payments is broadly classified into:

(a) Current account and
(b) Capital account.

The current account includes visible exports and import; invisible items relating to receipts and payments for various services like banking, insurance, shipping, travel etc. and other unilateral transfer of payments like donations, grants, taxes etc.

The capital accounts of balance of payments include all the current economic transaction for the country's international financial position resulting changes in the foreign financial assets and liabilities. The capital transaction includes both private, banking and official transactions.

The Balance of Payment Position of India on Current Account since Independence:

With the introduction of planning in India, the balance of payments position of the country has been recording considerable changes with the continuous changes in its imports and exports.

Balance of Payments (BOP) Position during the First Four Plans:

The balance of payments position during the First Plan period was quite satisfactory as the country experienced a deficit in its current account only to the extent of Rs. 42.3 crore. In this period, the inflow of foreign capital was only Rs. 13.6 crore and the foreign exchange reserve was about Rs. 127 crore.

During the Second Plan, the deficit in the balance of trade was to the tune of Rs. 2,339 crore and the surplus of invisibles and donations ultimately reduced the deficit in balance of payment to Rs. 1,725 crore. This higher deficit in the balance of payment, during the Second Plan was resulted from heavy imports of capital goods, huge imports of food grains and raw materials and lesser expansion of exports and higher maintenance imports.

During the Third Plan the country experienced a current account deficit in its BOP to the extent of Rs. 1,941 crore which was financed by loans from foreign countries under various schemes.

During the Fourth Plan, the Government introduced both export promotion and import substitution measures for wining out the deficits in the BOP. Moreover, due to sudden increase in the invisibles accounts receipts to the extent of Rs. 1,680 crore in 1973-74, the plan ended with a surplus of Rs. 100 crore in its BOP.

During the Fifth Plan period, due to the applicability of two factors like hike in oil prices arid increase in the value of exports due to promotional measures, although a surplus in trade balance was attained in 1976-77 (Rs. 316 crore) but the plan experienced an increasing trend in trade deficit to the extent of Rs. 3,179 crore. But due to higher entry of net invisibles, the Fifth Plan ended with surplus of Rs. 3,082 crore.

BOP During the Sixth to Tenth Plan:

The balance of payments position has recorded a total change since 1979-80. India started to record a heavy deficit in its balance of payments since 1979- 80. The growing deficit in trade balance along with the growing deficit in its balance of payments position during the Sixth to Tenth Plan.

Due to the mounting deficit in trade balance, i.e., from Rs. 5,967 crore in 1980-81 to Rs. 6,721 crore in 1984-85, India maintained a huge deficit in its balance of payments to the extent of Rs. 11,384 crore during the Sixth Plan period. Again due to a persistent growing deficit in trade balance the cumulative deficits in the balance of payment during the Seventh Plan rose further to Rs. 38,313 crores, showing the annual average deficit of Rs. 7,662 crore.

Again in 1990-91, total amount of deficits in the balance of payments was as high as Rs. 17,369 crore. But in 1999-2000 and 2000-2001, the total amount of deficits in the balance of payments was Rs. 20,331 crore and Rs. 11,431 crore respectively. In 2001-02, total surplus in BOP was Rs. 16,426 crore and the total surplus further increased to Rs. 47,952 crore in 2003-04. In 2008-09, total deficit in BOP was Rs. (-) 1, 31,614 crore.

This huge deficit in the balance of payments position during the entire Sixth, Seventh and Eighth and Ninth Plan periods was the result of tremendous rate of growth of imports accompanied by a poor rate of growth of exports. The trade deficits during these four plans were so heavy that it could not be offset by the flow of funds under net invisibles. The following table depicts a clear picture about the amount of deficits in the balance of payments from the First Plan to the Ninth Plan.

Recent Trends in BOP Position in India:

India's current account balance posted a marginal surplus of USD 0.6 billion (0.1% of GDP) in the Jan-Mar quarter 2020, as against a deficit of USD 4.7 billion in Jan-Mar 2019 and USD 2.6 billion in the previous quarter. It is noteworthy that this is the first quarterly current account surplus since the Jan-Mar quarter of 2007. It is primarily on account of lower trade deficit at USD 35 billion and a rise in net invisible receipts (which includes services, primary and secondary income) at USD 35.6 billion.

The lower trade deficit is a result of the sharp decline in demand at both the national and international levels following the implementation of COVID-19 lockdowns and a fall in global crude oil prices since the beginning of this year.

In the financial account, net foreign direct investment at USD 12 billion was higher than USD 6.4 billion in Jan-March quarter 2019. On the portfolio investment side, there was a net outflow of USD 13.7 billion compared to USD 9.4 billion inflow the same quarter last year on account of money being pulled out from both debt and equity markets. A surplus at both current and capital account has resulted in a forex reserve accretion of USD 18.8 billion in the Jan-Mar quarter 2020.

Generally, a current account surplus is a piece of welcome news; however, in the current scenario, it is a major worry for the Indian economy as it reflects a drop in economic activity. Given that the imports collapsed more than the exports and overall trade balance (services+goods) posted a surplus in the month of April and May.

TARIFF AND NON-TARIFF BARRIERS

Meaning of Tariff

A tariff is a tax or duty levied on goods when they enter and leave the national frontier or boundary. A tariff refers to import or export duties.

TYPES OF TARIFFS

1) On the basis of purpose.
    a. Revenue tariff.
    b. Protective tariff.
2) On the basis of origin.
    a. Ad valorem Duty.
    b. Specific Duty.
    c. Compound Duty.
    d. Sliding Scale Duty.
3) On the basis of Discrimination.
    a. Single Column Tariff

   b. Double Column Tariff.
      a. General and Conventional Tariffs.
      b. Maximum and Minimum Tariffs.
      c. Multiple or Triple Column Tariffs.

4) On the basis of Retaliation.
   a. Retaliatory Tariffs.
   b. Countervailing Duty.

NON-TARIFF BARRIERS

MEANING

Non-Tariff barriers are obstacles to imports other than tariffs. They are administrative measures that are imposed by a domestic government to discriminate against foreign goods in favour of home goods.

CLASSIFICATIONS OF NTBs

a. VERs – Voluntary Export Restraints – It is an agreement by an exporter country's exporters or government with an importing country to limit their exports to it.
b. Export Subsidy – It is a government grant given to an export firm to reduce the price per unit of goods exported abroad.
c. Countervailing Duty – It is an import duty or tariff imposed by importing country to raise the price of a subsidized export product to offset its lower price.
d. Government Procurement – The main aim is to support domestic industry. Its impact is like a tariff but without the revenue.
e. Customs Valuation and Classification – It is to deliberately delay the clearance of goods by custom officials so as to increase the cost of importing goods, as an import tariff does.
f. Import Licensing Procedures – To restrict imports.
g. Local Content Regulations – To protect domestic producers of parts from foreign competition. It discourage foreign investment rather than trade.
h. Technical Barriers – It restrict the imports. It include health and safety regulations, sanitary regulation, and industrial standards and so on.
