2. Describe the changing pattern of India's foreign trade with reference to markets.
3. Discuss the main features of India's foreign trade.
4. Considering imports and exports seperately, highlight the changes that have taken place in the composition and direction of the country's foreign trade. Point out their significance.
5. On what grounds is the strategy of export-led growth held justified for an underdeveloped country? Critically examine its suitability for India.

UNIT 2 INDIA'S BALANCE OF PAYMENTS

Structure

2.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the concept of balance of payment
- describe the accounting procedure of BOP
- review the trade policy of India
- explain the trends in India's balance of payment
- discuss the role of invisibles in BOP
- explain the recent policy measures.

2.1 INTRODUCTION

Balance of payment refers to all economic transactions between domestic and foreign residents over a stipulated period. The balance of payment of a country provides an overall view of its international economic position. It is very much helpful for the policy makers and the business communities. It this unit, you will learn the concept of balance of payment, the balance of payment accounting procedure, trends in India's balance of payment and recent policy measures.

2.2 CONCEPTS OF BALANCE OF PAYMENTS

Balance of payments refer to all economic transactions between domestic and foreign residents over a stipulated period generally one year. The analysis of balance of payment is immensely useful for the policy makers and business communities. Moreover, it is an important instrument for maintaining external economic stability. A close understanding of dependence of international business upon balance of payments is necessary for successful strategy of international business. Let us learn various aspects of balance of payment in detail.

2.2.1 Balance of Trade and Balance of Payments

Balance of trade refers to the difference between physical imports and exports, i.e. visible items only for a period say, a year. Visible items are those which are physically exported and imported, like merchandise, gold, silver and other commodities. During a given period of time, exports and imports may be exactly equal in which case, the balance of trade is said to be balanced. If the value of exports of a country exceeds the value of imports, the country is said to have an export surplus or a favourable balance of trade, when the value of imports coming to a country is greater than the value of exports, the balance of trade is said to be unfavourable.

International trade includes not only import and export of goods but also services such as air and ocean shipping, financial and other services like banking, insurance, travel, investment income, etc. Export and import of goods are treated as visible trade as they are physically recorded at the customs barriers of the country. Receipts and payments for services are items of invisible trade.

The balance of payment is broader than the balance of trade for it includes not only visible items but also invisible items. Hence, the balance of payments presents a better picture of a country's economic and financial transactions with the rest of world than the balance of trade. Balance of payment is a comprehensive and systematic record of all economic transactions between the residents of a country and the rest of the world. It presents an account of all receipts and payments on account of goods exported, services rendered and capital received by residents/Government of a country (inflows from abroad) and goods imported, services received and capital transferred by the residents/ Government of a country (outflows abroad).

2.2.2 Balance of Payment Accounting

In balance of payments accounting the balance of payments should be zero because every transaction is two- sided with debits balancing credits. But in practice, the balance of payments will not always be equal to zero. This can be due to, among other things, a country's central bank engaging in transactions that are not counted towards the country's balance of payments, or the lack of available statistical data to record all transactions. Balance of payments is classified as: (i) balance of payment on current account, and (ii) balance of payment on capital account.

Current Account: The balance of payment on current account record the current position of the country in the transfer of goods, services, and merchandise as well as invisible items, donations, unilateral transfers, etc. Current account is like an income and expenditure account. Surplus or deficit in current account is transferred to capital account which is like a balance sheet and thus balances itself in historic sense.

Capital Account: Balance of payments on capital account shows the country's financial position in the international scenario, the extent of accumulated foreign exchange reserves, foreign assets and liabilities and the impact of current transactions on international financial positions. The changes in foreign exchange reserves arising out of current account transactions are included in the capital account in order to find out the exact foreign exchange reserve. The capital account provides relief to deteriorating balance of payment positions. Its favourable effect depends upon the availability of net capital transfers, i.e., gross inflow of capital minus payment by way of amortisation. In short, capital account reflects changes in foreign assets and liabilities of the country and affects its creditor/ debitor position. Net changes in current account are reflected by a corresponding opposite change in the capital account, changing the foreign assets and liabilities position of the country. Look at table 2.1 which shows various items of balance of payment.

Balance of Payments Deficits: In India, balance of payment deficits have been largely caused by excess of imports over exports in merchandise. At times and to a small extent the deficits have been in invisible trade also. The major source of deficits has been the rising obligations to meet amortisation payments. This has involved large sums on the return of

loans which became due and the large interest payments thereon. Large withdrawals from non-resident accounts also contributed to deficits.

Table 2.1 Main Items in the Balance of Payments

Items	Definition
A. Current Account (1+2)	
(a) Merchandise exports	Sales of goods abroad
(b) Merchandise imports	Purchase of foreign goods
1. Trade balance (a-b)	Goods trade balance
2. Invisibles (a+b+c+d)	
(a) Non-Factor Services	(i) Sales of services, e.g. insurance, software plus spending of foreign visitors (tourists) (ii) Purchase of foreign services
(b) Investment Income	(i) Dividends, interest etc. received from abroad. (ii) Payment of dividends, interest etc.
(c) Private Transfers	Net private payments, e.g., remittance from workers abroad.
(d) Official Transfers- Grants	Net official payments, e.g., overseas aid.
B. Capital Account (1+2+3+4)	
1. Foreign Investment	
(a) Direct Investment	Net direct investment in plant and machinery etc.
(b) Portfolio Investment	Net purchases/sales of shares, bonds, etc.
2. Others flows	Sum of other items, including delayed export receipts and E & O.
3. Comm. & other borrowings	Official borrowing and lending.
4. Non-resident deposits (net)	
C. Reserves and monetary gold	

On June 21, 1991 when the new Government took the office, it inherited the economy in deep crisis. The balance of payments situation was precarious, with reserves at a low level and the weakening of international confidence having resulted in a sharp decline in capital inflows through commercial borrowing and non-resident deposits. The crisis in the middle east had exacerbated the situation by contributing to higher oil import bill in 1990-91 and the temporary loss of exports markets and remittance earnings. Structural reforms encompassing the industrial sector, the foreign trade and foreign investment were taken. From 1991 the country embarked on a liberalised trade regime with a short negative list of imports, removal of quantitative restrictions for all goods except consumer goods, a phased reduction in customs duties, an adjustment in the exchange rate through a two-step devaluation of the rupee in July 1991 and the movement to a market determined exchange rate. The policy towards foreign portfolio investment has also been substantially liberalised. Foreign investment policy was modified to eliminate barriers, alignment of taxes with international levels and transparency with full repatriation benefits and investor protection.

The structural reforms were aimed at integrating industrial, trade and exchange rate policies to enhance the efficiency in the economy. The beneficial effect of these measures are reflected in a robust export and invisible growth. The post 1991 period has seen a surge in capital flows resulting in growth of foreign exchange reserves.

Check Your Progress A

1) What is balance of payment ?

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2) Distinguish between balance of trade and balance of payment.

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3) What do you mean by capital account of balance of Payment?

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4) State whether following statements are **True** or **False**.

i) The difference between physical exports and imports is referred as balance of trade.

ii) International trade does not include insurance service.

iii) The balance of payment is narrower than the balance of trade.

iv) Current account is like an income and expenditure account.

v) Current account reflects changes in foreign assets and liabilities of the country.

2.3 SALIENT FEATURES OF INDIA'S BALANCE OF PAYMENTS

From the above analysis, the following salient features emerge:

1. India has always faced trade deficits except in 1972-73 and 1976-77 where there was a small surplus.
2. Trade deficit has been rising from plan to plan with the exception of the fourth plan when the trade deficit declined.
3. The rate of growth of exports has been fluctuating from plan to plan.
4. Net invisible receipts have been positive.
5. The crisis in the balance of payments during 1990-91 and in the first quarter of 1991-92 necessitated the mobilisation of additional external funds to fill the gap. The task of the government became particularly difficult in the context of the dwindling international faith in our economy. In the end, the Government could mobilise substantial additional financial resources from the IMF, the world Bank and the bilateral donors, specially Japan.
6. Fiscal deficit not only affects the prospects for growth and stability but has a vital bearing on the balance of payment strategy. A strategy for ensuring a viable balance of payments requires correction in fiscal imbalance as well.
7. There has been a low level of utilisation of external assistance, resulting in a substantial part of authorised loans being in the pipeline. The main factor for under utilisation of assistance is due to the time lag between commitments and conclusions of specific credit arrangements, time consuming procedures and domestic budgetary constraints in providing counterpart funds.
8. The emergence of a number of independent states out of the erstwhile USSR are bound to affect the country's exports adversely. Thus, India's balance of payments continued to be under strain.
9. The underlying weakness of the balance of payments remained. The falling support from net invisible receipts resulting from interest payments, the poor industrial and export performance and high rate of inflation stood in the way of achieving a sustainable balance of payments. Look at Table 2.2 which shows India's balance of payment.

Table 2.2: India's Balance of Payments

(US $ million)

	1995-96	1996-97	1997-98	1998-99
Exports	32311	34133	35680	34298
Imports	43670	48948	51187	47544
Of which: POL	7526	10036	8164	6433
Trade balance	-11359	-14815	-15507	-13246
Invisibles (net)	5449	10196	10007	9208
Non-factor services	-197	726	1319	2165
Investment income	-3205	-3307	-3521	-3544
Pvt. Transfers	8506	12367	11830	10280
Official Grants	345	410	379	307
Current Account Balance	-5910	-4619	-5500	-4038
External assistance (net)	883	1109	907	820
Commercial borrowing (net)@	1275	2848	3999	4362
IMF (net)	-1715	-975	-618	-393
Non-resident deposits (net)	1103	3350	1125	1742
Rupee debt service	-952	-727	-767	-802
Foreign investment, (net)	4615	5963	5353	2312
of which:				
i) FDI (net)	1954	2651	3525	2380
ii) FIIS	2009	1926	979	-338
iii) Euro equities & others	652	1386	849	270
Other flows (net)+	-2235	-1131	-606	-174
Capital account total (net)	2974	10437	9393	7867
Reserve use (-increase)	2936	-5818	-3893	-3829

Source: Economic Survey 1999-2000, GOI.

2.4 INDIA'S CURRENT AND CAPITAL ACCOUNT

Most developing countries run current account deficits (CAD) in their balance of payments and attract external resources to supplement their domestic saving for achieving higher growth rates. Such financing through CAD mirrors the accretion to a country's external liabilities which have to be serviced. This raises the issue of the viability of the CAD. When the payments for servicing assume a rising trend, they pre-empt increasing proportions of current external earnings which could otherwise have been utilised for imports. As import purchasing power is crowded out by debt servicing, vital inputs for growth get choked of which ultimately retards the growth process itself. An unviable current account can, therefore, place an external constraint on growth. By the criterion of the world Bank, a debt-service ratio (DSR) of about 30 per cent, in conjunction with other criteria, classifies a country as 'severely indebted'.

In the Indian context, large and persistent CADs were run throughout the 1980s, peaking at an unsustainable level of 3.2 per cent in 1990-91 and reflected in an explosion of external indebtedness. The signals of impending crisis were clear in the upward movement of the debt-service ratio (DSR) throughout the 1980s, reaching a high of 35.3. per cent in 1990-91. The high level of DSR in India in the 1980s may be attributed to the higher reliance on debt creating flows as a source of financing the CAD to the neglect of non-debt creating flows in the form of foreign investments and near stagnation in invisible receipts.

Drawing lessons from the crisis of 1990-92, The High Level Committee on Balance of payments recommended that the CAD should be contained at 1.6 per cent of GDP which was financiable with normal capital flows. The Report of the Committee on Capital Account Convertibility sets out the axiom of sustainability in the balance of payments "In view of the growing degree of integration of the Indian economy with the rest of the world, it needs to be recognised that the CAD would need to be varied in the context of the opening of the economy. The size of the CAD which can be sustained without encountering external constraints is thus a function of the degree of openness of the economy which can be defined in terms of the ratio of current receipts (CR) to GDP. The size of this ratio is the crucial determinant of the ability of the economy to make current payments and meet the servicing of external debt. As the CR/ GDP ratio rises, it would be possible for the economy to expand the CAD/ GDP ratio without rendering the external debt unsustainable".

Structural reforms launched in the wake of the 1991 crisis have addressed this issue on two fronts. First, there has been a deliberate policy shift towards encouraging non-debt creating flows to finance the CAD. Secondly, the current receipts—both merchandise have shown a robust performance since 1990-91, largely as a result of the reform process. The ratio of current receipts to GDP has witnessed a perceptible rise. The combined outcome of these two factors is reflected in the decline in DSR from 35.3 per cent in 1990-91 to 21.2 per cent in 1997 and 18% in the year 1998-99. The downward trend in IMF repayment obligations have also contributed to decline in DSR.

In the capital account, there has been a significant compositional shift away from debt flows to non- debt flows. The compositional change has mirrored the effect of conscious policy initiatives spread over trade, exchange rate, foreign investment and industrial policy regimes and an endorsement of international confidence in the Indian economy. The economic reforms have created the enabling conditions for inflow of foreign investment both direct (FDI) and portfolio (FPI), which were practically nonexistent earlier. The basic advantage of foreign investment lies in that its risk sharing characteristics are superior to that of debt. In other words, unlike debt, these inflows generally need to be serviced only to the extent they yield positive returns. The only form of external investment which does not have this characteristic is external portfolio investment in domestic debt instruments, which are substantially no different from external debt except to the extent that, on the one hand, they command the domestic rate of interest as against the international interest rate. On the other hand, the exchange rate risk is borne by foreign investor rather than domestic borrower. While caution needs to be exercised with regard to this particular form of foreign investment. The greater inflow of foreign investment, particularly FDI may permit, somewhat higher level of sustainable CAD, subject to certain conditions. The Foreign Direct Investment as percentage of net capital inflow has been rising. Of course, the Foreign Portfolio Investment has also gone up. An important aspect of these flows has been the issuance of Global Depository Receipts (GDRs). These developments have endowed the balance of payments with a distinct sustainability as evident in the decline of the debt service ratio from 35.3 per cent in 1990-91 to 21.2 per cent in 1996-97 and 18% in 1998-99, the debt - GDP ratio has dropped from 30.4 per cent in 1990-91 to 24.7 per cent in 1996-97 and 23.5% in the year 1998-99. The distinct strengthening of the balance of payments since 1991-92 has resulted in a healthy build-up of foreign exchange reserves. The level of foreign exchange reserves has reached to 31 US dollar billion during the year 1999.

2.5 ROLE OF INVISIBLES IN BALANCE OF PAYMENTS

You have learnt that in the exchange of goods and services between countries there are 'visible' and 'invisible' exports and imports. 'Visible' items are those which are physically exported and imported, like merchandise, gold, silver and other commodities. The 'invisible' items comprise costs of services, income, and transfer payments (i.e. payments and remittances unrequisited or without quid pro quo or without any payment obligations). The IMF

Manual classifies 'invisible' account data only under the following 8 heads: (i) travel, (ii) transportation (iii) insurance, (iv) investment income (v) government, included elsewhere, (vi) miscellaneous (receipts/payments for patents and royalities), (vii) transfer payments-officials and (viii) transfer payments private. A surge in the surplus on the invisibles account was led by burgeoning private transfers, partly reflecting the conversion of Indian Development Bonds (IDBs), and a noteworthy improvement in software and other technology related exports. The increase in gross invisible receipts more than offset the increase in net investment income payments. Underlying the growing surplus under net invisible was the relative stable growth in outflows under travel payments, as well as profits and dividends, contrary to expectations in the aftermath of current account convertibility.

2.6 RECENT POLICY MEASURES

The package of reforms unfolded many policy measures. Let us discuss below two recent policy measure which have brought significant changes in the balance of payment situation in India.

2.6.1 Foreign Exchange Policy

With flexible exchange rate regime being adopted since the early seventies, the guiding principle for monetary authorities has been to allow the exchange rate to move in alignment with macro economic fundamentals although countries prefer to limit exchange rate movements within thresholds which movements affect the fundamentals.

Large capital inflows in the wake of the introduction of a market based exchange rate system in 1993 far exceeded the current account deficits and led to excess supply conditions in the foreign exchange market, posing challenges for the monetary authority in the conduct of monetary and exchange rate policies.

Under this scenario, a flexible exchange rate regime, i.e. letting the nominal rate appreciate in the face of large capital inflows has the virtues of insulating the domestic economy from such inflows and containing inflation on account of a favourable pass through from exchange rate to domestic prices. These benefits, however would have to be weighed against the cost of deterioration of external competitiveness reflecting sacrifice of the external balance objective. Alternatively, if the objective is to prevent real appreciation of the exchange rate and preserve external competitiveness, there could be four options or a combination thereof to choose from. They are:

i) The central bank could intervene in the foreign exchange market and then sterlise the incremental liquidity thus generated, thereby keeping the monetary expansion under check. This process has, however, quasi- fiscal costs associated with it and imposes the danger of raising real interest rates which can induce further capital inflows.

ii) Trade restrictions could be relaxed so as to enable capital flows generally supplement domestic saving and as such, have, the potential to foster economic growth. The case should, however, be taken to ensure that it is the investment that increases rather than consumption; otherwise, debt servicing would be unsustainable.

iii) The authorities could relax restrictions on capital outflows. This has the advantage of better portfolio diversification for domestic residents as well as improvement in efficiency of the financial system. Sometimes it enhances the confidence thereby causing larger inflows.

iv) The authorities could reintroduce restrictions to moderate the pace of inflows such as increasing reserve requirements on non- resident deposits, tightening of norms for entities accessing international markets for private capital, higher withholding taxes on interest payments abroad, tightening prudential standards on external borrowing, and introducing end- use clauses.

It needs to be recognised, however, that an open capital account would not only limit the authorities' independence in the conduct of exchange rate policy but would also expose the economy to international shocks. Any strategy of targeting an exchange rate or the money stock may be offset by unexpected inflows which affect the nominal exchange rate as well. Again, free floating of exchange rate may increase volatility and lead to persistent misalignments which could destablise the financial system, thereby eroding the credibility of an independent monetary policy. To be consistent with the economic fundamentals, it may be imperative to allow short- term nominal appreciation during periods of excess supply, but the authorities would have to be prepared for aggressive intervention, supported more often by equally aggressive sterilisation so as to defend the monetary objective. Longer- term measures for preventing deterioration in external competitiveness such as increasing fiscal concessions, softer export credit etc. Should be weighed against the likely amount of losses on account of higher debt servicing burden in the event of depreciation. The exchange rate regime, thus characterised, would involve an activism in the conduct of exchange rate policy.

2.6.2 Convertibility

India adopted current account convertibility (CAC) in August 1994. Furthermore, CAC is already instituted for foreign investors (both direct and portfolio), non- resident depositors and resident corporates contracting external commercial borrowings (ECB). Controls, however, continue to operate on the ability of resident individuals and corporates to send capital abroad as also on inflows and outflows of capital associated with banks and non- bank financial entities. A review of the international experience with CAC shows that, in general, liberalisation of the capital account induces large capital inflows which can cause real appreciation in the exchange rate and erode the effectiveness of domestic monetary policy. Further, an open capital account imposes tremendous pressure on the financial system and brings weakness in the financial system into sharper focus. The move to Capital Account Convertibility would demand a strong discipline from the financial system and would warrant early rectification of infirmities in the system.

According to the committee on Capital Account, Capital Account Convertibility (CAC) refers to the freedom to convert local financial assets into foreign financial assets and vice versa at market determined rates of exchange. Recognising that there are certain weaknesses in the system and that the entrenchment of preconditions can be achieved over a period of time the Committee has recommended a phased implementation of CAC over a three year period phase I (1997-98), Phase II (1998-99) and phase III (1999-2000). The implementation of measures contemplated for each phase should be based on a careful and continuous monitoring of certain preconditions signposts and certain important attendant variable identified from the lessons of the international experience and the specific of Indian situation. The Committee has recommended that fiscal consolidation, a mandated inflation target and strengthening of financial system should be regarded as crucial preconditions signposts for CAC in India.

In order to prepare the financial system for CAC the committee has made several recommendations for bringing about a level playing field between various participants in the financial system, removing market segmentation, uniform treatment of resident and non- resident liabilities for purposes of financial system, introduction of more stringent capital adequacy standards and prudential standards, effective supervisory system and greater autonomy for Banks and Financial Institutions. The Committee recognises that even after the third phase is completed, capital controls on a number of items would continue to be necessary. The Committee recommended that at the end of three year phasing, a stock taking of the progress on the preconditions/ signpost as well as the impact of the measures outlined by the committee should be undertaken. CAC is a continuous process and further measures could be undertaken in the light of the experience gained.

Check Your Progress B

1) Enumerate two features of India's balance of payment.

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2) What is flexible exchange rate?

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3) What do you mean by capital account convertibility ?

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4) State whether following statements are **True** or **False**.

   i) India has always faced trade deficits.

   ii) Developing countries do not run current account deficits.

   iii) A debt service ratio of 30% classifies a country as severely indebted.

   iv) The FDI as percentage of net capital inflow has been declining in India.

   v) The strengthening of the balance of payments since 1991-92 has resulted in a healthy build up of foreign exchange reserves.

2.7 LET US SUM UP

Balance of payment refers to all economic transactions between domestic and foreign residents over a stipulated period. The balance of trade refers to the difference between physical imports and exports, i.e. visible items only for a period, say, a year. Balance of payments is broader than the balance of trade for it includes not only visible items but also invisible items. It is classified as (i) balance of payments on current account, and (ii) balance of payments on capital account. The balance of payments on current account record the current position of the country in the transfer of goods, services, and merchandise as well as invisible items, donations unilateral transfers, etc. Balance of payments on capital accounts shows the country's financial position in the international scenario, the extent of accumulated foreign exchange reserves, foreign assets and liabilities and the impact of current transactions on international financial position. The changes in foreign exchange reserves arising out of current account transaction are included in the capital account in order to find out the exact foreign exchange reserve. The Government established a more liberalised policy in the year 1991 and measures were aimed at integrating industry, trade and exchange rate policies to enhance the efficiency in the economy. The beneficial effect of the 1991 reforms and the subsequent measures are reflected in export and invisible growth. An unviable current account can place an external constraint on growth.

Capital account developments bring to the fore the changing role of external assistance. An important element of external sector developments over the past five decades is the changing character of the capital account. In the present phase the foreign investment flows came to dominate the capital account. This was due to policy to reduce the dependence on debt creating flows in favour of non- debt creating flows. The market determined exchange rate system and the convertibility has imparted buoyance to net invisible earnings recently.

2.8 KEY WORDS

Balance of Trade: The difference between the value of commodity exports and imports.

Balance of Payments: It is broader than the balance of trade for it includes not only 'visible' items but also 'invisible' items.

Visible Items: Those items which are physically exported and imported, like merchandise, gold, silver and other commodities.

Invisible Items: They are the services rendered by shipping, insurance and banking companies, payment of interest and dividend ,tourist spending and so on.

Balance of Payments on Current Account: It records the current position of the country in the transfer of goods, services, and merchandise as well as invisible items, donations, unilateral transfers, etc.

Balance of payments on Capital Account: It shows the country's financial position in an international scenario, the extent of accumulated foreign exchange reserves, foreign assets and liabilities and the impact of current transactions on international financial positions.

Capital Account Convertibility: Refers to the freedom to convert local financial assets into foreign financial assets and *vice versa* at market determined rates of exchange.

2.9 ANSWERS TO CHECK YOUR PROGRESS

A4 i) True ii) False iii) False iv) True v) False

B4 i) True ii) False iii) True iv) False v) True

2.10 TERMINAL QUESTIONS

1. Distinguish between balance of trade and balance of payment. Enumerate various items to be included in balance of Payment Accounting.
2. Describe the salient features of India's balance of payment. What measures would you suggest for improving the balance of payments position in India?
3. What are the main causes for the adverse balance of payments in India? What measures would you suggest to meet the situation ?
4. "The volatility of the exchange rate of major currencies has a significant impact on the developing countries' economies and their foreign exchange management in particular". Discuss.
5. What do you understand by current account convertibility and capital account convertibility ? Make a case for capital account convertibility.

UNIT 3 INDIA AND WORLD TRADE

Structure

3.0 OBJECTIVES

After studying this unit, you should be able to:

- describe recent developments in world trade
- explain the issues in world trade
- analyse the composition of world trade
- describe the regional developments of world trade
- explain the role of international organisation in world trade
- discuss India's strategies for integrating with the world trade.

3.1 INTRODUCTION

The world economic scenario has undergone rapid changes particularly during the last one decade. The formation of single European market, unification of Germany, economic reforms sweeping across the East European countries as well as some developing countries of the world, disintegration of the Soviet Union, Gulf crisis, rising economic power of Japan and Newly Industrialised Economies in world markets, formation of North American Free Trade Arrangement (NAFTA) & Asia Pacific Economic Cooperation (APEC), gradual opening up of China and last but not the least, the successful conclusion of Uruguay Round of Multilateral Trade Negotiations offer enormously challenging problems as well as opportunities to international business and industry. There are several forces which are moving the world towards a single economy. Advances in transport and communications, rapid diffusion of technology, global investment and financial flows, emergence of global markets for products and services and the removal of trade barriers are bringing about revolutionary modification of the global economy.

Many aspects of globalisation have captured worldwide attention in the 1990s, including capital flows, migration and environmental issues. But for more than a century, the driving force behind globalization has been the expansion of trade in goods and services. And throughout the early decades of the 21st century, trade will continue to drive global integration, especially among developing countries.