International Finance
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Lecture - 1
International Financial Environment

Good morning, today we will discuss about international financial environment, coming forty session will be devoted to international finance with lesson one we start with international financial environment before that let me give a outline of the topic. The topic finally, principally devoted to international financial environment or international financial management. We also call it international capitalist capital, international capital budgeting, international capital structure, international financial environment and mainly the international aspect of corporate finance devoted to international finance.

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The topic covered primarily in the area of international financial environment. Session one will be devoted to this area. Here, we will discuss about how the international financial environment over the year developed, how the trade liberalization, financial sector liberalization has given a importance to international trade and investment. Second session will be devoted to international financial transaction, that is how the international financial corporate sector, primarily the big corporate MNC, how they prepare their balance sheet where they have exposure to international different countries. Where we discuss about the current account, capital account, the current trade deficit and current account deficit, we also discuss about international financial movement, financial flow movement, how it affect the current account and capital account, over the year how the international finance MNC moved together through different countries and established their kingdom there. Here we will discuss about the international monetary system that session third will be there. International monetary system that is a gold standard, paper currency standard, your over a purchasing power parity, the (( )) system we will discuss. We will also discuss the floating and fixed exchanged system, their positive negative about the floating in a floating and floating and fixed exchanged system, we will also discuss the currency basket system.

Few countries in the world they have currency basket system. How it affect that current account, capital account how the stability they achieve over the year. Then session four we will discuss about the development of foreign exchange market in India, Indian financial system over the year developed a lot and since 1991, since 1991 the liberalization of financial sector primarily in the area of the current account, capital account how it affects the international trade we will discuss about the same thing. Then we will also discuss the foreign exchange market in India. Foreign exchange market particularly how the, over the year we have migrated from the European system to the US dollar system. We also discuss, we will also discuss the over the year how the current account and capital account developed in Indian context, the various liberalization measures particularly in the area of FII investment FDI investment how it affect our current account deficit, capital account deficit, our trade liberalization system, how in India as a part to the, apart to the WTO agreement we would also discuss about that. And then most important session is the session eight which cover the exchange rate arithmetic who are the, how the fund exchange market develop over the year, who are the participants in the international foreign exchange market.

We will discuss about in the exchange rate arithmetic, exchange rate arithmetic and we also discuss how exchange rate are quote over quote with the direct method, indirect method and we will also we will also take into account that transfer of funds and bills payment, rate deficit in the exchange rate quotation site. In the international parity condition one of the important theories many important theories are there in international parity condition when in session nine, session your session fifteenth will be devoted in this area. We will, here we will discuss international fisher effect, international parity theory, covered interest theory and also we will discuss international purchasing powered, international uncovered parity uncovered parity and real interest parity.

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How inflation, inflation affect in the movement of foreign currency, how international parity condition decides the short term interested in the world economy, we will discuss in session fifteen entire international parity theory. Session seventeen and eighteen also devoted to international parity condition. Here we will discuss the real effective exchange rate, the nominal effective exchange rate, how the central bank and in case of India it is RBI they target the real effective and nominal effective exchange rates for the trade liberalization and in session twenty one we will discuss about the exchange rate exposure. As you know many MNC have established their established their establishment particularly company in different part of the part of the world, they among them that among them trade inflow your foreign currency inflow outflow take place.

How they manage the foreign currency balance sheet and how the risk the movement of foreign currency created risk and how the MNC absorb their risk or and also take a position in the financial market we will discuss about that. In the, in the foreign exposure side, exposure side we will discuss the task transaction exposure, translation exposure and also the economy exposure and session, not only we will discuss about the exposures also how the MNC had managed their exposure over the year, different theory, different way of calculation of exposure and the management of exposure we will discuss in session in session twenty, twenty two, twenty three, twenty four and twenty five. In twenty six and twenty seven we will discuss about the movement of, the movement of, the movement of trade finance. How the (( )) get the trade finance, here we will discuss about equity finance, international equity finance, their JDR ADR, we will also discuss about the international cross listing of shares, the equity are the of the MNC listed in different stock exchange of the world.

We will discuss about the international equity market and cross listing of share. We will also discuss about international bond market, many MNC are raising the funds from the abroad market because abroad market are cheaper, bit cheaper in terms of interest rate and many MNC particularly developing country MNC are raising funds from the international bond market. We will discuss about the convertibility bond, floating zero coupon bond. We will also discuss about, we will also discuss of floating rates, live wire floating rate, your how international rating (( )) rating affect the bond inflow and bond outflow, the rating of (( )) sovereign rating, your international MNC rating also affected the bond market, we will also discuss about the same thing.

Chapter in our session thirty six we will discuss about international capital structure because MNC are spread their spread their wings all over the world, it is not the domestic bond market or domestic equity market important for them, international equity market, international bond market very important for them. Here, the capital structure which is earlier domestic in nature become international aspect because in their balance sheet they have many foreign currency assets and liability which affect their, which affect their capital structure. We will discuss about the international capital structure and also how the domestic capital structure CAPA model is irrelevant when the MNC have international borrowings and lending, right. In other aspect like in the international capital budgeting is very important.

Earlier the international capital budgeting was not so important as compared to as compared to the domestic capital budgeting because MNC where compare domestic companies were primarily raising their funds from the domestic market, however, over the year when they raised their funds from the different (( )) different parts of the world, it is not that domestic capital budgeting is irrelevant, we will discuss about, we will discuss about foreign direct investment foreign and how foreign direct investment you can evaluate in the context of a, in the context of a capital budgeting. This forty sessions are devoted to international capital budgeting capital finance international financial management and we try to cover this, try to cover all the forty sessions in different say different plan way.

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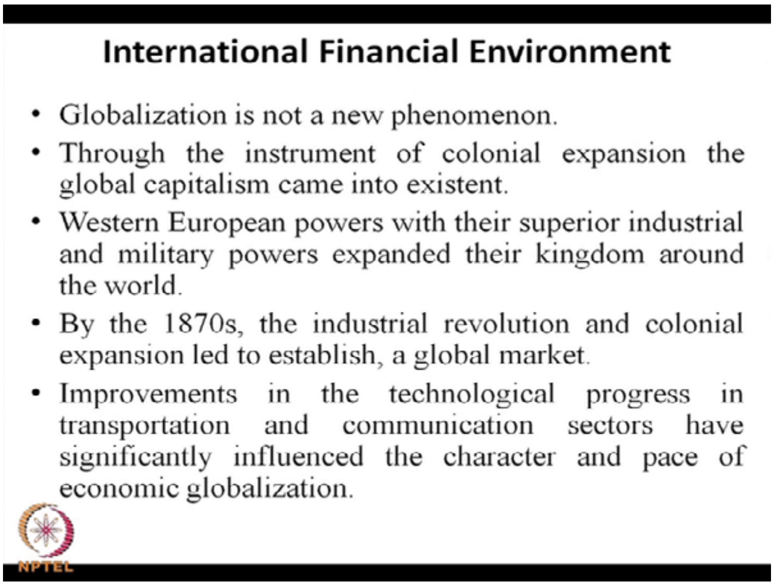

I have designed today we will discuss session one which primarily in the area of primarily in the area of international financial environment. You know the over the year the globalization may be a new term, may be new term in early nineteenth and twentieth century. However, the globalization over the year has affected the movement of capital, movement of human being and established what is called what is called international capital environment.

We will discuss about globalization which we consider as a new phenomenon is not, it is not new. The human civilization, human civilization started with a globalization environment. If you see the largest migration was the migration of human being in early seventeenth and the eighteenth century hence the globalization it is not a new phenomenon at present. Through the instrument of colonial expansion the Britishers established the global capitalism all over the world and western European country with their with their massive funds, technology they established their kingdom all over the world, this leads to what is called movement of capital, movement of human being and movement of technology all over the world.

The globalization if you see at present is not so much as compared to nineteenth and twentieth century because over the year after the second world war many country, many country what is called they established what is called the trade barrier in the movement of goods and services. This affects the movements of capital over the country over the world and this leads to what is called a trade regime. We have different we had different trade regime in early in early part of the twentieth century, but trade regime over the year reduces because of the establishment of the international financial institution and international financial organization particularly if you see, particularly if you see the after the second world war the great depression affected the monetary system, monetary system and world political system.

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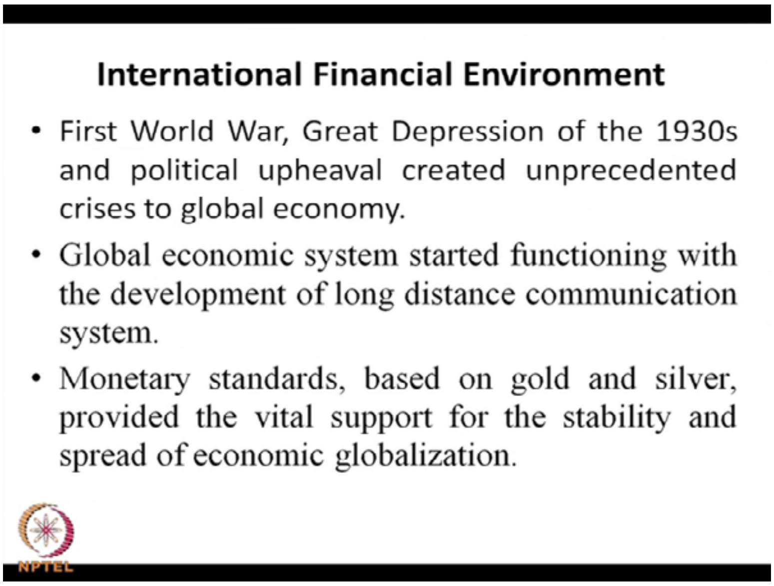

The economist came to know that we have to remove this trade barrier for the stability of the world economy and this leads to establishment of the world level financial institution.

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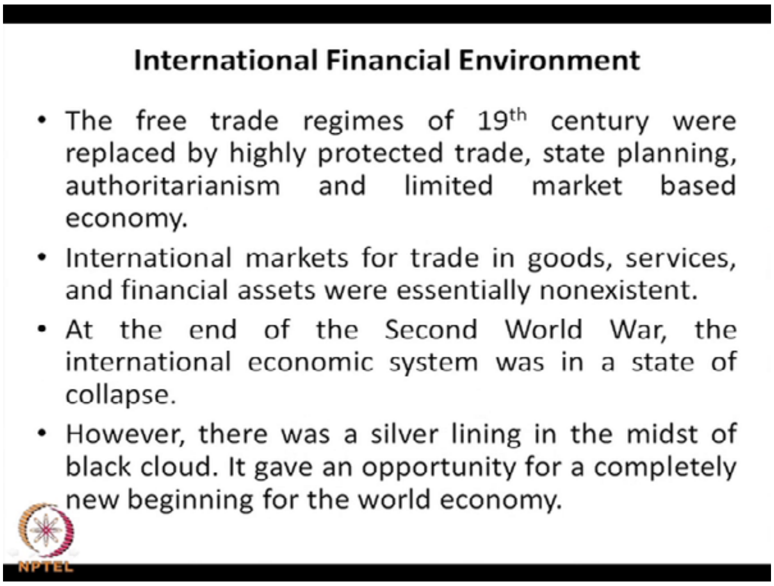

What is called IMF, what is called IMF and other institutions like that general agreement on tariff and trade, world trade finance world trade finance and these are the nation help in establishing the establishing the world financial system and after the second world war many countries demolished or abolished their what is called the gold standard or the metallic standard and they established, the established the paper currency standard. Paper currency standard lead to, lead to, lead to some kind of some kind of purchasing power parity and this purchasing power parity depends upon the individual country inflation and the (( )) wage payment, taxation, political system and this purchasing of parity lead many difficult to create a currency environment where each and every currency can be exchanged to each other. And this problem lead, this problem taken care of by the IMF which establish the convertibility of purchasing power parity.

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And this help in creating a world in a foreign exchange market, different currency different foreign currency of the world established foreign currency, foreign currency which came through either the trade very trade or through the international financial flow lead exchange among themselves through in the international foreign currency market and it is the IMF and the all other international financial organization they establish the international foreign currency market and this help in in in the smooth flow of international trade and international flow, international capital flow.

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The decade of 80, this process continue till 1980, a decade of 80 witnessed more liberalization in the world financial system, they witnessed in this decade of 80 also also known as the open economy micro economy policy of developing country. Developing country, developing country they came to know that they cannot function in a, in a environment of trade, in a environment of close economy, they open their economy, they liberalized, they liberalize their interest rate, exchange rate and try to integrate with the world financial system and this lead to the, this lead to the liberalization of Latin-American country, many Asian country also adopt the liberalized financial system and this help in establishing a more, a more global economy. Similarly we can see that several Latin American country, Asian country implemented the financial reform policy or the eliminated the government control of domestic interest rate, exchange rate and credit allocation. This help in establishing the world financial system.

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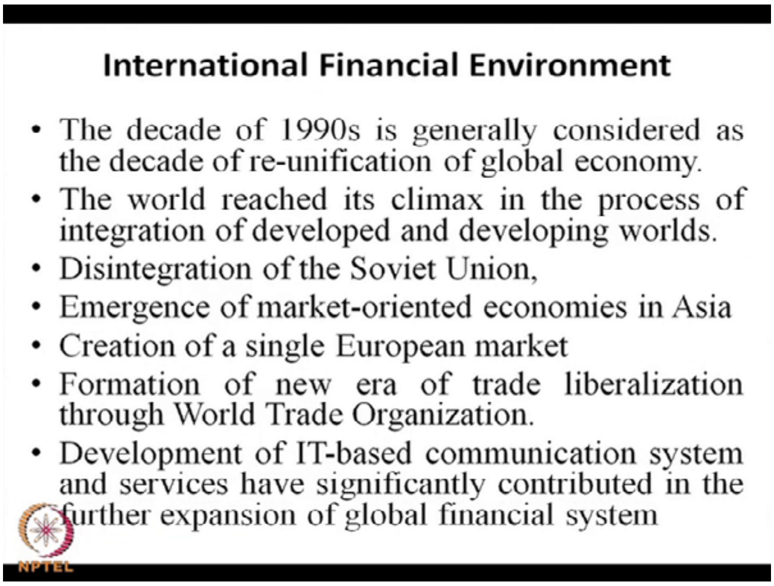

The decade of 90s is generally considered, generally considered as the reunification of global economy. The world reached a climax in the process of integration of developed and developing world, the disintegration of Soviet Union, also helped in establishing a larger world kingdom. The emergence of market oriented economy in Asia, the creation of single European market, the formation of a new era of trade liberalization through world trade organization and development of IT based communication system and services have significant contribution, significantly contribute in the further expansion of the global financial system.

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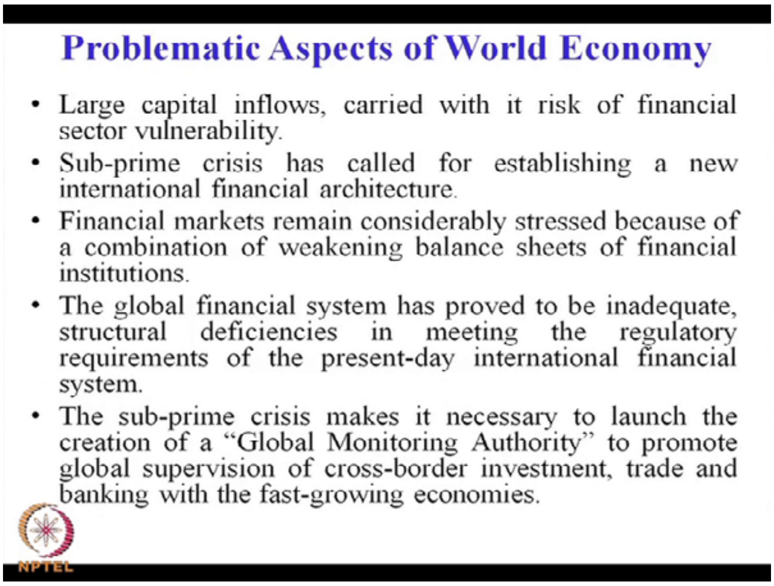

But however, the world economy at present is not as smooth as it was earlier. The movement of the large capital inflow with the, large capital inflow, the movement of large capital inflow also help also created a more risk in the world financial system. The more risk in the form of form of risk capital we generally call hedge fund of different companies move one (( )) one aspect one country to another country and create international offerable or offerables in the financial environment. The movement of movement of capital also leads to the risk flow which affected the flow of, flow of what is called riskless capital or the bonds, international bond market. Many m n c many financial foreign institutional investor they move their funds from one country to another country for the sake of getting more profit.

They used this F I investment in stock market and create more offerables or volatility in the domestic stock, domestic capital market. This affected, this affected and created more risk in the international financial environment. That is this is a problematic aspects of world economy and so, this has lead to the what is called as a subprime crisis which now onwards now 2006 onwards we have been witnessing all over the world, the subprime crisis has lead to recession in the world economy and weakening the balance sheet of the many financial institutions.

The global financial system has proved to be inadequate inadequate in the form of, in the form of absorbing this kind of risks or creating a regulatory framework to minimize the risk of capital inflow, that is there is a need to need for establishing a world level financial institution, more regulatory power. So, that they can manage or they can monitor the risk movement of risk capital all over the country all over the world, this has called for establishing what is called a global monitoring authority because for the smooth flow of international finance, international finance you need a regulatory framework. The regulatory framework should be in a such, should be in a position that it can keep a whistle in the movement of a risk capital all over the, all over the world. For this reason we required at present a smooth functioning of the world financial system is this has called for, this has called for reducing the stress, constress stress in the form of the movement of risk capital and this has, this has called for reinventing the international financial institution. We have to give more power to international financial institution particularly the IMF other world body. So, that they can put a whistle in the movement of the risk capital.

In this session we came (( )) in this session we primarily focus on the establishment of the, what is called a international financial environment. This international financial environment requires that for the smooth functioning of the world capital, world financial institution many countries have established have liberalized their trade barrier, established a integrating path, integrating path for the, for the integrating path to link to the world economy and world economy at present though it is, though it is at a recession phase. However, world definitely over the two coming two three years the world economy will revive its trend and we need the further establishment of a world level organization which can prevent this kind of sub-prime crisis.

And world financial system particularly the particularly the movement of the short term capital, short term capital which affect, we generally invest in stock market in the foreign exchange market need to be controlled and for the smooth flow of international trade, international trade we have to differentiate between the international trade and international financial flow, international trade needs there should be a, there should be a proper banking system, there should be a proper payment system. However, for the smooth transaction of export import and invisible and invisible at the same time international finance, international financial flow needs the linkages of different banking institution, financial institution. So, that there should be flow of flow, financial flow from one country to another country. Financial flow primarily move from to take into account to take the arbitrage opportunity.

Generally developed developing country and developed country the interested differential and leads to the flow of funds from one from developing developed country to developing country. However, however, this this flow is short term in nature and very and create a, create more risk in the international financial environment. International financial environment needs a stability of the capital flow, stability of the funds flow and in this context you have to, you have to give more importance to the trade finance, rather than the finance movement to the risk capital, but risk capital generally affect the financial institution balance sheet because the once the flow, once the economy in a down turn or economy some kind of volatilities are there the risk capital never say stay in the country, they migrate from one country to another country to take into account the arbitrage opportunity.

Arbitrage opportunities are there because there is a differential in interest rate, differential in the return in the stock market. This arbitrage opportunity lead to the movement of hard money. We call the short term movement of foreign currency or the hard money movement. The hard money movement create volatility in the stock market, volatility in the domestic environment and also affect the smooth flow of the world trade organization or the smooth flow of the international trade. International trade and the trade and the and international financial movement need to be differentiated.

There should be some kind of regulatory environment to keep whistle on the movement of the trade (( )) international short term capital for the establishment for the smooth establishment of world trade finance. On this background we need to, need to outline what are the characteristics of the, what are the characteristics of the, characteristic of a international financial environment. The basic characteristic of the world international financial environment that depends upon the movements of capital flow or short term capital and this this lead to that the exchange of different currency, international foreign exchange market we take in we generally consider the exchange of one currency to another currency or exchange of many currency among each other is a largest market in the world and trillions of transaction takes place in a few seconds. This largest market need to be tabbed, need to be monitored in such a way that there should not be any volatile, high volatility in such market. The market have a own potential and market has a own volume. The volume are so much that, so much that you can when in a few seconds it may create havoc in the finance, in a, in a any country domestic market.

So, when the country try to integrate to the world financial system they should be aware of the volumes and volumes and movement of this foreign currency and on this basis they should liberalize their capital account and current account because the international balance sheet of a country is primarily composed of the capital account and current account. The current account taken into account the export import a trade and capital account taken into account the movement of foreign capital which are long term in nature. So, in foreign capital account we have FID investment, we export import, we have a trade, we have interest payment, we have other short term (( )) short term payments and receivables, payables and receivables which are very volatile in nature and this may lead to what is called movement of funds from one country to another in a few seconds.

On the other hand capital account take into account primarily the large borrowings, FDI foreign direct investment and also the government and the government and the country's MNC which they generally borrow from their abroad market, they take into account in the capital side. A capital or most capital account is most stable in nature. However, current account is more volatile in nature, but current account, current account primarily composed of export import which are the which are generally called a trade finance or trade raise, marketed trade and in a developing country like India the export and import, the trade deficit is quite high.

So, because our imports are more than our exports and in this context we will have to liberalize the capital account to in to allow more capital inflow to the country, but in the current account we have more, we have more invisible in the form of the receivable from abroad, receivable from abroad which is which is generally called our called (( )) generally called income inflow. Our peoples are working abroad, they send their fund to domestic country and this (( )) this we call NRI deposit, NRI receivables which are part of the current account and which generally breach our deficit in the current account.

However our trades are more in nature of inelastic because our export imports are inelastic in nature with a primarily in the form of oil imports, primarily in the form of, form of technology imports, primarily in the form of some kind of raw material import or some kind of capital goods inflow which affect, we generally we use it for the export (( )) export side, our trade our import side import primarily the oil import are inelastic in nature because it is a essential commodity. On the other hand our exports are non traditional in nature which may not be in a position to take advantage of the movement of foreign currency and trade regime need to be further liberalized on give boost to the our value added trade which we take into account the export side.

Value added trade may allow us to give and more foreign exchange and in this will breach our trade deficit, at that same time you should take into account more, we should take into account more (( )) more liberalization on current account by allowing more capital more inflow to the (( )) more inflow of dollars or foreign currency to the India. On the other hand capital account, capital account take into account primarily that foreign currency borrowing, FDI, that we have to liberalize the capital account in such a way it should not affect over the international capital movement. However, on the other hand you should take into you should give more importance to our international balance sheet which is more current account deficit. Current account deficit create more volatility in the financial market and the volatility can be arrested or can be reduced by allowing the more liberalization in current and capital account.

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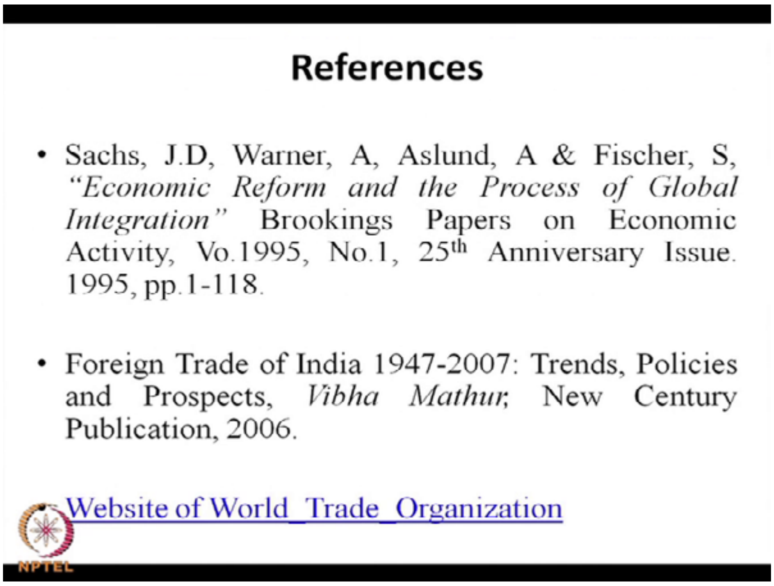

We in that, this one this session primarily devoted to international (( )) environment international environment I have, as I told you the foreign exchange market primarily, but on the other hand international environment also have, also have what is called the domestic environment. Domestic environment is more in our financial institution, our financial market because there is a integration of domestic financial market and international financial market. We have to liberalize our interest rate, you have to liberalize our give more importance to the, our domestic financial institutions.

They should, they should practice their domestic they should practice their banking in financial sector in a more liberalized environment because the freedom require for them to take decision rather than the compulsion, the freedom in the form of interest rate liberalization, freedom in the form of liberalization of (( )) liberalization in capital movement, freedom in the form of allowing their domestic MNC, domestic financial institution to borrow from abroad market because this allow them to bring technology, this allow them to bring capital to the domestic environment. Only the capital and capital and technology can give boost to our exports side which is actually essential for the bridging that trade deficit.

Our interest rate scenario if you see, if you see, if you see our interest rate scenario at present, at present more liberalized in nature, the interested help in, help in bridging that bridging the gap between domestic and domestic and interested environment and abroad interested environment because this is essential, this is essential for integrating the domestic economy at through the world economy. However the integration leads to what is called, what is call more problem in nature, problematic aspect is in the form of the international instability or the global level instability may come to the domestic environment. You have to, you have to take sufficient protection in the form of, in the form of more not allowing the capital account in a in a drastic change in drastic liberalization because the international financial environment at present is highly unstable, the unstable instability may come to the domestic environment domestic market and it create more problem to domestic financial institution.

So, international liberalization essential for the success of the domestic financial market, domestic economy at the same time it should get it, should create sufficient protectionist measure. So, that the international capital move, international political, international instability should not come to the domestic environment. There are many such kind of what is called problematic aspect of the world economy. The capital flow as I mentioned earlier is linked to (( )) or hard money movement this may affect our domestic financial environment. Similarly at present the economy is in a sub-prime crisis economic world economy in recession, the recession on the world economy also world economy downturned has also affected us. We have to take our domestic economy by boosting the domestic by boosting our domestic requirement in the form of our allowing the our domestic financial organization domestic I mean domestic company to get fund from the domestic financial market.

Similarly, the our financial market, the financial market and many other domestic financial companies the balance sheet is a very stress in nature because the earlier they were part of the international financial market and international financial market at present in a stressed environment. We have to protect this stress protect this from domestic company by giving some kind of reformatory measure in the form of low cost fund, in the form of reducing the tariff barrier, in the form of reducing the taxation side at the same time in the present day international regulatory system is not sufficient to protect the domestic economy.

So, in this process we have to we have to negotiate with the world financial organization of other country and establish at world level monitoring organization. The monitoring organization should be, should be in a position should have sufficient power to, should have sufficient power to protect the individual domestic individual economy to protect the individual economy in the form of, in the form of movement of hard money, movement of, movement of short term capital, movement of risk capital and this risk capital as I mentioned earlier also create more instability in the domestic sector. So, the world economy need to be reconstituted in the form of a new financial architecture. The new financial architecture should take into account, should take into account the movement of financial movement of foreign currency, movement of short term capital, movement of hard money and also create such kind of regulatory framework which can protect the domestic economy. The world international financial architecture should also take into account the integrating the world economy in a more in a, in a smooth manner. So, that the world trade finance on one level export import should not be affected, at the same time the international financial architecture should take into account the WTO and WTO side. The WTO or the world trade organization should be should be given sufficient power to create a smooth international trade. In this context the requirement of the developing country should also be protected, domestic world trade organization over the year has liberalized the world trade in significantly, the tariff which affected the movement of the goods and services, goods and services also have been reduced over the year.

The world trade organization has been considering over the year the movement of labour forces, the movement of agricultural goods, movement of services, movement of technology, movement of intellectual capitals and this need further need further in negotiation because these are the very sensitive issues in international financial environment. The agricultural side, movement of movement of labour, movement of movement of short term capital, movement of intellectual property these are the very sensitive issue in in sensitive issue to world trade and this need further negotiation and negotiations would take into account the take into account the requirement of developing country because developing country at present in the transition phase.

The transition they need more capital, they need new technology, they need protectionist environment and for them the world trade organization should also consider and should also consider how to develop these developing country. In this context the environment issue, the issue of intellectual property, the issue of world level technology is very sensitive in nature and this sensitivity should be, should be, should be discussed should be discussed in world trade organization and try to give more important to developing country where developing sizeable section of the society, sizeable section of the population are poorer in nature. Developed country over the year, over the year, over the year they established their economy, they established their established their market and they need less protection as compared to developing country. So, in this context we come to the come to a come to such the environment side where international capital structure, international property, international financial movement and international market foreign currency market need to be discussed in a, in a, in a more detailed manner. And for this we have designed the international financial finance topic financial topic in such a way that this issue need to be addressed, this issue need to be addressed more detailed manner because the movement of foreign currency affect the world or the world trade and finance and this foreign currency are very short term in nature they move from one market to another market, one economy to another economy in a very few very few second and this foreign currency movement create more risks in the domestic financial market.

And domestic financial domestic MNC and domestic MNC and domestic and domestic economy affected because of this movement of foreign currency, over now a days if you see the if you see the there is hardly any difference between domestic company and MNC because many such companies are sourcing their export import from the, from the world financial market and in the movement of foreign currency affects their balance sheet. We generally call, generally mention that if you have exposure if a company has exposure in foreign currency either in the form of payment of interests, in the form of export, in the form of import or any other format, any other format which is linked to foreign currency, their balance sheet is never closed because their balance sheet anywhere in the world, the foreign currency market is open, it is a 24 hours market.

The market start from the Tokyo early morning and end at Tokyo again at the early morning and in this process, in this process the even though the world financial systems are closed the domestic the international financial environment which is primarily foreign currency oriented never close, it is a 24 hour market in our balance sheet of MNC company are open. Because the movement of foreign currency lead to the change of exchange rate, exchange rate which have change its value every second, affect the asset liability of the foreign MNC, the asset liability continuously changing, continuously changing with the movement of foreign currency. Hence, the foreign currency exposure of MNC MNC is a since foreign currency exposure of MNC is lead to be studied in a detailed manner.

At the same time we also take into account how are the MNC's are borrowing from the world financial system. In this context we have to discuss you have to study the entire you have to study the entire international financial market. International financial market are short term in nature which fulfil the requirement of working capital borrowing, at the same time international financial market also long term in nature which fulfil the requirement of capital borrowing, a long term borrowing, a technology finance technology finance, also finance of long term project.

So, you have to study in detail the international financial international trade finance in a significant way. Also there are movement of foreign currency from one country to another, how the payment system take payment system take care the movement of foreign currency, in this context we have to study the international payment system. How the different currency different bodies are there, different organizations are there, they take into account the international payment system. In this context we should study the euro zone, we want to study the US zone and how and also at the same time we have to study the Asian currency union, the currency union how the international settlement take place in this market.

At the same time you have to study the international equity market. International equity market because many MNC's are borrowing from abroad in the form of diluting their equity in Indian in Indian context we have JDR ADR many companies like Infosys, TCS many other manufacturing company they have the they have raised their money from abroad by directing their equity. In this context you should study the J J D R and A D R and their Global depositary receipt and also American depositary receipt we have also Indian depositary receipt.

We will study in detail with the depositary receipt side also. International capital structure as you as I mentioned earlier over the, in my lecture that many such country, many such country have, many such country MNC have borrowed from the borrowed from different financial market and their balance sheet compose of not only the domestic capital, but also, but also that international capital. When international exposures are there in the capital structure the domestic capital market the domestic capital structure is not valid.

In this context you should study what is called the market segmentation and market integration and the world markets have segmented, there is arbitrage opportunity available, world markets have integrated the arbitrage opportunity will not be available, arbitrage opportunity provide some kind of some kind of windows in form of in in the form of, in the form of its called the differential interests rate and which will, which will lead to reduction of capital, reduction of the cost of capital, but as the world economy is moving towards more integrated manner the arbitrage opportunity over the year do you think and in this context we will see how the capital structure is affected because of segmentation, market segmentation and market integration. And as you know the foreign direct investment, foreign directs its investment many developing country they are inviting the MNC to invest in their domestic market. In this context the foreign direct investment are coming from different countries. We have to understand how the foreign MNC's are evaluating the foreign direct investment before they before they try to invest in a domestic economy. Though in this context we will study that how the domestic financial environment allows the foreign direct investment, what are the political risks are there. So, many risks are there, how the financial market allowing that foreign direct investment, what are the liberalization measures of domestic economies have done, in this context you try to, try to study the international financial domestic financial environment for the MNC in the Indian context.

The liberalization measure 1991 onwards what we have achieved we have, we have done the how the liberalization measure allow the domestic foreign company to invest in Indian context and how the foreign company take into account the project finance, project side and try to project side and evaluate the project in the light of foreign currency movement. So, international financial environment before coming to end I have to mention here that it is a very difficult, very difficult to analyze the international financial environment primarily because all it is a very dynamic world where foreign currency movement take place.

We are in a dynamic world when policy changes are taking place every moment this this international finance and environment is evolving in nature. No country in the world has established full convertibility, no country in the world have stopped the movement of foreign currency. So, so, in a international environment at present it is evolving in nature. So, we have to continuously and monitor the international environment to protect the domestic economy. So, in this context we have to, we have to establish we have to see how the how the Indian financial sector even particularly the foreign exchange market develop develops since 1980 65 67 onwards and still now the which is the phase we are passing through and we will analyze the domestic environment domestic liberalization and try to find how it affect the in movement of foreign currency in India. The liberalization of liberalization capitalists capital, liberalization by investment, liberalization of domestic financial sector, librealization financial sector, interested liberalization, extended liberalization, how it affect the movement of foreign currency, how it affect the international financial environment and we try to study the different aspect to the financial environment in subsequent session.

Before coming to end let me give you the references here. There finally, I follow the references of the world trade organization. Now, if you see the world website of the world trade organization, the world trade prior earlier it was known as GATT general agreement of trade and tariff, in 92 93 onwards they have changed their name to world trade organization. The world trade organization is the organization of the organization the world level where member countries agree to liberalize the international trade and here the liberalization of tariff, liberalization of custom duties, liberalization negotiation among different different countries to liberalize the international trades are trades are mentioned there, you can go through the world trade organization website, try to find the liberalization in the world economy particularly the trade regime.

I also follow the Brookings institution, Brookings institution where the J D Sachs and Aslund, Fischer they have written one good one paper on, one paper particularly in the anniversary paper issues in 1995 they liberealized they survey the economic reform and the process of global integration they may here also I found that this paper is very useful for to understand the economic liberalization over the years.

They have confined their they have not confined the liberalization in particular country, they have shared they have mentioned their over the years how the economic world economy has liberalized and how the world economy has become more integrated at present and in the second third one I mentioned here that primarily in the Indian context 1947 to 2007 the foreign trade of India, here foreign trends policies prospect a Vibha Mathur, new century publication they mentioned that and here they analyzed the trade regime Indian foreign trade, the liberalization aspect, direction of trade, custom duty, tariff liberalization, liberalization of FDI investment, the all trends and policies they have mentioned that this book also good for to good to understand the trade regime in Indian context. Here I have supposed to mention here supposed to mention here that the trade means trade has a two parts in Indian context, one part is called the items or the goods and services, another part is the direction. Items are not only generally we classify items trade items in the form of, in the form of manufactured goods, in the form of traditional and non-traditional good.

Traditional good in the form of handicraft export, in the form of exports of raw materials, in the form of exports of exports of mineral commodities and (( )) and also we have these commodities are we have been exporting because we are not in a position to give value addition to this commodity, this commodity though have a market, but we could not get sufficient amount of foreign exchange. We need to improve our, improve our value added from our value added export which to capture the world market. If you see world world trade our export is hardly less than one percent of the world export. So, we have to export more by giving more importance to the manufacturing side and more important to what is called the value added trade.

On the other hand we have direction of export, what is called direction which country you are exporting, direction we have a US dollar US country, our Latin American country, we have a country to like our Saudi Arabian country, we have a country other Asian country, European union, but our export primarily directed to world primarily directed to US economy and European country. Our export we have not, we have not so far directed our export to South Africa side, African country side who have more important to export and direction of export is very important because we should not confine to one country, one zone because it may affect their one country export, that their import may affect may affect our export side. So, we have to diffuse our export to different part of the country to take into different part of the world to take into account the movement the advantage of this country.

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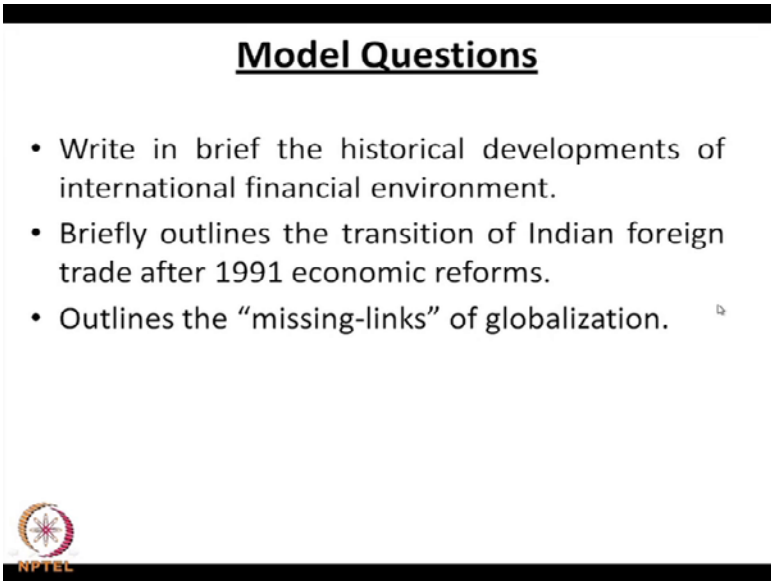

Okay, before coming to end let me discuss go for the model questions here, the model question I have mentioned here write in brief the historical development of international financial environment here and second question is briefly outline the transition of Indian foreign trade after 1991 economic reform and third question is outline the missing-link of globalization. In the before first question number one write the write in brief the historical development of international financial environment and here the you have to mention how the international trade, international trade environment develop over the year. Before mentioning that you have to outline the eighteen, seventeen eighteen century the movements of human beings, establishment of different countries, establishment of sovereign powers, you have to establish here you have to mention here the colonial expansion of the European union European country primarily the great Britain, how they expand their economy to different part of the world particularly the Asian country and also African country.

Here also here also you mention after the first world first and second world war how the world economy developed, world economy developed, how the establishment of world trade organization world trade organization particularly the GATT, WTO, IMF help in creating an environment for the smooth international financial movement, international financial movement, also international movements of goods and services. In that question also we mention that how the developing country and the soviet union have integrated over the world economic system, the how are the capitalism they spread all over the world, then how the MNC have spread their wings, spread their company different part of the world, this will lead to the this may, this may help you analyzing the historical development of the international financial environment. Second question is your briefly outline the transition of Indian foreign trade after the 1991 economic reform.

Here you have to mention how the economy Indian economy has liberalized their financial sector, the trade sector and other economic policy particularly the licensing raj, the MRTP act abolished, we have established the competition commission we have liberalized their economy we have allowed their MNC our domestic economy domestic company to move from one country to another country. We have also liberalized the foreign liberalized their foreign currency market, we have liberalized the export import side, we have established a foreign currency market, we have, we also mentioned that the current account convertibility, capital account liberalization side how it affect how it help in the foreign currency, foreign trade in the Indian in Indian context.

Here also I mentioned how the India has become a member of the WTO and at the at the polish as a member country Indian export import duty, particularly the custom duty have reduced for different goods and services. Once upon a time the custom duty was more than 100, 200 percent it has been levy it has been reduced to 35- 40 percent now this help in in in a further this help in boosting our trade. Here also I mentioned how are the our direction and items of trade. Our direction of trade earlier the U S European country US and also we have established our trade link to African countries.

Here also I mentioned our different items of trade we have now more value rate trade, the mineral export, mineral export, the export of the non traditional goods traditional goods has reduced over the year, our value added export has increased, we established a new source of export particularly the soft export we call it the technology soft software technology exports that also major part of our (( )) export basket now and this way you can you can analyze the Indian foreign currency market foreign trade after the 1991 economic reform. Third question is outline the missing-links of globalization here we have discussed in our presentation that there are many missing links are there in globalization process first missing link is the human phase of liberalization.

The liberalization has helped in human helped in the society or not you have to analyze establish you have to understand that and also you mean the liberalization lead to more movement of risk capital, it has created financial sector of rivals, it has created world sub-prime crisis, it has created the risk in more risks in the world economy, we have to establish the this links the missing links at that we have to establish a global level financial institution to monitor the movement of risk capital, this is essential for you for the success of the world economy because world economy needs smooth flow of capital at the same time world economy also need to manage the risk, risk is there this will affect the world trade and also risk is there it affects the movement of world capital, the for this reason the management of risk and their liberalization should go together and we have to establish such kind of institution, world level institution which can monitor the monitor the risk and with a regulatory framework they can, they can establish the smooth flow of international trade and finance.

Thank you.