Instead, also substantially differ from each other. (e)

Instead, it is expected to help its own country even if, in the process, it has to hurt other economies.

In other words, it may follow the so-called ' beggar thy neighbour' or even ' beggar the rest of the world' approach. (b) Pursuit of Non-economic Objectives: It would adopt all possible means for defending both economic and non-economic interests of the home country. Frequently, non-economic interests get a priority over economic ones, so that economic interests of even the home country may be sacrificed.

This can happen when questions of national defence and international transactions relating to it are involved. Similarly, the government may aim at achieving self-sufficiency in the supply of certain essential items like food and health products, by adopting a policy of import substitution and paying a high economic cost for pursuing this policy. In other words, a country may decide to achieve certain non-economic objectives irrespective of their high cost.

In the process, it may also restrict export of certain items to all or some selected countries. (c) Protecting Economic Interests of Home Economy: A modern government is expected to protect the domestic economy from the possible ill-effects of disturbances originating in other countries. These disturbances may be a part of spontaneous working of the market forces, or they may even be engineered by foreign governments, institutions and multinational corporations. Examples of such destabilizing practices include (i) ' dumping', (ii) exchange rate manipulations, (c) trade restrictions and other forms of discriminating practices, and the like.

(d) Differences in Domestic Economic policies: While pursuing the objective of protecting and promoting national interest, modern governments find that they have to take into account the fact that economies of the world differ from each other in several fundamental ways. Accordingly, monetary, fiscal and other economic policies adopted by them also substantially differ from each other. (e) Paper Standard and International Liquidity: Modern currencies are on paper standard and huge volumes of capital funds are circulating in the world. These facts create special problems of their own. Problems of insufficient international liquidity (that is, insufficient means of payments for financing international transactions) crop up. Countries try to overcome the problem of international liquidity in various ways with attendant repercussions. (f) Foreign Exchange Reserves: Most international transactions are financed by the currencies of only a few selected developed countries.

Therefore, other countries start holding them as “ foreign exchange reserves”. The need for such reserves increases with an expansion in international trade and other transactions. However, additional availability of foreign exchange reserves is possible only if the countries whose currencies perform the role of exchange reserves run into a current account deficit (that is, only if their imports of goods and services exceed their exports of goods and services). Some thinkers fear that it may not be possible to sustain such a one-sided deficit on a permanent basis. (g) Distribution of International Liquidity: Moreover, even when there is sufficient international liquidity for all the countries taken together, it is not necessary that it would also be distributed between them in proportion, to their respective needs.

Some of them can still face a payments crisis. (h) International Indebtedness: Growing international indebtedness has also added to the danger of payments crisis. Several countries have actually faced this crisis.

India faced this situation twice, each time borrowing heavily from the International Monetary Fund (IMF). (i) Balance of Payments Problems: The authorities of a country facing a balance of payments (or a balance of trade) problem may decide to use certain corrective measures like exchange rate depreciation, use of punitive customs duties or imposing other forms of restrictions on imports. In practice, these measures may or may not bring about a permanent solution of the problem. In addition, there is also the risk of retaliatory measures by other countries.