PAPER I - INDIAN ECONOMY & INDIAN FINANCIAL SYSTEM

Module A: INDIAN ECONOMIC ARCHITECTURE

Chapter 9: International Economic Organizations (World Bank, IMF etc.)

Topics in this chapter

- International Economic Organisations
- IMF and World Bank
- WTO- India and WTO
- Regional Economic Co-operations
- Recent International Economic Issues

9.1 INTERNATIONAL ECONOMIC ORGANISATIONS

An **international economic organisation** is an organization that is created by a group of countries to promote economic development and global trade.

There are three important international economic organisations that serve the globe by encouraging development, providing technical and financial support, settling disputes, and facilitating agreements. These three key organisations are:

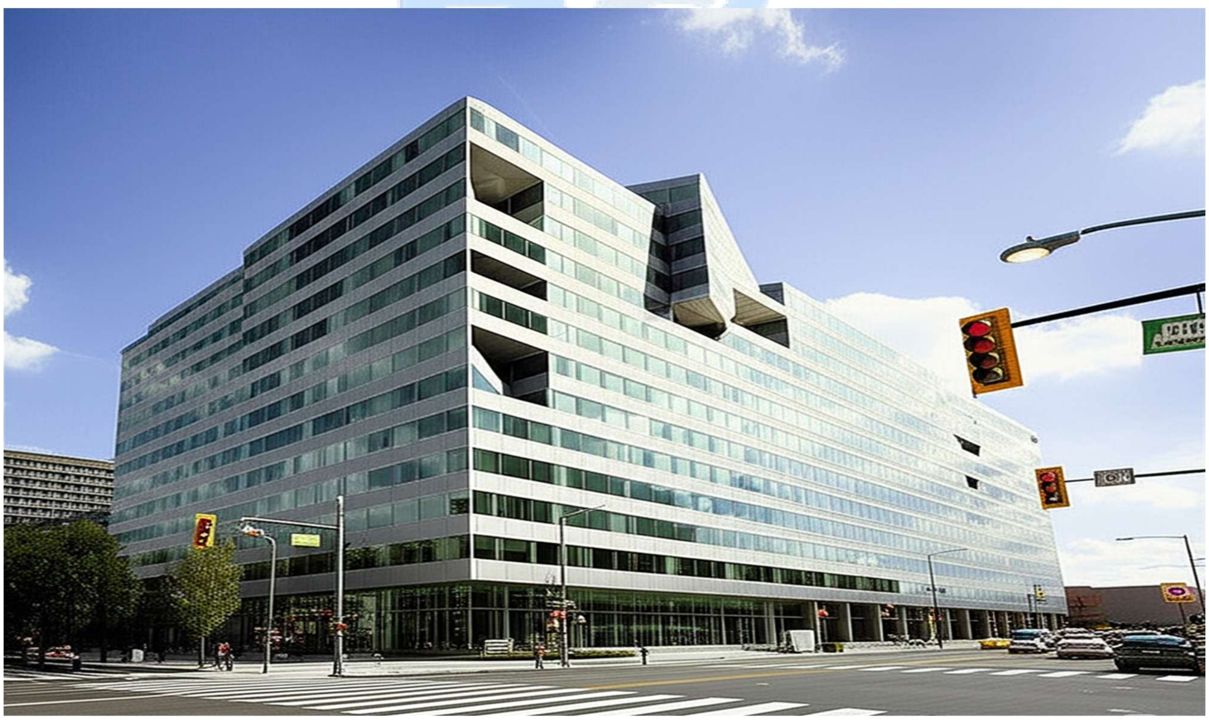
1. **The World Trade Organization (WTO)**
2. **The International Monetary Fund (IMF)**
3. **The World Bank (WB)**

9.2 IMF AND WORLD BANK

International Monetary Fund (IMF)

The **International Monetary Fund (IMF)** works to ensure long-term growth and prosperity for all of its **190 member nations**. It does this by promoting economic policies that encourage financial stability and monetary cooperation, which are essential for improving productivity, creating jobs, and enhancing economic well-being.

The IMF was formed in July 1944 at a conference in Bretton Woods, New York, where delegates from 45 countries agreed on a framework for international economic cooperation. India became a member of the IMF on **December 27, 1945.**



The headquarters of IMF is in **Washington, D.C., USA.**

Functions of IMF

(a) **Surveillance over members' economic policies:** The IMF has the legal authority to supervise its member countries to ensure they are following economic policies that are consistent with the IMF's goals. It regularly reviews the economic situations of nearly every country in the world.

(b) **Financing temporary balance of payments needs:** When a member country faces a temporary balance of payments crisis (meaning it is spending more foreign currency than it is earning), the IMF provides loans to help it implement corrective measures in an orderly manner.

(c) **Combating poverty in low-income countries:** The IMF provides concessional (low-interest) loans to poor countries to support their efforts to reduce poverty. It works closely with the World Bank on this and participates in debt-relief initiatives like the **Heavily Indebted Poor Countries (HIPC) Initiative**.

(d) **Mobilizing external financing:** An IMF endorsement of a country's economic policies often acts as a crucial signal to other lenders, donors, and investors. This helps the country mobilize external funding.

(e) **Strengthening the International Monetary System:** The IMF is the key institution of the international monetary system. It acts as a forum for members to consult and collaborate on international financial issues.

(f) **Increasing the global supply of international reserves:** In 1969, the IMF created an international reserve asset known as **Special Drawing Rights (SDRs)** to increase international liquidity.

(g) **Building capacity through technical assistance and training:** The IMF offers technical support and training to help member countries improve their economic management capabilities.

(h) **Dissemination of information and research:** The IMF conducts economic analyses, compiles statistics, and produces estimates, which it shares through various reports, research projects, and journals.

India's Economic Relationships with IMF

India is a founding member of the IMF. The Finance Minister of India is the ex-officio Governor on the Board of Governors of the IMF. During the 1970s and 1980s, India was one of the bank's major debtors. The conditional financial assistance provided by the IMF was instrumental in shaping the macroeconomic reforms of the 1990s.

During the 2008 global financial crisis, India received around **US$4.5 billion** from the IMF's SDR allocation to combat the economic slowdown. India's current IMF quota is **SDR 13,114 million**, which gives it a **2.76%** stake, making it the sixth-largest quota-holding member.

Special Drawing Rights (SDR)

The **SDR** was created by the IMF as a supplementary international reserve asset.

- It is **not a currency** itself, but it is a potential claim on the freely usable currencies of IMF members.
- Initially, the SDR was defined in terms of gold, but after the collapse of the Bretton Woods system, it was redefined as a **basket of major currencies**.

- The SDR basket is reviewed every five years to ensure it reflects the relative importance of currencies in the world's trading and financial systems.
- The currencies currently included in the SDR basket are the **U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling**.

World Bank (WB)

The **World Bank** also emerged from the 1944 Bretton Woods Conference. Its initial goal was to assist in the rebuilding of Western Europe after the devastation of World War II. After completing this task, its focus has shifted to **alleviating poverty in developing countries**.

The World Bank is the largest development bank in the world. It provides financial solutions and policy assistance to nations to help them eliminate poverty and spread the benefits of sustainable growth. The Bank's activities are focused on areas like:

- Human development (education, health - e.g., Swachh Bharat Mission).
- Agriculture and rural development (e.g., Pradhan Mantri Krishi Sinchayee Yojana).
- Poverty alleviation (e.g., National Rural Livelihoods Mission).
- Environmental protection (e.g., National Ganga River Basin Project).
- Infrastructure (roads, electricity, ports).
- Governance (anti-corruption, legal institutions).

The World Bank Group (WBG) is a collection of five international institutions:

1. **International Bank for Reconstruction and Development (IBRD):** This is the world's biggest development bank. It provides loans, guarantees, and advisory services to middle-income and creditworthy low-income countries.
2. **International Development Association (IDA):** Established in 1960, the IDA supports the world's poorest countries. It provides long-term, interest-free loans and grants.
3. **International Finance Corporation (IFC):** The IFC is the world's largest multilateral source of loan and equity financing for **private-sector projects** in the developing world. Its goal is to encourage private sector investment as a means of alleviating poverty.
4. **Multilateral Investment Guarantee Agency (MIGA):** MIGA encourages foreign direct investment into developing countries by protecting investors against non-commercial and political risks.
5. **International Centre for Settlement of Investment Disputes (ICSID):** Founded in 1966, the ICSID helps to mediate and resolve legal disputes between international investors and states.

India and the World Bank

Except for ICSID, India is a member of four of the five World Bank Group components. The World Bank started assisting India in 1948. India has benefited greatly from its activities, receiving funds, guidance, and expertise for a wide range of development projects. Borrowing from the World Bank provides low-cost, stable financing with extended maturity periods, which is highly beneficial for the country.

IMF and WB Group: Differences

International Monetary Fund (IMF)	World Bank Group (WBG)
It is a **single institution**.	It comprises **five institutions** (IBRD, IDA, IFC, MIGA, ICSID).
It oversees the international **monetary system**.	It seeks to promote the **economic development** of the world's poorer countries.
It promotes **exchange rate stability**.	It assists developing countries through **long-term financing** of development projects.
It assists with **Balance of Payments (BoP) bailout funds** through short- to medium-term credits.	It encourages **private enterprises** in developing countries through its affiliate, the IFC.
It draws its financial resources principally from the **quota**	The IBRD and IFC acquire most of their resources by **borrowing from**

BANKING SHIKSHA

International Monetary Fund (IMF)	World Bank Group (WBG)
subscriptions of its member countries.	**international bond markets**. The IDA gets donations.

9.3 WORLD TRADE ORGANIZATION (WTO) - INDIA AND WTO

After World War II, several nations gathered to strengthen global economic relations. This led to the signing of the **General Agreement on Tariffs and Trade (GATT)** by 23 nations on October 30, 1947. India was a founding member of GATT.

From 1948 to 1994, GATT set the rules for much of international trade. After eight rounds of negotiations, the **World Trade Organization (WTO)** was formed on **January 1, 1995**. The establishment of the WTO was the most significant reform of international trade since World War II.

The WTO is essentially a forum where member countries' governments try to resolve the trade disputes they have with one another. As of June 2022, the WTO has **164 members**, and its headquarters is in **Geneva, Switzerland**. The WTO is seen as a watchdog of international trade, facilitating the smooth and rapid movement of goods across borders.

Functions of WTO

The six broader functions of the WTO are:

1. Administering WTO trade agreements.
2. Providing a forum for trade negotiations.
3. Handling trade disputes.
4. Monitoring national trade policies.
5. Providing technical assistance and training for developing countries.
6. Cooperating with other international organisations.

India has been a member of the WTO since January 1995. As a developing country, India has played an important role in WTO proceedings, often expressing the concerns of the entire developing world. India has consistently advocated for a multilateral trading system and has stressed the need for **special and differential treatment/rules** for greater integration of emerging nations into the global economic system.

Important WTO agreements that have had several implications for the Indian economy include those on **Trade-Related Investment Measures (TRIMS)**, **Trade-Related Intellectual Property Rights (TRIPS)**, and the **Agreement on Agriculture (AOA)**.

9.4 REGIONAL ECONOMIC CO-OPERATIONS

Regional economic cooperation is a strategy for promoting economic growth and ensuring economic security within a specific geographical region. It offers a framework that encourages technology and investment.

A few examples of important regional economic organizations are:

- **European Union (EU):** A collection of 27 European nations that work together as an economic and political bloc.
- **SAARC (South Asian Association for Regional Cooperation):** A regional trade group founded in 1985. Its eight members are India, the Maldives, Pakistan, Bangladesh, Sri Lanka, Bhutan, Nepal, and Afghanistan.
- **ASEAN (Association of Southeast Asian Nations):** A regional trade bloc with ten member countries from Southeast Asia.
- **OPEC (Organization of the Petroleum Exporting Countries):** An organization of 12 oil-exporting developing countries that coordinates their petroleum policies after **Angola** departure from January 2024.
- **G-7 (Group of Seven):** An informal group of seven of the world's advanced economies: Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.
- **G-20 (Group of Twenty):** A group formed in 1999 that brings together the world's major advanced and emerging economies. Its members represent over 85% of global GDP and more than 75% of global trade.
- **OECD (Organization for Economic Co-operation and Development):** An intergovernmental organization of about 38 member nations that

was founded in 1961 to promote economic advancement and global trade.

- **BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation):** A regional organization with seven member countries from South and Southeast Asia that aims to accelerate shared growth and cooperation in the Bay of Bengal region.

9.5 RECENT INTERNATIONAL ECONOMIC ISSUES

Geopolitics has recently taken center stage in the global economic and policy arena. Some of the major economic concerns affecting the world today are:

- Large-scale unemployment
- Inflation
- The trade cycle
- Stagflation (a combination of high inflation and stagnant economic growth)
- Sustainable growth
- Climate change
- Exchange rate volatility

Some of the specific issues the global economy is currently struggling with include:

- **Geopolitical Tensions**: Ongoing conflicts, particularly between the U.S. and China, are disrupting trade and investment.

- **Trade Policy Shifts**: Recent increases in U.S. tariffs have led to a structural shock in the global economy, affecting demand and investment worldwide.
- **High Inflation in the U.S.**: Despite global inflation declining, U.S. inflation remains above target, impacting consumer spending and economic stability.
- **Rising Energy Prices**: Geopolitical uncertainties and supply chain disruptions have led to increased energy prices, affecting global markets.
- **Supply Chain Disruptions**: Trade tensions and policy uncertainties have significantly weakened global supply chains, driving up production costs and contributing to financial market volatility.
- **Climate Change Impacts**: Extreme weather events have led to reduced crop yields, significantly increasing food prices and contributing to global inflation.
- **Debt Levels**: High debt levels in many countries are constraining fiscal policy options and posing risks to economic stability.
- **Sluggish Productivity Growth**: Weak investment and slow technological advancement are leading to sluggish productivity growth, hindering economic potential.
- **Financial Market Volatility**: Uncertainty in global trade and economic policies has led to increased volatility in financial markets.
- **Political Uncertainty**: Political instability in key economies is contributing to heightened uncertainty and affecting global economic confidence.

The rise of trade protectionism and a gradual move towards deglobalisation are some of the potential risks to the global economic system.