PAPER I - INDIAN ECONOMY & INDIAN FINANCIAL SYSTEM

Module A: INDIAN ECONOMIC ARCHITECTURE

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

Quick Revision

9.1: Introduction

- **Definition:** An international economic organization is created by a group of countries to promote economic development, facilitate global trade, and ensure financial stability.
- **The Three Key Organizations:** The three most important global economic organizations are the **International Monetary Fund (IMF)**, the **World Bank (WB)**, and the **World Trade Organization (WTO)**.

9.2: The Bretton Woods Institutions (IMF and World Bank) Both the IMF and the World Bank were established in **1944** at the Bretton Woods Conference.

- **International Monetary Fund (IMF):**
  - **Core Function:** To ensure the stability of the international monetary system, promote global monetary cooperation, and provide temporary financial assistance to countries facing **balance of payments** crises.
  - **Key Activities:** Surveillance over member countries' economic policies, providing short- to medium-term loans, capacity building, and managing **Special Drawing Rights (SDRs)**.

- **SDR:** An international reserve asset created by the IMF. Its value is based on a basket of five major currencies: the U.S. dollar, euro, Chinese renminbi, Japanese yen, and British pound.

- **The World Bank (WB):**
  - **Core Function:** To alleviate poverty and promote long-term economic development and sustainable growth in the world's poorer countries.
  - **Key Activities:** Providing long-term, low-interest loans and grants for development projects in areas like infrastructure, health, and education.
- **The World Bank Group (WBG):** The World Bank is part of a larger group of five institutions:

  1. **IBRD:** Provides loans to middle-income countries.
  2. **IDA:** Provides interest-free loans and grants to the poorest countries.
  3. **IFC:** Promotes private sector investment in developing countries.
  4. **MIGA:** Insures investments against political risk.
  5. **ICSID:** Settles investment disputes (India is not a member of ICSID).

Key Difference: IMF vs. World Bank

- The **IMF** acts like a "credit union" for the global monetary system, focusing on **financial stability** and resolving short-term crises.
- The **World Bank** acts like a "development bank," focusing on **long-term development projects** and poverty reduction.

9.3: World Trade Organization (WTO)

- **Origin:** The WTO was established in **1995**, succeeding the **General Agreement on Tariffs and Trade (GATT)** which was created in 1947. India is a founding member of both.
- **Core Function:** The WTO is the primary international organization dealing with the rules of trade between nations. It acts as a forum for governments to negotiate trade agreements and a mechanism for settling trade disputes. It is considered the watchdog of international trade.

9.4: Regional Economic Cooperation

- **Concept:** This is a strategy where countries within a specific geographical region collaborate to promote economic growth and ensure security.
- **Key Examples:**
    - **SAARC** (South Asian Association for Regional Cooperation)
    - **ASEAN** (Association of Southeast Asian Nations)
    - **G-7** (Group of Seven advanced economies)
    - **G-20** (Group of Twenty major advanced and emerging economies)

9.5: Recent International Economic Issues The global economy is currently facing several significant challenges, including:

- Geopolitical tensions (e.g., US-China disputes).
- High inflation and rising energy prices.
- Global supply chain disruptions.
- Impacts of climate change on food prices and the economy.
- High debt levels in many countries.

- A rise in **trade protectionism** and a gradual shift towards **deglobalisation**, which pose a potential risk to the global economic system.