

Unit - IV

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The International Monetary Fund (IMF)

The International Monetary Fund (IMF) established by 44 nations under the Bretton Woods Agreement of July 1944. The principal aim was to avoid the economic mistakes of the 1920s and 1930s. The 44 nations assembled at the United Nations monetary and financial conference at Bretton Woods, New Hampshire (USA) from July 1 to July 22, 1944. Thus the IMF was established to promote economic and financial co-operation among its members in order to facilitate the expansion and balanced growth of world trade.

Objectives :

① To promote international monetary co-operation and collaboration in international monetary problems

(2) To facilitate the expansion and balanced growth of international trade.

(3) To promote exchange stability, to maintain orderly exchange arrangements among the members and to avoid competitive exchange depreciation.

(4) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth in the world trade.

(5) To lend confidence to members by making the fund's resources available to them under adequate safeguards and to correct maladjustments in their balance of payments without resorting to measures destructive of national and international prosperity.

(6) To shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members.

Functions of IMF.

- ① The IMF operates in a way as to fulfil its objectives as laid down in the Bretton Woods Articles of Agreements.
- ② The Fund gives short term loans to its members.
- ③ The fund is regarded as a guardian of good conduct in the sphere of Balance of payments.
- ④ The fund also renders technical advice to its members on monetary policies.
- ⑤ It conducts research studies and publishes them in IMF finance and development etc.
- ⑥ It provide technical advice to their member countries.
- ⑦ It provide short training courses of fiscal, monetary and balance of payments for personnel from their member nations.

Criticisms:

- ① Fund conditionalities
- ② High Interest Rates
- ③ Secondary role
- ④ Lack of Resources.
- ⑤ Failure to maintain Exchange Rate Stability
- ⑥ Failure to Eliminate Foreign Exchange Restrictions
- ⑦ Discriminatory politics.
- ⑧ Responsible for Asian Crisis.

Bretton Woods system:

A new international monetary system was forged by delegates from forty-four nations in Bretton Woods, New Hampshire, in July 1944. Delegates to the conference agreed to establish the International Monetary Fund and what became the World Bank Group. The system of currency convertibility that emerged from Bretton Woods lasted until 1971.

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These countries saw the opportunity for a new international system after world war II that would draw on the lessons of the previous gold standards and the experience of the Great depression and provide for postwar reconstruction. The classic gold standard has been abandoned after world war I. In the interwar period, governments not only undertook competitive devaluations but also set up restrictive trade policies that worsened the Great Depression.

It ensure exchange rate stability, prevent competitive devaluations, and promote economic growth. In 1958 the Bretton woods system became fully functional as currencies became convertible.

The breakdown of the Bretton Woods system;

No doubt the system worked fairly well until the mid-1960 but the system had some in-built weaknesses

and contradictions under the pressure ⁽⁸¹⁾ of which, it eventually broke down on 15th August 1971.

The main factors for collapse of this system were as follows:

(i) The Confidence Problem:

The end of 1950 many European countries having BOP surpluses and USA was running counterpart deficit as it was only way which the growth of International reserve could be sustained in the absence of any other reserve asset including gold.

(ii) Seigniorage Problem:

The dollar became the international reserve currency that conferred some undue privilege upon the Americans. The existence of seigniorage was cause of irritation among some of the countries including France.

(iii) Adjustment Problem: The absence of an efficient balance of payments adjustment mechanism

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The World Bank (or) IBRD
(International Bank for Reconstruction and Development)
It was established in 1945 under the Bretton
Wood System Agreement of 1944 to assist in
bringing about a smooth transition from a
war-time to peace-time economy. It is a
sister institution of the IMF.

Functions:

- ① To assist in the reconstruction and development of territories of its members.
- ② To promote private foreign investment by means of guarantees or participation in loans and other investment made by private investors.
- ③ To promote the long-range balanced growth of international trade and maintain equilibrium balance of payments of member countries.
- ④ To arrange the loans made (or) guaranteed by it & international loans

members:

The members of IMF are members of IBRD. It had 182 members in 2000.

Organisation: IBRD has a three-tier structure with a president, Executive Directors and Board of Governors. (88)

Capital Structure: IBRD started with authorised capital of \$ 1 billion divided in 1,00,000 shares. Of this, \$ 940 million was actually subscribed. In 1985 the capital stock of the IBRD comprised 76,500 shares of per value of \$ 10,000 each.

Funding Strategy:

- ① To ensure the availability of funds to the bank.
- ② To minimise the effective costs of those funds to its borrowers.
- ③ To control volatility in net income and overall loan charges.
- ④ To provide an appropriate degree of maturity transformation between its borrowing and lending.

Bank Borrowings: IBRD subscribed fund from members. IBRD have ~~new~~ ^{new} borrowing instruments -

one, central Bank Facility (CBF) and another Floating Rate notes (FRNs). (87)

Bank lending Activities:

① Structural Adjustment Facility (SAF) -

In order to reduce the BOP deficits while maintain their economic growth

② Enhanced Structural Adjustment Facility (ESAF)

To increase the availability of concessional resources to low income member countries.

③ Special Action Programme (SAP) Its

Strated in 1983 to strengthen the IBRD's ability to assist members countries in adjusting to the current economic environment.

Other Activities:

① Training

② Technical Assistance

③ Inter-organisational cooperation.

④ Economic and social Research.

⑤ Operations Evaluation.

⑥ Settlement of investment Disputes.

Critical Appraisal:

- ① High Interest Rate.
- ② Less Aid to developing countries.
- ③ Faulty lending procedure.
- ④ Discriminatory.
- ⑤ Hard conditionalities.

The World Trade Organisation (WTO)

The WTO is the successor to the GATT. GATT was a forum where the member countries met from time to time to discuss and solve world trade problems. But WTO is a properly established permanent world Trade organisation. It has a legal status and enjoys privileges and immunities on the same footing as the IMF and World Bank. There were 77 member countries of the WTO on January 1, 1995 which had increased to 142 by 2001. India is one of the founder members -

Structure: WTO is headed by ministerial conference composed of representatives of all the members which meet at least once in every two years. The ministerial conference is the supreme authority of the WTO. There is the General Council composed of representatives of all the members of WTO Agreements and Ministerial decisions on a regular basis. The General Council sits in Geneva on an average of once a month. The Secretariat of WTO is headed by the Director General presents to the Committee on Budget, Finance and Administration, the annual budget estimates and financial statement of the WTO.

Objectives

- ① To raising standards of living and ensure full employment
- ② To allow for the optimal use of the world's resources
- ③ To make positive efforts designed to ensure that developing countries.
- ④ To achieve these objectives by entering into reciprocal and mutually advantageous,

Functions:

- ① It facilitates the implementation, administration and operation of the Agreement and the multilateral Trade Agreements.
 - ② It provides the forum for negotiations among its members.
 - ③ It administers the understanding on rules and procedures governing the settlement of disputes of the Agreement.
 - ④ It co-operates with the IMF and the World Bank and its affiliated agencies in global economic policy-making.
- WTO Agreements.

- ① multilateral Agreements on Trade in Goods: GATT Rules 1994
- ② General Agreements on Trade in Services
- ③ Agreement on Trade-Related aspects of Intellectual property rights (TRIPS)
- ④ Understanding on Rules and Procedures governing the Settlement of Disputes
- ⑤ plurilateral Trade Agreements
- ⑥ Trade Policy Review Mechanism

The UN Conference on Trade and Development (UNCTAD)

Origin: It was established in 1964 dissatisfaction with the operation of such international institutions as IMF and GATT. The UNCTAD-I was held at Geneva in 1964 since the conference have been held normally every four years.

Organisation: The UNCTAD Secretariat at Geneva, Secretary-General who is elected by members, Trade and Development Board. It composed of

members elected from among the conference members on the basis of equitable distribution, Executive Committee. It composed the permanent

representatives of members states deputed to the UNCTAD in Geneva.

Standing Committee: The Committee makes studies and prepare reports from time to time for the conference to be held.

Special Committee: The Secretariat publishes an annual report based on the studies made by the committee. There is a special committee on preference.

Functions!

- ① To promote international Trade between countries
- ② To formulate principles and policies of International Trade
- ③ To review and facilitate the coordination of activities
- ④ centre for harmonious trade related development policies of government.

Achievements of UNCTAD.

- ① Trade in primary commodities
- ② Trade in manufactured goods.
- ③ Development finance
- ④ Technology Transfer
- ⑤ Economic co-operation among LDCs.
- ⑥ New issues related to technology and services

Conclusion: The UNCTAD reflects the sentiments, hopes and aspirations of LDCs in a world still dominated by the developed countries both politically and economically.