[illegible] trade-related [illegible] flow of trade [illegible] since the beginning of SA[illegible] progress. Tariff concessions are negotiated among member countries product-wise and step-by-step. In the first round, member countries exchanged mutual tariff concessions on 226 items. Being the largest member, India gave tariff concessions on 106 commodities to member countries which ranged between 10% and 100%. Pakistan gave tariff concessions on 35 items, Sri Lanka on 31, Maldives on 17, Nepal on 14, Bangladesh on 12 and Bhutan on 11 items to other members. In return, India received tariff concessions on 24 items from Pakistan, 14 from Sri Lanka and 5 from Bangladesh at mostly 10% of the applied tariffs. All the tariff concessions became effective from December 7, 1995. In the Second round, exchange of tariff concessions on 1975 items took place. India offered tariff concessions on 1000 items. These concessions became operational from March 1, 1997.

In the third round of trade negotiations which started in July 1997, the aim was to extend product coverage from 6000 to 7000 items and wider and deeper tariff concessions. At the 10th SAARC Summit held at Colombo in July 1998, India announced to lift import restrictions for member countries on 2000 items. Accordingly, 2000 items were allowed license free entry without tariffs from SAARC countries with effect from August 1, 1998, but subject to the condition that the listed items/goods were new and originated in member countries of SAARC.

CRITICISMS OF SAARC

Even though the process of trade liberalisation between SAARC countries has made a good beginning, yet the following are the obstacles in its way:

1. There are many commodities with large intra-trade which have not been included in the list of tariff concessions.
2. Many commodities on which trade concessions have been given are not traded among SAARC countries. This is particularly so in the case of a number of items on which concessions have been given by Pakistan and India.
3. Member countries often bargain for removal of tariffs on the basis of the condition of every commodity.
4. Some member countries get benefits from other regional preferential arrangements which lead to duplication of preferences. For instance, LDC member States like Bhutan and Nepal are already benefiting from much higher tariff concessions on a bilateral basis. Many items on which India, Pakistan, Sri Lanka and Bangladesh are granting tariff concessions under SAPTA to one another have already been provided under bilateral agreements.
5. Trade concessions being granted under SAPTA on the basis of product-by-product are a b[illegible] hindrance to trade liberalisation. Unless concessions are given on a wider scale on the basis [illegible] sectors, it is not possible to convert SAPTA into SAFTA.
6. India, Pakistan and Sri Lanka, the three big member States of SAPTA, want to grant ta[illegible] concessions primarily on the basis of mutuality. The reason for this is lack of faith with e[illegible]

[illegible]rade Conference (UNCTAD VI) entrusted the UNCTAD secretariat with the task of carrying out studies on ship and port finance, structure of the global shipping industry, policies and practices of governments in respect of investment in and support of shipping etc.

UNCTAD VI also hinted at a simpler payments mechanism under a common clearing system. This is another area which can provide considerable encouragement to co-operation among LDCs. Further, the developed countries insist that the existing international institutions like the IMF and World Bank should be strengthened financially so that they may provide larger aid to LDCs to tide over their balance of payments and debt problems. But the LDCs call for the setting up of a new financial institution which should exclusively cater to their special financial requirements in fields such as joint ventures, development projects, export credit, commodity price stabilisation, and regional payments support, and long-term investment to expand trade in food and primary products, and for storage, processing and transport. So far no progress has been made in this direction.

UNCTAD VII also stressed the importance of economic co-operation among developing countries on the lines of the previous conference. It was UNCTAD VIII which set up a new Standing Committee on Economic Co-operation among developing countries to study and report on all facets of cooperation to the TDB.

There are many factors which stand in the way of economic co-operation among the LDCs. The economies of LDCs are highly competitive in nature. They have limited import capacity, inadequate credit facilities, chronic foreign exchange shortage, and prejudice against the goods traded among themselves. Consequently they prefer to trade with developed countries even though goods manufactured by LDCs are cheaper and of high quality. However, some of the LDCs suffer from other limitations which prevent them from entering into trade with other LDCs. These are technological backwardness, shortage of key inputs, high cost of production, lack of competitive strength and weak marketing structure. The various problems listed above can be overcome by mutual help and trust among LDCs of region and working in close cooperation among themselves. UNCTAD is a forum where they can meet, discuss and formulate plans for regional economic co-operation.

6. New Issues

During the late 1980s, a large number of developing countries changed their economic policies to a market orientation, and began the process of structural adjustments involving exchange rat[e] alignments and outward-looking liberalisation of their economies. In the early 1990s, sociali[st] countries of Eastern Europe and the Soviet Union had disintegrated and adopted the marke[t] oriented reforms. It was against this background that UNCTAD VIII met at Cartagena in Febr[u]ary 1992. The proceedings at UNCTAD VIII emphasised global cooperation rather than confr[on]tation, the need for negotiations and promotion of knowledge-based policies. UNCTAD [VIII] had five key areas on the agenda : resources for development, international trade, technol[ogy,] services, and commodities. In order to evolve consensus on these issues, the conference dec[ided] that the focus should be on their analysis rather on negotiations. It was, therefore, agreed that the UNCTAD should have a new structure on the lines of the OECD secretariat so that it [could] devote itself to the analysis of issues which was set up in April 1992, as detailed above. UNCTAD VIII focussed on new issues such as services and sustainable development an[d] new organisational structure.

The UNCTAD IX held at Midrand (S.A.) in May 1996 urged its members to provide m[ore re]sources for sustainable development and debt relief to developing countries and to carr[y] issues relating to technology, services and commodities in the light of the WTO Agreem[ent] of the GATT.

member was required to pay 25 per cent of its quota in gold or 10 per cent of its net official holdings of gold and US dollars whichever was less. Under the Second Amendment effective 1 April 1978, 25 per cent of a member's quota payable in gold was substituted by SDRs or usable currencies. The remaining 75 per cent of quota was to be furnished in the country's own currency. But it was kept in the country's central bank. The practice of keeping gold reserves with the Fund was discontinued from April 1978 and the Fund has been delinked from the gold since then. Now a member country is allowed to maintain the value of its currency and quota in terms of the Special Drawing Rights (SDRs).

In order to meet the financial requirements of the Fund, the quotas are reviewed every five years and are raised from time to time. But quotas can only be raised by a resolution of the majority of 85 per cent of the total voting power of the Fund's members. When the Fund started operation in March 1947, the total quotas were 7.6 billion dollars which had been increased to SDR 146 billion in April, 1994 with the Tenth General Review of Quotas. This increase was 50% of members quotas. With the Eleventh Review of Quotas effective March 1998, the quotas were raised by 45% to SDR 212 billion.

Thus a member country's quota determines its subscription to the Fund, its relative voting power, allocation of SDRs and access to Fund's resources. A member's voting power is based on one vote for each SDR 100,000 of quota in addition to the basic votes of 250 for each member. When a country becomes the member of the Fund, it is allocated a quota which raises the total resources of the IMF.

2. Fund Borrowings

Besides performing regulatory and consultative functions, the Fund is an important financial institution. The bulk of its financial resources comes from quota subscriptions of member countries. Besides, it increases its funds by selling gold to members. Further, it borrows from government, central banks or private institutions of industrialised countries, the Bank for International Settlements, and even from OPEC counties, like Saudi Arabia.

General Arrangements to Borrow (GAB) : The Fund also borrows under the General Arrangements to Borrow from its eleven industrialised members in order to forestall or cope with an impairment of the international monetary system. The GAB remained in force from October 1962 to December 1998, when its total borrowings was SDR 17 billion. Under the *New Arrangements to Borrow*, the developed countries have sanctioned $ 25 billion.

3. Fund Lending

The Fund has a variety of facilities for lending its resources to member countries. Lending by the Fund is linked to temporary assistance to members in financing disequilibrium in their balance of payments on current account. If a member has less currency with the Fund than its quota, the difference is called *reserve tranche*. It can draw up to 25 per cent on its reserve tranche automatically upon representation to the Fund for its balance needs. It is not charged any interest on such drawings, but is required to repay within a period of three to five years.

Credit Tranches. A member can draw further annually from balance quota in 4 instalments upto 100% of its quota from credit tranches. Drawings from credit tranches are conditional because the members have to satisfy the Fund of adopting a viable programme to ensure financial stability. To meet the severe BOP problems, the Fund has been gradually raising the limit of borrowings by its members over the years under the credit tranche. Now members can draw up to the equivalent of 300 per cent of their new quotas on the total net use of the Fund's resources. The limits exclude drawings under CCFF, BSAF, SAF, STF and ESAF. Purchases by members are made under stand-by arrangement rather than directly. Borrowings up to this limit are allowed

46

CHAPTER

THE INTERNATIONAL MONETARY FUND (IMF)

1. ORIGIN OF IMF

The International Monetary Fund (IMF), also called the Fund, is an international monetary institution 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 attempts of many countries to return to the old gold system after the First World War failed miserably. The World Depression of the thirties forced every country to abandon the gold standard. This led to the adoption of purely nationalistic policies whereby almost every country imposed trade restrictions, exchange controls and resorted to exchange depreciation in order to encourage its exports. This, further, brought a marked decline in world trade and extension of depression. It was against this background that 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. It started functioning from March 1, 1947. In June 1996, the Fund had 181 members.

OBJECTIVES OF THE FUND

The fundamental purposes and objectives of the Fund had been laid down in Article 1 of the original Articles of Agreement and they have been upheld in the two amendments that were made in 1969 and 1978 to its basic Charter. They provide the framework within which the Fund functions. They are as under :

1. To promote international monetary co-operation through a permanent institution which provides the machinery for consumption and collaboration in international monetary problems.
2. To facilitate the expansion and balanced growth of international trade and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
3. To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

ety of exchange controls and multiple exchange practices.

7. **Discriminatory Politics.** The Fund has been criticised for its discriminatory policies against the developing countries and in favour of the developed countries. It is, therefore, characterised as "Rich Countries Club". Although the majority of its members are the developing countries of Asia, Africa and Latin America, yet it is dominated by the rich countries especially the United States. The latter often adopts a rigid attitude in matters concerning increasing the Fund resources and granting loans to developing countries.

8. **Responsible for Asian Crisis.** The sudden and unexpected East-Asian crisis in Phillipines, South Korea, Thailand, Indonesia and Malaysia put a question mark on the working of the Fund. Friedman has put the blame on the IMF for global crisis because it has been the result of government's intervention in the market, both internationally via loans, subsidies or taxes, and externally via the IMF. With the collapse of the Bretton-Woods system in 1971 when the member countries adopted the floating exchange rate policy, the Funds role of regulating the exchange rate ended. Prior to the 1995 Mexican crisis, the objective of the Fund was to provide advice, information and loans to its members. But when it helped Mexico in a bail out package in its crisis of 1995, it acted the international lender of last resort. Under it, the Fund laid emphasis on close financial relations among banks, corporations and governments and to increase the operations of stock and bond markets so that there is greater competition between domestic and global financial institutions. This very policy led to the Asian and global financial crisis when there was successive decline in shares, bonds and currencies of these countries. The real beneficiaries of this policy were not the borrowing countries but the foreign banks and financial institutions who lend to these countries which failed to repay the loans. When due to declining exchange rates, they started withdrawing their funds, there was a crisis in the borrowing countries. A Michael Musa, the IMF Chief Economist, admitted in August 2000 that the recent financial crisis was due to high openness to international capital flows, especially short-run credit flows of countries with fragile financial systems. According to Schwartz, since the Fund lacks in high powered base money, it failed to act as an international lender of last resort. Thus the IMF has been weak in controlling financial crisis. Schwartz, therefore, suggests that it should be shut down. According to Friedman, it should be abolished as it did more harm than good.

CONCLUSION

Despite these criticisms, the IMF has shown sufficient flexibility to mould itself in keeping with the changing international economic conditions. The original Articles of Agreement were amended in 1978 to legalise flexible exchange rates, raise quotas to increase the Fund's resources and to dethrone the gold in Fund transactions. To solve the problem of international liquidity, it has created deficits, the Fund has been successively raising the limit of their borrowings which stands at 450 per cent of their quotas. The Fund has been helping the developing countries in their balance of payments and other problems through such facilities as CFF, BSFF, EFF, SFF, SAF, ESAF, CCFF, etc. Finally, the usefulness and success of the Fund lies in that its membership has risen from 44 in 1947 to 182.

GGESTIONS TO REFORM THE IMF

Prof. Samuelson in his article *Three Cheers for the IMF* published in 1997 praised the working and chievements of the IMF. According to him, the reason for the Mexican financial crisis was that did not follow IMF's warning when hot money was flowing in it. The same reason was responble for the Asian crisis. On the other hand, Prof. Friedman in his article in October 1998 blamed e IMF for the global crisis and pleaded for abolishing it as it did more harm than good. Prof

ingly, the Fund held 45 auctions from June 1976 to May 1980 amounting to 47 million ounces at gold prices prevailing in the London Market. The Fund's present gold holdings amount to 130 million ounces which can only be sold if a majority of 85 per cent in the Fund's financial transactions except that the Fund continues to value its holdings at SDR $ 35 an ounce. According to Prof. Bernstein, "All that now remains of the historic monetary role of gold is its function as reserve asset."

9. SPECIAL DRAWING RIGHTS (SDRs)

MEANING

Special Drawing Rights (SDRs), also known as the *paper gold*, are a form of international reserves created by the IMF in 1969 to solve the problem of international liquidity. They are not paper notes or currency. They are international units of account in which the official accounts of the IMF are kept. They are allocated to the IMF members in proportion to their Fund quotas and are used to settle balance of payments deficits between them.

ORIGIN OF SDRs

SDRs were created through the First Amendment to the Fund Articles of Agreement in 1969 following persistent US deficits in balance of payments to solve the problem of international liquidity. Until December 1971, an SDR was linked to 0.88867 gram of gold and was equivalent to US $1. With the breakdown of the fixed parity system after 1973 when the US dollar and other major currencies were allowed to float, it was decided to stabilise the exchange value of the SDR. Accordingly, the value of the SDR was calculated each day on the basis of a basket of 16 most widely used currencies of the member countries of the Fund. Each country was given a weight in the basket in accordance with its importance in international trade and financial markets. After the Second Amendment to the Fund Articles of Agreement in 1978, the SDR became an international unit of account. To facilitate its valuation, the number of currencies in the "basket" were reduced to five in January 1981. They include the US dollars, the German Deutsche Mark, the British Pound, the French Franc and the Japanese Yen. The present currency composition and weighting pattern of the SDR is revised every five years beginning January 1, 1986. The revision of weights is based on both the values of the exports of goods and services and the balances of their currencies held by other members. In 1977, they were US dollar (39%), German DM (21%), UK pound and French franc (11% each) and Japanese yen (18%). The value of one SDR was equal to US $ 1.35610 on October 1, 1997.

USES OF SDRs

SDR is an international unit of account which is held in the Fund's Special Drawing Account. The quotas of all currencies in the Fund General Account are also valued in terms of the SDR. A the international monetary asset, the SDR is held in the international reserves of central bank and governments to finance their deficits or surpluses of balance of payments. All transaction by the Fund in the form of loans and their repayments, its liquid reserves, its capital, etc., a xpressed in the SDR.

DRs are used as a means of payment by Fund members to meet balance of payments defic nd their total reserve position with the Fund. They cannot be used for any other purpose. Th DRs act both as an international unit of account and a means of payment.

nere are *three* principal uses of SDRs.

2. It provides the framework for the implementation, administration and operation of the Plurilateral Trade Agreements relating to trade in civil aircraft, government procurement, trade in dairy products and bovine meat.
3. It provides the forum for negotiations among its members concerning their multilateral trade relations in matters relating to the agreements and framework for the implemenation of the results of such negotiations, as decided by the Ministerial Conference.
4. It administers the Understanding on Rules and Procedures governing the Settlement of Disputes of the Agreement.
5. It co-operates with the IMF and the World Bank and its affiliated agencies with a view to achieving greater coherence in global economic policy-making.

WTO AGREEMENT

The Agreement establishing the WTO consists of the following which embody the results of the Uruguay Round of the Multilateral Trade Negotiations:

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.

They are discussed as under :

1. MULTILATERAL AGREEMENTS ON TRADE IN GOODS

The general agreement on trade in goods defines the GATT 1994 and includes various agreements dealing with different aspects related to trade in goods.

(1) GATT 1994

GATT 1994 includes GATT 1947 as amended up to January 1, 1995 when the WTO Agreement [illegible] It also includes the provisions of specified legal instruments, the Marrakesh [illegible] following understandings : [illegible] legal rights and obligations, the

essential goods. This would enable developing countries to facilitate the import of essential
and capital goods while restricting the import of non-essential goods.
One developing country provides tariff preferences to another under the Global System of
Preferences (GSTP). Similarly, a developed country offers tariff preferences to a developing
under the Generalised System of Preferences (GSP). These tariff reductions are over and
the tariff preferences provided to countries under the Most Favoured Nation (MFN) oblig
of the WTO. As a result, for developing countries in general, preferential margins will
disappear in some sectors. The OECD has estimated that Africa will lose by an average of
cent through the erosion of their preferences by 2002. Exports of tropical products from the A
Caribbean and Pacific (ACP) countries will suffer to the extent of 51 per cent.
Under the Uruguay Round Agreement, the developing countries have committed themse
"bind" their industrial tariff lines by 72 per cent and 100 per cent for agricultural products
Subsidies Agreement, the developing countries have committed to eliminate subsidies h
an impact on export prices with the result that they will be giving up the policy of expo
growth.
The GATT Rules on anti-dumping leave so much at the discretion of national governments
very few actions would actually qualify as their violations. Thus partly due to the GATT
and partly due to economic circumstances, anti-dumping and countervailing duties are
used for restricting trade by the USA, EEC and other developed countries.
Further, the non-technical barriers to trade like the environmental, health, and
considerations can also act as non-tariff barriers in the case of developing countries. For ins
the US has tried to block shrimp exports from India by insisting that they should be caught
devices which do not net turtles. Obviously, Indian fishermen do not have the means to use
devices.

5. **GATS.** The GATS goes against the interests of the developing countries. It emphasises
liberalisation of only those services such as financial, shipping, transport and communica
health, educational, professional and media services, in which the developing countries ha
distinct advantage. By liberalising trade in services, the developed countries aim at seeking co
over the production and use of services in developing countries.

The services sector in developing countries would have to face unequal competition from
vast resources which the firms of developed countries possess. Many developing countries ha
comparative advantage in skilled and unskilled labour. But their free movement is contr
by stringent immigration laws of developed countries. But nothing has been proposed on
aspect of the services sector because the developed countries stand to gain from the sele
brain drain of developing countries.

. **TRIPs.** The TRIPs agreement is patently discriminatory. It would favour the developed coun
and go against the interest of developing countries for the following reasons:
would increase the area of coverage under the patent system such as drugs, agriculture, pl
and animals, etc. As developed countries and their MNCs have vast resources and facilities
D, they would be at an advantage to invest and patented processes and products. In all
cases, developing countries would have to pay royalties. The domestic prices of such g
especially of drugs and medicines would increase and burden the consumers. There would
larger imports of patented raw materials and products by developing countries. Exports w
receive a setback. Consequently, there would be worsening of the balance of payments
even the developed countries will be affected by TRIPs. According to an estimate, 90 per ce
the world's population would suffer on account of skyrocketing prices of pharmaceutical pro
the TRIPs Agreement is implemented in full.
Many developing countries like India are engaged in R & D programmes in such critical ar
drugs, farm products, chemical, etc. which would come to a standstill. This is because aft

continuous protection by tariff and other barriers such as Sanitary and Physiosanitary standards. To safeguard the interest of farmers in developing countries, certain degree of protection in terms of moderately high tariffs and special safeguard clause are required to be added in the Agricultural Agreement for sustainable agricultural development in these countries.

Despite these, the agricultural sector in developing countries is expected to gain much from this Agreement by generating export surpluses after meeting the growing domestic demand. They may gain from higher prices of such crops as foodgrains, cotton, etc. and by diversifying in the areas of horticulture, floriculture, dairy products and other allied activities with the increase in the tariff bindings to 100% in agricultural products. Further, the reduction of subsidies to agriculture by the developed countries are expected to make the exports of developing countries more profitable.

2. Textiles and Clothing. This Agreement would benefit most developing countries during the transitional period. But the gains to them are likely to be delayed because of the long period of phasing out of the MFA due to two reasons. *First*, when a developed country takes certain types of textiles and clothing out of the MFA, it will apply on a non-discriminatory MFN (Most-Favoured Nation)basis to all exporting countries. *Second*, only 49% of all products would be integrated into the GATT on the last day of the 10-year transition period. This phasing out period is very long and the WTO may be pressurised to extend the transition period.

Further, the "product coverage" for the phasing out is so large that all items of textiles and clothing which are not covered by quotas are included in it. Thus there will be little phasing out of quota items till the end of the 10-year phasing out period.

Recently, the US has announced a four-stage quota-phaseout programme ending January 2005 under which 90 per cent of the restrictions on Indian apparel exports would actually remain till 2005. Till then, the Indian apparel exports will suffer. In the EU phaseout programme, one-sixth of Indian apparel exports would continue to face restriction till 2005.

3. TRIMs. The Agreement on TRIMs is a weak one. Article IV of the Agreement lays down that developing countries can deviate from the above provisions temporarily. The extent and manner of deviation would depend upon the interpretation of the contracting parties. Under this 'escape' clause, the right to regulate foreign companies and trade-balancing measures have in no way been curtailed if there are valid reasons such as adverse balance of payments.

These safeguards apart, the TRIMs agreement would remove restrictions on foreign investments. Though foreign direct investment is not mentioned, yet it is feared that MNCs would try to control high priority areas in developing countries.

Further, the TRIMs mentioned are those that are applied in a discriminatory manner on foreign owned enterprises when the same requirements are not applicable to the national enterprises. The Agreement also deals with discriminatory imports restrictions.

On the whole, the TRIMs Agreement has reduced the decision-making powers of national governments. For instance, they cannot specify local contents in domestic manufacturing and annot restrict the percentage of imported inputs in its exported products or the export of a urticular product.

GATT Rules. The GATT Rules 1994 pertaining to the phasing out of the *quantitative restrictio* Rs) and preferences are vague. The use of QRs by developing countries to overcome the lance of payments difficulties has been rendered ineffective by providing it only for the lea veloped countries. In the case of developing countries, QRs would be eliminated and replac price-based measures. Only the least developing countries would impose QRs, but th uld be viewed as temporary. Countries which impose such QRs would publicly announc n as possible, time schedules for their removal. But the developing countries have the rig different duty rates for different goods so that they can discourage excessive imports of

and conditions of service in accordance with the regulations adopted by the Ministerial Conference.

The Director General presents to the Committee on Budget, Finance and Administration the annual budget estimates and financial statement of the WTO. The Committee, in turn, reviews the annual budget estimates and the financial statement and makes recommendations to the General Council for final approval. The General Council adopts the annual budget estimates and financial statements by a two-third majority comprising more than half the members of the WTO. The financial regulations relating to the scale of contributions and the budget are based on the rules and practices of the GATT.

The WTO continues the practice of decision-making by consensus, as followed under the GATT 1947. Where a decision cannot be arrived at by consensus, the matter at issue is decided by majority voting on the basis of "one country, one vote". But in the case of interpretation of provisions of the agreements and waiver of a member's obligations, the majority required is 3/4th of the members. However, amendments relating to general principles, such as MFN treatment, must be approved by all members.

5. Its Objectives

In its Preamble, the Agreement establishing the WTO lays down the following objectives of the WTO:

1. *Its relations in the field of trade and economic endeavour shall be conducted with a view to raising standards of living, ensuring full employment and large and steadily growing volume of real income and effective demand, and expanding the production and trade in goods and services.*
2. *To allow for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both (a) to protect and preserve the environment and (b) to enhance the means for doing so in a manner consistent with respective needs and concerns at different levels of economic development.*
3. *To make positive efforts designed to ensure that developing countries, especially the least developed among them, secure a share in the growth in international trade commensurate with the needs of their economic development.*
4. *To achieve these objectives by entering into reciprocal and mutually advantageous arrangements directed towards substantial reduction of tariffs and other barriers to trade and the elimination of discriminatory treatment in international trade relations.*
5. *To develop an integrated, more viable and durable multilateral trading system encompassing the GATT, the results of past liberalisation efforts, and all the results of the Uruguay Round of multilateral trade negotiations.*
6. *To ensure linkages between trade policies, environmental policies and sustainable development.*

[F]unctions

[F]ollowing are the functions of the WTO:

... promote food security and self-...
and those meant to increase exports of farm products. As it allows *subsidy* only up to 10% of
value of production, it would become almost impossible for the governments of develo...
countries to provide price support to particular agricultural commodities. This is also the case
nput subsidies which are allowed only to low income farmers. Thus all subsidies on such inp...
s fuel, electricity, fertilisers, transportations, seeds, etc. to farmers, and consumer subsidy in
orm of public distribution system would have to be abolished. The reduction and remov...
ubsidies unaccompanied by a rational price policy would hit farmers in developing count...
gain, the *free market access* and the removal of all restrictions on imports would adversely af...
e farming community. Cheap imports of agricultural products would push farmers out
roduction. Prices of farm products in international markets are not determined by competi...
ut by the corprorations of the developed countries which procure and sell them. Moreov...
ey would increase foreign debt and worsen the balance of payments problem.
e Agreement lays down the application of sanitary and phytosanitary measures against
m products of developing countries. These would be based on regulations established
ch international organisations as the Codex Alimentarius which is not subjected to a
mocratic process. This agency might declare as "safe" products of developed countries and
safe" of developing countries.

se free trade and market-based agricultural systems cannot solve the problems of develop...
ntries. The persistence of high domestic support to agriculture in many developed count...
been encouraging over production at high cost to them. The export subsidies are used
ose of excess supplies in these countries which artificially lower the prices of such commodi...
e global markets.

er, the opening up of markets since the WTO Agreement has been in the developing count...
e there has been little success in getting market access in developed countries. For instanc...
hare of agricultural exports from developing countries to Western Europe declined fr...
in 1990 to 28% in 1998. Market access to developing countries continues to be restricted

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ay first study, "Gains from the Uruguay Round" in the previous chapter.
ing Agreements are discussed in detail in the previous section.

56

CHAPTER

THE WORLD TRADE ORGANISATION (WTO)

1. INTRODUCTION

The Uruguay Round of GATT negotiations concluded on April 15, 1994 at Marrakesh, Morocco. India, alongwith 123 Ministers besides the EC countries signed the Final Act incorporating the Eighth round of multilateral trade negotiations. The Final Act consists of : (1) the WTO Agreement which covers the formation of the organisation and the rules governing its working; and (2) the Ministerial decisions and declarations which contain the important agreements covering trade in goods, services, intellectual property and plurilateral trade. They also contain the dispute settlement rules and trade policy review system. The WTO Agreement is in fact the Uruguay Round agreements whereby the original GATT is now a part of the WTO Agreement which came into force from January 1, 1995.

2. THE WTO

The WTO is the successor to the GATT. The GATT was a forum where the member countries met from time to time to discuss and solve world trade problems. But the 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 the World Bank. It includes : (1) the GATT, as modified by the Uruguay Round; (2) all agreements and arrangements concluded under the GATT; and (3) the complete results of the Uruguay Round.

There were 77 member countries of the WTO on January 1, 1995. Now there are 151 members. India is one of the founder members.

DIFFERENCE BETWEEN GATT AND WTO

The WTO is not an extension of the GATT but successor to the GATT. It completely replaces GATT and has a very different character. The major differences between the two are the following:

1. *The GATT had no legal status whereas the WTO has a legal status. It has been created by international treaty ratified by the governments and legislatures of member states.*

has a global status similar to that of the IMF and the World Bank. But unlike them, it is not an agency of the UN, although it has a 'cooperative relationship' with the UN.

2. The GATT was a set of rules and procedures relating to multilateral agreements of a selective nature. There were separate agreements on separate issues which were not binding on members. Any member could stay out of an agreement. Only those who signed the agreement could be penalised on default. The agreements which form part of the WTO are permanent and binding on all members. Action can be taken against any defaulting member by all the member states.
3. The GATT dispute settlement system was dilatory and not binding on the parties to the dispute. The WTO dispute settlement mechanism is automatic, faster and binding on the parties. The Dispute Settlement Board of the WTO in its first decision brought the mighty US to accept its verdict. Thus the WTO has teeth whereas the GATT was toothless.
4. The GATT was a forum where the member countries met once in a decade to discuss and solve world trade problems. There used to be long, protracted negotiating rounds which took decades to complete. The WTO, on the other hand, is a properly established rule-based world trade organisation where decisions on agreements are time bound. The dateline can be extended only by consensus.
5. The GATT rules applied to trade in goods. Trade in services was included in Uruguay Round but no agreement was arrived at. The WTO covers not only trade in goods and services but also trade-related aspects of intellectual property rights and a number of other agreements.
6. The GATT had a small secretariat managed by a Director General. But the WTO has a large secretariat and a huge organisational set-up.

ITS STRUCTURE

The structure or organisation of the WTO is headed by the *Ministerial Conference* composed of representatives of all the members which meet at least once every two years. It carries out the functions of the WTO and takes actions necessary to this effect. It takes decisions on all matters under any of the Multilateral Trade Agreements. The Ministerial Conference is the supreme authority of the WTO.

There is the *General Council* composed of representatives of all the members to oversee the operation of the WTO Agreement and ministerial decisions on a regular basis. It also acts as a Dispute Settlement Body (DSB) and a Trade Policy Review Body (TPRB), each having its own Chairman. The General Council sits in Geneva on an average of once a month.

There is the Council for Trade in Goods, the Council for Trade in Services and the Council for Trade-Related Aspects of Intellectual Property Rights (TRIPs) which operate under the General Council. These Councils, in turn, have their subsidiary bodies. The Councils and subsidiary bodies meet as necessary to carry out their respective functions.

There is the Committee on Trade and Development, the Committee on Balance of Payments Restrictions and the Committee on Budget, Finance and Administration which carry out the functions assigned to them by the WTO Agreement, the Multilateral Trade Agreements and any additional function assigned to them by the General Council.

The *Secretariat* of the WTO is headed by the Director General. The Ministerial Conference appoints the Director General and sets out his powers, duties, conditions of service and terms of office. The Director General is appointed for a four-year term. He has four deputies from different member states.

The Director General appoints the members of staff of the Secretariat and determines their duties

disequilibria in balance of payments of Fund members. Under this scheme, the participants receive SDRs under *transactions with designation and transaction by agreement* unconditionally.

6. Fund members are not required to change their domestic economic policies as they are expected under the Fund aid programmes.
7. The payment and repayment of SDRs out of the Special Drawing Account is easier and more flexible than under the Fund schemes.
8. Last but not the least, SDRs act both as a unit of account and a means of payment of international monetary system.

Criticisms of SDRs

Despite these merits, the SDR scheme has been criticised on the following grounds:

1. Inequitable Distribution. It is an inequitable scheme which has tended to make unfair distribution of international liquidity. The allocation of SDRs to participating countries is proportional to their quotas. In this sense, the allocation of SDRs to developing countries is too low as compared to their needs. Low allocation of SDRs reduces the borrowing capacity of such countries.

2. Not Linked with Development Finance. SDR scheme does not link the creation of international reserves in the form of SDRs with the need for development finance on the part of developing countries. The need for liquidity on the part of developing countries is great "because of their higher costs of adjustment, limited access to private banking and higher capital markets, greater variability of exchange earnings, and opportunity cost of holding foreign exchange reserves". Under these circumstances, there is need to create more SDRs with fair distribution so that more unconditional liquidity is made available for the greater needs of developing countries.

3. High Interest Rate. The interest rate originally payable on net use of SDRs is 1.5 per cent. This has been gradually raised through time in order to make a more acceptable asset to hold. Now both users of SDRs pay and holders of SDRs receive, a market rate of interest based on interest rates prevailing in US, Britain, France, Germany and Japan which are quite high for developing countries.

4. Failure to Distribute Social Saving. Williamson and others have criticised the SDR scheme for its failure to distribute social saving of SDRs to the developing countries. The present rules for allocation distribute the social saving to a participant country in proportion to his contribution or its demand for SDRs. If the supply of SDRs equals the demand for it, there will no redistribution of resources between countries. But this is not so in the case of developing countries whose holdings of SDRs are very low as compared to the 26 developed countries. Thus the present scheme of SDRs fails to transfer social savings to the developing countries.

5. Failure to meet International Liquidity Requirements. Unfortunately, due to the rigid attitude of the United States and some other developed countries, the Fund has not been able to resume allocation of SDRs from January 1982, despite the repeated pleas of the developing countries over these years. So the Fund has failed in its objective of increasing international liquidity through SDRs. Consequently, faced with a recession, an inadequate flow of concessional aid and falling prices of commodities and raw materials, developing countries have been facing severe balance of payments and debt problems. Thus SDRs have failed to solve the problem of international liquidity.

1. **Fund Conditionalities.** The Fund has developed conditionalities over the last five
so which a country has to fulfil for getting a loan from the Fund. Prior to the 1970s, the
stress on *expenditure reduction* for meeting disequilibrium in the balance of payments
try. In the 1970s, the Fund conditionality included the need to take into account the
balance of payments difficulties of members requesting for Fund resources, their economic
and their social and political requirement. On March 2, 1979, a *new set of guidelines* was
for the use of Fund resources, besides the previous conditionality practices. These
odic assessment of the experience of the member country with adjustment programmes
by Fund resources. The new emphasis is on policies to increase productivity and
resource allocation in the programmes supported by Fund resources. They also
gent Fund conditionalities or performance criteria such as controlling deficits, refor
banking system, even closing down non-viable units, altering systems of administr
laws which give rise to corruption. The release of every installment requires their revi
The Fund has laid down some more conditionalities after the 1995 Mexican and the Asi
cial crises. (1) to liberalise trade by removing exchange and import controls; (2) to elim
subsidies so that the exporters are not in an advantageous position in relation to the
ing countries; and (3) to treat foreign lenders on an equal footing with domestic lenders
the Fund insists on good governance. Thus the Fund exercises surveillance ever the
rates monetary, fiscal and related policies of the borrowing countries which makes a m
its policy of non-interfering in their internal economic affairs.

2. **High Interest Rates.** Besides, these hard conditionalities, the Fund charges high inte
on loans of different types. They are a great burden on the borrowing countries. Th
reason that developing countries like India are so heavily burdened with the debt servic
that fresh borrowings are negative.

3. **Secondary Role.** The Fund has been playing only a secondary role rather than the cen
in international monetary relations. It does not provide facilities for short-term credit
ments. This has resulted in "swap" arrangements among the central banks of the
of the leading developed countries. Under these arrangements, these countries exchan
other's currencies and also provide short-term credit to tide over temporary disequi
their balance of payments. Such swap arrangements have led to the growth of Euro-c
Market. All this has reduced the importance of the Fund.

4. **Lack of Resources.** The IMF has not enough resources for immediate future. But thes
sufficient to meet the future needs of its members. The need is to raise the resources of t
to safeguard the international financial system which is dominated by volatile capital flo
developed countries are not willing to increase the quota of the Fund.

5. **Failure to Maintain Exchange Rate Stability.** The Fund has failed in its objective of
ing exchange stability and to maintain orderly exchange arrangements among member
the original Fund agreements, the exchange rate was permitted to fluctuate within a ra
per cent above to 1 per cent below the official price. This was known as the "adjustab
system. The exchange rate of every member country was fixed in terms of the "golden
Over the years US gold stock continued to decline, the US balance of payments conti
deteriorate. Consequently, the Bretton Woods system collapsed on 15 August, 1971 whe
dent Nixon announced that United States would no longer convert dollars into gold an
would not intervene in foreign exchange markets to maintain exchange rate stability. Si
there has been a mixture of exchange rate systems of nationally managed floating, joint
and pegged exchange rates. According to Prof. Schwartz, the IMF has lost its objective

6. **Failure to Eliminate Foreign Exchange Restrictions.** One of the objectives of the F
been to eliminate foreign exchange restrictions which hamper the growth in world tra
Fund has not been successful in achieving this objective. The world trade is restricted

4. To assist in the establishment of a multilateral system of payments in respect of current transactions between member 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, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
6. In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members.

3. FUNCTIONS OF THE FUND

To fulfil the above objectives, the IMF performs the following functions :

1. The IMF operates in such a way as to fulfil its objectives as laid down in the Bretton Woods Articles of Agreements. It is the Fund's duty to see that these provisions are observed by member countries. Some of the provisions of the original Articles such as relating to exchange rates have become obsolete due to international monetary events. Accordingly the Fund has amended its Articles of Agreement to make appropriate adjustments.
2. The Fund gives short-term loans to its members so that they may correct their temporary balance of payments disequilibrium.
3. The Fund is regarded "as the guardian of good conduct" in the sphere of balance of payments. It aims at reducing tariffs and other trade restrictions by the member countries. Articles VII of the Charter provides that no member shall, without the approval of the Fund, impose restrictions on the making of payments or engage in discriminatory currency arrangements or multiple currency practices. It is the functions of the Fund to have a surveillance of the policies being adopted by the member countries.
4. The Fund also renders technical advice to its members on monetary and fiscal policies.
5. It conducts research studies and publishes them in IMF staff papers, Finance and Development, etc.
6. It provides technical experts to member countries having BOP difficulties and other problems.
7. It also conducts short training courses on fiscal, monetary and balance of payments for personnel from member nations through its Central Banking Service Development, the Fiscal Affairs Department, the Bureau of Statistics and the IMF Institute.

Thus the Fund performs financial, supervisory and controlling functions.

OGRANISATION AND STRUCTURE OF THE FUND

The Second Amendment of the Articles of Agreement made important changes in the organisation and structure of the Fund. As such, the structure of the Fund consists of a Board of Governors, an Executive Board, a Managing Director, a Council and a staff with its headquarters in Washington, U.S.A. There are ad hoc and standing committees appointed by the Board of Governors and the Executive Board. There is also an Interim Committee (now the International Monetary and Financial Committee—IMFC) appointed by the Board of Governors. The Board o

Governors and the *Executive Board* are decision-making organs of the Fund. They exercise p-
ers and take decisions that are binding on members and the Fund. The Board of Governors is
the top in the structure of the Fund. It is composed of one Governor and one alternate Gover-
appointed by each member. Normally, a member appoints its minister of finance or the Gover-
nor of its central bank as its Governor. The alternate Governor can participate in the meetings
the Board but has the power to vote only in the absence of the Governor.
The Board of Governors which has now 24 members, meets annually in which details of the F
activities for the previous year are presented. The annual meeting also takes a few decis
with regard to the policies of the Fund. Special meetings can be convened by any of the
members having 25 per cent of the total voting rights. As a matter of practice, the majority
decision-making powers of the Board of Governors have been delegated to the Board of Exe
tive Directors such a decisions on access by the members of the Fund's resources, decisions
charges and remuneration and the review of consultations between the Fund and its membe
The Executive Board has 21 members at present. Five Executive Directors are appointed by t
five members (USA, UK, W. Germany, France and Japan) having the largest quotas. Saudi Ar
bia has appointed a sixth Executive Director by being one of the two largest contributors to t
Fund. 15 Executive Directors are elected at intervals of two years by the remaining memb
according to the constituencies on a roughly geographical basis.
There is a *Managing Director* of the Fund who is elected by the Executive Directors. He is usuall
a politician or an important international official. He is the non-voting Chairman of the Exec
tive Board. Besides acting as the Chairman of the Executive Board, the Managing Director is th
head of the Fund staff and is responsible for its organisation, appointment and dismissal.
The Executive Board is the most powerful organ of the Fund and exercises vast powers confer
on it by the Articles of Agreement and delegated to it by the Board of Governors. So its pow
relate to all Fund activities, including its regulatory, supervisory and financial activities. An
major change in the IMF procedure requires 85 per cent majority in the Executive Board. Hen
the discretion lies with the US and EEC as they have 22 per cent and 27 per cent of the voting
strength respectively. The Executive Board is in the continuous session and meets several times
a week.
The Interim Committee (now IMFC) was established in October 1974 to advise the Board of Gover-
nors on supervising the management and adaptation of the international monetary system in
order to avoid disturbances that might threaten it. It currently has 22 members.
The Development Committee was also established in October 1974 and consists of 22 members. It
advises and reports to the Board of Governors on all aspects of the transfer of real resources to
developing countries and makes suggestions for their implementation.

5. Working of the Fund

The IMF has amended its policies in keeping with the changing world economic situations relat-
ing to its capital structure, quotas, procedure of lending, exchange rates and other policies from
time to time.

1. Financial Resources

The capital of the Fund includes quotas of member countries, amount received from the sale of
gold, GAB and loans from members nations.

Quotas and their Fixation. The Fund has General Account based on quotas allocated to its mem-
bers. When a country joins the Fund, it is assigned a quota that governs the size of its subscrip-
tion, its voting power, and its drawing rights. At the time of the formation of the IMF, each

views may be exchanged to remove the trade barriers.

6. The three big and developed SAARC countries (India, Pakistan and Sri Lanka) should give to the four LDCs market access in their territories by granting one-sided concessions on the basis of non-reciprocity principle.

7. Production capacities at the regional level should be enhanced through cooperation among SAARC countries so that intra-regional trade and trade with outside countries increase.

8. For expanding trade relations, it is essential that investments should be made in special regions for the development of infrastructural facilities.

9. In the light of the above, there should be free flow of investments. For this, a SAARC investment region should be established. There will be two advantages from it. *One*, with the flow of investments among SAARC countries small members States will get credit facilities for development. *Two*, this will encourage direct foreign investment into SAARC countries.

10. Big member States of SAARC should help small member countries in developing their power, transport, infrastructure, communication and other resources so that their economic capacities may increase and they may diversify. In this way, all member States will be capable of fully increasing intra-regional trade.

11. SAARC members should set up joint ventures in each other's country, especially in the least developed countries so that their industrial base may develop, their production capacities may increase and intra-regional trade and trade with the rest of the world may expand.

12. For SAARC to march from SAPTA to SAFTA primarily depends upon the relations between India and Pakistan. This is possible on the basis of reciprocal trade concessions, and Pakistan according MFN status to India and giving up hostile attitude towards India.

11. APPRAISAL OF SAARC

SAARC is one of the smallest trade organisations of the world whose primary aim is to accelerate the social and economic development of member States. It is the poorest trade organisation whose four members viz. Bangladesh, Nepal, Bhutan and Maldives come in the category of least developed countries. The total annual trade of SAARC countries in the global trade in 1997 was $ 109.7 billions. India took the major share in total global trade accounting for 62.1% and the balance of about 38% was shared by the other six member countries—Pakistan (18.4%), Bangladesh (9.4%), Sri Lanka (8.2%), Nepal (1.5%), Maldives (0.25%) and Bhutan (0.15%). The intra-SAARC trade was $ 3,000 millions which was less than 3% of the region's total global trade. When SAARC becomes a free trade zone by 2005, its share in the global trade is likely to achieve the target of 10%. So far as India is concerned, its cumulative trade with other SAARC member countries was Rs. 7,500 crores in 1999-2000. Of this, exports were at Rs. 6,100 crores and imports at Rs. 1,400 crores.

ACHIEVEMENTS OF SAARC

So far, the achievements of SAARC in boosting trade and regional cooperation are the following:

1. The establishment of SAPTA and reduction in quantitative controls, tariff and non-tariff barriers on imports and grant of concessions under it.
2. The setting up of Technical Committees for economic cooperation among SAARC countries relating to agriculture, communications, education and culture, environment, health and population, rural development, science and technology, tourism, transport, etc.
3. One of the objectives of SAARC is to eradicate poverty among member States by 2002. The agenda on removal of poverty includes strategy of social mobilisation, policy of decentralised agricultural development, small scale labour-intensive industrialisation and human development. It gives priority to the right to work and primary education for every poor person. In its efforts to reduce poverty, SAARC is receiving the cooperation of World Bank, UNDP and ESCAP.

representation and assessment of the ... as production, consumption, trade, ...
5. SAARC has set up SAARC Chamber of Commerce ... with its headquarter at Karachi. Its national units are located in seven SAARC countries. It has played a significant role in promoting economic and trade co-operation in the region. It helped in forming SAPTA. Its aim is to promote trade and interaction of chambers of commerce and industry of seven member countries, to organise trade fairs and to confer with other trade organisations for increasing SAARC trade.
6. SAARC established the SAARC Agricultural Information Centre (SAIC) in 1988 which works as a central information institution for agricultural related resources like fisheries, forestry, livestock, potato, rice, etc. It serves as a central information institution for seven national information centres in each member State. It helps in exchanging regionally technical information relating to R & D activities. SAIC also publishes and distributes information among member countries on research and experiments conducted by agricultural institutes relating to agriculture.
7. To develop the SAARC countries socially and economically, SAARC has entered into agreements and signed memorandum of understandings (MOUs) with a number of international and regional organisations like UNCTAD, ESCAP, UNDP, APT (Asia Pacific Telecommunity), UNDCP, EC, ITU (International Telecommunications Unions), CIDA (Canadian International Development Agency), etc.
. To help member States financially, SAARC has set up two funds :
(1) South Asian Development Fund (SADF) with three windows : window for identification and development projects, window for institutional and human resource development and window for social and infrastructural development projects. (2) SAARC Japan Special Fund.
Encouraged by SAARC, the *South Asian Growth Quadrangle* (SAGQ) comprising India, Bhutan, Nepal and Bangladesh has been formed in early 2000. It aims at the economic development of ...stern India, Bangladesh, Nepal and Bhutan and the basin formed by the three major rivers ...nga, Meghna and Brahmaputra. The area identified for co-operation are multi-nodal transportation and telecommunications, effective use of energy and natural resources, development of tourism, increase in trade and investments and checking environmental hazards.

...nclusion. Since its inception, SAARC has made the above noted achievements within a ...rs. But to march from SAPTA to SAFTA and to make it a reality, it is essential to have ...rit of mutual faith among the member countries. For this, they will have to improve the p... environment and to have greater economic cooperation.

EXERCISES

...plain the objectives and organisation of SAARC. What measures have been adopt... ...ARC to increase trade and economic cooperation among member countries? Explain
...plain the main features of SAPTA Agreement. What are the obstacles which hinder i... ...s?
...plain the main features of SAPTA? Can SAPTA lead to SAFTA? Give your views.

other. For instance, Pakistan is not willing to extend MFN (Most Favoured Nation) status to India which it is obligatory to grant under WTO Agreement. This stands in the way of taking SAPTA to SAFTA.

7. India, Pakistan, Sri Lanka and Bangladesh have quite high tariff rates on many commodities. Pakistan and Bangladesh also impose VAT on all imported goods. Besides, all SAARC countries levy such non-tariff barriers as quantitative restrictions, restrictive licenses, etc. Unless they are totally removed SAPTA cannot be a success.

8. Despite the setting up of Technical Committee on Transport, land and water route transport facilities are not available among SAARC countries. Due to the lack of transport facilities, high transit duty, etc., intra-regional trade has not been increasing, especially among India, Pakistan and Bangladesh.

9. Bank relations are also not developed among SAARC countries. The methods of credit instruments are different in each country from others. Consequently, there are delays and bottlenecks in buying and selling commodities. Neither payments are made in time nor are they cleared. These are the main obstacles in increasing SAARC trade.

10. Another obstacles in the way of SAARC trade is that every member country is afraid of India's superior status because it possesses the largest natural, financial, technical and man power resources in the region. Naturally, its output of various commodities and export potential are the highest among the SAARC members and its trade balance is also favourable with them.

11. With the removal of trade barriers among SAARC countries, *informal* (illegal) trade in goods has increased. As a result, bilateral trade balances have been adversely affected between the member states. This has led to the demand for tariff barriers which would make SAFTA a remote possibility.

12. The long-drawn hostility between Pakistan and India has overturned the schedule of establishing the SAFIA by 2002 and the SAARC Community by 2005.

10. Suggestions to Increase Economic Co-operation and Tra in SAARC

The following suggestions are made to increase trade and economic cooperation among SA countries:

1. Tariff and non-tariff barriers should be removed by granting more concessions, espe average import tariffs imposed by India, Pakistan, Bangladesh and Sri Lanka.

2. Trade among SAARC countries can be increased through transport facilities. For this road and water transport infrastructure should be strengthened. Besides, there is the n improve the procedures for the grant of visas, transportation of goods and clearance at points.

3. Norms regarding the origin of products under SAPTA should be relaxed. At present proportion of the manufactured or produced product or the imported input of a SAARC c exceeds 50%, the product will not be considered to be the produce of that country and it get trade concessions. But to increase trade among SAARC countries., it is essential ultimate place of manufacture of a product should be the sole criterion for determining gin of a product.

4. SAARC countries mostly re-export primary products. In the coming years, they shou lish manufacturing industries. For this, they should set up special export areas. To att eign investments, they should enter into buy-back agreements and also provide fiscal a acilities to foreign investers.

There should be periodic meetings among exporters, importers and private sector re es of SAARC countries so that informations may be provided for tradeable pro

7. Systematic Transformation Facility (STF). In April, 1993, the IMF established STF with $6 billion to help Russia and other Central Asian Republics to face balance of payments crisis.

8. Emergency Structural Adjustment Loans (ESAL). The Fund eastblished ESAL facility in early 1999 to help the Asian and Latin American countries inflicted with the financial crisis. Under it, such countries are given shot-term loans 3% to 5% above the Fund's normal interest rate which are to be repaid in a short period.

9. Contingency Credit Line (CCL). The CCL was created in April 1999 to protect fundamentally sound countries from the contagion of financial crisis occurring in other countries, rather than from domestic policy weaknesses. Only countries that over the medium term can finance BOP comfortably and enjoy healthy financial sectors and strong debtor-creditor relations are considered for CCL. So far no country has drawn from it.

4. Exchange Rates

The original Fund Agreement provided that the par value of each member country was to be expressed in terms of gold of certain weight and fineness or US dollars. The underlying idea was to create a system of stable exchange rates with orderly cross rates. But the Fund was obliged to agree to changes in exchange rates which did not exceed ± 1 per cent of the initial par value. A further change of ± 1 per cent required the permission of the Fund. Since 1971, these provisions have been changed and the international monetary system has moved from fixed exhcange rates to flexible exchange rates. Under the new system, the member countries are not expected to maintain and establish par values with gold or dollar. The Fund has no control over the exchange rate adjustment policies of the member countries.

But under Article IV of the Second Amendment, effective April 1978, the Fund has laid down principles for the guidance of exchange rate policies of its members : (*a*) to avoid manipulation of exchange rates in order to gain an unfair competitive advantage over other members; (*b*) to intervene in the exchange market to counter disorderly conditions; and (*c*) to take into account in their intervention policies the interests of other members.

5. Other Facilities

The IMF advises its member countries on various problems concerning their BOP and exchange rate problems and on monetary and fiscal issues. It sends specialists and experts to help solve BOP and exchange rate problems of member countries. They confer with local officials and suggest monetary, fiscal and other measures in their reports. The Fund has set up three departments to solve banking and fiscal problems of member countries. *First*, there is the Central Banking Service Department which helps member countries with the services of its experts to run and manage their central banks and to formulate banking legislation. Such services are especially provided to developing countries to reform their banking system. *Second*, the Fiscal Affairs Department renders advice to member countries concerning their fiscal matters. *Third*, The IMF Institute conducts short-term training courses for the officers of member countries relating to monetary, fiscal, banking, and BOP policies. Besides, the Fund's research department publishes many reports in a year containing material relating to different policy measures. These publications include IMF Annual Report and IMF Staff Papers, Finance and Development Journal, etc.

ts Criticisms

he IMF has been severely criticised in recent years for mishandling global finanacial crises in ast Asia and Latin America, aggravating poverty in developing countries, encouraging bad olicies by governments and financial investors and favouring the developed countries. We scuss below some points of criticism.

If a member country is making particularly strong efforts to correct its balance of paym disequilibrium and adjust its economy.

Other Credit Facilities. Since the 1960s, the Fund has created several new credit facilities for members. Loans from these facilities are separate from tranches and are available for a long period. These are :

1. **Buffer Stock Financing Facility (BSFF).** It was created in 1969 for financing commodity buf stock by member countries. The facility is equivalent to 30 per cent of the borrowing membe quota. Repurchases are made in 3¼ to 5 years. But the member is expected to cooperate with Fund in establishing commodity prices within the country.

2. **Extended Fund Facility (EFF).** It is another specialised facility which was created in 19 Under EFF, the Fund provides credit to member countries to meet their balance of paym deficits for longer periods, and in amounts larger than their quotas under normal credit fac ties. EFF provides credit upto a period of 10 years and loans upto 300 per cent of a membe quota are allowed. It is based on performance criteria and drawings instalments. It is availed by developing countries.

3. **Supplementary Financing Facility (SFF).** It was established in 1977 to provide suppleme tary financing under extended or stand-by arrangements to member countries to meet seri balance of payments deficits that are large in relation to their economies and their quotas. Th facility has been extended to low-income developing member countries of the Fund. To redu the cost of borrowing under SFF to such countries, the Fund established Subsidy Account 1980 through which it makes subsidy payments to borrower countries.

4. **Structural Adjustment Facility (SAF).** The Fund set up SAF in March 1986 to provid concessional adjustment to the poorer developing countries. Under it, loans are granted to the o solve balance of payments problems and to carry out medium term macro-economic an tructural adjustment programmes. The SAF was created with SDR 2.7 billion of resources whic ome mainly from repayments on loans from the Trust Fund. Resources are made available he poorer countries on highly concessional terms of .5 to 1 per cent interest with the princip epayable over 5½ to 10 years with a five-year grace period. Disbursements are made annually nd are linked to the approval of annual arrangements with members receiving equivalent of er cent of quota under the first annual arrangement, 20 per cent under the second and 15 pe ent under the third.

. **Enhanced Structural Adjustment Facility (ESAF).** The ESAF was created in December 198 ith SDR 6 billion of resources for the medium term financing needs of low income countries he objectives, eligibility and basic programme features of this facility are similar to those of the AF. But eligible members can receive a great deal more assistance under the ESAF than unde e SAF upto 100 per cent of quota over a three-year programme period, with provision for up 0 per cent in exceptional circumstances. Disbursements under the ESAF are semi-annual in ead of annual.

Compensatory and Contingency Financing Facility (CCFF). The CCFF was created in Au ust 1988 to provide timely compensation for temporary shortfalls or excesses in cereal impor sts due to factors beyond the control of the member and contingency financing to help a mem r to maintain the momentum of Fund-supported adjustment programmes in the face of exte l shocks on account of factors beyond its control. In 1990, the Fund introduced an impor ement into CCFF for a temporary period upto the end of 1991 to help members overcome the ulf War Crisis. This was within 95 per cent of quota for CCFF. The Fund also decided to expand e coverage of CCFF. Besides workers' remittances and travel receipts, shortfalls in other ser s such as receipts from pipelines, canals, shipping, transportation, construction and insuranc ve been included in the calculation of export shortfalls under compensatory financing.

relating to inter-relationships ... technology transfer" which was working ...
mit its report to the TDB within two years.

The UNCTAD IX (May 1996) urged the developed countries to give developing countries ... to high technology crucial to their development.

The UNCTAD has simply laid down the broad principles for transfer of publicly funded ... nologies at the inter-governmental level. It may facilitate the process of technology transfer ... freer access to sources of information, cutting down barriers to freer flow of technology, etc. ... doubt governmental policies have a significant role to play in this direction, but the fact ... that technology transfer will have to be at industry levels. This is because much of the ... ogy in developed countries is closely held by MNCs.

5. Economic Cooperation among LDCs

UNCTAD II held at New Delhi in 1968 emphasised for the first time the need for ... international co-operation and self-reliance among the LDCs. UNCTAD VI held at Belgrade ... June 1983 again emphasised the need for co-operative efforts among LDCs through ... the scope of preferential trading arrangements, harmonising industrial development ... through infrastructural facilities, particularly in respect of shipping services and ... ment mechanism under common clearing system.

The first step towards economic co-operation among LDCs was taken at the ministerial ... of G-77 held at New York in October 1982 when it was decided to launch the Global ... Tariff Preferences (GSTP). In 1984, the UNCTAD organised two meetings where inter... nical level discussions were held in drafting the ground rules procedures for GSTP ne... Another ministerial conference held at New Delhi in July 1985 decided to conclude ... round of GSTP negotiations in May 1987, on the eve of UNCTAD VII. GSTP is a major ... of developing countries to expand mutual trade through grant of tariff and non-ta... ions and other measures such as long-term contracts under the UNCTAD.

Besides increasing trade, UNCTAD VI recommended the initiation or strengthening ... of cooperative measures in the fields of research and development, design and engine... LDCs. Harmonisation of LDCs policies, rules, regulations, laws and practices gov... nology in all its aspects, training and exchange of personnel, including cooperative ... skills, establishment of preferential arrangements for the transfer and developme... ogy, technological cooperation in specific areas and sectors of critical importance. ... ies of cooperation of technological transfer among LDCs exist for particularly the ... sectors: capital goods, human skills, energy, and food production and processi... possibilities in other sectors of their economies cannot be ruled out.

The UNCTAD V held at Manila in May-June 1979 passed a resolution relating to ...

July 1996, etc.

SAARC FUNDS

The Association has set up two funds to remove financial difficulties.

1. **SAARC-Japan Special Fund.** The fund established entirely with contribution from the Japanese Government in 1993 provides finance for SAARC related programmes and activities. It has $ 5 lakh. It consists of two components. According to component I, the allocation is to be used to finance selected programmes and activities identified and managed by the member States. Component II is for the programmes and activities identified and managed by the Government of Japan.

2. **South Asian Development Fund (SADF).** SAARC Fund for Regional Projects (SFRP) was established with initial capital of $ 50 lakh. Further, SAARC Regional Fund (SRF) was also set up. The objective of this fund was to provide finance for those programmes and activities which came under IPA and could not be completed due to financial difficulties. The SADF was formally established during the Eight SAARC Summit with the merger of the two earlier funds. SADF has three branches : (1) To identify and develop projects; (2) for institutional and human resources development projects; and (3) for social development infrastructural related development projects.

TRADE AND ECONOMIC CO-OPERATION

SAARC has taken various steps to expand trade and economic cooperation among member countries in core areas. Of these, SAARC Preferential Trading Arrangement (SAPTA) is more important.

SAARC PREFERENTIAL TRADING ARRANGEMENT (SAPTA)

The SAPTA Agreement for trade and economic cooperation among member countries came into force on 7 December 1995.

MAIN FEATURES OF SAPTA

The following are the main features of SAPTA:

1. **Objectives.** SAPTA is a contractual agreement which presents a pattern of rules for gradual liberalisation of intra-regional trade among SAARC member countries. The main objective of SAPTA is to promote and sustain mutual trade and economic co-operation among SAARC State through the exchange of concessions on para-tariff and non-tariff measures.

2. **Principles.** Article 3 of the agreement explains the following basic principles which admini ter the agreement.

(a) All member States will receive benefits equitably on the basis of reciprocity and mutuality advantages. However, their respective levels of economic and industrial development, the p tern of their external trade, trade and tariff policies and systems will be taken into account.

(b) SAPTA agreement shall be negotiated step by step, improved and extended graduall successive stages. It will be reviewed periodically.

(c) SAPTA agreement emphasizes on the special needs and preferential treatment for the developed member countries.

3. **Scope.** All products, manufactures and raw materials, semi-processed and processed sh included in the mutual concessions given by member countries. Under this, trade liberal shall be done by preferential arrangements relating to tariffs, para-tariff, non-tariff and

ments;

(ii) By setting up manufacturing and other facilities in least developed member countries to meet their intra-regional demand under cooperative arrangements;

(iii) By formulation of export promotion policies, establishment of training facilities in the field of trade and supporting export marketing of products through such measures as export credit insurance, access to market information, etc.;

(iv) By removing non-tariff and para-tariff barriers and providing duty free access, exclusive tariff preferences or deeper tariff preferences for export products;

(v) By negotiating long-term contracts to achieve reasonable levels of sustainable exports;

(vi) By giving special consideration of exports in the application of safeguard measures from least developed member countries; and

(vii) By adopting greater flexibility in the introduction and continuance of trade restrictions under critical circumstances by the least developed member states.

5. **Balance of Payments and Safeguard Measures.** Any member State facing serious economic problems including payments difficulties may suspend provisionally the concessions permitted to import merchandise.

There are also some safeguard measures under SAPTA agreement for member countries. *First*, any product, which is a subject of a concession and is imported into a member State in such manner or in such quantities as to cause serious injury in the importing member country, the importing member country may suspend that concession provisionally. *Second*, SAPTA Agreement lays down provisions for information, consultation and dispute settlement in order to adopt balance of trade and safeguard measures by any member country.

. **Extention of Negotiated Concessions.** The concessions agreed to under SAPTA, except those made exclusively to the LDCs, shall be extended unconditionally to all member States.

. **Committee of Participants.** SAPTA has a Committee of Participants consisting of representatives of member States. The Committee meets at least once a year to review the progress made in the implementation of this Agreement. It ensures that benefits of trade expansion arising from this Agreement accrue to all member States equitably.

. **Non-Application of the Agreement.** The provisions of this Agreement shall not apply to member States under the following situations :

preferences have already been granted or are to be granted by one State to some other member States, and to third countries through bilateral, plurilateral and multilateral trade agreements and similar arrangements.

Modification and Withdrawal of Concessions. Any member State which has given concessions may notify the Committee on Economic Co-operation (CEC) of its intention to modify or withdraw the concessions after a period of three years. For this, that country will enter into consultations and negotiations with another concerned country and if necessary, negotiate appropriate compensation. If an agreement is reached within six months, the CEC may ask the affected member State to withdraw or modify equivalent concessions. But if any country leaves SAPTA, other member States shall be free to withdraw all the concessions given to it.

Withdrawal from SAPTA. Any member State may withdraw from SAPTA. For this it is mandatory for it to give six months' notice to SAARC Secretariat and also to inform CEC

the following responsibilities :

To formulate policies, reviewing progress, deciding on new areas of cooperation, establishing additional mechanisms as deemed necessary, and deciding on other matters of general interest to the Association. The Council meets twice a year and may also meet in extraordinary session by agreement of member States.

4. Standing Committee

The Standing Committee includes the Foreign Secretaries of member States. The Standing Committee has been entrusted with the following tasks :

Monitoring and co-ordination of programmes, modalities of financing, determining inter-sectoral priorities, mobilising regional and external cooperation. It may meet as often as deemed necessary but in practice normally meets twice a year and submits its report to the Council of Ministers.

The Standing Committee may also set up Action Committees comprising of member States concerned with implementation of projects. It may include more than two member countries. But all member countries may not be included.

5. Programming Committee

The Programming Committee assists the Standing Committce. It includes senior officials. It scrutinises the budget of the Secretariat, finalises the annual schedule of its activities and takes up any other matters assigned by the Standing Committee. It also considers the reports of the Technical Committees and SAARC Regional Centres and submits its comments to the Standing Committee. It meets prior to the Standing Committee sessions. It is an ad hoc body.

6. Technical Committees

Technical Committees comprise the representatives of all member States. They formulate programmes and prepare projects in their respective fields. They are responsible for monitoring implementation of such activities and submit their reports to the Standing Committee through the Programming Committee. The Chairmanship of every Technical Committee rotates among member States in alphabetical order every two years. There are currently 12 Technical Committees such as Agriculture, Communications, Environment, Health and Population Activities, R Development, Science and Technology, Tourism, Transport, etc. These committees show agreed areas of SAARC cooperation and come under SPA which is the main part of SA process.

-OPERATION WITH OTHER ORGANISATIONS

SAARC has established cooperation with international and regional organisations. The arrangement for cooperation takes place by signing agreements with various organisations and M n February 1993, a Memorandum of Understanding (MOU) on trade analysis and inform ystem was signed between SAARC and UNCTAD. This was the first agreement of cooper o be signed by SAARC with an international organisation. Similarly, an agreement for coo on between SAARC and ESCAP (Economic and Social Commission for Asia and the P as signed in February 1994. The objectives of the agreement were cooperation on develop sues through joint studies, workshops and seminars and exchange of information and entation in poverty alleviation, human resource development, trade promotion, foreign vestment, environmental protection and prevention of drug trafficking, infrastructure ment, etc. Further, it has signed various vital agreements with UNDP in July 1995, with U August 1995, with Colombo Plan Bureau in April 1995, with European Community (

PRINCIPLES

SAARC is based on the following principles :

1. Cooperation within the framework of Association is based in respect of the principles of sovereign equality, territorial integrity, political independence, non-interference in the internal affairs of other States and mutual benefit.
2. Such cooperation is to complement and not to substitute bilateral or multilateral cooperation.
3. Such cooperation should be consistent with bilateral and multilateral obligations of member states.

4. GENERAL PROVISIONS

The general provisions of SAARC are as follow :

1. Decisions at all levels in SAARC are taken on the basis of unanimity.
2. Bilateral and contentious issues are exculded from the deliberations of the Association.

5. ORGANISATION

The organisation of SAARC consists of the following :

1. SUMMITS

The highest authority of the Association rests with the heads of every member country. This the highest policy making authority of the Association, called the Council. The Council me alternatively in the member countries almost every year. During 1985 to 1998, ten meeting the heads of member countries had been held in Dhaka (1985), Bangalore (1986), Kathma (1987), Islamabad (1988), Male (1990), Colombo (1991), Dhaka (1993), New Delhi (1995), M (1997) and Colombo (1998), respectively.

2. SAARC SECRETARIAT

The SAARC Secretariat was established in Kathmandu (Nepal) on 16th January, 1987. Its r to coordinate and monitor the implementation of SAARC activities, service the meetings Association and serve as the channel of communication between SAARC and other in tional organisations.

There is a Secretary-General of the Secretariat. The Secretary-General is appointed by the c of ministers upon nomination by a member State on the principle of rotation in alpha order for a period of three years (till 1997 it was for 2 years) which cannot be renewed a The Secretariat comprises the Secretary-General, seven Directors one from each State General Services Staff. Directors are appointed by the Secretary General upon nomir member States for a period of three years which in special circumstances, may be ext the Secretary General for another full term, in consultation with the concerned memb The initial cost of establishing the Secretariat was met by Nepal and further expendi shared by member States on the basis of an agreed formula. Consequently, India is co 32 per cent of the total expanditure, Pakistan 25 per cent and Bangladesh, Nepal and each 11 per cent and Bhutan and Maldives each 5 per cent.

3. COUNCIL OF MINISTERS

The Council of Ministers comprises all the Foreign Ministers of member States. The

tan, India, The Maldives, Nepal, Pakistan and Sri Lanka. The basic aim of the organisation is to accelarate the process of economic and social development in Member States through joint action in the agreed areas of co-operation.

The idea of regional cooperation in South Asia was first mooted in November 1980. After consultations, the Foreign Secretaries of the seven countries met for the first time in Colombo in April 1981. A few months latter, this was followed by another meeting, which identified five broad areas for regional cooperation. The Foreign Ministers, at their first meeting in New Delhi in August 1983, adopted the Declaration on South Asian Regional Cooperation (SAARC) and formally launched its Integrated Programme of Action (IPA).

The Heads of State of these countries at their first historical Summit held in Dhaka on 7th-8th December, 1985 adopted the Charter formally establishing the South Asian Association for Regional Cooperation (SAARC).

OBJECTIVES

The following are the objectives of SAARC:

1. To promote the welfare of the people of South Asia and to improve their quality of life.
2. To accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realise their full potential.
3. To promote and strengthen collective self-reliance among the member countries.
4. To contribute to mutual trust, understanding and appreciation of one another's problems.
5. To promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields.
6. To strengthen cooperation with other developing countries.
7. To strengthen cooperation among themselves in international forums on matters of common interest.
8. To cooperate with international and regional organisations with similar aims and purposes.

cates. This prerequisite has not been fulfilled by a large number of LDCs. As a result, a significant number of preferential opportunities remain untapped for essentially administrative reasons.

Lastly, the scope for the extension of GSP is quite limited as product-producers in LDCs strong competitive position in the world markets.

3. Development Finance

Right from the UNCTAD III LDCs have been voicing their concern over the growing of their balance of payments deficits and indebtedness. The UNCTAD III held at Santig 1972 passed a resolution asking the IMF to work out a scheme for the link-up of Special Rights (SDRs) with development finance. This was essential because the SDRs had be with individual members' quotas in the IMF. Since the quotas of LDCs were small, they a very small share of SDRs. By another resolution, the UNCTAD III asked the IMF Committee for Monetary Reform which should have as many members from LDC were from the developed countries. The UNCTAD III was also called upon to provide examination of the relationship between indebtedness and development and to appropriate remedial measures. Moreover, the LDCs proposed at UNCTAD III that cent target of development assistance agreed upon by the developed countries as nternational development strategy should not include components distinct from assis s private investment, and credits by suppliers and purchasers, and that it shoul everse flows of interest payments. But UNCTAD III failed to achieve anything ssues.

he UNCTAD IV held at Nairobi in May 1976 also failed to solve the debt and nance problems of LDCs. It passed three resolutions in this connection. The first ebt problems of LDCs and asked the developed countries to convert ODA debt in stablish a framework within which future debt problems could be solved. The s an effective system to international financial cooperation which suggested a nu res to improve the working of the IMF in relation to LDCs. The third resolution stablishment of multilateral guarantee facility. The Conference also appealed to de ies to achieve 0.7 per cent target of development of LDCs. They should annou DA assistance which should be in the form of grants to the least developing rger concessional aid to other LDCs.

he UNCTAD V held at Manila in May-June 1979 passed a number of resoluti nance and debt problems of LDCs. *First*, it asked the IMF to examine the o iotas in relation to the magnitude of world trade and balance of payments def rs and to increase the quota share of LDCs. *Second*, the IMF was asked to appl a flexible and appropriate manner taking into account the domestic social an

creating ... flows to developing cou...
to the TDB.

The UNCTAD IX (May 1996) called upon the developed countries to provide debt relief to LDCs undertaking economic reforms.

Over the years, the various UNCTAD meetings have failed to solve the problems of debt and development aid of LDCs. At best, they have been forums for exchanging ideas and passing resolutions rather than getting the issues solved. As observed by *The Economist*, London, UNCTAD has lost the initiative on debt to the IMF and on development to the World Bank. The debt issue has been taken over by the IMF because it acts as a bank itself and has the confidence of western bankers and governments. Unlike UNCTAD, the World Bank has both money and effective advice to dispense to promote development.

4. Technology Transfer

It was at the UNCTAD at Nairobi in 1976 that the meeting pressed for measures which would strengthen the technology capability of LDCs. It was pointed out that better research facilities, training programmes and establishment of local and regional centres for technology transfe would serve the purpose. The Conference also set up a group of experts to draft a code of con duct of technology transfer. Besides it urged the revision of international patent system.

The UNCTAD VI held at Belgrade in June 1983 emphasised the need for transfer of technolo to LDCs in order to promote their speedy and self-reliant development. The Conference d cussed and approved a policy paper, "A Strategy for the Technological Transformation of veloped Countries" prepared by the UNCTAD secretariat. The study noted that during the p World War II era many LDCs attained political independence but it has been severely constra by their economic and technological dependence on the developed countries. The LDC weak partners in an unequal world. Despite considerable progress in LDCs during the three decades, technological gap between them and the developed countries has widene study emphasised the need to attain technological transformation of LDCs by reducin external technological dependence and strengthening their national capacity for auton technological development. This requires reduction in its dependence on the agricultural and on primary production in general. The spearhead of the strategy for technological tr mation has to be an accelerated tempo of industrialisation. Processing of primary produ fore marketing them will widen industrialisation through diversification. Since techn

LDCs.

In June 1971, the GATT approved a waiver to MFN (*Most Favoured Nation*) clause which permitted developed countries to accord more favourable tariff treatment to goods imported from LDCs for a period of ten years. The EEC, Japan and Norway were the first to implement the GSP in 1971, followed by Denmark, Finland, New Zealand, Sweden, Switzerland and Austria in 1972, by Australia and Canada in 1974, and finally by the United States in 1976. At the conclusion of GATT's Tokyo round in 1979, the GSP was given legal status in the trading system through the 'enabling clause', allowing developed countries to give such tariff and other concessions favouring the LDCs. The UNCTAD undertook a general review of GSP in 1980 and agreed that the objectives had not been fully achieved and that the system should be continued beyond its initial period. Accordingly, the scheme of GSP was renewed for a second term of 10 years in 1981. The GSP still continues. But a number of developed countries have unilaterally made changes into their trade laws which favour them.

The UNCTAD IX held at Midrant (SA) in May 1996 urged the developed countries to adopt a non-discriminatory and universal GSP for developing countries and it should be continued after the post-Uruguay round. It should be strengthened and procedures simplified and product coverage increased to cover more items of export of developing countries.

Under the GSP, most manufactured and semi-manufactured goods from LDCs to developed countries enjoy tariff reductions or exemptions from custom duties. A majority of developed countries grant duty free treatment for all or most products eligible for GSP. The United States, Sweden, Norway and Finland give completely duty free treatment under the GSP schemes. apan and Switzerland allow generally duty free treatment with varying rates of duty upto 50 per cent lower than under MFN for individual products from LDCs. The EEC also gives duty ree treatment for all industrial products eligible for GSP.

During the 1970s, constant efforts were made to expand the coverage of the GSP. But in the wake f global recession, rising protectionism and other obstacles in the way of increased access to nternational markets, the LDCs experienced a severe setback in their exports of manufactured nd semi-manufactured products during 1980-82. Again during 1983-84, slower growth in de- eloped countries and in world trade reduced the growth rate of exports of LDCs due to fall in nternational commodity prices. However, there has been a moderate recovery in export prices manufactures of LDCs since 1985.

1993, about 50 per cent of products actually received preferential treatment, according to NCTAD's 1993 review of the GSP. Within this total, the three major importing countries—the , Japan and US—accounted for more than 90 per cent. There were 14 GSP schemes in opera- n in 29 preference giving countries, including the 15 members of the EC.

April 1996, India extended for the first time tariff preferences to eight developing countries der the Global System of Tariff Preferences (GSTP). GSTP differs from GSP in that the former provided by one developing country to another, while the latter are provided by a devel- ed country to a developing one. They are over and above the tariff preferences provided to ntries under the MFN obligations of the WTO. India had provided tariff preferences to 22 ducts and received preferences for 32 products from developing countries under the GSTP.

itations of GSP. There are, however, certain limitations of the scheme of GSP.

espite efforts made to expand the coverage of the GSP, such important items as textile hing, leather and leather products, and steel and footwear are excluded by a number eloped countries. These are the products in which the more industrialised developing co have been specialising.

any developed countries have evolved their own schemes which subject the preferenc riety of restrictions. Some give preferential tariff treatment to those LDCs that abid untary export restraint'. Others offer GSP treatment in the form of a tariff quota wher is set on a certain volume of imports which enters duty free into the developed countr

the members. The administrative service and inter-governmental support services ... agement, the administrative service and inter-governmental support services ... tional institutions of the secretariat are detailed below.

Trade and Development Board. An executive body known as the Trade and Development Board which meets twice a year in Regular Session and in Special Session as required. It takes policy decisions when the Conference is not in session. It is composed of 55 members elected from among the Conference Members on the basis of equitable geographical distribution.

Executive Committee. There is an Executive Committee of the Board which is composed of the permanent representatives of member states deputed to the UNCTAD in Geneva. It meets periodically, usually every month.

Standing Committees. The Board is assisted in its functions by four new standing committees relating to commodities, poverty alleviation, economic co-operation among developing countries, and services. These Committees make studies and prepare reports from time to time, especially for the Conference to be held.

Special Committee. There is a Special Committee on Preferences.

Divisions. In response to the new orientation for working, resulting from UNCTAD IX, the UNCTAD secretariat has been reorganised to make it more performance-driven and to improve its quality of service. The secretariat now consists of four divisions (or groups) instead of nine previously. They are : (1) Division on Globalisation and Development Strategies ((DGDS); (2) Division on International Trade in Goods and Services and Commodities (DITGSC); (3) Division on Investment, Enterprise Development and Technology (DIEDT); and (4) Division on Services Infrastructure for Development and Trade Efficiency (DSIDTE). These divisions are responsible for helping the developing countries reap the benefits of globalisation to attain sustainable development.

In addition, the Secretary-General of the UNCTAD has established an office of the Special Coordinator for least developed, landlocked and island developing countries. Its aim is to prevent further marginalism of least developed countries in the world economy and to solve their specific problems.

The various committees and divisions have fixed terms. The divisions can bring in national experts so that their deliberations are enriched with national experience and empirical evidence. Non-governmental experts are also invited to participate both in the divisions and in the public sessions of the Board. They can also act in an advisory capacity to the Committees.

The Secretariat publishes an annual report based on the studies made by the Committees.

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FUNCTIONS OF UNCTAD

UNCTAD is expected to perform the following functions as laid down by the UN General Assembly :

1. To promote international trade between countries with different socio-economic systems, especially for accelerating the economic development of LDCs.
2. To formulate principles and policies of international trade and related problems of economic development.
3. To make proposals for putting the said principles and policies into effect and to take such steps which may be relevant towards this end.
4. Generally, to review and facilitate the co-ordination of activities of other institutions within the UN system in the field of international trade and related problems of economic development.
5. To be available as a centre for harmonious trade related development policies of government, and regional economic groupings.

years after the creation of the layout-design.

(7) Trade Secrets. Trade secrets and know-how having commercial value shall be protected against breach of confidence and other acts. Test data submitted to governments in order to obtain marketing approval for pharmaceuticals or agricultural chemicals shall be protected against unfair commercial use.

Lastly, this Agreement refers to the controls of anti-competitive practices in contractual licenses pertaining to intellectual property rights. It provides for consultations between governments in order to protect intellectual property rights from being absued.

The Agreement requires a one-year transition period for developed countries to bring their legislation and practices into conformity for the implementation of TRIP's. Developing countries and the erstwhile East-European and U.S.S.R. countries would have a 5-year transition period and the least developed countries 11 years. Those developing countries which do not provide product patent protection have been given 10 years.

The Agreement also envisages the establishment of a Council for Trade-Related Aspects of Intellectual Property Rights to monitor the operations of the Agreements and Governments' compliance with it.

4. Dispute Settlement System

The Understanding on Rules and Procedures Governing the Settlement of Disputes shall apply to consultations and the settlement of disputes between Members concerning their rights and obligations under the provisions of the Agreement establishing the WTO. For this purpose, a Dispute Settlement Body (DSB) will be established. The first stage in the settlement of disputes is the holding of consultations between the members concerned. If consultations fail and if both parties agree, the Director General of WTO offers good offices, conciliations and mediation. The complainant member can ask the DSB to establish a panel of three experts within 30 days. There is also the provision of the appellate review by a standing Appellate Body of seven members to be established by the DSB who will report to the DSB between 60-90 days. The DSB will adopt the report within 30 days which will be unconditionally accepted by the parties to the dispute.

5. Plurilateral Trade Agreements (PTA)

The Plurilateral Trade Agreements consist of the Agreement on Trade in Civil Aircraft, Agreement on Government Procurement, International Dairy Agreement and International Bovine Meat Agreement. The first Agreement was done at Geneva in April 1979, as subsequently modified, rectified or amended. The latter three Agreements were done at Marrakesh on April 15, 1994.

6. Trade Policy Review Mechanism (TPRM)

The TPRM aims to carry out reviews of the trade policies and practices under the Multilater Trade Agreements and the Plurilateral Trade Agreements for the smoother functioning of t multilateral trading system. For this purpose, it envisages the establishment of the Trade Pol Review Body (TPRB). In order to achieve full transparency, each member shall report regul to the TPRB about the trade policies and practices pursued by it. An annual overvie developments in the international trading environment having an impact on the multila trading system shall also be undertaken by the TPRB. The overview shall be assisted Annual Report by the Director General setting out major activities of the WTO and highlig significant policy issues affecting the multilateral trading system.

THE UN CONFERENCE ON TRADE AND DEVELOPM (UNCTAD)

.ORIGIN

The United Nations Conference on Trade and Development (UNCTAD) was establishe following the growing dissatisfaction with the operation of such international institutio IMF and the GATT. These institutions favoured the developed countries and failed to special trade and development problems of the LDCs. The GATT, in particular, being ted to free trade, reduction of tariffs and abolition of preferences and import restriction pay any attention to proposals to stabilise commodity prices and give preferential tre LDCs in trade with developed countries.[1]

The first step towards the creation of UNCTAD was taken when the UN General declared the 1960s as the United Nations Development Decade in December 1961. By it recognised the need for adopting measures by developed countries to bridge the ga the rich and poor nations through trade and aid. It was on the recommendations Economic and Social Council in July 1963 for convening a conference on trade and de that the UN General Assembly convened the first UNCTAD at Geneva in 1964. Accordingly, the UNCTAD I was held at Geneva in 1964. Since then such conferences held normally every four years : UNCTAD II at New Delhi, 1968; UNCTAD III at San UNCTAD IV at Nairobi, 1976; UNCTAD V at Manila, 1979; UNCTAD VI at Belg UNCTAD VII at Geneva, 1987; UNCTAD VIII at Cartagena (Columbia), 1992; and U at Midrand (South Africa), 1996.

RGANISATION

The UNCTAD is a permanent organ of the UN General Assembly with its headqu neva. It has a Secretariat. UNCTAD VIII agreed upon a new organisational struc UNCTAD which has been in operation since April 1992. It includes the following :

Conference. The (UNCTAD) Conference consisted of 188 members as on April 19

Secretariat. The UNCTAD is run by a secretariat under the Secretary-General who

s refer to less developed or developing countries.

OBJECTIVES AND ACHIEVEMENTS OF UNCTAD

UNCTAD is supposed to fulfil the following objectives which have been evolved gradually at the various conferences : (1) trade in primary commodities, (2) trade in manufactured goods, (3) development financing, (4) technology transfer, and (5) economic co-operation among developing countries. We discuss below the extent to which UNCTAD has been successful in achieving these objectives.

1. TRADE IN PRIMARY COMMODITIES

The UNCTAD has been active in the international commodity arrangements since its inception. LDCs want to expand the market for their traditional exports of primary commodities. Developed countries place restrictions on the exports of the latter in such forms as licensing, quotas, tariffs, health and packaging regulations, etc. and provide subsidies to domestic producers. Such trade restrictions tend to be higher for processed products than for unprocessed. Besides, exports from LDCs have been subject to wide fluctuations. Consequently, there has been a continual deterioration in the terms of trade of primary products of the LDCs in relation to export of manufactured products from the developed countries.

Since UNCTAD II, the LDCs have been insisting on International Commodity Agreements (ICAs) to stabilise the prices and markets for their exports of primary products. These agreements seek (1) to stabilise the price of the commodity concerned so as to reduce price fluctuations and resulting instability in the economies of the producing LDCs; and (2) to increase its price to compensate for the fast worsening in the terms of trade of the LDCs.

At UNCTAD IV (Nairobi), in 1976 it was proposed to have an Integrated Programme for Commodities (IPC), and to create a common fund for buffer stock financing. The proposal was to negotiate international commodity ageements to stabilise the prices of 18 commodities, ten of which were to be included in the initial buffer stock scheme. This programme led to the international commodity agreements on only cocoa (1981) and rubber (1980). UNCTAD VI (Belgrade) in 1983 also emphasised the importance of negotiating ICAs for ten commodities. Of the five agreements on commodities—coffee, cocoa, sugar, tin and rubber—only that for rubber is still in operation.

UNCTAD VII had a Subsidiary Committee on Commodities and UNCTAD VIII set up a Standing Committee on Commodities for making recommendations to the TDB.

The UNCTAD IV proposed for a $6 billion Common Fund in 1976 to create and finance international buffer stock of ten storable commodities. It was at UNCTAD VII (Geneva) that a Common Fund for commodities under the IPC became operational after a number of countries ratified or expressed their intentions to do so. New pledges announced at UNCTAD VII raised its total pledged capital to 66.9 per cent $ 4.7 billion fund, allowing it to become operational.

2. TRADE IN MANUFACTURED GOODS (GSP)

LDCs have strongly urged the developed countries to give them tariff preferences on their manufactured and semi-manufactured goods. At UNCTAD I, the G-77 urged the developed countries to grant a *Generalised System of Preferences* (GSP) to the exports of such goods to the developed countries. It was at UNCTAD II (New Delhi) in 1968 that all members unanimously agreed for the early establishment of a mutually acceptable system of generalised, non-reciprocal and non-discriminatory preferences. The objectives specified for the GSP were : (*a*) to increase the export earnings of LDCs; (*b*) to promote their industrialisation; and (*c*) to accelerate their growth rate. Thus the main aim of the GSP was to create a trade mechanism to enable LDCs to export without any tariff or other barriers to the developed countries and enable their products to compete on those markets with local production and thus encourage industrialisation and investment in th

on Services

3. Agreement on Trade-Related Aspects of Intellectual Property Ri... (TRIPs)

The TRIP's Agreement covers seven categories of intellectual property : (1) copyright and re... rights; (2) trademarks; (3) geographical indications; (4) industrial designs; (5) patents which ... include micro-organisms and plant varieties; (6) integrated circuits; and (7) trade secrets ... discuss them briefly as under :

(1) *Copyright and Related Rights.* The parties are required to comply with the Berne Conv... for the protection of literary and artistic works. Computer programmes are included in lite... works. Authors of computers programmes, performers on a phonogram, producers ... phonograms (sound recordings) and broadcasting organisations are to be given the right ... authorise or prohibit the commercial rental of their works to the public. A similar exclusive ri... applies to films. The protection for performers and producers of sound recordings are to be ... no less than 50 years and for broadcasting organisations for atleast 20 years.

(2) *Trademarks.* Any sign, or any combination of signs, capable of distinguishing the goods ... services of one undertaking from those of other udertakings constitutes a trade mark. Such sig... in particular words including personal names, letters, numerals, figurative elements a... combinations of colours as well as combinations of such signs are eligible for registration ... trademarks. The owner of a registered trademark has the exclusive right to prevent all th... parties not having the owner's consent from using in the course of trade identical or simi... signs for goods or services. Initial registration, and each renewal of registration, of a trademark ... for a term of no less than seven years. The registration of a trade mark is renewable indefinite...

(3) *Geographical Indications.* Geographical indications refer to the indentity of a good as originati... in the territory of a Member, or a region or locality in that territory where a given quality ... reputation of the good is essentially attributed to its geographical origin. Members are require... to provide the legal means for interested parties to prevent the use of any indication whi... misleads the consumer as to the origin of goods and any use which would constitute an act o... unfair competition. Additional production is applied for geographical indications for wines and spirits.

(4) *Industrial Designs.* Industrial designs are protected for a period of 10 years. Owners of protected designs would be able to prevent the manufacture, sale or importation of articles bearing or embodying a design which is a copy of the protected design for commercial purposes. The duration of protections available shall be for at least 10 years.

(5) *Patents.* Patents shall be available for any inventions, whether products or processes, in all fields of technology, provided they are new, involve an inventive step and are capable of industrial application. Patent owners shall have the right to assign, or transfer by succession, the patent and to conclude licensing contracts. The Agreement requires 20-year patent protection. Inventions may be excluded from patentability if their commercial exploitation is prohibited for reasons of public order or morality. Further, diagnostic, therapeutic and surgical methods for the treatment of humans or animals, plants and animals other than micro-organisms, and essentiall... biological processes for the production of plants or animals other than non-biological an... microbiological processes may be excluded from patentability. However, members shall provi... for the protection of plant varieties either by patents or by an effective *sui generis* system (breede... rights) or by any combination thereof. These provisions shall be reviewed 4 years after Janu... 1995.

...) *Integrated Circuits.* The TRIPs Agreement provides protection to the layout-desi... (topographies) of integrated circuits for a period of 10 years. But the protection ...

The prohibitive (red) category includes subsidies with high trade-distorting effects. They are export subsidies and those that favour the use of domestic over imported goods. Developing countries having a per capita income of less than $ 1,000, have been exempted from the prohibition of export subsidies. The non-actionable (green) subsidies are those that are not specific to an enterprise or industry or a group of enterprise or industries. Actionable (amber) industries are neither red nor green. They are actionable by a trading partner if its interests are adversely affected. It can seek remedy by having countervailing duties or follow the dispute settlement procedure. Developing countries have been exempted from certain subsidy practices such as investment subsidies, agricultural input subsidies generally available to low income or resource-poor farmers, and measures to encourage diversification from growing illicit narcotic crops.

The Multilateral Agreement on Trade in Goods also includes agreements on Customs Valuation, Preshipment Inspection, Rules of Origin, Import Licensing Procedures and Safeguards.

2. General Agreements on Trade in Services (GATS)

This Agreement covers all internationally traded services. Foreign services and service suppliers would be treated on equal national footing with domestic services and service suppliers. However, governments may indicate specific Most-Favoured Nation (MFN) exemptions which will be reviewed after 5 years, with a normal limitation of 10 years. It requires transparency which includes the publication of all relevant laws and regulations relating to services trade. International payments and transfers relating to trade in services shall not be restricted, except in the event of balance of payments difficulties where such restrictions will be temporary, limited and subject to conditions. Any liberalisation of trade in services would be progressive in character. It would be through negotiations at five-year intervals in order to reduce or remove the adverse effects of measures on trade in services and to increase the general level of specific commitments by governments.

The Agreement sets out special conditions relating to individual sectors. So far as the *movement of natural persons* is concerned, it permits the governments to negotiate specific commitments applicable to the temporary stay of people for the purpose of providing a service. It does not apply to persons seeking permanent employment or residence in a country.

In *financial* services, it establishes the right of goverments to take appropriate measures for th protection of investors, depositors and policy holders, and to ensure the integrity and stability the financial system. They came into effect 6 months after WTO came into force.

In *telecommunications*, the Agreement requires a Member to establish, construct, acquire, l operate or supply telecommunications transport networks and services and make it availa the public. However, a developing country may place reasonable conditions on access use of public telecommunica-tions, transport networks and services to strengthen its d telecommunica-tions infrastructure and service capacity and to increase its particip international trade in telecommunications services in co-operation with the Inte Telecommunication Union and the International Organisation for Standardisation.

The GATS will also apply to *aircraft* repair and maintenance services, marketing of a services and computer reservation services.

The governments have agreed to set up working parties on : (1) Trade in services and to examine and report, with recommendations, on the relationship between serv environment, including the issue of sustainable development. (2) Professional serv and report, with recommendations, on the disciplines necessary to ensure that m to qualifications requirements and procedure, technical standards and licensin the field of professional services do not constitute unnecessary barriers to tra

The GATS also contains consultations and dispute settlement and the establis

adjustment assistance, direct payments under environmental programmes and under regional assistance programmes.
In addition, there are other policies which are not to be included in the *Total Average Measurement of Support (Total AMS)* reduction commitments. They are direct payments under production limiting programmes, certain government assistance measures to encourage agricultural and rural development in developing countries and other support measures. These should make up only 10 per cent of the value of production of individual products or of the total agricultural production in the case of developed countries and 5 per cent in the case of developed countries.
(v) *Sanitary and Phytosanitary Measures.* The application of sanitary and phytosanitary measures concern food safety, and animal and plant health measures. The agreement recognises that governments have the right to take sanitary and phytosanitary measures in order to protect human, animal or plant life or health. But they should not arbitrarily or unjustifiably discriminate between members where identical or similar conditions prevail. The agreement seeks to ensure that animal and plant health and safety measures do not serve as unwarranted trade barriers. The agreement lays down procedures and criteria for the assessment of risk and determination of appropriate levels of sanitary or phytosanitary protection.
(vi) *Food Stocking and Food Aid.* The agreement recognises that during the interim period least developed and net food-importing developing countries may experience negative effects with respect to supplies of food imports. It, therefore, sets out objectives with regard to the provision of food aid and basic foodstuffs in full grant form and aid for agricultural development. It also refers to the possibility of short-term financing of commercial food imports by the IMF and the World Bank.
A Committee on Agriculture has been established to monitor and review the implementation of the provision of the Agriculture Agreement.

(3) Agreement on Textiles and Clothing

The objective of this Agreement is to secure the integration of the textiles and clothing sector into the GATT 1994. The integration of this sector would take place in four phases. *First*, on January 1, 1995 each party was integrated into GATT products from the specific list in the Agreement which accounted for not less than 16 per cent of its total volume of imports in 1990. In the *second* phase beginning January 1, 1998, products which accounted for not less than 17 per cent of 1990 imports would be integrated. In the *third* phase beginning January 1, 2002, products which accounted for not less than 18 per cent of 1990 imports would be integrated. All remaining products would be integrated at the end of the transition period on January 1, 2005 in the *fourth* phase. Integration means that trade in *tops* and yarns, fabrics, made-up textiles products, and clothing will be governed by the General Rules of GATT. All MFA (Multi-Fibre Agreement) restrictions existing on December 31, 1994 have been carried over into the new Agreement and would be maintained until such time as the restrictions are removed or the products integrated into the GATT. In the case of non-MFA restrictions maintained by some members, they would also be brought within the purview of the GATT 1994 within one year of the coming of the Agreement into force or phased out progressively by 2005.
There is a specific transitional safeguard mechanism for products not yet integrated into the GATT 1994 at any phase. Action can be taken against an individual exporting country if it is found by the importing country that overall imports of a product were entering the country in such large quantities as to cause serious damage to the relevant domestic industry. Action under the safeguard mechanism can be taken either by mutual agreement following consultations or unilaterally but subject to the review of the Textile Monitoring Body. Safeguard restraints can be in operation for up to three years without extension or until the product is integrated into th

GATT
As part of the integration process, all members shall take such actions in the area of clothing as may be necessary so as to follow GATT Rules and improve market access, the application of policies relating to fair and equitable trading conditions and action against imports.

(4) Agreement on Technical Barriers to Trade

This Agreement extends and clarifies the Agreement on Technical Barriers to Trade of the Tokyo Round. It seeks to ensure that technical negotiations and standards, and certification procedures do not create unnecessary obstacles to trade. However, it recognises that countries have the right to establish protection on human, animal or plant life or health, environment. A Code of Good Practice for the Preparation, Adoption and Application of standards by standardising bodies has been included into the Agreement.

(5) Agreement on Trade Related Aspects of Investment Measures (TRIMs)

It calls for the removal of all trade related investment measures within a period of ... These measures are confined to quantitative restrictions and national treatment. ... they relate to such measures as investment in identified areas, level of foreign ... treating foreign companies at par with national companies, export obligations, and ... raw materials. It prevents the imposition of any performance clauses on foreign ... respect of earnings of foreign exchange, foreign equity participation, and transfer to ... It requires foreign investment companies to be treated at par with national companies ... the imposition of restrictions on areas of investment. It requires free import of raw ... components and intermediates.

The Agreement recognises that certain investment measures restrict and distort trade. It ... requires mandatory notification of all non-confirming TRIMs and their removal within ... for developed countries, within five years for developing countries and within seven ... least developed countries. It establishes a Committee on TRIMs which will monitor ... implementation of these commitments and report to the Council of Trade in Goods ...

(6) Agreement on Anti-Dumping

Article VI of the GATT provides for the right of contracting parties to apply anti-du... measures if dumped imports cause injury to a domestic industry in the importing member ... The revised Agreement is an improvement over the Tokyo Round Agreement. It provides ... clarity, more detailed rules and the criteria to be taken into account for determining injury ... by dumped imports to domestic industry, the procedure to be followed in initiati... conducting anti-dumping investigations, and the implementation and duration of anti-du... measures, and dispute settlement relating to anti-dumping actions taken by domestic auth... Under the new rules, an anti-dumping investigation should be immediately terminate... "margin of dumping" is less than 2 per cent of the export price or the volume of dumped i... from a particular country is less than 3 per cent of the total imports of that product subj... ceiling of 7 per cent of all such dumped imports.

(7) Agreement on Subsidies and Countervailing Measures (SCM)

The SCM Agreement applies to non-agricultural products. It classifies subsidies into prohi... non-actionable and actionable categories like the traffic lights—red, green and amber, respe...

balance of payments purposes.
(*d*) *Article XXIV of GATT 1994*. The Agreement on Customs Unions and Free Trade Areas cl... and reinforces the criteria and procedures for the review of new or enlarged customs uni... free trade areas and for the evaluation of their effects on third parties. The Agreement also c... the procedure for any compensatory adjustment in the event of contracting parties form... customs union seeking to increase a bound tariff.
(*e*) *Understanding on the Interpretation of Article XXVIII*. Article XXVIII covers modificatio... GATT Schedules. It lays down new procedures for the negotiation of compensation when ta... bindings are modified or withdrawn.

(2) Agreement on Agriculture

The Agreement on Agriculture relates to domestic subsidies, export subsidies (including vol... of subsidised exports), minimum market access commitment, domestic support, sanitary a... phytosanitary and food aid operations.

The Agreement seeks to open national markets to international competition by replacing no... tariff measures with normal customs duties that would be progressively reduced. Second, seeks to check overproduction by progressively reducing government aids that encoura... overproduction and hence surpluses which are either disposed of through export subsidies destroyed. Third, it seeks new disciplines on export competition and reduction in subsidie... alongwith the volume of subsidised exports.

(*i*) *Domestic Subsidies*. Domestic subsidies fall into two categories : (*a*) *non-product specific subsidi...* given for all crops which include subsidies given for fertilisers, water, electricity, seeds and cred... and (*b*) *product-specific subsidies* given for specific crops, as in India in the form of minimum support price for some agricultural crops.

For the purpose of calculating total subsidies given to farmers, known as the Total Aggrega... Measurement of Support or *Total AMS*, both types of subsidies mentioned above must be totalle... together. Such total in any year, called the *Current Total AMS*, should not exceed 10 per cent of the value of total agricultural production in that year in the case of a developing country to be exempt from any obligation to reduce its subsidies. The subsidy is to be calculated at the international price for the commodity.

(*ii*) *Export Subsidies*. WTO members are required to reduce the value of *direct export subsidies* to a level of 36 per cent below the 1986-90 base period level over the *six-year* implementation period and the quantity of subsidised exports by 21 per cent over the same period. In the case of developing countries, the reductions are 2/3rd those of developed countries over a *ten-year* period. But no reductions apply to the least developed countries.

(*iii*) *Minimum Market Access Commitment*. The minimum market access commitment applies to those countries that maintain restriction of various types on agricultural imports, and are, therefore, required to convert those restrictions into tariffs and reduce those tariffs by 36 per cent over the six-year period. Such countries are also required to allow a minimum market access opportunity of 3 per cent of their domestic consumption for foreign agricultural consumption for six years which will rise to 5 per cent after that period. These commitments apply only if a country is obliged to render its import controls in terms of tariffs. In the case of developing countries, tariffs on agricultural products are to be reduced by 24 per cent over a period of ten years. Least developed countries are not required to reduce their tariffs.

(*iv*) *Domestic Support*. Domestic support measures that have a minimum impact on trade, known as *green box* policies are excluded from reduction commitments. Such policies include general government services, such as in the areas of research, disease control, infrastructure and food security. It includes direct payments to producers in the form of income support, structur...

and conditions of service in accordance with the regulations adopted by the M... Conference.

The Director General presents to the Committee on Budget, Finance and Administration... annual budget estimates and financial statement of the WTO. The Committee, in turn... the annual budget estimates and the financial statement and makes recommendations... General Council for final approval. The General Council adopts the annual budget... and financial statements by a two-third majority comprising more than half the members... WTO. The financial regulations relating to the scale of contributions and the budget are... the rules and practices of the GATT.

The WTO continues the practice of decision-making by consensus, as followed under... 1947. Where a decision cannot be arrived at by consensus, the matter at issue is decided by... majority voting on the basis of "one country, one vote". But in the case of interpretation... provisions of the agreements and waiver of a member's obligations, the majority required... 4th of the members. However, amendments relating to general principles, such as MFN... must be approved by all members.

5. Its Objectives

In its Preamble, the Agreement establishing the WTO lays down the following objectives... WTO:

1. Its relations in the field of trade and economic endeavour shall be conducted with... view to raising standards of living, ensuring full employment and large and... growing volume of real income and effective demand, and expanding the production... and trade in goods and services.
2. To allow for the optimal use of the world's resources in accordance with the objective... of sustainable development, seeking both (*a*) to protect and preserve the environment... and (*b*) to enhance the means for doing so in a manner consistent with respective needs... and concerns at different levels of economic development.
3. To make positive efforts designed to ensure that developing countries, especially the... least developed among them, secure a share in the growth in international trade... commensurate with the needs of their economic development.
4. To achieve these objectives by entering into reciprocal and mutually advantageous... arrangements directed towards substantial reduction of tariffs and other barriers to trade... and the elimination of discriminatory treatment in international trade relations.
5. To develop an integrated, more viable and durable multilateral trading system... encompassing the GATT, the results of past liberalisation efforts, and all the results of... the Uruguay Round of multilateral trade negotiations.
6. To ensure linkages between trade policies, environmental policies and sustainable... development.

...Its Functions

The following are the functions of the WTO:

1. It facilitates the implementation, administration and operation of the objectives of the... Agreement and of the Multilateral Trade Agreements.

2. It provides the framework for the implementation, administration and operation of the Plurilateral Trade Agreements relating to trade in civil aircraft, government procurement, trade in dairy products and bovine meat.
3. It provides the forum for negotiations among its members concerning their multilateral trade relations in matters relating to the agreements and framework for the implemenation of the results of such negotiations, as decided by the Ministerial Conference.
4. It administers the Understanding on Rules and Procedures governing the Settlement of Disputes of the Agreement.
5. It co-operates with the IMF and the World Bank and its affiliated agencies with a view to achieving greater coherence in global economic policy-making.

7. WTO AGREEMENT

The Agreement establishing the WTO consists of the following which embody the results of the Uruguay Round of the Multilateral Trade Negotiations:

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.

They are discussed as under :

1. MULTILATERAL AGREEMENTS ON TRADE IN GOODS

The general agreement on trade in goods defines the GATT 1994 and includes various agreements dealing with different aspects related to trade in goods.

(1) GATT 1994

The GATT 1994 includes GATT 1947 as amended up to January 1, 1995 when the WTO Agreement came into force. It also includes the provisions of specified legal instruments, the Marrakesh Protocol to GATT 1994 and the following understandings :

(*a*) *Article II : 1(b) of GATT 1994*. To ensure transparency of the legal rights and obligations, the nature and level of any "other duties or charges" levied on bound tariff items in the Schedules of concessions continue with effect from April 15, 1995.

(*b*) *Article XVII of GATT*. To ensure transparency of the activities of state trading enterprises, members are required to notify such enterprises to the Council for Trade in Goods for review by the working party atleast once a year and report to the Council.

(*c*) *Understanding on Balance of Payment Provisions of GATT*. Members imposing restrictions for purposes of balance should do so in the least disruptive manner. They should give preference to price-based measures like import surcharges, import deposits or measures which affect the price of imported goods. They should avoid the imposition of "new" quantitative restrictions and should publicly announce "as soon as possible" time schedules for the removal of restrictive import measures for purposes of balance of payments. The Committee on Balance of Payments Restrictions carries out consultations in order to review all restrictive import measures taken

has a global status similar to that of the IMF and the World Bank. But unlike them, it is not an agency of the UN, although it has a 'cooperative relationship' with the UN.

2. The GATT was a set of rules and procedures relating to multilateral agreements of a selective nature. There were separate agreements on separate issues which were not binding on members. Any member could stay out of an agreement. Only those who signed the agreement could be penalised on default. The agreements which form part of the WTO are permanent and binding on all members. Action can be taken against any defaulting member by all the member states.
3. The GATT dispute settlement system was dilatory and not binding on the parties to the dispute. The WTO dispute settlement mechanism is automatic, faster and binding on the parties. The Dispute Settlement Board of the WTO in its first decision brought the mighty US to accept its verdict. Thus the WTO has teeth whereas the GATT was toothless.
4. The GATT was a forum where the member countries met once in a decade to discuss and solve world trade problems. There used to be long, protracted negotiating rounds which took decades to complete. The WTO, on the other hand, is a properly established rule-based world trade organisation where decisions on agreements are time bound. The dateline can be extended only by consensus.
5. The GATT rules applied to trade in goods. Trade in services was included in Uruguay Round but no agreement was arrived at. The WTO covers not only trade in goods and services but also trade-related aspects of intellectual property rights and a number of other agreements.
6. The GATT had a small secretariat managed by a Director General. But the WTO has a large secretariat and a huge organisational set-up.

ITS STRUCTURE

The structure or organisation of the WTO is headed by the *Ministerial Conference* composed of representatives of all the members which meet at least once every two years. It carries out the functions of the WTO and takes actions necessary to this effect. It takes decisions on all matters under any of the Multilateral Trade Agreements. The Ministerial Conference is the supreme authority of the WTO.

There is the *General Council* composed of representatives of all the members to oversee the operation of the WTO Agreement and ministerial decisions on a regular basis. It also acts as a Dispute Settlement Body (DSB) and a Trade Policy Review Body (TPRB), each having its own Chairman. The General Council sits in Geneva on an average of once a month.

There is the Council for Trade in Goods, the Council for Trade in Services and the Council for Trade-Related Aspects of Intellectual Property Rights (TRIPs) which operate under the General Council. These Councils, in turn, have their subsidiary bodies. The Councils and subsidiary bodies meet as necessary to carry out their respective functions.

There is the Committee on Trade and Development, the Committee on Balance of Payments Restrictions and the Committee on Budget, Finance and Administration which carry out the functions assigned to them by the WTO Agreement, the Multilateral Trade Agreements and any additional function assigned to them by the General Council.

The *Secretariat* of the WTO is headed by the Director General. The Ministerial Conference appoints the Director General and sets out his powers, duties, conditions of service and terms of office. The Director General is appointed for a four-year term. He has four deputies from different member states.

The Director General appoints the members of staff of the Secretariat and determines their dutie

[illegible], the Fund held 45 auctions from June 1976 to May 1980 amounting to 47 million ounces at gold prices prevailing in the London Market. The Fund's present gold holdings amount to [illegible] million ounces which can only be sold if a majority of 85 per cent in the Fund's financial [illegible] except that the Fund continues to value its holdings at SDR $ 35 an ounce. According to Prof. [illegible], "All that now remains of the historic monetary role of gold is its function as reserve asset."

[illegible]ECIAL DRAWING RIGHTS (SDRs)

Meaning

Special Drawing Rights (SDRs), also known as the paper gold, are a form of international reserves created by the IMF in 1969 to solve the problem of international liquidity. They are not paper notes or currency. They are international units of account in which the official accounts of the IMF are kept. They are allocated to the IMF members in proportion to their Fund quotas and are used to settle balance of payments deficits between them.

Origin of SDRs

SDRs were created through the First Amendment to the Fund Articles of Agreement in 1969 following persistent US deficits in balance of payments to solve the problem of international liquidity. Until December 1971, an SDR was linked to 0.888671 gram of gold and was equivalent to US $1. With the breakdown of the fixed parity system after 1973 when the US dollar and other major currencies were allowed to float, it was decided to stabilise the exchange value of the SDR. Accordingly, the value of the SDR was calculated each day on the basis of a basket of 16 most widely used currencies of the member countries of the Fund. Each country was given a weight in the basket in accordance with its importance in international trade and financial markets. After the Second Amendment to the Fund Articles of Agreement in 1978, the SDR became an international unit of account. To facilitate its valuation, the number of currencies in the "basket" were reduced to five in January 1981. They include the US dollars, the German Deutsche Mark, the British Pound, the French Franc and the Japanese Yen. The present currency composition and weighting pattern of the SDR is revised every five years beginning January 1, 1986. The revision of weights is based on both the values of the exports of goods and services and the balances of their currencies held by other members. In 1977, they were US dollar (39%), German DM (21%), UK pound and French franc (11% each) and Japanese yen (18%). The value of one SDR was equal to US $ 1.35610 on October 1, 1997.

Uses of SDRs

SDR is an international unit of account which is held in the Fund's Special Drawing Account. The quotas of all currencies in the Fund General Account are also valued in terms of the SDR. As the international monetary asset, the SDR is held in the international reserves of central banks and governments to finance their deficits or surpluses of balance of payments. All transactions by the Fund in the form of loans and their repayments, its liquid reserves, its capital, etc., are expressed in the SDR.

SDRs are used as a means of payment by Fund members to meet balance of payments deficits and their total reserve position with the Fund. They cannot be used for any other purpose. Thus SDRs act both as an international unit of account and a means of payment.

There are three principal uses of SDRs.

1. Fund Conditionalities. The Fund has developed conditionalities over the la so which a country has to fulfil for getting a loan from the Fund. Prior to the stress on expenditure reduction for meeting disequilibrium in the balance of try. In the 1970s, the Fund conditionality included the need to take into balance of payments difficulties of members requesting for Fund resources, the and their social and political requirement. On March 2, 1979, a new set of guid for the use of Fund resources, besides the previous conditionality practices. odic assessment of the experience of the member country with adjustment prog by Fund resources. The new emphasis is on policies to increase productivity resource allocation in the programmes supported by Fund resources. They gent Fund conditionalities or performance criteria such as controlling defici banking system, even closing down non-viable units, altering systems of ad laws which give rise to corruption. The release of every installment requires the The Fund has laid down some more conditionalities after the 1995 Mexican and cial crises. (1) to liberalise trade by removing exchange and import controls; subsidies so that the exporters are not in an advantageous position in relation to ing countries; and (3) to treat foreign lenders on an equal footing with domestic len the Fund insists on good governance. Thus the Fund exercises surveillance over rates monetary, fiscal and related policies of the borrowing countries which makes its policy of non-interfering in their internal economic affairs.

2. High Interest Rates. Besides, these hard conditionalities, the Fund charges high in on loans of different types. They are a great burden on the borrowing countries. reason that developing countries like India are so heavily burdened with the debt servi that fresh borrowings are negative.

3. Secondary Role. The Fund has been playing only a secondary role rather than the ce in international monetary relations. It does not provide facilities for short-term credit ments. This has resulted in "swap" arrangements among the central banks of the Grou of the leading developed countries. Under these arrangements, these countries excha other's currencies and also provide short-term credit to tide over temporary disequil their balance of payments. Such swap arrangements have led to the growth of Euro Market. All this has reduced the importance of the Fund.

4. Lack of Resources. The IMF has not enough resources for immediate future. But these sufficient to meet the future needs of its members. The need is to raise the resources of the to safeguard the international financial system which is dominated by volatile capital flows developed countries are not willing to increase the quota of the Fund.

5. Failure to Maintain Exchange Rate Stability. The Fund has failed in its objective of pro ing exchange stability and to maintain orderly exchange arrangements among members. U the original Fund agreements, the exchange rate was permitted to fluctuate within a rang per cent above to 1 per cent below the official price. This was known as the "adjustable p system. The exchange rate of every member country was fixed in terms of the "golden dol Over the years US gold stock continued to decline, the US balance of payments continue deteriorate. Consequently, the Bretton Woods system collapsed on 15 August, 1971 when Pr dent Nixon announced that United States would no longer convert dollars into gold and the would not intervene in foreign exchange markets to maintain exchange rate stability. Since th there has been a mixture of exchange rate systems of nationally managed floating, joint float and pegged exchange rates. According to Prof. Schwartz, the IMF has lost its objective.

6. Failure to Eliminate Foreign Exchange Restrictions. One of the objectives of the Fund h been to eliminate foreign exchange restrictions which hamper the growth in world trade. Th Fund has not been successful in achieving this objective. The world [illegible] tricted by a va

ety of exchange controls and multiple exchange practices.

7. **Discriminatory Politics.** The Fund has been criticised for its discriminatory policies against the developing countries and in favour of the developed countries. It is, therefore, characterised as "Rich Countries Club". Although the majority of its members are the developing countries of Asia, Africa and Latin America, yet it is dominated by the rich countries especially the United States. The latter often adopts a rigid attitude in matters concerning increasing the Fund resources and granting loans to developing countries.

8. **Responsible for Asian Crisis.** The sudden and unexpected East-Asian crisis in Phillipines, South Korea, Thailand, Indonesia and Malaysia put a question mark on the working of the Fund. Friedman has put the blame on the IMF for global crisis because it has been the result of government's intervention in the market, both internationally via loans, subsidies or taxes, and externally via the IMF. With the collapse of the Bretton-Woods system in 1971 when the member countries adopted the floating exchange rate policy, the Funds role of regulating the exchange rate ended. Prior to the 1995 Mexican crisis, the objective of the Fund was to provide advice, information and loans to its members. But when it helped Mexico in a bail out package in its crisis of 1995, it acted the international lender of last resort. Under it, the Fund laid emphasis on close financial relations among banks, corporations and governments and to increase the operations of stock and bond markets so that there is greater competition between domestic and global financial institutions. This very policy led to the Asian and global financial crisis when there was successive decline in shares, bonds and currencies of these countries. The real beneficiaries of this policy were not the borrowing countries but the foreign banks and financial institution who lend to these countries which failed to repay the loans. When due to declining exchang rates, they started withdrawing their funds, there was a crisis in the borrowing countries. Michael Musa, the IMF Chief Economist, admitted in August 2000 that the recent financial cris was due to high openness to international capital flows, especially short-run credit flows countries with fragile financial systems. According to Schwartz, since the Fund lacks in hi powered base money, it failed to act as an international lender of last resort. Thus the IMF been weak in controlling financial crisis. Schwartz, therefore, suggests that it should be s down. According to Friedman, it should be abolished as it did more harm than good.

CONCLUSION

Despite these criticisms, the IMF has shown sufficient flexibility to mould itself in keeping the changing international economic conditions. The original Articles of Agreement were ame in 1978 to legalise flexible exchange rates, raise quotas to increase the Fund's resources dethrone the gold in Fund transactions. To solve the problem of international liquidity, created deficits, the Fund has been successively raising the limit of their borrowings which at 450 per cent of their quotas. The Fund has been helping the developing countries balance of payments and other problems through such facilities as CFF, BSFF, EFF, SF ESAF, CCFF, etc. Finally, the usefulness and success of the Fund lies in that its member risen from 44 in 1947 to 182.

6. SUGGESTIONS TO REFORM THE IMF

Prof. Samuelson in his article *Three Cheers for the IMF* published in 1997 praised the wo achievements of the IMF. According to him, the reason for the Mexican financial cris it did not follow IMF's warning when hot money was flowing in it. The same reason w sible for the Asian crisis. On the other hand, Prof. Friedman in his article in October 1 the IMF for the global crisis and pleaded for abolishing it as it did more harm than

7. **Systematic Transformation Facility (STF).** In April, 1993, the IMF established STF with $6 billion to help Russia and other Central Asian Republics to face balance of payments crisis.

8. **Emergency Structural Adjustment Loans (ESAL).** The Fund eastblished ESAL facility in early 1999 to help the Asian and Latin American countries inflicted with the financial crisis. Under it, such countries are given shot-term loans 3% to 5% above the Fund's normal interest rate which are to be repaid in a short period.

9. **Contingency Credit Line (CCL).** The CCL was created in April 1999 to protect fundamentally sound countries from the contagion of financial crisis occurring in other countries, rather than from domestic policy weaknesses. Only countries that over the medium term can finance BOP comfortably and enjoy healthy financial sectors and strong debtor-creditor relations are considered for CCL. So far no country has drawn from it.

4. Exchange Rates

The original Fund Agreement provided that the par value of each member country was to be expressed in terms of gold of certain weight and fineness or US dollars. The underlying idea was to create a system of stable exchange rates with orderly cross rates. But the Fund was obliged to agree to changes in exchange rates which did not exceed ± 1 per cent of the initial par value. A further change of ± 1 per cent required the permission of the Fund. Since 1971, these provisions have been changed and the international monetary system has moved from fixed exhcange rates to flexible exchange rates. Under the new system, the member countries are not expected to maintain and establish par values with gold or dollar. The Fund has no control over the exchange rate adjustment policies of the member countries.

But under Article IV of the Second Amendment, effective April 1978, the Fund has laid down principles for the guidance of exchange rate policies of its members : (*a*) to avoid manipulation of exchange rates in order to gain an unfair competitive advantage over other members; (*b*) to intervene in the exchange market to counter disorderly conditions; and (*c*) to take into account in their intervention policies the interests of other members.

5. Other Facilities

The IMF advises its member countries on various problems concerning their BOP and exchange rate problems and on monetary and fiscal issues. It sends specialists and experts to help solve BOP and exchange rate problems of member countries. They confer with local officials and suggest monetary, fiscal and other measures in their reports. The Fund has set up three departments to solve banking and fiscal problems of member countries. *First*, there is the Central Banking Service Department which helps member countries with the services of its experts to run and manage their central banks and to formulate banking legislation. Such services are especially provided to developing countries to reform their banking system. *Second*, the Fiscal Affairs Department renders advice to member countries concerning their fiscal matters. *Third*, The IMF Institute conducts short-term training courses for the officers of member countries relating to monetary, fiscal, banking, and BOP policies. Besides, the Fund's research department publishes many reports in a year containing material relating to different policy measures. These publications include IMF Annual Report and IMF Staff Papers, Finance and Development Journal, etc.

Its Criticisms

The IMF has been severely criticised in recent years for mishandling global finanacial crises in East Asia and Latin America, aggravating poverty in developing countries, encouraging bad policies by governments and financial investors and favouring the developed countries. We discuss below some points of criticism.

1. Transactions with Designation. Under it, Fund designates a participant who has a strong balance of payments and reserve position to provide currency for SDRs to another participant needing its currency. The currency to be exchanged belong to the designated participated or/and to other participants. Participants accept SDRs in this way as long as their holdings are less than three times their
2. Transactions with General Account. SDRs are used in all transactions with the count of the Fund. Participants pay charges in SDRs to the General Account for the Fund resources and also to repurchase their own currency from it.
3. Transactions by Agreement. The Fund allows sales of SDRs for currency by another participant.
In order to further widen the uses of SDRs, the Second Amendment empowered the down uses of SDRs not otherwise specified. Accordingly, the following additional are : (*i*) in swap arrangements, (*ii*) in forward operations, (*iii*) in loans, (*iv*) in the financial objections, (*v*) as security for the performance of financial obligations, tions or grants.
The Fund also empowers certain institutions as "other holder" of SDRs. Besides the and its associates, some of the other holders of SDRs are the Bank for International the African Development Bank. These 'other holders' acquire and use SDRs in operations by agreement under the same terms and conditions as applicable to the Efforts are being made by the Fund to have a greater use of the SDR as a unit of private transactions and in financial markets of the world.
The Fund pays interest on all holdings of SDRs kept in the Special Drawing Account interest at the same rate on allocations to participants.

Allocation of SDRs

The Fund allocates SDRs to participants in proportion to their quotas for various above. Initially, the Fund created SDR $ 9.3 billion over the three years 1970-72. The ings of SDR $ 9.3 billion continued till 1978. In 1978, the Fund decided to raise them by billion in each of the years 1979, 1980 and 1981. As a result, the total holdings of SDRs $ 13.1 billion in 1979, SDR 17.3 $ billion in 1980 and SDR $ 21.4 billion in 1981. Since further allocation of SDRs has been made by the Fund. The quantity of SDRs is de members of the Fund. It can only be increased if 85% votes of its members favour the The basis of allocation of SDRs among the members of IMF is their quota subscriptions. about 70% of SDRs are distributed to 26 rich countries and the remaining 30% to de countries.

Merits of SDRs

Despite these weaknesses, the SDRs scheme possesses the following merits:

1. SDRs are a new form of international monetary reserves which have been free the international monetary system from its exclusive dependence on the U.S.
2. They have rid the world of its dependence on the supply of gold and fluctu gold prices.
3. They cannot be demonetised like gold or become scarce when the demand for increases in the world.
4. Unlike gold, SDRs are costless to produce because production of gold requires to mine, refine, transport and guard it.
5. SDRs have been created to improve international liquidity so as to correct funda

disequilibria in balance of payments of Fund members. Under this scheme, the participants receive SDRs under transactions with designation and transaction by agreement unconditionally.

6. Fund members are not required to change their domestic economic policies as they are expected under the Fund aid programmes.
7. The payment and repayment of SDRs out of the Special Drawing Account is easier and more flexible than under the Fund schemes.
8. Last but not the least, SDRs act both as a unit of account and a means of payment of international monetary system.

cisms of SDRs

Despite these merits, the SDR scheme has been criticised on the following grounds:

1. Inequitable Distribution. It is an inequitable scheme which has tended to make unfair distribution of international liquidity. The allocation of SDRs to participating countries is proportional to their quotas. In this sense, the allocation of SDRs to developing countries is too low as compared to their needs. Low allocation of SDRs reduces the borrowing capacity of such countries.

2. Not Linked with Development Finance. SDR scheme does not link the creation of international reserves in the form of SDRs with the need for development finance on the part of developing countries. The need for liquidity on the part of developing countries is great "because of their higher costs of adjustment, limited access to private banking and higher capital markets, greater variability of exchange earnings, and opportunity cost of holding foreign exchange reserves". Under these circumstances, there is need to create more SDRs with fair distribution so that more unconditional liquidity is made available for the greater needs of developing countries.

3. High Interest Rate. The interest rate originally payable on net use of SDRs is 1.5 per cent. This has been gradually raised through time in order to make a more acceptable asset to hold. Now both users of SDRs pay and holders of SDRs receive, a market rate of interest based on interest rates prevailing in US, Britain, France, Germany and Japan which are quite high for developing countries.

4. Failure to Distribute Social Saving. Williamson and others have criticised the SDR scheme for its failure to distribute social saving of SDRs to the developing countries. The present rules for allocation distribute the social saving to a participant country in proportion to his contribution or its demand for SDRs. If the supply of SDRs equals the demand for it, there will no redistribution of resources between countries. But this is not so in the case of developing countries whose holdings of SDRs are very low as compared to the 26 developed countries. Thus the present scheme of SDRs fails to transfer social savings to the developing countries.

5. Failure to meet International Liquidity Requirements. Unfortunately, due to the rigid attitude of the United States and some other developed countries, the Fund has not been able to resume allocation of SDRs from January 1982, despite the repeated pleas of the developing countries over these years. So the Fund has failed in its objective of increasing international liquidit through SDRs. Consequently, faced with a recession, an inadequate flow of concessional aid ar falling prices of commodities and raw materials, developing countries have been facing sev balance of payments and debt problems. Thus SDRs have failed to solve the problem of inte tional liquidity.

Anna Schwartz in an article "Time to Terminate ESF and the IMF" wrote in ... policies of IMF and opined that reform of the IMF is not the answer. Therefore ... down. These are extreme views of Friedman and Schwartz in which ... Horst Kohler, the new Managing Director of the Fund himself admitted ... that knows everything". Therefore, efforts should be made to improve its ... contagion effect of the financial crisis does not spread and is not repeated in future ... following measures have been suggested at different economic fora :

1. For the East Asian, Latin American and other developing countries ... financial crisis or others which fear the *contagion effect*, the IMF should ... for giving financial help on concessional terms.
2. The Fund should formulate a plan which acts as a *safety net* for countries ... nomic crisis.
3. A free global trading system should be established which is proper and ... wards developing countries.
4. The IMF should formulate such macro-economic policies for developed ... provide safety to the growth of world output and trade. They should act as ... tive safety net for the global economy.
5. It should persuade the donor countries to increase their commitment towards ... development aid to developing countries.
6. The Fund should advice and help in reorganising the banking system and ... sectors in developing countries.
7. It should suggest policy measures for countries to have and continue open ... tem and to avoid protectionism.
8. The Fund should lay emphasis on member nations to put an end to corrup... have good governance for speedy growth of their economies.
9. It should provide loans to developing countries on such conditions so that they ... to increase their internal resources and do self-financing for their economic prog... in the long run.
10. To remove the present lopsided voting strength which favours the developed ... tries, quotas which decide voting strength should be more equitably distributed.
11. To escape from the "contagion effect", the Development Committee of the Fund ... asked the developing countries to keep their market open, remove protection, ... the banking system, put an end to corruption and by improving adminis... strengthen their institutions and policies. On the other hand, it has suggested to ... oped countries to undertake speedy and specific measures which may lead to ... financial stability and high growth momentum. But all this depends on the ex... which both the developing and developed countries followed the Funds sugges...
12. The Fund should change its loan practices to increase transparency, shorten ma... and charge a penalty interest rate.
13. It should eliminate development lending which should be with the World Bank.
14. For an effective role as the global monetary and financial system, there should b... parency and accountability of its functioning.

7. India and The IMF

India is one of the founder members of the IMF. It signed the Fund Agreement on 27 D... 1945. Till 1970 India's quota in the Fund was the fifth and it had the power to appoin... nent Executive Director. With the increase in the Fund quota after May 1970, the quota...

Chapter 4

The World Trade Organisation (WTO)

1. Introduction

The Uruguay Round of GATT negotiations concluded on April 15, 1994 at Marrakesh, Morocco. India, alongwith 123 Ministers besides the EC countries signed the Final Act incorporating the Eighth round of multilateral trade negotiations. The Final Act consists of : (1) the WTO Agreement which covers the formation of the organisation and the rules governing its working, and (2) Ministerial decisions and declarations which contain the important agreements covering trade in goods, services, intellectual property and plurilateral trade. They also contain the dispute settlement rules and trade policy review system. The WTO Agreement is in fact the Uruguay Round agreements whereby the original GATT is now a part of the WTO Agreement which came into force from January 1, 1995.

2. The WTO

The WTO is the successor to the GATT. The GATT was a forum where the member countries met from time to time to discuss and solve world trade problems. But the 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 the World Bank. It includes : (1) the GATT, as modified by the Uruguay Round; (2) all agreements and arrangements concluded under the GATT; and (3) the complete results of the Uruguay Round.

There were 77 member countries of the WTO on January 1, 1995. Now there are 151 members. India is one of the founder members.

Difference Between GATT and WTO

The WTO is not an extension of the GATT but successor to the GATT. It completely replaces GATT and has a very different character. The major differences between the two are the following :

1. The GATT had no legal status whereas the WTO has a legal status. It has been created by international treaty ratified by the governments and legislatures of member states.

Governors and the Executive Board are decision making organs of the Fund. They ... are and take decisions that are binding on members and the Fund. The Board of ... the top in the structure of the Fund. It is composed of one Governor and one ... appointed by each member. Normally, a member appoints its minister of finance ... nor of its central bank as its Governor. The alternate Governor can participate in ... the Board but has the power to vote only in the absence of the Governor.

The Board of Governors which has now 24 members, meets annually in which ... activities for the previous year are presented. The annual meeting also takes ... with regard to the policies of the Fund. Special meetings can be convened by ... members having 25 per cent of the total voting rights. As a matter of practice ... decision making powers of the Board of Governors have been delegated to the ... tive Directors such a decisions on access by the members of the Fund's resources ... charges and remuneration and the review of consultations between the Fund and ...

The Executive Board has 21 members at present. Five Executive Directors are ... five members (USA, UK, W. Germany, France and Japan) having the largest quotas ... bia has appointed a sixth Executive Director by being one of the two largest ... Fund. 15 Executive Directors are elected at intervals of two years by the remaining ... according to the constituencies on a roughly geographical basis.

There is a *Managing Director* of the Fund who is elected by the Executive Directors ... a politician or an important international official. He is the non-voting Chairman of ... tive Board. Besides acting as the Chairman of the Executive Board, the Managing Director ... head of the Fund staff and is responsible for its organisation, appointment and ...

The Executive Board is the most powerful organ of the Fund and exercises vast powers ... on it by the Articles of Agreement and delegated to it by the Board of Governors ... relate to all Fund activities, including its regulatory, supervisory and financial ... major change in the IMF procedure requires 85 per cent majority in the Executive Board ... the discretion lies with the US and EEC as they have 22 per cent and 27 per cent of ... strength respectively. The Executive Board is in the continuous session and meets ... a week.

The Interim Committee (now IMFC) was established in October 1974 to advise the Board of Gover... nors on supervising the management and adaptation of the international monetary ... order to avoid disturbances that might threaten it. It currently has 22 members.

The Development Committee was also established in October 1974 and consists of 22 ... advises and reports to the Board of Governors on all aspects of the transfer of real ... developing countries and makes suggestions for their implementation.

5. Working of The Fund

The IMF has amended its policies in keeping with the changing world economic situation ... ing to its capital structure, quotas, procedure of lending, exchange rates and other policies from time to time.

1. Financial Resources

The capital of the Fund includes quotas of member countries, amount received from the ... gold, GAB and loans from members nations.

Quotas and their Fixation. The Fund has General Account based on quotas allocated to its members. When a country joins the Fund, it is assigned a quota that governs the size of its subscription, its voting power, and its drawing rights. At the time of the formation of the IMF ...