

Lecture notes on imf

[Literature](#), [Russian Literature](#)



To promote international monetary cooperation, facilitate the expansion of trade, and thus, to contribute towards increased employment and improved economic conditions in all member countries. 1.

To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems. . 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, maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation. 4. To assist in the establishment of a multilateral system of payments with respect to current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

5. To give confidence to members by making the general resources of the Fund temporarily 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. . In accordance with the above to shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members. Vision of IMF ? Strive to promote sustained non-inflationary economic growth that benefits all people of the world. ? Be the centre of competence for the stability of the international monetary system. ? Focus on its core macroeconomic and financial areas

of responsibility, working in a complementary fashion with other institutions established to safeguard global public goods, Be an open institution, learning from experience and dialogue and adapting continuously to changing circumstances The Fund maintains a large pool of financial resources, makes them available to member countries-temporarily and subject to conditions-to enable them to carry out programmes to remedy their payments deficits without resorting to restrictive measures that would adversely affect national or international prosperity.

Members make repayments to the Fund so that its resources are used on a revolving basis and are continuously available to countries facing payments difficulties. The policy adjustments that countries make in connection with the use of Fund's resources support their credit worthiness and thus facilitate their access to credit from other official sources and from private financial markets. These policies evolve in response to changing world economic conditions and the needs of Fund's members. They apply equally to all member countries, whether industrial or developing, whether their payments are in deficit or surplus, regardless of their economic system. The Fund is particularly concerned with global liquidity – that is, the level and composition of the reserves that are available to members for meeting their trade and payments requirements. In 1969, the Fund was given the responsibility for creating and allocating Special Drawing Rights (SDRs). SDR's are also known as “ paper gold” although they have no physical form, have been allocated to member countries since 1969 (as book 2 keeping countries) as a percentage of their quotas.

So far IMF has allocated SDR 21. 4 billion, equivalent to \$ 29 bn. The SDR is IMF's unit of account. Members may use SDRs in transactions among themselves, with 16 "institutional holders" of SDRs and the IMF. The value of the SDR was initially defined as equivalent to 0. 88671 grams of fine gold, also to one dollar. As of September 2, 2003, US \$1 = SDR 0.

673778; ISDR = Rs. 65. 22900
STRUCTURE AND MANAGEMENT A Board of Governors, an Executive Board, a Managing Director, and staff constitute the management. Each member country is represented by a Governor. The Board of Governors has delegated most of its powers to the Executive Board, which is responsible for conducting the business of the Fund and is therefore in permanent session at the Fund headquarters in Washington. The Executive Board is chaired by the Managing Director. The Executive Board appoints the Fund's Managing Director, who serves both as its chairman and as chief of the operating staff of the Fund, with a five-year term of office.

Resources : (i) Subscription by members and (ii) Borrowings. Quotas and Subscriptions Each member is assigned a quota expressed in Special Drawing Rights (SDRs). Quotas are used to determine the voting power of members their contribution to the Fund's resources, their access to these resources and their share in allocations of SDRs. A member's quota reflects its economic size in relation to the total membership of the Fund. Each member pays a subscription to the Fund equivalent to its quota, and the Board of Governors decides on the proportion to be paid in SDRs or in the member's currency. A member is generally required to pay about 25 per cent of its quota in SDRs or in currencies of other members selected by the

IMF; it pays the remainder in its own currency. **FINANCING POLICIES AND FACILITIES** The principal way in which the IMF makes its resources available to members is by selling to them the currencies of other members or SDRs in exchange for their own currencies.

Such transactions change the composition, but not the overall size of the Fund's resources. A member to which the Fund sells currencies of SDRs is said to make 'purchases' (also referred to as 'drawings') from the Fund. The purpose of making the Fund's resources available to members is to meet balance of payments, needs. The Fund's resources are provided through:

Povertyreduction and Growth Facility (PRGF): To help low income countries fight poverty, at 0.5% interest, with 5 ? to 10 years repayment facility.

Stand - By Arrangements (SBA): This is the most widely used facility. To meet short-term balance of payments problem, for 12 - 18 months.

Extension is possible (2 1/2 to 4 years) with a surcharge. **Extended Fund Facility (EFF):** Established in 1974 to address BOP problems with roots in the structure of the economy. For a period of 3 years. Extension is possible (4 ? to 7 years) with a surcharge. **4. Supplemental Reserve Facility (SRF) :** Established in 1997 to meet a need for a very short term financing on a large scale. In 1990's massive outflow of capital was felt by emerging market economies, this facility was used.

Repayment 1 ? years; extension up to 1 year. Surcharge of 3 - 5 percent. **5. Contingent Credit Lines (CCL):** Established in 1999, this facility is to help members prevent crisis through sound economic policies. Economies threatened by " financial contagion" because of crisis occurring elsewhere in

the world economy. Repayment 1 – 1 ½ years with an extension up to 1 year. Surcharge 1 ½ - 3 ½ percent.

6. Compensatory Financing Facility (CFF): Estd. In 1960's to assist members experiencing (i) sudden shortfall in export earnings, (ii) increasing cost of imports due to rising world prices. For 12 – 18 months. Repayment 2 ½ 4 years. No surcharge. 7.

Emergency Assistance (EA): For combating natural disaster or those emerging from conflict. Basic rate of charge. Repayment 3 ½ - 5 years There is a wide gap between IMF's aspirations and achievements. IMF's managements has often been criticised. IMF has often been criticised as being pro-west, anti – poor, acting like a colonial ruler and to be confusing ends with means. Its conditionalities often irk poor member nations. However, IMF has played a significant role in providing international liquidity and in the structural adjustment programmes.

IE – LECTURE 8 WORLD BANK The International Bank for Reconstruction and Development (IBRD) or the World Bank, one of the Bretton Woods Twins, was established in 1945. The IBRD is owned by the governments of the member countries. Membership of the IMF is the principal condition for membership of the Bank. The IBRD, whose capital is subscribed by its member countries, finances its lending operation primarily from its own borrowings in the world capital markets. The interest rate the IBRD charges on its loans is calculated in accordance with a guideline related to its cost of borrowing. Bank's Board of Governors, consist of the Governor for each member country. With the exception of certain powers specifically reserved for them by the Articles of

Agreement, the Governors of the Bank have delegated their powers to a Board of Executive Directors that performs its duties on a full time basis at the Bank's headquarters.

There are 21 Executive Directors. 5 are appointed by members having the largest number of shares of capital stock, and the rest are elected by Governors representing other member countries. The Executive Directors meet under the Chairmanship of the President of the Bank. The Executive Directors are responsible for the conduct of the general operations of the Bank. They decide on Bank policy in the framework of the Articles of Agreement. They also decide on all loan and credit proposals. The objectives of the World Bank are : To assist in the reconstruction and development of the territories of the members, to facilitating the investment of capital for productive purpose, including the restoration of economies destroyed or disrupted by war.

To promote private foreign investments by means of guarantees or participation in loans and other investments made by private investors. To promote the long-range balanced growth of international trade and the maintenance of equilibrium in the balance of payments, by encouraging international investment of the productive resources of members. Guiding Principles In its lending operations, the Bank is guided by certain policies which have been formulated on the basis of the Articles of Agreement. First, the Bank should properly assess the repayment prospects of the loans. For this purpose, it should consider the availability of natural resources and existing productive plant capacity to exploit the resources, and operate the

plant and the country's past debt record. Secondly, the Bank should lend only for specific projects which are economically and technically sound and of a high priority nature. As a matter of general policy, it concentrates on lending for projects which are designed to contribute directly to productive capacity, and normally does not finance projects which are primarily of social character, such as education, housing etc.

Most Bank loans have been made for basic utilities, such as power and transport, which are prerequisites for economic development. Besides, the Bank places considerable emphasis upon the proper management of the projects. Thirdly, the Bank lends only to enable a country to meet the foreign exchange content of any project cost; it normally expects the borrowing country to mobilise its domestic resources. Fourthly, the Bank does not expect the borrowing country to spend the loan in a particular country; in fact, it encourages the borrowers to procure machinery and goods for Bank financed projects in the cheapest possible market, consistent with satisfactory performance. Fifthly, it is the Bank's policy to maintain continuing relations with borrowers with a view to checking the progress of projects and keep in touch with financial and economic developments in borrowing countries. Finally, the Bank indirectly attaches special importance to the promotion of local private enterprise. Recent Trends While the World Bank has traditionally financed all kinds of capital infrastructure such as roads and railways, telecommunications, and ports and power facilities, its development strategy also places an emphasis on investments that can directly affect the well-being of the masses of poor people of developing countries by integrating them as active partners in the development process.

In recent years, the Bank has stepped up its lending for energy development; lending for power forms the largest part of the Bank's energy programme, but commitments for oil and gas development have shown the greatest increases. . Structural Adjustment Lending The Bank, in response to the deteriorated prospects for the developing countries during the 1980s, inaugurated a programme of structural adjustment lending (SAL). This lending supports programmes of specific policy changes and institutional reforms in developing countries designed to achieve a more efficient use of resources thereby: (a) Contribute to a more sustainable balance of payments in the medium and long term and to the maintenance of growth in the face of severe constraints; and (b) Lay the basis for regaining momentum for future growth. . Special Action Programme In February 1983, the Bank initiated its Special Action Programme (SAP), designed to increase assistance to countries that were making efforts to cope with the exceptionally difficult economic environment brought on by a global recession. The SAP, established for a two year period, was composed of financial measures, combined with policy advice, to help countries implement adjustment measures and high-priority projects needed to restore credit worthiness and growth.

According to the Bank, the SAP had been highly successful in meeting its objectives, surpassing in most respects, the expectations set for it. 3. Bank Loan and Export Credit In January 1983, the Executive Directors authorised the establishment of a new set of financing instruments to help the Bank's borrowers increase and stabilise flows of private capital on approved terms by linking part of commercial bank flows to IBRD operations. Including the following three options: a) Direct Bank participation in the late maturities of

a B-Loan; (b) Bank guarantee of the late maturities, with the possibility of release from all or a part of its share; and (c) Bank acceptance of a contingent obligation to finance an element of deferred principal at final maturity of a loan with level debt-service payments with floating-rate interest and variable amounts of principal repayment. A fourth approach was also approved by the Board-the prearranged sale of participations in Bank loans arranged on commercial terms. FUTURE LENDING STRATEGYThe Bank will continue to be concerned with the distribution of the benefits of economic growth. The experience of recent years has demonstrated that just as 'good' projects alone cannot maintain growth in an inadequate policy and institutional setting, targeted investment alone cannot help reduce absolute poverty if policies are biased, for example, against small farmers or in favour of capital-intensive manufacturing.

Nor will investment alone create job opportunities for the urban and rural poor if the policy and institutional context is not consistent with that objective. The Bank's future role as a direct provider of finance and other technical assistance to developing countries depends on the following. To be fully effective, the Bank must structure its operations to complement, and, to the extent possible, it must exercise a constructive influence on those flows from other sources that have a developmental impact. INTERNATIONAL DEVELOPMENTASSOCIATION IDA is a member of the World Bank group. Primarily for the poorer developing countries and on terms that would bear less heavily on their balance of payments than IBRD loans. IDA's assistance is, therefore, concentrated on the very poor countries. The funds used by the IDA, called credits to distinguish them from IBRD loans, come mostly in the

form of subscription, general replenishments from IDA's more industrialised and developed members, and transfers from the net earnings of the IBRD.

The terms of IDA credits, which are made to governments only, have ten-year grace periods, fifty-year maturities, and no interest. The IDA provides 'soft loans' to member countries. Its object is to provide loans to member countries on liberal terms insofar as these relate to the rate of interest and the period of repayment. Another attraction of the IDA loans is that they can be repaid in the currency of the member country. Developing countries can avail themselves of IDA loans on very liberal terms for projects which are not eligible for assistance from the World Bank either because loans for such projects do not carry the guarantee of the government of the borrowing country or because such projects do not contribute directly and immediately to the productive capacity of the borrowing country. Examples of such projects are water supply, urban development, housing, slum clearance, education, sanitation and health facilities. These loans are provided if they qualify the following three tests: (i) Poverty Test (ii) Performance Test (iii) Project Test

WORK BANK ASSISTANCE TO INDIA India is one of the founder members of the IBRD and is one of the largest beneficiary of the IBRD-IDA assistance.

Until China became a member of the World Bank in 1980, India was the largest beneficiary of the World Bank assistance. Now there are a number of larger beneficiaries than India. In 1997, the total World Bank assistance to India was \$ 1068 million amounting to above five per cent of the total Bank assistance. Apart from the resource crunch IDA has been facing, China's

entry into the World Bank has seriously affected the fund to India. Although the World Bank assistance to India is very large in absolute terms, the per capita assistance has been low. India, with about a third of the world's poor needs a substantial increase in the concessional finance to accelerate the programmes of poverty alleviation and economic development. AN EVALUATION OF IMF-WORLD BANK Studies show that the projects assisted by the World Bank group could make significant impact in the respective countries. IMF has played an important role in providing international liquidity and in the structural adjustment programmes.

A criticism often made is that these institutions, which are dominated by the developed countries ignore the interests of developing countries. At the time of the establishment of these institutions, most of the developing countries were colonies and therefore, not represented at the Bretton Woods. There was an almost inevitable lack of concern for the interests of developing countries. Even after the developing countries have far outnumbered the developed ones in the total membership of these institutions, the dominance of the developed countries continues because of the voting system which gives clear control to the large contributors. Financing the reconstruction of war-devastated Europe and Japan received much more attention than the crying development needs of the developing countries. The view that in the international management of balance of payments disequilibria, there should be pressure to adjust on both surplus countries and deficit countries, rather than only on those in deficit, was also ignored. In fact, Keynes' original proposal for an International Clearing Union (the prototype for the IMF)

included the possibility of a penalty on surplus countries – one percent of the surplus per month to encourage them to make adjustments.

Again, only very little could be done by IMF in solving the international liquidity problem of the developing countries in comparison with those of the developed countries. Indeed developing countries need much larger attention of the multilateral institutions than the developed countries for various reasons. The developed countries have the capability for, and ready access to commercial borrowing whenever their reserves run short. The United States, which has had the largest deficit among the developed countries, has also had the option of running permanent deficit since other countries have been content to hold dollars. Not only that the commercial borrowing capability of the poor nations are limited, the accessibility has also been limited because of their poor creditworthiness. It may be recalled here that, in the early 1990s India's foreign commercial borrowings dried up due to the fall in the credit rating. To make matters worse, because of the poor credit ratings, the developing countries have had to pay an average rate of interest which was about four times the rate applied to the developed countries on commercial borrowings.

The unconditional borrowing rights based on the quota highly discriminate against the developing countries. What is more draconic has been the allocation of the SDRs, the created liquid assets, in proportion to the quota. This is like giving away the lion's share of a cake received as a gift to the fairly well fed, ignoring to serve the hunger of those who have been in abject starvation. One of the important problems of the developing countries is the

increase in the debt service due to the payment commitments and servicing of the past debt. One problem as far as the proper functioning of the IMF has been that it has not had any control over the rich nations. It could not, therefore, avert the breakdown, of the Bretton Woods monetary system. In fact, it has done little to recycle global surpluses to deficit nations.

Only a small portion of the total World Bank assistance is in the form of soft loans (IDA credits). The IDA now represents only 30 per cent of the World Bank lending. The major part of the World Bank lending to many developing countries like India is on commercial terms. This is one of the reasons for the increase in their debt-service problem. The IBRD lending rates now 'float' in line with the world market rates. This is a major shift from the Bank's original role of cushioning developing countries against fluctuations in market interest rates. The Bank was supposed to raise capital and lend it at rates that it could afford to subsidise because of its own strength and that of its industrial country patterns. It is pointed out that the United States which is the largest contributor, is not only reluctant to increase its own contribution, but also reluctant to let other countries (like Japan which would be able to offer a lot more) to do so since its own voting power would be correspondingly reduced.

One should at the same time recognise the useful role they have played all these years by extending different types of assistance to the different categories. Suggestions (i) Dismantling the dominance of the developed countries in the IMF & IBRD. But this would be very difficult to realise as the contribution by the developed countries is the major source of funds for

these institutions. (ii) An increase in the international liquidity of the developing countries brooks no delay. iii) The IMF should evolve into a World Central Bank. (iv) It is, therefore, suggested to create a new loan window - an Intermediate Assistance Facility (IAF) which could help countries ready to graduate from the extremely concessional IDA terms but not yet sufficiently robust to meet the tough terms of IBRD - such as India and Pakistan. IFC and India The IFC has assisted a number of projects in India.

The new economic policy of India which has substantially enhanced the role of the private sector implies a greater role for the IFC in the industrial development of the country. IE – LECTURE 9 REGIONAL

COOPERATION IN TRADE The global trading system has been witnessing a proliferation of regional economic integration schemes or trade blocs (also known as regional integration agreement/arrangement-RIA-or regional trade agreement-RTA), since the early 1990s. A total of 265 RTAs had been notified to the GATT/WTO until May 2003. As of March 2003, only four WTO Members-Hong Kong, China; Macao, China; Mongolia and Chinese Taipei-were not party to a regional trade agreement. About 90 per cent of the RTAs are in the form of free trade arrangements (FTAs) and only 10 per cent are customs unions. RIAs have been concluded among high-income countries, and low-income countries, and, starting with the North American Free Trade Area (NAFTA), between developed and developing countries. The European Union has played a major role in this respect through a series of agreements with a number of countries including Turkey, Mexico, South Africa and Chile.

More than half of world trade now occurs within actual or prospective trading blocs. More than one third of world trade already takes place within the existing RIAs. MEANING AND SCOPE The term economic integration is commonly used to refer to the type of arrangement that removes artificial trade barriers, like tariffs, between the integrating economies. “ The structure of regional agreements varies hugely, but all have one thing in common-the objective of reducing barriers to trade between member countries. At their simplest, they merely remove tariffs on intra-bloc trade in goods, but many go beyond that to- cover non-tariff barriers and to extend liberalisation to trade and investment. At their deepest, they have the objective of economic union, and they involve the construction of shared executive, judicial, and legislative institutions. ” RATIONALE AND OBJECTIVES Although multilateralism is generally accepted, in principle, as the best option, Governments opt for RIAs for a variety of reasons.

Rationale When possibilities for trade liberalisation or other forms of co-operation in certain areas at the multilateral level may be absent or RIAs are justified on the basis of the theory of the second-best. If some countries are unwilling to liberalise while others wish to do so, for example, liberalisation via a regional agreement might be more beneficial to the world than the status quo. Governments may wish to go further, faster and at lower cost than is feasible in a multilateral setting may prefer to remove all trade barriers rather than just reducing some or There may be gains from deeper integration unattainable in the WTO, including harmonization of economic policies or regulations that is feasible among similar or like-minded countries. Further, sometimes countries, especially smaller ones, may seek

participation in regional arrangements as a defensive necessity from an economic perspective. Governments may simply fear exclusion from markets, and regard participation as an insurance against being placed at a competitive disadvantage through discriminatory policies. The phrase “domino regionalism” has been coined in the literature to capture this kind of motivation, explaining to a degree the explosion of membership in regional arrangements. Objectives Economic integration schemes have several objectives.

1. To obtain economic benefits from achieving a more efficient production structure by exploiting economies of scale through spreading fixed costs over larger regional markets, increased economic growth from foreign direct investment, learning from experience etc.
2. To pursue non-economic objectives such as strengthening political ties and managing migration flows.
3. To ensure increased security of market access for smaller countries by forming regional trading blocs with larger countries.
- 4.

To improve members collective bargaining strength in multilateral trade negotiations or to protest against the slow pace of trade negotiations. . To promote regional infant industries which cannot be viable without a protected regional market. 6. Finally, to prevent further damage to their trading strength due to further trade diversion from third countries. FORMS OF INTEGRATION Free Trade Area The first (and least restrictive) form of economic integration is the free trade area/association which is a grouping of countries to facilitate free trade between them. The free trade area abolishes all restrictions on trade among the members.

However, each member is left free to determine its own commercial policy with non-members. Customs Union A customs union is a more advanced level of economic integration than the free trade area. It not only eliminates all restrictions on trade among members but also adopts a uniform commercial policy against the non-members. Common Market The common market is a step ahead of the customs union. A common market allows free movement of labour and capital within the common market, besides having the two characteristics of the customs union, namely, free trade among members and uniform tariff policy towards outsiders. Economic Union A still more advanced level of integration is the economic union. Apart from satisfying the conditions of the common market mentioned above, the economic union achieves some degree of harmonisation of national economic policies, through a common central bank, unified monetary and fiscal policies etc.

Example: the European Union (EU). Economic Integration The ultimate form is full economic integration characterised by the abolition of all barriers to intrabloc movement of goods and factors, unification of social as well as economic policies and all the members bound by decisions of a supernational authority consisting of executive, judicial and legislative branches. BENEFITS AND DISADVANTAGES OF RIAs Benefits RIAs help achieve greater economic integration at a regional level, without adversely affecting global liberalisation initiatives. They can be vehicles for governments to test the waters of free trade. By reducing trade barriers on a subset of partners, however, countries generally increase the real cost of their imports, reduce the flow of technology from non-member countries, and

increase dependence on particular export markets. Disadvantages/Problems
A major problem of RIAs is that they promote regionalism at the expense of multilateralism. Although regional arrangements can be destructive to more desirable multilateral outcomes, they can also supplement and build upon multilateralism in positive ways.

The economic impact of regional arrangements depends on their particular architecture, including how far they go in reducing trade barriers and how many sectors they cover. First, a multiplicity of regional agreements safeguarding varying levels of protection against external third parties will almost certainly engender a degree of trade diversion, and the application of numerous rules of origin and differing standards will make international trade more complex and costly. Second, the growing number of overlapping bilateral and plurilateral agreements risks the transparency of trading rules, thus posing a threat to one of the fundamental principles of the WTO. Third, regionalism may adversely affect the internal dynamics of trade liberalisation in a political economy sense, especially where RTAs exclude “difficult sectors” from coverage. Finally, increasing regionalism will tend to distract attention and energy from multilateral negotiations.

ECONOMIC INTEGRATION OF DEVELOPING COUNTRIES Rationale Economic integration of developing countries has been advocated by many experts as a means to accelerate economic development and strengthen their trading and bargaining power vis-a-vis the developed economies. Regional agreements among developing countries accounted for about 30-40 per cent of all RTAs in force in the beginning of millennium, including those not notified to the WTO.

In Africa alone, there are about eighteen trading agreements. The domestic market of many less developed countries is limited by the low per capita income and the small size of the population. This naturally comes in the way of achieving economies of scale and industrial development. Unfavourable Factors It has even been argued that integration can do pretty little to improve the economic performance of these nations. There are certain conditions to be satisfied for the success of an economic integration. The economic structure and conditions of the developing countries, by and large, do not satisfy some of these conditions. .

A customs union would lead to net economic welfare if the economies of the partner countries are actually very competitive, or similar but potentially very competitive, or dissimilar because under such situation the trade creation will outweigh trade diversion. But "... if we apply the criterion of trade creation and trade diversion to the developing countries, it would not be possible to justify integration among them. The developing countries are in fact producing similar products and also they are competitive. But the similar goods-mostly the primary products-that they produce are not for selling among themselves, but they are for the market in the developed countries.

2. A customs union would increase economic welfare if the trade among the member countries could be substantial, i. e. the partners should constitute the major market for the principal exports of each of the members. Further, the success of an integration scheme also depends on the proportion of the world's production, consumption and trade which is covered by the members

of the union. The developing countries do not, however, satisfy these two conditions, namely, scope for substantial intra-regional trade and substantial share of world's production, consumption and trade. Apart from these economic factors, there are certain practical problems with respect to economic integration of the developing countries.

First, there are political difficulties. Governments of this region would not favour sacrifice of their freedom, sovereignty and autonomy by integration. Further, political differences and narrow nationalistic views are formidable obstacles to the integration of developing countries. This is more true of the developing countries of Asia and Africa which have national rivalries and boundary disputes. Secondly, the relatively poor and weak countries may have the apprehension that the relatively advanced and strong countries of the group would eventually dominate the entire customs union. Thirdly, in spite of their geographic proximity the less developed countries are not economically unified; they lack adequate transportation and other communication and infrastructural and institutional facilities for successful unification. Fourthly, the unequal distribution of the gains from integration due to the unequal economic status of the developing countries themselves makes them less enthusiastic about integration.

Fifthly the loss of revenue from customs duties, which is an important source of revenue for the governments of the less developed countries, tends to reduce the attractiveness of economic integration to these governments. However, measures like those mentioned below have been expected to promote regional economic cooperation and trade liberalisation among

developing countries: . Development of regional trade infrastructure i. e. provision for economic intra-regional transport facilities, etc. 2.

Establishment of regional institutions to facilitate intra-regional trade i.

e. expansion of clearing or payment union, Regional Reserve Bank, regional import-export credit facilities, regional trade information centre, etc. 3.

Effective implementation, improvement and widening the scope of regional 'commodity communities' i. e. coconut, tin, etc. 4.

Plan harmonisation and regional investment projects i. e. xchange of experiences in national planning and economic aspirations, development of regional investment plans, standardisation of policies regarding investments from outside the region, etc. 5. A planned effort in the direction of reduction of tariffs and trade barriers between the member countries and possible agreements on common policies vis-a-vis non-regional countries i. e. a product by product or systematic reduction of intra-regional tariffs, etc.

MAJOR ECONOMIC INTEGRATION AGREEMENTS Problems of RIAs of

Developing Countries The RTAs among developing countries do not appear to have contributed significantly to expansion of South-South trade.

Interestingly, according to a WTO analysis, there is an inverse correlation between intra-regional trade shares and the number of RTAs. Reasons for the Non-performance of RTAs There have been many reasons for the poor results. A World Bank Report reveals the following reasons. 1. In a number of cases (CARICOM and the Central American Common Market in Central America; UDEAC in Africa) intra-regional conflicts have made it difficult to liberate trade. .

In many blocs, such as the Andean Pact, participants sought to rationalise production by allocating specific markets to designated producers instead of allowing the competitive process to determine the allocation of production. These designated producers were not necessarily the most efficient; nor were tariffs low enough in relation to the rest of the world to provide external competition. Consequently, the expected benefits from rationalisation of production or increased competition have been limited. 3. Trading opportunities and pro-competitive effects have been limited by the small size of regional markets in comparison with the rest of the world. 4. Regional trading blocs have frequently produced similar products, limiting the opportunity to exploit differences in skill or endowments.

5. Political interest in these arrangements has not always been translated into effective implementation of economic goals. The overall impact of these arrangements, has, therefore been limited. 6. Few developing country regional groups removed barriers across the board. 7. Strong vested interests in import competing industries and weakened external environment also thwarted efforts to liberalise intra-regional trade.

8. Inappropriate macroeconomic policies and political and institutional factors have also impeded implementation. The important determinants of success RIAs are the nature of economies, proximity of members, size of the RIA, size of members, extent of trade barriers before the formation of the RIA, extent of intraregional trade etc. By far the most successful of the RIAs is the European Union (EU). The RTAs among developed countries have been more successful than those between developing countries. Problems of

South-South RIAs include inter-regional conflicts; vested interests in import competing industries; inappropriate macroeconomic policies; political and institutional factors; lack of complementarity; the tendency to rationalise production by allocating specific markets to designated producers instead of allowing the competitive process to determine the allocation of production etc. North-South RIA with a large industrial country is likely to be superior to a South-South RIA for various reasons.

Given a larger endowment difference between member countries in a North-South RIA than in a South-South one, a developing country may be able to better exploit its comparative advantage in a North South RIA and gain benefits of transfer of technology. A major problem of RIAs is that they promote regionalism at the expense of multilateralism. Although regional arrangements can be destructive of more desirable multilateral outcomes they can also supplement and build upon multilateralism in positive ways.

MAJOR PROBLEMS OF INDIA'S EXPORT SECTOR LACK OF INTEGRATED

APPROACH India's poor export performance has been due to the lack of integrated approach. Had there been a realistic assessment of the overall effect of modernisation and economically efficient development of a sector on export earnings, employment, income generation, etc. the development of several sectors would not have been made to suffer by such policies as reservation for small scale sector, import controls, size and growth restrictions. An integrated development strategy, in which export promotion would play a pivotal role, would avoid wasteful fragmentation of development efforts and distortions and would give more respectability to export development.

However, no such enthusiasm was shown to deviate from the colonial trade regime and to formulate a comprehensive export development strategy. It was only in 1970, about two decades after the launching of the development planning and 22 years after making the first Industrial Policy Resolution, that the Government of India made an Export Policy Resolution, despite facing severe problems such as stagnant export earnings and foreign exchange crisis (which led to the devaluation of the Rupee in June 1966).

NEED FOR INNOVATION Success through pioneering innovation had hardly been a part of the Indian export strategy. The maximum we have aimed at has been to follow the trend and even in this we often lag very much behind.

VALUE ADDED EXPORTS There is a lot of scope for increasing our export earnings from spices and certain other agricultural products, marine products, leather, etc, through value addition. Our failure to market many products in consumer packs, under our brand names, to foreign consumers has caused huge loss of foreign exchange. Several products, unprocessed, semiprocessed or processed, exported from India in bulk are processed or repacked by foreign firms, mostly in developed countries, and sold in consumer packs under their brand names. The Task Force on Spices has observed that India has been very traditional in its approach to export of spices.

Technological Factors Technological problems have had very serious effects on India's exports. The Tandon Committee and Alexander Committee have referred to the adverse impact of technological backwardness on India's exports through poor quality, low productivity, high costs, etc.

HIGH COSTS In a large number of cases, high domestic cost is an inhibiting factor. This problem has been succinctly stated by the Abid Hussain Committee: " India

is often at a disadvantage vis-a-vis competing countries, not only because of the higher prices of importable and nontraded inputs, or because of time and cost over-runs implicit in managerial inefficiency, but also because of much lower level of productivity all of which stem from the aforesaid problems. Besides the material costs, certain other costs like interest rates, port charges, etc. are also very high in India. Supply bottlenecks and high inventory requirements also increase costs.

Even with regard to productivity of traditional exports, our productivity performance is not satisfactory. Further, the advantage of the economies of scale and ability of bulk supplies are not available to the Indian exporters. **POOR QUALITY IMAGE** Poor quality or inadequacy of inputs, technology and facilities affect the quality. On several instances, carelessness or lack of commitment on the part of exporters are also responsible. Adulteration and duping are also not absent. There is a general impression that a proper export culture is lacking in India. **UNRELIABILITY** As the Tandon Committee has observed, a very important black mark on the Indian exporters is reneging – a term used in the US to refer to going back on a contract and refusing to fulfill it on its original terms.

“ Unreliable quality and deliveries to importers abroad, with finely balanced production and sales schedules, can prove as embarrassing as non-delivery. The reasons of power, raw materials, transport and shipping, strikes and port delay; to which we can add those, we do not admit poor production planning. **SUPPLY PROBLEMS** The Indian export sector suffers from an inability to provide continuous and smooth supply in adequate quantities in respect of

several products. The problem is that “ much of the exporting is the result of the residual approach rather than conscious effort of producing for export.

The tendency for exporting what we produce rather than producing for export still continues to characterise the export behaviour. ” FACELESS

PRESENCE Although India is an important supplier of several commodities in foreign markets, her presence in these markets is faceless in the sense that the consumers do not know that these commodities are Indian. Major export items of India like seafoods, leather manufactures, spices, etc.

have, in many cases, a faceless presence in foreign markets. In fact, most bulk importers of Indian goods want this situation to be perpetuated as this enables them to hold control over the market while the exporters, being at the mercy of the foreign traders, lose bargaining power. For example, the failure of India to offer spices in consumer packs and in product forms that the consumers want, provided an opportunity for foreign traders to import spices in bulk and resell them in suitable forms, and thus keeping the market under their control. INFRASTRUCTURAL BOTTLENECKS

Infrastructural shortage such as energy shortage, inadequate and unreliable transport and communication facilities hinder growth in exports. Power shortages and breakdowns disrupt production schedules, increase costs and adversely affect timely shipments. The Indian exporter, besides has to communicate through inefficient and relatively outdated telecommunication network.

STRUCTURAL WEAKNESS Two of the important factors responsible for the structural weakness are: The absence of a systems approach to the process of management, marketing, information, planning and decision making.

India's exports do not pick up in periods of boom conditions in the world economy to the same extent as the exports of many other competitors. On the other hand, India is quick to pick up sluggishness in exports in response to sluggishness in the world trade much more quickly than other exporters. This asymmetry in the response of the export activity to world market conditions is a reflection of structural weakness of the export sector as a whole.

UNCERTAINTIES, PROCEDURAL COMPLEXITIES AND INSTITUTIONAL RIGIDITIES The procedural complexities of the Indian trade regime have been undisputably acknowledged. The government appointed a Committee on Import-Export Policies and Procedures (The Alexander Committee) which in its Report (1978) made a number of recommendations for improving the regime. There have been reports of loss of exports worth hundreds of crore of rupees due to the problem of interdepartmental coordination.

INADEQUACY OF TRADE INFORMATION SYSTEM Our marketing infrastructure as well as marketing techniques are neither effective nor efficient.

We do not have any machinery to keep prompt track of business information overseas, as done by JETRO in Japan. In India, we get these information, at times, after the expiry date. India has, no doubt, a plethora of organisations – governmental, semi-governmental as also non-governmental-engaged in this task in one way or the other.

INDIA'S FOREIGN TRADE Means the types of goods which comprise the foreign trade of a country, i. e. it shows the mix of goods imported and exported by a particular country. By looking at the composition of imports, we get an idea of the structure and level of development of a country.

Thus, the composition of trade can enable one to know the level of development of a country and mirrors its economic structure. COMPOSITION OF INDIAN IMPORTS At the time of Independence, India imported machinery, oils, pulses, chemicals and medicines, paper products, and various types of metals. These imports constituted more than 70 per cent of all imports. The second plan gave top priority to industrialisation with main emphasis on the development of basic and capital goods industries. This necessitated import of capital equipment in large amount together with spare parts, material, etc. Thus ' maintenance imports' became inevitable. Maintenance Imports Food and allied products, Raw materials and intermediate manufacturers, Capital goods, and Unclassified items have been merged with raw-material and intermediate manufactures.

The total share of agricultural and allied products declined from 44 percent in 1960-61 to around 14. 5 percent in 1999-2000. The total share of manufactured goods increased from 45 per cent of total exports in 1960-61 to around 81. 6 percent of total exports in 1999-2000. The most important item of export in 1960-61 was tea, contributing almost 20 per cent of our export earnings. However, its share declined from 20 per cent in 1960-61 to around 10 per cent in 1970-71 and further declined to around one per cent in 1999-2000. 4.

The next important item in 1960-61 export list was raw cotton contributing around 10 per cent of export earnings. Now, raw cotton also contributes negligible amount to the export basket. 5. The most important item under manufactured products is handicrafts. 6. The next important item within

manufactured goods exports is engineering goods. Their share in India's total exports increased from 3.

4 per cent in 1960-61 to around 21 per cent in 1998-99. India's focus on industrialisation contributed to this development. 7. Ready-made garments have also emerged as an important source of foreign exchange. Their share in our exports increased from just 2 per cent in 1970-71 to around 13 per cent in 1999-2000. Cotton yarn is also exported by India on a big scale. In 1999-2000, it contributed around 8 per cent to India's export basket.

8. Besides the above mentioned items, ores and minerals, leather products, chemicals, fruits and marine products have also contributed to India's export earning. Direction of Trade India, being a colony of Britain, trade chiefly took place with Britain during the pre-Independence period. This continued even after independence at least for some years. The following points emerge : 1. Within OECD, U. K.

was the most important source of our imports till 1960-61 having a share of around 20 per cent in our imports. U. S. A. has been an important source of our imports even since Independence. It contributed around 24 per cent to India's imports in 1960-61. India has imported large quantities of capital goods, intermediate goods and foodgrains from U.

S. A. Its share, however, is also declining and now it accounts for less than 8 per cent to our import bill. Another OECD country which is important for India's imports is Japan. France, Belgium and Australia, are other important OECD countries from whom India imports. Out of all groups, the OPEC group

has recorded the maximum growth in its share in India imports. OPEC group had just 4.

6 per cent share in India's. India has had special trade relations with formally Eastern Europe especially with erstwhile USSR. Among the developing countries, Asian countries are emerging as important sources of India's imports.