

UNIT VIII INTERNATIONAL BUSINESS

CHAPTER

27

FACILITATORS OF INTERNATIONAL BUSINESS



கேடறியாக் கெட்ட இடத்தும் வளங்குன்றா
நாடென்ப நாட்டின் தலை.

-குறள் 736

Couplet:

The learned say that the best kingdom is that which knows no evil (from its foes),
and, if injured (at all), suffers no diminution in its fruitfulness.

Learning Objectives

To enable the students to

- explain the meaning, objectives and functions of WTO
- discuss the importance and functions of World Bank
- understand the objectives and functions of IMF
- describe the role of SAARC



Headquarters of WTO at Geneva

27.01 World Trade Organisation (WTO)

International business involved complex issues among various countries way back in 1950's. A keen need then was felt to establish separate mechanism for regulating and controlling trade relation across the countries around the world. As a result, the General Agreement on Tariffs and Trade. (GATT) was signed at Geneva on 30th October 1947 by 23 countries. It came into effect on 1st January 1948. GATT was a multilateral treaty. It laid down rules and regulations for conducting international trade. GATT achieved many success but various countries felt the need to create a new international body to replace the GATT. The GATT which remained in force from 1948 to 1994 thus came to an end with the establishment of World Trade Organisation (WTO) on 1st January 1995.

Meaning

The World Trade Organisation (WTO) was established on 1st January 1995. The GATT was renamed as WTO with some changes. WTO has 164 member countries as on 29th July 2016. India is one of the three founder members. The ministerial conference consisting of the representatives of all the member countries is the highest decision-making authority of WTO. It meets almost once in every three years. It is empowered to take decisions on all vital matters under the multilateral trade agreements. The day-to-day work of WTO has been entrusted to the General Council. WTO is located at Geneva (Switzerland)

Objectives of WTO

The objectives of WTO include the following.

1. Improving the standard of living of people in member countries
2. Making optimum utilization of world's resources for sustainable development of member countries.
3. Promoting an integrated more viable and durable trading system in the sphere of international business
4. Expansion of trade in goods and services
5. Ensuring full employment and large steady growth volume of real income and effective demand
6. Protecting the environment

Functions/Role of WTO

WTO performs the following functions

1. It is a forum for negotiation and formalization of trade agreement among the member countries.

2. It settles disputes and grievances relating to trade among the member countries.
3. It frames commonly acceptable code of conduct in order to reduce trade barriers.
4. It holds consultations with IMF and World Bank (IBRD) and its affiliates to bring about a greater understanding and co-operation in global economic policy making.
5. It supervises the operations of agreement relating to General Agreement on Tariffs and Trade (GATT) and Trade-Related Intellectual Properties Rights (TRIPS)
6. It regulates trade between participating countries.

Benefits of WTO

Some of the major benefits of WTO are as follows.

1. WTO is promoting international peace and creating a conducive environment for conducting international trade
2. It settles the trade disputes amicably among the member countries.
3. It promotes the standard of living of people by increasing their income level from free trades
4. WTO has removed quantitative restrictions and non-tariff barriers. It has facilitated free flow of foreign trade among the member countries. The countries can impose import restrictions only to correct balance of payments difficulties and not otherwise.
5. It stimulates economic growth of developing countries by providing them with much needed capital and giving

them preferential treatment in trade related matters.

6. WTO organizes periodical regional and international conference. Thus developing countries get opportunity to learn the technicalities, rules and regulations governing world trade, technical assistance available globally, trade potentials in member countries and so on.
7. WTO gives people across the world a wider choice of goods and broader range of qualities of goods to choose from by promoting free trade among the member countries.
8. WTO has lowered trade barriers and thereby allowed trade to flourish across the world. The increase in trade contributes to increase in national income and personal income of people
9. WTO provides a platform for member countries to establish trade links with one another. In the absence of WTO member countries may have to enter many multilateral agreement with so many countries across the world. It provides a greater access to all nations under one roof.
10. WTO is committed to protecting free trade. It has framed rules on subsidies and dumping.



WTO AGREEMENTS

1. Agreement Forming part of GATT

GATT is an important part of WTO agreements. It includes special agreement evolved to deal with non-tariff barriers

2. Agreement on Textile and Clothing

This agreement was evolved to eliminate quota restrictions imposed by developing countries on the export of textiles and clothing by them. It helps mainly developing countries to expand their textile and clothing export.

3. Agreement of Agriculture(AOA)

This agreement was made to ensure free and fair trade in agriculture. This agreement made the developed countries reduce customs duties on their imports and subsidies on the export of agricultural products. But developing countries were exempted from making reciprocal offer keeping in view of high dependence of these countries on agriculture.

4. General Agreement on Trade in Services

Under this agreement, all member countries were required to remove restrictions on trade in services in a phased manner. It provides that trade in service is governed by the principle of most favoured nation obligation. In other words countries have to award business contract on the basis of merit of service suppliers and on the basis of nationality status of service provider. It prevents the countries from discriminating between foreign service provider and local service provider. This agreement requires all the member countries to publish their laws relating to trade in service.

5. Agreement on Trade Related aspects of Intellectual Property Rights (TRIPS)

This agreement sets out seven minimum standards of protection to be accepted by parties in respect of seven intellectual properties namely, copyright, trademark, geographical indication, industrial design, patent, layout design of integrated circuits and undisclosed information.



Criticism Against WTO

The following criticisms are levelled against WTO

1. Free Trade Benefits Developed Countries more than Developing Countries

Developing countries need some sort of trade protection to develop their new industries. Many developed countries had once used this protection to nurture their infant industries in their development stage. In this context prevention of developing countries from defending their infant industries altogether through restriction is unfair. It is suspected to be a conspiracy to indirectly favour MNC's.

2. Most Favoured Nation Principles

This is the core of WTO rules. Under this rule member countries are advised not to discriminate among the home enterprises, multi-nationals and foreign enterprises. In other words WTO prevents developing countries from favouring their emerging companies. This move is supposed to give unfair advantage to multinational companies.

3. Failure to Reduce Tariffs on Agriculture

WTO failed to convince the USA and European Unions to eliminate high tariff on agriculture . In other words it defends high tariff on agriculture in USA and EU. This would undoubtedly hurt the farmers in developing countries.

4. Neglect of Farmers Interest in Developing Countries

Developing Countries specialize in producing primary products. i.e. agricultural products. They need some sort of protection

to diversify into other sectors of the economy at least in the short term. Many developed nations used this tariff protection in the process of their development . In this context WTO is criticised for being unfair and neglecting the interest of farmers in developing countries.

5. Neglect Environmental Considerations

WTO encourages import from certain countries which produce the product on a larger scale at the cost of environment. WTO pushes for achieving increase in GDP without any regard for environment. In the current environment of global warming and ever increasing environmental disaster, utmost priority given by WTO on maximizing GDP at the cost of environment is misplaced.

6. Neglect of Cultural and Social Factors

WTO is criticized for promoting the domination of multinational companies which are feared to eliminate local enterprises from business world altogether. The growth of MNC's is feared to ruin cultural diversity of many developing countries.

7. Inability of People in Developing Countries to Buy Life Saving Drugs

WTO defends trade related intellectual property rights which allow the firm to protect the patent and copy right. This protection particularly in the area of manufacturing of drugs is supposed to escalate the price of essential and life saving drugs. As a result people of developing countries may not be able to buy costly drugs at affordable price.

27.02 World Bank

International Bank for Reconstruction and Development (IBRD)



International Bank for Reconstruction and Development is commonly known as World Bank. It was set up in 1944 in order to reconstruct and rehabilitate first world war affected countries of Europe and assist in the development of developing countries. It is located at Washington DC. It has its offices all over the world.

Objectives of IBRD

Objectives of IBRD are briefly mentioned here under.

1. Providing long term capital to member countries to reconstruct and develop their war-affected economy
2. Promoting capital investment in member countries
3. Providing guarantees for loans granted to small and large units and other projects of member countries
4. Ensuring implementation of development projects so as to transform the war-affected economy into peace economy
5. Providing long term capital for ensuring balance of payment equilibrium and balanced development of international trade

Functions Of IBRD

The main functions of the world bank are stated below

1. Assisting reconstruction of war-affected countries
2. Promoting economic growth and balanced growth of international business
3. Promoting infrastructural facilities like energy and transportation, road development, etc. in member countries.
4. Encouraging agricultural and industrial development in developing countries by providing adequate resources
5. Providing resources for promoting sanitation, education, health care and small scale enterprises in member countries
6. Improving standard of living of people of member countries by providing assistance by removing poverty, raising productivity, providing technical support and conducting research and development

27.03 International Monetary Fund (IMF)





International Monetary fund (IMF) is an international organization headquartered in Washington DC. It has a membership of 189 countries. It was established in 27th December 1945 on the recommendation of the Bretton Wood Conference. It provides shorter loan to member countries to their correct balance of payments disequilibrium.

Objectives of IMF

The objective of IMF are mentioned below.

- a. Promoting international monetary cooperation
- b. Ensuring balanced international trade
- c. Ensuring exchange rate stability



AFFILIATES OF WORLD BANK GROUP

International Development Association (IDA)

It was set up in 1960. It provides term loans to member countries at concessional terms and conditions for their economic development. It creates supplementary sources of credit for member countries. It assists in poverty alleviation programme of least developed countries. It provides support for health, education, infrastructure agriculture, human resources development of developing and least developed countries.

International Financial corporation (IFC)

International Financial Corporation (IFC) is an international financial institution that offers advisory services to build up private sector in developing countries. It is headquartered at Washington DC. It was established in the year 1956. There are 184 countries in the membership list. It aims at lifting the standard of people of developing and least developed countries by removing poverty, improving education and healthcare, investing in infrastructure development and sustainable agricultural opportunities therein.

Multinational Investment Guarantee Agency(MIGA)

This is one of International Financial Institutions offering political risk insurance and credit enhancement guarantees. The guarantee provided by this institution protects foreign direct investments against the political and non-commercial risks in developing countries. It is head quartered at Washington. It promotes flow of foreign direct investment (FDI) into developing countries .

International Centre for Settlement of Invarstment Disputes (ICSID)

ICSID is an autonomous institution setup in order to provide a forum for conciliation and arbitration of international dispute, It was setup in 1966. It is located at Washington





- d. Eliminating or minimizing exchange restrictions by promoting multilateral payments.
- e. Providing economic assistance to member countries for correcting imbalance in balance of payments of countries
- f. Minimizing imbalance in quantum and duration of balance of payment.

Functions of IMF

The functions of IMF are enumerated below

- 1. It acts as short term credit institution at the international level.
 - 2. It provides machinery for ordinary adjustments of exchange rates.
 - 3. It has a reservoir of currencies of the member countries from which a borrower can borrow currencies of other nations.
 - 4. It promotes economic stability and global growth by encouraging countries adopt sound economic and financial policies.
- 5. It offers technical assistance and training to help member countries strengthen and implement effective policies. Technical assistance is offered in formulating banking, fiscal, monetary and exchange policies.
 - 6. It helps member countries correct their imbalance in balance of payment.

IMF AND INDIA

Free Convertibility of Indian Rupee

Indian rupee has become independent after the establishment of IMF. Earlier it was linked with pound sterling. Its value is now determined in terms of Gold. Hence it is freely convertible.

1. Loan For Development Activities

India got several loan facilities from IMF for its several development projects.

2. Ability To Purchase Foreign Currency

Government of India is able to purchase foreign currencies from time to time to



SPECIAL DRAWING RIGHTS (SDR)

SDR was created by the IMF in the year 1969 as supplementary international reserve asset. It is described as paper gold. Initially the value of SDR was fixed to be 0.888671 grams of fine gold equivalent to one US dollar till the year 1973. After the collapse of Britten Wood system in 1973 SDR was redefined as basket of currencies. From 1st October 2016 SDR basket consists of US dollar, Euro, the Chinese Renminbi, Japanese Yen and British Pound sterling. The value of SDR is regularly posted daily in IMF website.

It is calculated as the sum of specific amount of each basket currency value in US dollar based on the spot exchange rates observed at noon London time. IMF allocates SDR to member countries in proportion to their quota. IMF member can exchange SDR for freely usable currencies by voluntary exchange or as per IMF instructions. Besides members can borrow from IMF at favorable rate of interest to correct imbalance in balance of payments.



meet the ever growing requirement of development activities.

3. Expert Advice

India used to get expert advice from IMF for solving the economic problems. It has given valuable advice to India with regard to financing its 5 year plan.

4. Timely Help

India has received timely help from IMF many a time to eliminate the deficit in its balance of payments. India got help from IMF during 1966 in the aftermath of war with Pakistan. It received assistance from IMF for combating oil shock. Between 1980 and 1983 India got assistance from IMF to manage global economic recession.

5. Financial Assistance during Natural Calamity

India has got a lot of financial assistance from IMF to solve the economic crises arising from natural calamities like, floods, famine, earthquake, aggressions of Chinese and Pakistan etc. It gets technical assistance from IMF.

6. Membership in World Bank

By virtue of its membership in IMF India could become member in the World Bank.

7. Help During 1991 Economic Crisis

During 1990, India faced serious economic crisis. Indian Government was almost nearing bankruptcy. It got assistance from IMF by pledging its gold reserve with it to solve its balance of payments crisis.

27.04 South Asian Association for Regional Co-Operation (SAARC)

South Asian Association for Regional Co-operation is the regional inter governmental organization and geo-political union of nations in South Asia. The member countries include Afghanistan, Bangladesh, Bhutan, India, Nepal, Srilanka, Pakistan and Maldives. It was established on 8th December 1985. It was founded at Dhaka in Bangladesh.

Objectives of SAARC

The objectives of SAARC include the following



Liberalised Exchange Rate Management System (LERMS) was introduced in the budget 1992-93. Under the LERMS, Exporters of goods and services and those who are recipients of remittances from abroad could sell the bulk of their foreign exchange receipts at market determined rates. Similarly, those who need to import goods and services or undertake travel abroad could buy foreign exchange to meet such needs, at market determined rates from the authorised dealers, subject to their transactions being eligible under the liberalised exchange control system. However, in respect of certain specified priority imports and transactions, provisions were made in the scheme for making available foreign exchange at the official rate by the Reserve Bank of India.

1. Promoting the welfare of people of Asia
2. Achieving economic growth, social programme and cultural development in member countries.
3. Strengthening self reliance among the members
4. Strengthening co-operation among the members as well as with other developing countries and international and regional organization.
5. Maintaining peace among the member nations in the region.

Council

At the top SAARC is represented by the heads of member nations. It meets once in two years. The head quarter is located in Nepal. SAARC secretariat is headed by the Secretary General appointed by the members.

Functions

Functions of SAARC are highlighted

1. Monitoring and co-ordinating the development programme
2. Determining inter-sectoral priorities
3. Mobilizing cooperation within and outside the region.
4. Dealing with modalities of financing

Key Terms

WTO	GDP
GATT	SDR
IBRD	IMF



For Own Thinking

- i. A vital role played in international business by WTO
- ii. Necessity for world as global village through IMF IBRD and SAARC



For Future Learning

- i. WTO- new agreements
- ii. IMF World Bank and SAARC major role in international business



Exercise

I. Choose the Correct Answer

1. General Agreement on Tariff and Trade was signed on
 - a. 30-October-1947
 - b. 29-October-1947
 - c. 28-October-1947
 - d. 26-October-1947
2. WTO was established on
 - a. 1-1-1996
 - b. 1-1-1997
 - c. 1-1-1995
 - d. 1-1-1994
3. The headquarter of WTO is located at
 - a. New York
 - b. London
 - c. Geneva
 - d. Brazil





4. The day to day administration of WTO is entrusted with

- a. Executive Council
- b. General Council
- c. Administrative Council
- d. General Body

5. World bank is located at

- a. Washington DC
- b. New York
- c. Tokyo
- d. Hongkong

Answers

1. a 2. c 3. c 4. b 5. a

II. Very Short Answer Questions.

- 1. What is WTO?
- 2. What do you mean by World Bank?
- 3. What is Special Drawing Rights?

III. Short Answer Questions

- 1. Write any three objectives of IMF.
- 2. Mention the functions of SAARC. (any 3)
- 3. Write any three benefits of WTO.

IV. Long Answer Questions.

- 1. Point out the objectives of WTO. (any 5)
- 2. Write down the functions of IMF. (any 5)

Reference

- 1. ISC Commerce by S B Gupta - S Chand's Company Ltd New Delhi.2017
- 2. International Business Theory and Practises by Ghanshyam Sharma-Centrum Press-2012
- 3. Experiencing International Business Management by Routledge-2017