

Chapter – 27

Facilitators of International Business

I. Choose the Correct Answer

Question 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

Answer:

- (a) 30 – October – 1947

Question 2.

WTO was established on

- (a) 1 – 1 – 1996
- (b) 1 – 1 – 1997
- (c) 1 – 1 – 1995
- (d) 1 – 1 – 1994

Answer:

- (c) 1 – 1 – 1995

Question 3.

The headquarter of WTO is located at

- (a) New York
- (b) London
- (c) Geneva
- (d) Brazil

Answer:

- (c) Geneva

Question 4.

The day-to-day administration of WTO is entrusted with

- (a) Executive Council
- (b) General Council
- (c) Administrative Council
- (d) General Body

Answer:

- (b) General Council

Question 5.

World bank is located at

- (a) Washington DC
- (b) New York
- (c) Tokyo
- (d) Hongkong

Answer:

- (a) Washington DC

II. Very Short Answer Questions

Question 1.

What is WTO?

Answer:

The World Trade Organisation (WTO) was established on 1 st January 1995. The GATT was renamed as WTO with some changes. WTO has 164 member countries as of 29th July 2016. The ministerial conference consisting of the representatives of all the member countries is the highest decision-making authority of WTO.

Question 2.

What do you mean by World Bank?

Answer:

International Bank for Reconstruction and Development (IBRD) International Bank for Reconstruction and Development is commonly known as World Bank.

Question 3.

What are Special Drawing Rights?

Answer:

SDR was created by the IMF in the year 1969 as a 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 the Britten Wood system in 1973 SDR was redefined as a basket of currencies. From 1st October 2016 SDR basket consists of US dollar, Euro, the Chinese Rimini, Japanese Yen and British Pound sterling. The value of SDR is regularly posted daily in the IMF website.

Question 4.

What is SAARC?

Answer:

South Asian Association for Regional Cooperation is the regional intergovernmental organization and geopolitical union of nations in South Asia.

Question 5.

What is GATT?

Answer:

The General Agreement on Tariffs and Trade was the first worldwide multilateral free trade agreement. It was in effect from June 30, 1948, until January 1, 1995. The purpose of GATT was to eliminate harmful trade protectionism.

III. Short Answer Questions

Question 1.

What is the primary motive for the establishment of WTO?

Answer:

GATT achieved many successes 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 the World Trade Organisation (WTO) on 1st January 1995.

Question 2.

Name the affiliate of World Bank.

Answer:

The following are the affiliates of the world bank.

- International Development Association
- International Financial Corporation
- Multinational Investment Guarantee Agency
- International Centre for Settlement of Investment Disputes

Question 3.

What are the criticisms of the WTO?

Answer:

1. Free Trade Benefits Developed Countries more than Developing Countries
2. Most Favoured Nation Principles
3. Failure to Reduce Tariffs on Agriculture
4. Neglect of Farmers Interest in Developing Countries
5. Neglect Environmental Considerations
6. Neglect of Cultural and Social Factors
7. The inability of People in Developing Countries to Buy Life Saving Drugs

Question 4.

How is the value of SDR determined currently?

Answer:

It is calculated as the sum of a 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.

Question 5.

Mention the functions of SAARC.

Answer:

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

IV. Long Answer Questions

Question 1.

Point out the objectives of WTO.

Answer:

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 of 29th July 2016. The ministerial conference consisting of the representatives of all the member countries is the highest decision-making authority of WTO. The objectives of WTO include the following.

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

Question 2.

Write down the functions of WTO.

Answer:

1. It is a forum for negotiation and formalization of a trade agreement among the member countries.
2. It settles disputes and grievances relating to trade among the member countries.
3. It frames a commonly accepted 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 cooperation in global economic policymaking.
5. It supervises the operations of the agreement relating to the General Agreement on Tariffs and Trade (GATT) and Trade.
6. Related Intellectual Properties Rights (TRIPS)
7. It regulates trade between participating countries.

Question 3.

Describe the benefits of WTO.

Answer:

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 of 29th July 2016. The ministerial conference consisting of the representatives of all the member countries is the highest decision-making authority of WTO.

Some of the major benefits of WTO are as follows.

- WTO is promoting international peace and creating a conducive environment for conducting international trade
- It settles the trade disputes amicably among the member countries.
- It promotes the standard of living of people by increasing their income level from free trades
- WTO has removed quantitative restrictions and non-tariff barriers. It has facilitated the 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.

- It stimulates the economic growth of developing countries by providing them with much-needed capital and giving them preferential treatment in trade-related matters.

Question 4.

Highlights the functions of IBRD.

Answer:

1. Assisting reconstruction of war-affected countries.
2. Promoting economic growth and balanced growth of the 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.

Question 5.

Write down the functions of IMF.

Answer:

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 a shorter loan to member countries to their correct balance of payments disequilibrium.

Functions of IMF:

The functions of IMF are enumerated below

- It acts as short-term credit institution at the international level.
- It provides machinery for ordinary adjustments of exchange rates.

- It has a reservoir of currencies of the member countries from which a borrower can borrow currencies of other nations.
- It promotes economic stability and global growth by encouraging countries to adopt sound economic and financial policies.
- 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.
- It helps member countries correct their imbalance in the balance of payment.

Question 6.

Explain how far India has benefited from IMF.

Answer:

Free Convertibility of Indian Rupee:

The Indian rupee has become independent after the establishment of IMF. Earlier it was linked with the 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 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 the war with Pakistan. It received assistance from IMF for combating oil shock. Between 1980 and 1983 India got assistance from IMF to manage the 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 a member of the World Bank.
7. **Help During 1991 Economic Crisis:** During 1990, India faced a 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.