PG TRB -2021

COMMERCE

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PG TRB - 2021 Subject: Commerce

Unit-XIII Syllabus

13.1. International Trade

13.2. B.O.P.

13.3. Tariffs

13.4. Quotas and Licenses

13.5. Terms of Trade

13.6. World Lending Bodies – IMF, IBRD AND ADB

13.7. Impact of liberalizations, privatization and Globalization.

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நீங்கள் இன்று
செய்வதே
உங்களின்
நாளைய
எதிர்காலம்.

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13.1. International trade :

International trade is an exchange involving a good or service conducted between at least two different countries.

“ The aim of International Trade is to increase production and to rise the standard of living of the people. International Trade helps citizens of one nations to consume and enjoy the possession of goods produced in some other nation”

The exchanges can be imports or exports.

International trade must be classified into three ways:

1. Import Trade : The inflow of goods in a country is called as import trade

2. Export Trade : The outflow of goods from a country is called export trade.

3. Entrepot Trade : Many times goods are imported for the purpose of re – export after some processing operation. This is called enterpot trade.

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Types of International Trade :

1. Direct Business : In Direct Business the importer places order with manufacturer of exporting country.

2. Consignment Business : Under this exporter sends the goods to an agent in the importing country

3. Indent Firms: The indent firms charges commission for their services. The Indent firms are also called commission agents.

Advantages of International Trade:

1. **Comparative Advantage-**It allows countries to specialize in producing only those goods and services, which it is good at.

2. **Economies of Scale-** If a country wants to sell its goods in the international market, it will have to produce more than what is needed to meet the domestic demand. So, producing higher volume leads to economies of scale, meaning the cost of producing each item is reduced.

3. **Competition -** Selling goods and services in the foreign market also boosts the competition in that market. In a way, it is good for local suppliers and consumers as well. Suppliers will have to ensure that their prices and quality is competitive enough to meet the foreign competition.

4. Transfer of Technology

International trade often leads to the transfer of technology from a developed nation to the developing nation. Govt. in the developing nation often lay terms for foreign companies that involve developing local manufacturing capacities.

5. Increase in efficiency :

Due to international competition , the producers in a country attempt to produce better quality goods and at the minimum possible cost.

Disadvantages of International Trade :

1. Over-dependence:
Countries or companies involved in the foreign trade are vulnerable to global events. An unfavorable event may impact the demand of the product, and could even lead to job losses. For instance, the recent US-China trade war is adversely affecting the Chinese export industry.

2. Affects Home industries : International Trade has an adverse effects on the development of home industries. It threat to the survival of infant industries at home. Due to foreign competition and unrestricted imports, the upcoming industries in the country may collapse.

3. Mis- Utilization of Natural Resources: Excessive export may exhaust the natural resources of a country in a shorter span of time than it would have been otherwise. This will cause economic downfall of the country in the long run.

13.2. Balance of Payment (BoP):

The Balance of payment is essentially an application of the double – entry book keeping .

The transactions, which give rise to money receipts from rest of the world, are recorded in the credit side of the Balance of payment.

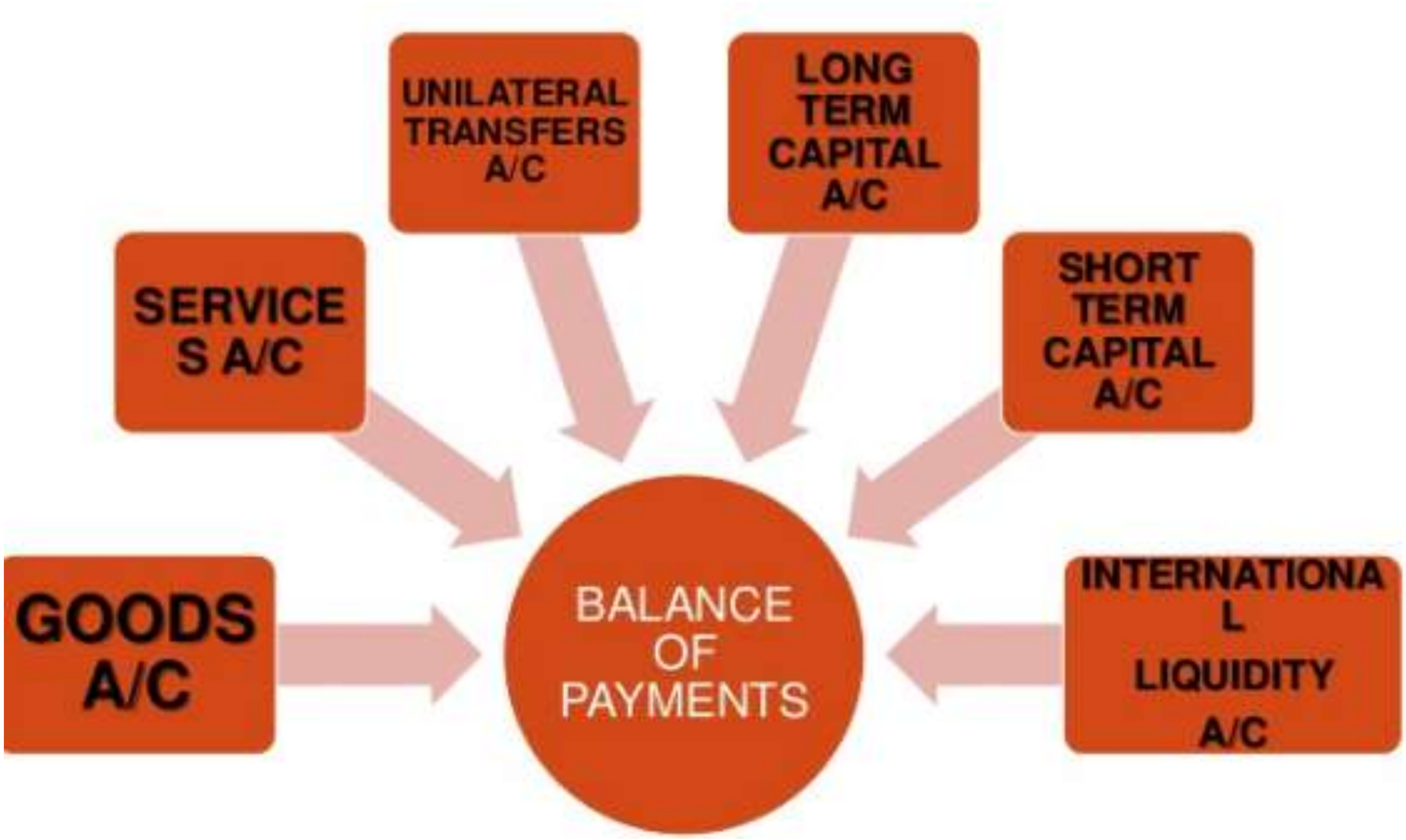
On the Other hand, transactions which lead to monetary payment abroad are recorded in the debit side of the balance of payment.

According to Bo Sodersten " The Balance of payment is merely a way of listing receipts and payments in International Transaction for a country".

B.J Cohen says " It shows the country's trading position , changes in the net position as foreign lender or borrower and changes in its official reserve holdings.

In a nutshell BoP of a country is "a systematic record of all economic transactions between the residents of one country with the residents of the other country in a financial year".

Structure of Balance of Payment



The Balance of Payments Accounts of any Country includes 3 components:

I. Current Account: Current account records import and export and unilateral transfers. The Balance of export and imports is referred to as the Balance of Visible or as the balance of Merchandise trade.

It is often useful for economic purposes to distinguish between factor and non factor services. Trade in Non factor services includes Shipping, banking and insurance services.

Trade in factor services includes interest , profit.

(a) Goods Account

(b)Services Account

(c) Unilateral Transfer Account

Goods Account: It includes the value of Merchandise Exports and Merchandise Imports. They are called 'Visible items' in the BOP account.
E.g. Tea, Coffee, etc.

Services Account: The services account records all the services exported and imported by a country in a year. Unlike goods which are tangible or visible, services are intangible. Hence are called 'invisible items in the BOP.

E.g. Transportation, Banking , Insurance, the software services comprises information technology and IT-enabled services.

Unilateral Transfer Account: The account includes gifts, grants, remittances received from foreign countries and paid to foreign countries.

It can be both Government as well as Private Transfer. Unilateral receipts and payments are also called ‘Unrequited Transfers’. They are called so because the flow of transfer is unidirectional or in one direction.

E.g. Indian Working in UK and send Rs. 1, 00,000 to his parents is a classic example for private transfer. Indian Government Provide Food aid to Burma Government is an example for Government Transfer.

II. Capital Account: Capital account transactions are two way and multiple transactions.

It records all international transactions that involve a resident of the country concerned changing either his assets with or his liabilities to a resident of another country.

It is often useful to make distinctions between various forms of capital account transactions.

The basic distinctions are between private and official transaction between Portfolio and direct investment also by the term of investment like short and long term.

(a) External assistance: External assistance means the transaction of official bilateral and multilateral loans.

The bilateral loans are loan transaction loans are official loan transaction between two countries.

Multilateral loans are official loan transactions between a country and Multilateral bodies like World Bank, IMF , New Development Bank and Asia Development Bank.

(b) ECB (External Commercial Borrowing): Commercial borrowing means loan transaction by commercial enterprises. It is also called as external commercial borrowing (ECB).

(c) Short – Term Debt: Short terms debts are trade credit for a maturity of less than 3 years.

(d) Foreign Direct Investment and Foreign Portfolio Investment

III. Official Reserve Account / Reserve:

Reserve means foreign exchange reserve consists of

(a) Foreign currency account – Currencies of various countries are held in forex. It is expressed in USD or INR. Apart from currency it is also includes foreign currency deposit held by RBI with foreign central banks.

(b) Gold Stock of RBI – The RBI has gold stock as a back up to issue currency and to meet unexpected BoP crisis.

(c) SDR - Special Drawing Rights is reserve created by International Monetary fund to help the countries having BoP problem. It is held with the RBI.

SDR has two dimension one, it is an exchange rate system another it is a loan arrangement.

As an exchange system, SDR is an average exchange rate derived from "Basket of Currency".

As a loan arrangement, the member countries are entitled to get loan from IMF. This loan amount is up to 200% of the member's quota with IMF. It is also known as "Paper Gold".

ISO	Currency	Weight
USD	US Dollar	41.73%
EUR	European Euros	30.93%
CNY	Chinese Renminbi	10.92%
JPY	Japanese Yen	8.33%
GBP	British Pound	8.09%

Overview Table of BoP:

Balance of Payments Accounts:

1. Current Account			
	Visibles	Export +	+
		Imports –	–
		Balance of Trade	A
	Invisibles	Credit +	+
		Debit –	–
		Net Invisibles	B
	Current Account Balance		A + B
2. Capital Account			
	Short term capital flows (inflow +, outflow–)		net
	Long term capital flows (inflow +, outflow–)		net
	Total investment and other capital inflows		C
	Balancing item (+ or –)		D
Balance for official financing			A + B + C + D
3. Official Financing			
	Foreign currency borrowings (+) or lending (–)		net
	Changes in reserves (addition –, drawings +)		net
	Transactions with IMF and other central banks		net
Total Official Financing			–(A + B + C + D)

Difference between Autonomous and Accommodating Items:

Sl.No	Autonomous	Accommodation
1	Transaction undertaken for profit	Free from consideration of profit
2	Can create BoP disequilibrium	These bring in BoP Equilibrium
3.	Involves movement of goods across countries	No Movement of goods only official reserve movement
4	Above the line items	Below the line item

The basic difference between the two is that whereas deficit or surplus in BOP occurs due to autonomous items, the accommodating items are taken to cover deficit (or surplus) in autonomous transactions.

Disequilibrium in BoP:

A disequilibrium in the BoP of a country may be either a deficit or surplus. A deficit or surplus in BoP of a country appears when its autonomous receipts do not match its autonomous payments.

If autonomous credit receipts exceeds autonomous debit payment , there is a surplus in BoP and it is known as favorable balance of Payment and vice versa.

Causes of Disequilibrium in BoP:

There are many factors that may lead to a BoP deficit or surplus.

1. **Temporary Disequilibrium :** There may be temporary disequilibrium caused by random variations in trade, seasonal fluctuations , the effects of weather on agricultural production, etc.

2. **Fundamental Disequilibrium :** Fundamental disequilibrium refers to a persistent and long- run BoP disequilibrium of a country. It is a chronic BoP deficit to IMF. It is caused by dynamic factors as :
   a) Change in consumer tastes within the country
   b) Excessive capital outflow due to massive imports of capital goods and raw materials essential consumer goods, technology and external indebtness.

3. **Structural Disequilibrium :** Structural changes brings about disequilibrium in BoP over the long run. They may results from the following factors
   a) Technological changes in the method of production of products in domestic Industries. They lead to changes in cost , price and quality of product.
   b) Import restrictions of all kinds brings about disequilibrium in BoP.
   c) Disequilibrium in BoP may also be caused by changes in the supply or direction of long – term capital flow.

4. **Cyclical Disequilibrium:** Cyclical fluctuation in business activity also lead to BoP disequilibrium. When there is depression in a country, volume of both export and import fall drastically in relation to other countries. But fall in exports may be more than that of imports due to decline in domestic production.

Measure to Correct Deficit in BoP:

Deficit in BoP can be brought adjusted through the following measures:

1. Devaluation : It is also known as " Expenditure Switch policy" devaluation raises the domestic price of import and reduce the foreign price of export of a country devaluing its currency in relation to the currency of another country. Devaluation is referred to as expenditure switching policy because its switches expenditure from imported to domestic goods and services. When a country devalues its currency, the price of foreign currency increases which makes import dearer and export cheaper.

3. Direct Controls : To correct disequilibrium in the BoP , government also adopts direct controls which aims at limiting the volume of imports. The Government restricts the import of undesirable or unimportant items by levying heavy import duties, fixation of quotas etc.

4. Stimulation of Export and Import Substitution : A deficit in BoP can also be corrected by encouraging export. They can also be increased by a policy of import substitution .

5. Expenditure reducing policy: A deficit in the BoP implies an excess of expenditure over income. To correct it expenditure reducing policy should be brought into equality, For this expenditure reducing Monetary and fiscal policy is used . A tight monetary and fiscal policy leads to reduction of money supply. Thus aggregated demand will reduce and lead to reduction of import of foreign goods.

6. **Adjustment through Exchange Depreciation :** Under Flexible exchange rates, the disequilibrium is automatically solved by the forces of demand and supply for Forex. An exchange rate is the price of a currency which is determined like other commodities, by demand and supply. This is automatically achieved by depreciation of country's currency in case of deficit in its BoP. Depreciation means its relative values decreases. Depreciation has effect of encouraging export and discouraging of import.

7. **Adjustment Through Capital Movement :** A country can use capital import to correct a deficit in its BoP . A deficit can be financed by capital inflows. The BoP is said to be in equilibrium when the domestic interest rate equals the world rate.

13.3. Tariffs :

Tariff is a tax or duty on goods when they enter and leave the national boundary. Tariffs are an example of an expenditure switching policy to get consumers to switch from foreign products.

There are different types of tariffs, depending on the way they are calculated. Two of the most common types of tariffs used are ad valorem tariffs and specific tariffs.

Impact of Tariffs :

Tariffs imposed by the government can be for protection or revenue purposes.

Protective tariff – Protection tariffs are meant “ to maintain and encourage those branches of home industry protected by the duties. The purpose of protective tariff is to protect a domestic industry from the foreign competition. Tariffs in developed counties are primarily designed to be protective tariff.

Revenue tariff – Revenue tariffs are meant to provide the sate with revenue. Revenue duties are levied on luxury consumer goods. This is a secondary function.

The features of the tariff are: -

(i) It affects the domestic consumption of that good.

(ii) It affects the home production of goods that compete with the imported good.

(iii) It affects the foreign production of the imported good.

(iv) It also changes the structure of the economy.

Ad valorem tariff

A tariff calculated on the basis of the value of the imported good, expressed as a percentage of such value. For example, an ad valorem tariff of 10% on an imported Computer Rs.40000 would lead to a requirement to pay Rs .4000 as customs duty.

The much-adored, much-adorned Sachin Tendulkar receiving a tax-exemption of Rs 1.13 crore from the Government and importing a post-box red Ferrari.

Specific Tariff:

A specific tariff is a tariff calculated on the basis of a **unit of measure**, such as weight or volume, of the imported good. For example, a tariff of Rs. 1000 per gram of Gold on imported Gold.

Compound tariff:

It is comprised of both a specific tariff & an ad valorem tariff. For example $10 per imported product plus 5% of the value of the imported good such compound tariffs are common on agricultural products whose prices tend to fluctuate.

The Optimum Tariff Formula:

Prof. Kindleberger has devised a formula to measure the rate of optimum tariff which is

$$Tf = \frac{1}{e-1}$$

Where Tf is the optimum tariff rate and e is the point elasticity of the offer curve of the other country.

When a Tariff is lead to increase in ToT and reduce in volume of trade it is known as “ Optimum rate of Tariff”.

Non – Tariff Barriers:

Non – Tariff Barriers are obstacles to import other than tariffs. They are administrative measures that are imposed by a domestic Government to discriminate against foreign goods and in favor of home goods.

Classification of NTB :

NBT are distortions to international trade. These are varied devices which have originated in recent decades to restrict import. They are classified under :

Quantitative Trade Restriction: These are import quotas , voluntary export restraints.

Fiscal Measures : relates to export or production subsidies , export credit subsidy, tax concessions on export.

Types of NTB:

Voluntary Export Restraints (VER) : A voluntary export restraints (VER) is an agreement by exporter country's export or government with an importing country to limit their export to it. The Limit to imports may be set in terms of quantity, values or market values.

Export Subsidy: An export subsidy is a government grant given to an export firm to reduce the price per unit of goods exported abroad. It enables the firm to sell a larger quantity of its goods at a lower price in the export market than in the home market.

Countervailing Duty : A Countervailing Duty is an import duty or tariff imposed by an importing country to raise the price of a subsidized export product to offset its lower price.

Other Non – Tariff Barriers:

Import Licensing Procedures : Many Countries adopt complicated and expensive import licensing procedure to restrict import. Import Licensing are often auctioned to the highest bidders. In other cases, importers are required to deposit large sums of money with the government for getting licenses.

Local Content Regulation : In many countries, import of manufactured product like cars, TVs, computers, etc are restricted if they do not meet local content regulations.

Technical Barriers : Technical Barriers are of various types which restrict imports. They includes health and safety regulation , sanitary regulation , industrial standards, labelling and package regulation . These impose additional cost on foreign suppliers of goods in order to restrict their imports.

13.4. Quotas and Licenses

Import Quota is a protectionist device to restrict the supply of a goods or services from aboard. Under an import quota, a fixed amount of a commodity in volume or value is allowed to be imported into country during a specific period of time.

For this purpose , the government may issue an import license that it may sell either to importer at a competitive price or just give it to importers on the basis of first come first served.

Import quotas aim at restricting and regulating imports in order to protect domestic industries from foreign competition and to correct disequilibrium in the Balance of Payment.

Types of Import Quotas :

1. **Tariff Quota :** Under this quota system , a given quantity of a good is permitted to enter duty free or upon payment of relatively low duty. But imports in excess of that quantity are charged a relatively high rate of duty.

2. **Unilateral Quota :** Under this system of quota , the total volume or value of the commodity to be imported is fixed by law or decree without any agreement with other countries.

3. **Bilateral Quota :** Under this quota system, quotas are fixed by some agreement with one or more other countries. Haberler called this quota as Agreed Quota.

4. Mixing Quota : This quota system requires domestic producer in the quota fixing country to use imported raw material in certain proportion along with domestic raw materials to produce finished products.

5. Import Licensing: Import Licensing is the system devised to administer the various types of quota. According to this system, the amount of the commodity to be imported is first determined on the basis of the above mentioned quota systems. Then import licenses are issued by the appropriate authority to the importers for specified quantities of commodities to be imported.

13.5. Terms of Trade :

The Terms of trade refers to the rate at which the goods of one country exchanged for the goods of another country. It is measure of the purchasing power of exports of a country in terms of its imports and is expressed as the relation between export price and import prices of its goods.

When the export prices of a country rise relatively to its import prices , its ToT are said to have improved.

On the Other hand , when its import prices rise relatively to its export price , its terms of trade are said to have worsened.

1. Commodity or Net Barter ToT:

The Commodity or net barter ToT is the ratio between the price of a country's export goods and imports goods. Symbolically, it can be expressed as

$T_c = P_x/P_m$

The concept of the commodity or net barter ToT has been used by economist to measure the gain from international trade.

2. Gross Barter ToT:

The gross barter ToT is the ratio between the quantities of a country's imports and exports.

Symbolically, It can be expressed as

$T_g = Q_m/Q_x$

3. Income ToT:

Dorrance has improved upon the concept of the net barter terms of trade by formulating the concepts of the Income ToT.

This Index takes into account the volume of exports of a country and its export and import prices.

Thus , the income ToT is the net barter terms of trade of a country multiplied by its export volume index.

It can be expressed as

$$T_y = T_c * Q_x \quad \text{or} \quad \frac{P_x * Q_x}{P_m}$$

4. Single factoral ToT : The concept of commodity ToT does not take account of productivity change in export industries.

Prof. Viner had developed the concept of single ToT which allows changes in the domestic export sector.

It is calculated by multiplying the commodity ToT index by an index of productivity changes in domestic export industries.

It can be expressed as ,

$$T_s = T_c * F_x$$

5. Double Factoral Terms of Trade:

The Double factoral terms of trade take into account productivity changes both in the domestic export sector and the foreign export sector producing the country's imports.

The index measuring the double factoral terms of trade can be expressed as

$T_d = T_c * F_x/F_m$

6. Real Cost Terms of Trade : Viner has also developed a terms of trade of index to measure the real gain from international trade.

He calls it the real cost terms of trade index.

This index is calculated by multiplying the single factoral ToT with the reciprocal of an index of the amount of disutility per unit of productivity resources used in producing export commodity .

It can expressed as

$T_r = T_s * R_x$

7. **Utility ToT :** The utility ToT measures “ Changes in the disutility of producing a unit of exports and changes in the relative satisfactions yielded by imports and the domestic products forgone as the result of export production.

In other words, it is an index of the relative utility of import and domestic commodities forgone to produce exports. The utility ToT index is calculated by multiplying the real cost Terms of Trade index with an index of the relative average utility of imports and of domestic commodities forgone.

It can be expressed as

$T_u = T_r * u = Px/Pm * Fx * Rx * u$

13.6. World Lending Bodies – IMF, IBRD AND ADB

International Monetary Fund

The United Nations Monetary and Financial Conference , commonly known as Bretton Woods conference , held in Bretton woods , New Hampshire , USA , on 1st July 1944 to 22nd July 1944 regulate the international Monetary and financial order after the conclusion of WWII.

IMF Objectives :

1. To Promote International Monetary Cooperation
2. To Facilitate the expansion and balanced growth of international trade of all member countries
3. To promote exchange rate stability
4. To help members in the times of Balance op payment crisis.

Functions of IMF :

1. The Fund gives short – term loans to its members so that they may correct their temporary BOP disequilibrium
2. The Fund also renders technical advises to its members on Monetary and fiscal matters
3. It Provide technical experts to member countries having BOP disequilibrium.
4. Plays an important role in the fight against money – laundry

IMF Quotas :

Upon Joining each members of the IMF is assigned a quota – the amount that the country has to pay to the IMF.

Resource Contributions	Voting Power	Access to Financing	SDR Allocations
Quotas determine the maximum amount of financial resources a member is obliged to provide to the IMF.	Quotas are a key determinant of the voting power in IMF decisions. Votes comprise one vote per SDR100,000 of quota plus basic votes (same for all members).	The maximum amount of financing a member can obtain from the IMF under normal access is based on its quota.	Quotas determine a member's share in a general allocation of SDRs.

$$(0.50 * \mathit{GDP} + 0.30 * \mathit{Openness} + 0.15 * \mathit{Variability} + 0.05 * \mathit{Reserves})^{\text{compression factor}}$$

	QUOTA			VOTES	
Member	Millions of SDRs	Percent of Total[1]	Governor *Alternate*	Number[2]	Percent of Total[1]
Iceland[3]	321.8	0.07	Ásgeir Jónsson	4,684	0.09
			Gudmundur Arnason		
India[3]	13,114.4	2.76	Nirmala Sitharaman	132,610	2.63
			Shaktikanta Das		
Indonesia[3]	4,648.4	0.98	Perry Warjiyo	47,950	0.95
			Sri Mulyani Indrawati		
Iran, Islamic Republic of[3]	3,567.1	0.75	Abdolnaser Hemmati	37,137	0.74
			Gholamreza Panahi		
Iraq	1,663.8	0.35	Ali Muhsin Ismail	18,104	0.36
			Khaled Salah Alddin Mohammed Murad		
Ireland[3]	3,449.9	0.73	Paschal Donohoe, T.D.	35,965	0.71
			Gabriel Makhlouf		
Israel[3]	1,920.9	0.40	Amir Yaron	20,675	0.41
			Shai Babad		
Italy[3]	15,070.0	3.17	Roberto Gualtieri	152,166	3.02
			Ignazio Visco		

Quotes are denominated in SDR , the IMF's unit of account. Upon joining the IMF , a country normally pays up to one quarter of its quotas in the form of widely accepted foreign currency. The remaining three – quarters are paid in the country's own currency. The IMF Review members' quotas once in five years.

Who am I :When a national currency also serves as an international reserve currency, there could be conflicts of interest between short-term domestic and long-term international economic objectives. The use of a national currency (i.e. the U.S. dollar) as global reserve currency leads to a tension between national monetary policy and global monetary policy. This is reflected in fundamental imbalances in the balance of payments, specifically the current account: some goals require an overall flow of dollars out of the United States, while others require an overall flow of dollars in to the United States.

Clue :

Currency	Weights determined in the 2015 Review	Fixed Number of Units of Currency for a 5-year period Starting Oct 1, 2016
U.S. Dollar	41.73	0.58252
Euro	30.93	0.38671
Chinese Yuan	10.92	1.0174
Japanese Yen	8.33	11.900
Pound Sterling	8.09	0.085946

Criteria for Inclusion

A)Export Criteria

B)Freely Usable

SDR :
IMF lends in its own artificial currency unit called the SDR, SDR can be exchanged for national currency . SDR are not traded in the forex market. SDR is Neither currency nor a claim on the IMF. It is a potential claims on the freely usable currencies of IMF members. Holders of SDR can obtain these currencies in exchange for their SDR.

Fund Borrowings:
While Quotes subscriptions of member countries   are its main sources of financing, the IMF can supplements its resources through borrowing if it believes that resources might fall short of members needs.

General Agreements to Borrow and New Arrangements to Borrow.

Sl.No	Lending Facilities	Year of Establishment	Remark
01	Extended Fund Facility	1974	Secular BOP Crisis . Up to 10 years loan up to 300 percentage of their Quotas. Developing Economy.
02	Supplementary Financing Facilities	1977	Provided during serious BOP Crisis . Normally Low Developing economy will borrow
03	Structural Adjustment Facility	1986	Concessional adjustment to the poorer developing economy. Repay 5 to 10 years with 5 year additional grace period.
04	Contingency Credit Line	1999	To protect the fundamentally sound economy.

https://www.youtube.com/watch?v=f0CPO2osWOM


OUR DREAM
IS A WORLD FREE OF POVERTY
THE WORLD BANK GROUP
WORLD BANK GROUP

Objectives of World Bank:

i. To provide long term capital to members countries for economic reconstruction and development.

ii. To induce long term capital investment for assuring BOP equilibrium and balanced development of international trade

iii. To promote capital investment in members countries by following ways
a. To provide guarantee on private loans or capital investment
b. If capital is not available even after providing guarantee, then IBRD provides loans for productive activities on considerate conditions.

iv. To ensure the implementation of development projects so as to bring about a smooth transference from a war time to peace economy.


Skill India
कौशल भारत - कुशल भारत


स्वच्छ भारत
एक कदम स्वच्छता की ओर


प्रधान मंत्री
ग्राम सड़क योजना


प्रधानमंत्री आवास योजना ग्रामीण
सुस्वागतम्

S.No	World Bank Associate (Members)	Established Year	Remark
01	IDA (173 Members)	1960	To provide long term loan , interest free for the poorest of the poor country . IDA repayment is are stretched to 25 to 40 years. In addition to the loan and grants IDA provides debt relief through the HIPC and MDRI.(Country Less than $ 1145 per capita income are eligible) , IDA lends money on concessional terms. This means that IDA credits have a zero or very low-interest charge and repayments are stretched over 30 to 38 years, including a 5- to 10-year grace period. IDA also provides **grants to countries at risk of debt distress**.

S.No	World Bank Associate (Members)	Established Year	Remark
02	IFC (184 Members)	1956	To Promotes private sector investment in its member countries , IFC is the largest multilateral sources of loan and equity finances investment for private sector project in the developing world. Investment climate for private sector development and inclusive growth. PPP projects and Renewable energy.

S.No	World Bank Associate (Members)	Established Year	Remark
03	MIGA(181 Members)	1988	The Multilateral investment Guarantee agency promotes FDI into developing countries by insuring investor against non commercial and political risk , and advising Governments on attracting investment .
04	ICSID (163 Members)	1966	ICSID provides facilities for the conciliation and arbitration of investment disputes between member countries and individual investors.

Ease of Doing Business	World Bank
World Development Report	World Bank
Global Economic Prospects	World Bank

1.Asian Development Bank (ADB) was established in the year 1966, with head office at Manila (Philippines). It has 67 members from the Asia Pacific region. This bank was modeled on the lines of the world bank.

2.Japan holds the largest share in ADB with 15.677%, followed by U.S.A (15.567%), China (6.473%), and India (5.812%).

3.The aim of the ADB is social development by reducing poverty in the Asia Pacific with inclusive growth, sustainable growth, and regional integration. This is carried out through an 80% investment in the public sector.

4.ADB invests in infrastructure, health, public administration system, helping nations to reduce the impact of climate change and to manage natural resources.

President
Masatsugu Asakawa

Voting rights:
It is modeled closely on the World Bank, and has a similar weighted voting system where **votes are distributed in proportion with members' capital subscriptions.**

Roles and functions:
1.ADB defines itself as a social development organization that is dedicated to reducing poverty in Asia and the Pacific through inclusive economic growth, environmentally sustainable growth, and regional integration.

2.This is carried out through investments – in the form of loans, grants and information sharing – in infrastructure, health care services, financial and public administration systems, helping nations prepare for the impact of climate change or better manage their natural resources, as well as other areas.

13.7. Impact of liberalizations, privatization and Globalization.

P.V. Narasimha Rao took over as Prime Minister in 1991 that a new industrial policy was announced which marked a sharp departure from the earlier policy of 1956.

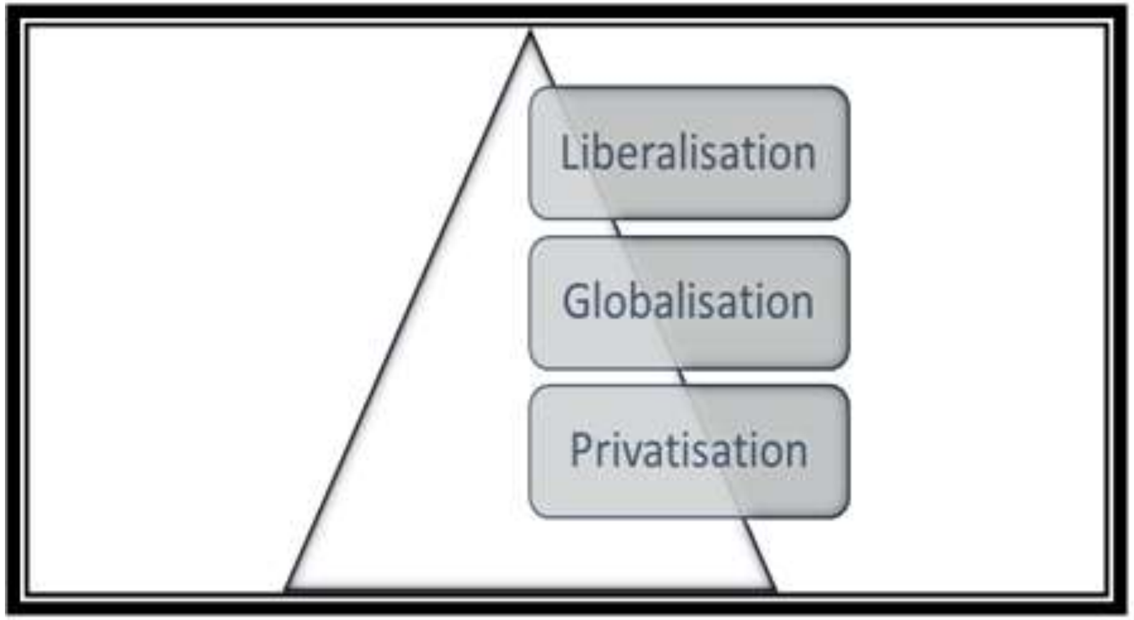
An unprecedented Balance of payments crisis emerged in early 1991.

The current account deficit doubled from an annual average of \$2.3 billion or 1.3 percent of GDP during the first half of the 1990s, to an annual average of \$5.5 billion or 2.2 percent of GDP during the second half of the 1990s.

13.7. Impact of liberalizations, privatization and Globalization.

For the first time in modern history, India was faced with the prospect of defaulting on external commitments since the foreign currency reserves had fallen to a mere $1 billion by mid-1991.

The balance of payments came under severe strain from one liquidity crisis experienced in mid-January 1991 and another in late June 1991 which pushed for Economic reforms in India Three aims of Economic policy.



Liberalization means relaxing the government regulations in a country to allow the private sector companies to operate business transactions with comparatively fewer restrictions.

Objectives

- To boost competition between domestic businesses
- To promote foreign trade and regulate imports and exports
- Improvement of technology and foreign capital
- To reduce the debt burden of a country
- To unlock the economic potential of the country by encouraging the private sector and multinational corporations to invest and expand.

Positive Impact of Liberalization:

Free flow of capital: Liberalization has improved flow of capital into the country which makes it inexpensive for the companies to access capital from investors. Lower cost of capital enables to undertake lucrative projects which they may not have been possible with a higher cost of capital pre-liberalization, leading to higher growth rates.

Diversification for Investors: In a liberalized economy, Investors gets benefit by being able to invest a portion of their portfolio into a diversifying asset class.

Negative Impact of Liberalization:

Threat from Multinationals: Prior to 1991 MNC’s did not play much role in the Indian economy. In the pre-reform period, there was domination of public enterprises in the economy. On account of liberalization, competition has increased for the Indian firms. Multinationals are quite big and operate in several countries which has turned out a threat to local Indian Firms.

Technological Impact: Rapid increase in technology forces many enterprises and small scale industries in India to either adapt to changes or close their businesses.

Mergers and Acquisitions: Acquisitions and mergers are increasing day-by-day. In cases where small companies are being merged by big companies, the employees of the small companies may require exhaustive re-skilling. Re-skilling duration will lead to non-productivity and would cast a burden on the capital of the company.

Economic Reforms during Liberalization

Several sectors were affected by the outburst of the impact of Liberalization.

Few economic reforms were:

- Financial Sector Reforms
- Tax Reforms / Fiscal Reforms
- Foreign Exchange Reforms / External Sector Reforms
- Industrial Sector Reforms

Impact of Privatization :

When the Government of India decides to bring in a private investor into a unit that was previously owned by the Government, this process can be termed as privatization.

Economies that were previously owned entirely by the Government can be privatized in two different ways.

1. By transferring the ownership: This can further be done in two different ways. Either the Government can be removed entirely from owning the industry as well as the management of the Public Sector Units. The other way in which it can be done is by selling the Public Sector Units.

2. By disinvestment: In the case of Public Sector Units, when the Government sells some part of the equity to private investors, this is known as disinvestment. This is usually done so that the Public Sector Units can be financially stabled and modernized.

Positive Impact on Economy:

1. The role of entrepreneurs is encouraged in the private sector industries since they have the liberty to make their own decisions for the enterprises. They are not under any pressure from the government.

2. Before 1991, the expenditure of the government was more than what it was earning. As a result of this, the government was facing a budget deficit. This further resulted in an increased financial burden on the government. When privatisation happened in the country, this financial burden of the government was significantly reduced.

3. Private companies lead to the inflow of Foreign Direct Investment in the country. Because India has a wide market and a broad consumer base, foreign products are wanted by more and more consumers today. With more and more companies being privatized, people from all over the world come to invest their money in these companies.

Negative Impact on Economy:

1. Private sector companies can heavily influence the market in the economy. They can increase or decrease the price of a product solely on the basis of their preference. This results in a monopolistic control of the private companies in the market.

2. With the coming up of more and more private sector companies, the social interest has been persistently neglected. The main objective of every private sector industry is to earn a profit. In this process of earning more and more profit, society is ignored by those industries.

3. When private sector companies enter the market of the economy, they can significantly increase the price of a product. The consumer might or might not have the purchasing power to consume that product. The demand for that particular product then significantly decreases. And if this case continues, the economy goes in a state of inflation.

Impact of Globalization :

The term Globalisation refers to the integration of the economy of the nation with the world economy; it is a multifaceted aspect.

It is a result of the collection of multiple strategies that are directed at transforming the world towards greater interdependence and integration.

It includes the creation of networks and pursuits transforming social, economic and geographical barriers.

Globalisation tries to build links in such a way that the events in India can be determined by events happening distances away.

Advantages of Globalisation in India

•**Increase in Employment:** With the opportunity of Special Economic Zones (SEZ), there is an increase in the number of new jobs available. Including Export Processing Zones (EPZ) Centre in India is very useful in employing thousands of people. Another additional factor in India is cheap labour. This feature motivates big companies in the west to outsource employees from other regions and cause more employment.

•**Increase in Compensation:** After Globalisation, the level of compensation has increased as compared to domestic companies due to the skill and knowledge a foreign company offers. This opportunity also emerged as an alteration of the management structure.

•**High Standard of Living:** With the outbreak of Globalisation, the Indian economy and the standard of living of an individual has increased. This change is notified with the purchasing behaviour of a person, especially with those who are associated with foreign companies. Hence, many cities are undergoing a better standard of living along with business development.

Disadvantage of Globalisation:

- Benefits of Globalisation accrue more to developed countries as they are able to expand their markets in other countries.

- It compromises the welfare of people belonging to developing countries.

- Market-driven Globalisation increases the economic disparities among nations and people.