International Business

Unit 2

Theories of International Trade and International Organisations and Arrangements

Dr. Neha Yajurvedi
Associate Professor, SBS
Shobhit Institute of Engineering and Technology
(Deemed to be University), MEERUT - 250110

Contents

- Theories of International Business
- General Agreement on Tariffs and Trade (GATT)
- World Trade Organisation (WTO)
- United Nation Conference for Trade and Development (UNCTAD)
- Bretton Woods Conference
- International Monetary Fund (IMF)
- World Bank

Theories of International Business: Introduction

- International trade provides an opportunity to the Consumers to purchase a variety of goods; goods that are not domestically produced. For ex: I phone.
- International Trade Theories analysis the patterns of international Trade. It describes the pattern how the goods will be traded and will be advantageous.
- The theories explains how goods are traded among various nations and which goods are advantageous for trading.
- For example: USA have advantage in Car manufacturing, India in Spices etc.
- It means that we have advantage of manufacturing of spices, we have that type of resources for manufacturing of spices.

Classification of International Trade Theories

Classical Country-Based Theories	Modern Firm-Based Theories
Mercantilism	Country Similarity
Absolute Advantage	Product Life Cycle
Comparative Advantage	Global strategic Rivalry
Heckscher-Ohlin	Porter's National Competitive Advantage

Mercantilism Theory

- It is the **Oldest Theory**.
- This theory is given by **Thomas Mun**
- It is based on **Zero Sum Game** (It means that in trading, out of two countries, one country will earn profit, and second will earn loss. Both the countries will not earn profit/loss simultaneously)
- Emerged in England in Mid of 16th Century.
- It assumes **Gold as a measure of Country's Wealth**.
- **Primary Goal is to increase the wealth of the nation by acquiring gold.**

David Hume's Price Specie flow mechanism

- Country should increases Gold by promoting exports and discouraging imports (Surplus in BOT).
- Drawback: This theory did not recognize anything except gold as a measure of Country's Wealth.
- Contrary to this theory, David Hume's Price Specie flow mechanism stated that a country cannot benefit in long run by only exporting or importing.
- After some time, there will be disequilibrium in Balance of Trade. (Country is only exporting or only importing)
- David Hume showed that due increase in inflow of gold in a country, there will be increase in money supply leading to increase in prices which would discourage exports and encourage imports.

Absolute Advantage Theory

- Based on **Productivity and Efficiency**.
- Absolute means complete.

- This theory is given by **Adam Smith in 1776.**
- **Adam smith authored the Book "Wealth of Nations".**
- It is based on **Positive Sum Game** (It means that in trading, both the countries will earn profit/loss simultaneously)
- **Absolute advantage is when a country can produce a product more efficiently that other country.**

Absolute Advantage Theory

- **Export goods of production advantage** and **import goods of production disadvantage.**
- Sources of Absolute advantage: (Efficiency)
- **Natural Advantage (India: Cotton) (Brazil: Coffee)**
- **Acquired Advantage (Import of any high technology Machinery for production purpose where till manually production was done.)**
- **Drawback: No explanation was give where a nation may have advantage in producing both commodities (or two commodities).**

Comparative Advantage Theory

- It is the extension of Absolute Advantage Theory.
- This theory is given by **David Ricardo in 1817.**
- It is also based on **Positive Sum Game** (It means that in trading, both the countries will earn profit/loss simultaneously)
- **If a country has advantage in production of both (two) commodities, then compare the efficiency of both goods.**
- **Produce and Export the good which can be produced more efficiency.**

Factor Endowment Theory

- It is also known as Factor Proportion Theory or Heckscher and Olin Theory.
- This theory is given by **Eli Heckscher and Bertil Ohlin in 1933.**
- It explains international trade in terms of **available factors** in the country. (Like: Labour in abundance in India)
- **Assumption: Constant Technology across the World., Countries have different availability of factors of production, demand and production function is identical all over the world.**
- **Countries will export the goods which make intensive use of the factors that are locally available and imports goods that make intensive use of factors that are locally scarce. (India: Export: LABOUR INTENSIVE PRODUCTS, Import: CAPITAL INTENSIVE PRODUCTS)**
- Trade between the countries having economic structure differences.

Leontief Paradox: Criticism to Factor Endowment Theory

- This theory is given by **Wassily Leontief in 1953.**
- **Criticism: Leontief Paradox**
- **In 1953, Leontief found that the United States the most capital abundant country in the world, exported commodities that were more labour intensive , contrary to Heckscher-Ohlin Theory.**

Classification of International Trade Theories

Classical Country-Based Theories	Modern Firm-Based Theories
Mercantilism	Country Similarity
Absolute Advantage	Product Life Cycle
Comparative Advantage	Global strategic Rivalry
Heckscher-Ohlin	Porter's National Competitive Advantage

Country Similarity Theory

- This theory was given by **Swedish Economist Staffan B. Linder in 1961.**
- He tried to explain the concept of the **Intra-Industry Trade.**
- **This theory is opposite/ Contradict of H-O Theory. (Factor Endowment Theory)**
- **PREFERENCE SIMILARITY**
- **Intra-industry trade with differentiation should be undertaken by similar countries. (Trade be similar Demand conditions/ same conditions/ same factors available) between 2 countries with some differentiation in their products) For Example: America: Tesla, Japan: Toyota)**
- **Inter-industry trade should be undertaken by the countries that are not similar. For Example: America: Cars, India: Spices**

Product Life Cycle Theory

- This theory is given by **Raymond Vernon in mid 1960s.**
- Theory consists of Technology based products.
- **A product goes through the product life-cycle.**
- **Country where the product is first launched is INNOVATOR.**
- **At the end of the cycle the innovator becomes the IMPORTER.**
- **INTRODUCTION > GROWTH > MATURITY > DECLINE**
- **New Product : (INNOVATOR): For Eg: I phone developed by America**
- **Maturing Product: After selling the product to its own customers, now other countries know about this latest product. Therefore, America exports the product.**
- **Standardized Product: There is demand all over the world as it is now standardized product. It will be more expensive for innovator so, it search for such developing countries where factors are available with low cost. Starting production in India. Then innovator country will import from such countries.(IMPORTER)**

The New Trade Theory

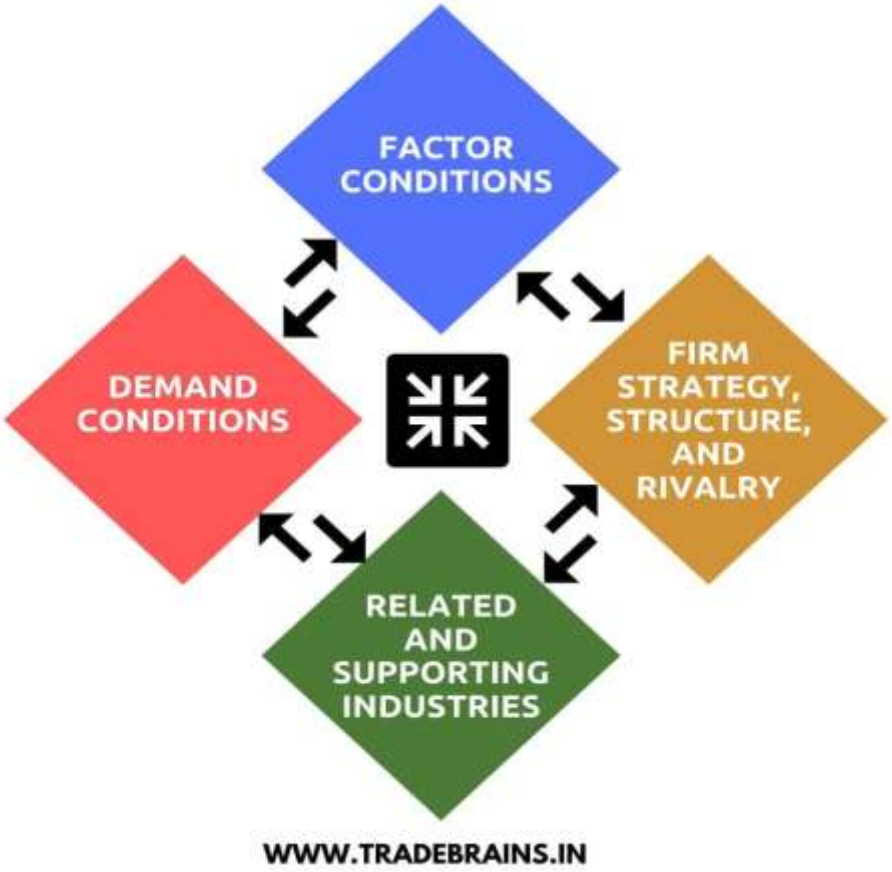
- This theory is given by **Paul Krugman in 1980s.**
- This Theory tells about some of the **necessary factors**.
- **A Country having these factors can become EXPORTER.**
- **Factors like:**
- **Economies of Scale: Reduction in per unit cost due to increase in production (Cost Advantage when it becomes efficient)**
- **Product Differentiation: Variations in similar types of products such as colour, durability, brand variations etc.**
- **First mover advantage: It is the advantage gained by the initial (first moving) significant occupant of a market segment. First mover advantage may be gained by technological leadership, or early purchase of resources. (Concept of skimming price)**

National Competitive Advantage Theory

- This theory is given by **Michael Porter in 1990s.**
- It is also known as National Advantage Trade Theory.
- **Porter helps to understand about the factors that are available to a nation.**
- **Four Attributes together forms PORTERS DIAMOND**
- **The Factors can give competitive advantage to the economy of a country.**
- **Export goods from the industry where the diamond is favourable.**

National Competitive Advantage Theory

- Factor Conditions
- Demand Conditions
- Related and supporting Industries
- Strategy, Structure, Rivalry



- **Local market resources and capabilities (factor conditions).** Porter recognized the value of the factor proportions theory, which considers a nation's resources (e.g., natural resources and available labor) as key factors in determining what products a country will import or export. Porter added to these basic factors a new list of advanced factors, which he defined as skilled labour, investments in education, technology, and infrastructure. He perceived these advanced factors as providing a country with a sustainable competitive advantage.
- **Local market demand conditions.** Porter believed that a sophisticated home market is critical to ensuring ongoing innovation, thereby creating a sustainable competitive advantage. Companies whose domestic markets are sophisticated, trendsetting, and demanding forces continuous innovation and the development of new products and technologies. Many sources credit the demanding US consumer with forcing US software companies to continuously innovate, thus creating a sustainable competitive advantage in software products and services.

- **Local suppliers and complementary industries.** To remain competitive, large global firms benefit from having strong, efficient supporting and related industries to provide the inputs required by the industry. Certain industries cluster geographically, which provides efficiencies and productivity.
- **Local firm characteristics.** Local firm characteristics include firm strategy, industry structure, and industry rivalry. Local strategy affects a firm's competitiveness. A healthy level of rivalry between local firms will spur innovation and competitiveness.

Introduction of GATT

- The General Agreement on Tariffs and Trade (GATT) has its origin in 1947 at a conference in Genera where negotiations between some 23 nations resulted in an extensive set of bilateral trade concession which were then extended to all participants and incorporated in a General Agreement.
- GATT was founded at the wake of World War II in order to prevent the recurrence of protectionism policies of the then industrialized states which had resulted prolonged recession in the West prior to the war.
- The General Agreement on Tariffs and Trade, known as the GATT, is one-third of the Bretton Woods system that was created after World War II to ensure a stable trade and economic world environment.
- The International Monetary Fund (IMF) and World Bank are the other two bodies of the Bretton Woods system.

History and Basic Information

- After World War II, the United Kingdom (UK) and the United States (US) submitted proposals to the Economic and Social Council (ECOSOC) of the United Nations regarding the establishment of an international trade body that was to be named the International Trade Organization (ITO).
- ECOSOC convened a conference, the United Nations Conference on Trade and Employment in 1946, to consider the UK and US proposals.
- A Preparatory Committee drafted the ITO Charter and it was approved in 1948 at the conference in Havana, Cuba.
- The Charter is often referred to as the Havana Charter or the ITO Charter.
- The first round of trade negotiations took place while the Preparatory Committee was still working on drafting the Charter because the participants were anxious to begin the process of trade liberalization as soon as possible. Their results were incorporated into the General Agreement, which was signed in 1947.

- Since the original signatory nations expected the agreement to become part of the more permanent ITO Charter, the text of the GATT contains very little “institutional” structure.
- This lack of detail within the agreement has created increasing difficulties as the GATT membership and rules governing trade between so many of the world’s nations have grown.
- The GATT has function as an international organization for many years even though it has never been formalized as such.
- The GATT survived, but remained intact only due to the Protocol of Provisional Application of the General Agreement of Tariffs and Trade which was concluded in 1947 and which came into force in 1948.

GATT

- However, some of the countries took up one of the important issues of the Havana Charter regarding relaxation of trade restrictions by incorporating it into a General Agreement on Tariffs and Trade (GATT). This was signed in 1947 by some twenty-three major trading nations, including India. GATT membership has now gone up to more than 64.
- Formed on 30 October, 1947 at Geneva.
- Signed by 23 countries
- Came in effect from 1st January, 1948

- As the name itself suggests, the General Agreement was concerned only with tariffs and trade restrictions and related international matters. It serves as an important international forum for carrying on negotiations on tariffs.
- Under GATT, member nations meet at regular intervals to negotiate agreements to reduce quotas, tariffs and such other restrictions on international trade. GATT, by its very nature, is a contractual agreement among parties (or nations). It is a treaty that is collectively administered by the contracting nations.
- However, it has become a permanent international organisation for safeguarding the conduct of international trade and an institution for the multilateral expansion of trade.

Objectives of GATT

- 1. To encourage full employment and large and steadily growing volume of real income and effective demand.
- 2. To improve the world production and exchange of goods.
- 3. To ensure the full use of world resources.
- 4. To ensure a steady improvement in the living standards of people in member countries.
- 5. To settle the disputes through consultation within the framework of GATT.
- 6. Expansion of international trade,
- 7. Increase of world production by ensuring full employment in the participating nations,
- 8. Development and full utilisation of world resources, and
- 9. Raising standard of living of the world community as a whole.

For the achievement of these objectives, the preamble of the GATT agreement requires the members to enter into reciprocal and mutually advantageous arrangement directed to the, substantial reduction of tariffs and other barriers to trade and elimination of discrimination treatment in international commerce.

Fundamental Principle: GATT

- The final aim of GATT in to establish a free multilateral trading system and liberalisation of international trade, elimination of discrimination in international trade and also by reducing all sorts of trade barriers. In order to attain such objective, GATT has adopted certain principles to forbid unfair trade practices and also to set a code of conduct for all the participants of trading activities.
- **The following are some of these fundamental principles:**
- (i) Trade should be conducted on non-discriminatory basis.
- (ii) All quantitative restrictions on trade are to be prohibited.
- (iii) All trade disputes should be settled through consultations within GATT's framework.
- (iv) Through a series of multilateral negotiations of GATT rounds tariff reductions are to be accomplished.

Fundamental Principle: GATT

- **The Basic Principles of the GATT:**
- **1. Most-Favored-Nation (MFN) Treatment:** This is the fundamental principle of the GATT and it is not a coincidence that it appears in Article 1 of the GATT 1947. It states that each contracting party to the GATT is required to provide to all other contracting parties the same conditions of trade as the most favourable terms it extends to any one of them, i.e., each contracting party is required to treat all contracting parties in the same way that it treats its “most-favoured nation”.
- **2. Reciprocity:** GATT advocates the principles of “rights” and “obligations”. Each contracting party has a right, e.g. access to markets of other trading partners on a MFN basis but also an obligation to reciprocate with trade concessions on a MFN basis. In a way, this is closely associated with the MFN principle.

Fundamental Principle: GATT

- **3. Transparency:** Fundamental to a transparent system of trade is the need to harmonize the system of import protection, so that barriers on trade can be reduced through the process of negotiations. The GATT therefore, limited the use of quotas, except in some specific sector such, as agriculture and advocated import regimes that are based on “tariff-only”.
- In addition, the GATT and now the WTO, required many notifications from contracting parties on their agricultural and trade policies so that these can be examined by other parties to ensure that they are GATT/WTO compatible.
- **4. Tariff Binding and Reduction:** When GATT was established, tariffs were the main form of trade protection and negotiations in the early years focused primarily upon tariff binding and reduction. The text of the 1947, GATT lays out the obligations on the contracting parties in this regard.

Foundation of the GATT

The GATT was signed by its 23 founding members on **30 October 1947** and entered into force on 1 January 1948

23 Founding member countries of the GATT:

United States,	Canada,	Cuba,	Brazil,
Chile,	Australia,	New Zealand,	China,
India,	Myanmar,	Sri Lanka,	Pakistan,
Syria,	Lebanon,	South Africa,	Zimbabwe,
United Kingdom,	France,	Belgium,	Luxembourg,
Netherlands,	Norway,	Czechoslovakia	

GATT was introduce as a stepping stone towards the establishment of the ITO and embodied many principles of the proposed ITO.

GATT Rounds

- Between 1947 and 1995 there were 8 rounds of negotiations between the participating countries.
- The first 6 rounds were related to curtailing tariff rates,
- 7th round included the non-tariff obstacles.
- The 8th round was entirely different from the previous rounds because it included a number of new subjects for consideration.
- This 8th round known as “Uruguay Round” became most controversial. The discussions at this round only gave birth to World Trade Organization (WTO).

The Rounds of GATT

Year	Location	Number of Member Countries	Focus and Outcome
1946	London, England	50	50 nations meet to discuss creation of international trade organization; discussions failed.
1947	Havana, Cuba and Geneva, Switzerland	23	Nations meet first in Havana and then Geneva (first official meeting) to agree to reduce more than 45,000 tariffs and duties; agreement result in creating of GATT
1949	Annecy, France	13	Tariff Negotiations and agreements
1951	Torquay, England	38	Tariff Negotiations and agreements
1956	Geneva, Switzerland	26	Tariff Negotiations and agreements
1960–1961	Geneva, Switzerland "Dillion Round"	26	Tariff Negotiations and agreements
1964–1967	Geneva, Switzerland, "Kennedy Round"	62	Tariff and anti-dumping negotiations and agreements
1973–1979	Geneva, Switzerland, "Tokyo Round"	102	Tariff and non-tariff barriers negotiations and agreements
1986–1994	Uruguay "Uruguay Round"	123	Tariff and non-tariff barriers negotiations and agreements; added reviews of intellectual property, trade rules, services, textiles, agriculture and dispute settlement; resulted in information of the WTO in 1994

* Beginning with the 1960 Round in Geneva, GATT officially named each round rather than just use the name of the city and country

Dunkel Proposals

- The 8th round GATT popularly known as Uruguay round was started in September 1986.
- The negotiations were expected to be concluded in 4 years but on account of differences among participating countries on certain critical areas, agreement could not be reached.
- To remove this deadlock Mr. Arthur Dunkel, Director General of GATT, compiled a very detailed document, popularly known as Dunkel Proposals.
- This proposal culminated into the Final Act on December 15, 1993. India signed this proposal on April 15, 1994.
- All 124 members the countries signed on this agreement.

Origin of WTO

- The Uruguay round of GATT (1986-93) gave birth to World Trade Organization.
- The members of GATT singed on an agreement of Uruguay round in April 1994 in Morocco for establishing a new organization named WTO.
- It was officially constituted on January 1, 1995 which took the place of GATT as an effective formal, organization.
- GATT was an informal organization which regulated world trade since 1948.
- Contrary to the temporary nature of GATT, WTO is a permanent organization which has been established on the basis of an international treaty approved by participating countries.
- It achieved the international status like IMF and IBRD.

WTO: INTRODUCTION

- The establishment of the World Trade Organisation (WTO) as the successor to ,the GATT on 1 January 1995 under the **Marrakesh Agreement** places the global trading system on a firm constitutional footing with the evolution of international economic legislation resulted through the Uruguay Round of GATT negotiations.
- A remarkable feature of the Uruguay Round was that it paved the way for further liberalisation of international trade with the fundamental shift from the negotiation approach to the institutional framework envisaged through transition from GATT to WTO Agreement.
- The GATT 1947 and the WTO co-existed for the transitional period of one year in 1994. In January 1995, however, the WTO completely replaced the GATT. The membership of the WTO increased from 77 in 1995 to 127 by the end of 1996.

- The **WTO** has **164 members** and **24 observer governments**. Liberia became the 163rd **member** on 14 July 2016, and Afghanistan became the 164th **member** on 29 July 2016. In addition to states, the European Union, and each EU country in its own right, is a **member**.

WORLD TRADE ORGANIZATION

Features of the WTO

- Unlike the GATT, it is a legal entity.
- Unlike the International Monetary Fund (IMF) and the World Bank (WB) it is not an agent of the United Nations.
- All the WTO members have equal rights.
- Unlike the GATT, the agreements under the WTO are permanent and binding to the member countries.
- Unlike the GATT, the WTOs approach is rule- based and time-bound.
- Unlike the GATT, the WTOs have a wider coverage. It covers trade in goods as well as services.
- Unlike the GATT, the WTOs have a focus on trade-related aspects of intellectual property rights and several other issues of agreements.
- Above all, the WTO is a huge organisational body with a large secretariat

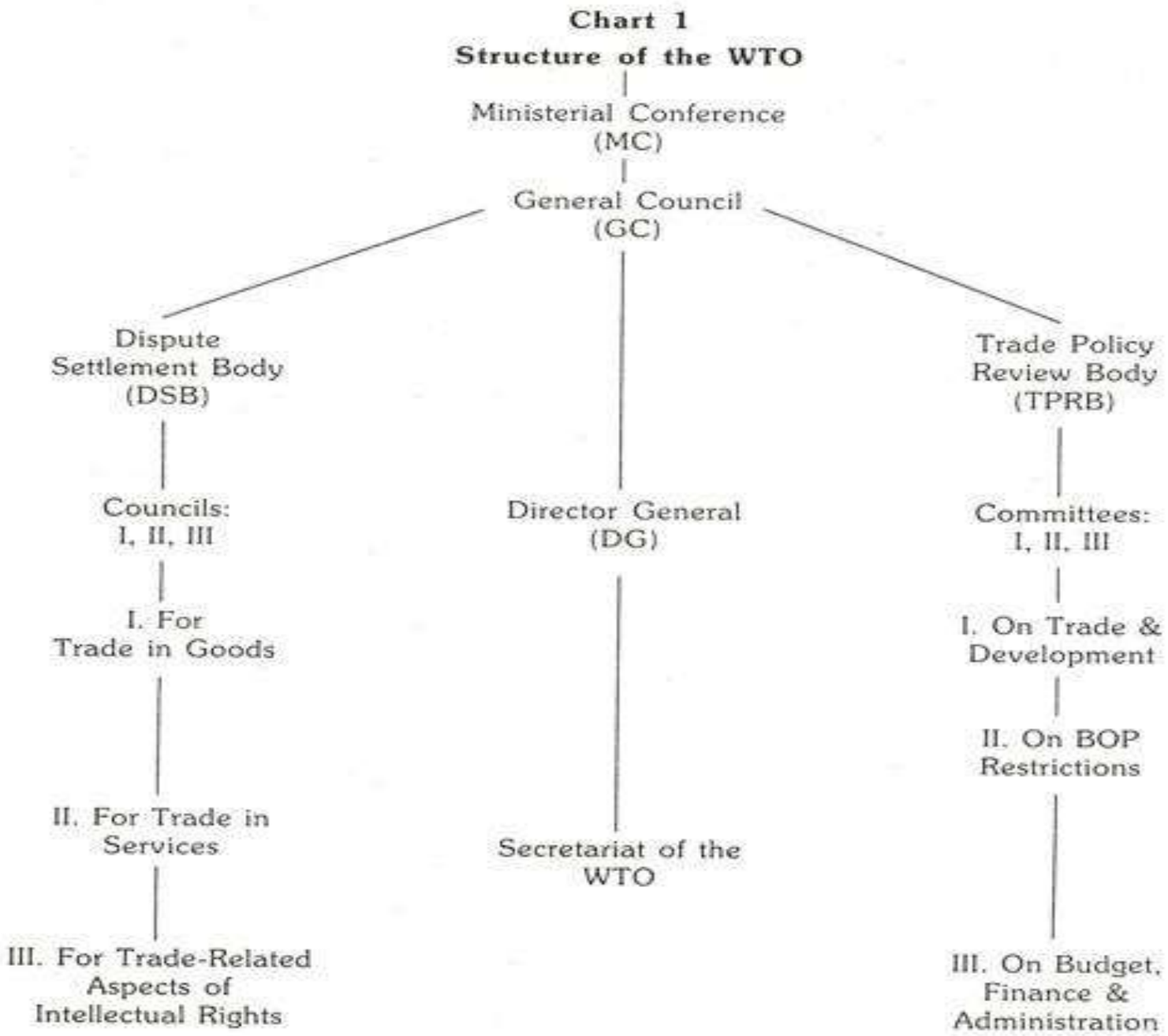
Secretariat of the WTO

- The WTO secretariat, based in Geneva, has around 600 staff and is headed by a Director-General.
- It does not have branch offices outside Geneva. Since decisions are taken by the members themselves, the secretariat does not have the decision making the role that other international bureaucracies are given.
- The secretariat s main duties to supply **technical support** for the various **councils and committees and the ministerial conferences**, to provide technical assistance for developing countries, to analyze world trade and to explain WTO affairs to the public and media.
- The secretariat also provides some forms of **legal assistance** in the dispute settlement process and advises governments wishing to become members of the WTO.

Structure of the WTO

- The Ministerial Conference (MC) is at the top of the structural organisation of the WTO. It is the supreme governing body which takes ultimate decisions on all matters. It is constituted by representatives of (usually, Ministers of Trade) all the member countries.
- The General Council (GC) is composed of the representatives of all the members. It is the real engine of the WTO which acts on behalf of the MC. It also acts as the Dispute Settlement Body as well as the Trade Policy Review Body.
- There are three councils, viz.: the Council for Trade and Council for Services, and the Council for Trade-Related Aspects of Intellectual Property Rights (TRIPS) operating under the GC. These councils with their subsidiary bodies carry out their specific responsibilities
- Further, there are three committees, viz., the Committee on Trade and Development (CTD), the Committee on Balance of Payments Restrictions (CBOPR), and the Committee on Budget, Finance and Administration (CF A) which execute the functions assigned to them by the WTO Agreement and the GC.

Structure of WTO



WTO Agreements

- The WTO's rule and the agreements are the result of negotiations between the members. The current sets were the outcome to the 1986-93 Uruguay Round negotiations which included a major revision of the original General Agreement on Tariffs and Trade (GATT).
- GATT is now the WTO's principal **rule-book for trade in goods.** The Uruguay Round also created new rules for dealing with **trade in services, relevant aspects of intellectual property, dispute settlement and trade policy reviews.**
- The complete set runs to some 30,000 pages consisting of about 30 agreements and separate commitments (called schedules) made by individual members in specific areas such as, lower customs duty rates and services market-opening.
- Through these agreements, WTO members operate a non-discriminatory trading system that spells out their rights and their obligations. Each country receives guarantees that its exports will be treated fairly and consistently in other countries' markets. Each country promises to do the same for imports into its own market. The system also gives developing countries some flexibility in implementing their commitments.

WTO Agreements

- **(a) Goods:** It all began with trade in goods. From 1947 to 1994, GATT was the forum for negotiating lower customs duty rates and other trade barriers; the text of the General Agreement spelt out important, rules, particularly non-discriminations since 1995, the updated GATT has become the WTO s umbrella agreement for trade in goods.
- It has annexes dealing with specific sectors such as, agriculture and textiles and with specific issues such as, state trading, product standards, subsidies and action taken against dumping.
- **(b) Services:** Banks, insurance firms, telecommunication companies, tour operators, hotel chains and transport companies looking to do business abroad can now enjoy the same principles of free and fair that originally only applied to trade in goods.
- These principles appear in the new General Agreement on Trade in Services (GATS). WTO members have also made individual commitments under GATS stating which of their services sectors, they are willing to open for foreign competition and how open those markets are.

WTO Agreements

- **(c) Intellectual Property:** The WTO's intellectual property agreement amounts to rules for trade and investment in ideas and creativity. The rules state how copyrights, patents, trademarks, geographical names used to identify products, industrial designs, integrated circuit layout designs and undisclosed information such as trade secrets "intellectual property" should be protected when trade is involved.
- **(d) Dispute Settlement:** The WTO's procedure for resolving trade quarrels under the Dispute Settlement Understanding is vital for enforcing the rules and therefore, for ensuring that trade flows smoothly.
- Countries bring disputes to the WTO if they think their rights under the agreements are being infringed. Judgments by specially appointed independent experts are based on interpretations of the agreements and individual countries' commitments.

WTO Agreements

- The system encourages countries to settle their differences through consultation. Failing that, they can follow a carefully mapped out, stage-by-stage procedure that includes the possibility of the ruling by a panel of experts and the chance to appeal the ruling on legal grounds.
- **(e) Policy Review:** The Trade Policy Review Mechanism's purpose is to improve transparency, to create a greater understanding of the policies that countries are adopting and to assess their impact. Many members also see the reviews as constructive feedback on their policies.
- All WTO members must undergo periodic scrutiny, each review containing reports by the country concerned and the WTO Secretariat.

Objectives of the WTO

- The purposes and objectives of the WTO are spelled out in the preamble to the Marrakesh Agreement.
- **In a nutshell, these are:**
- 1. To ensure the reduction of tariffs and other barriers to trade.
- 2. To eliminate discriminatory treatment in international trade relations.
- 3. To facilitate higher standards of living, full employment, a growing volume of real income and effective demand, and an increase in production and trade in goods and services of the member nations.
- 4. To make positive effect, which ensures developing countries, especially the least developed secure a level of share in the growth of international trade that reflects the needs of their economic development.
- 5. To facilitate the optimal use of the world's resources for sustainable development.
- 6. To promote an integrated, more viable and durable trading system incorporating all the resolutions of the Uruguay Round's multilateral trade negotiations.
- Above all, to ensure that linkages trade policies, environmental policies with sustainable growth and development are taken care of by the member countries in evolving a new economic order.

Functions of the WTO

- The WTO consisting a multi-faced normative framework: comprising institutional substantive and implementation aspects.
- **The major functions of the WTO are as follows:**
- 1. To lay-down a substantive code of conduct aiming at reducing trade barriers including tariffs and eliminating discrimination in international trade relations.
- 2. To provide the institutional framework for the administration of the substantive code which encompasses a spectrum of norms governing the conduct of member countries in the arena of global trade.
- 3. To provide an integrated structure of the administration, thus, to facilitate the implementation, administration and fulfillment of the objectives of the WTO Agreement and other Multilateral Trade Agreements.
- 4. To ensure the implementation of the substantive code.
- 5. To act as a forum for the negotiation of further trade liberalisation.
- 6. To cooperate with the IMF and WB and its associates for establishing a coherence in trade policy-making.
- 7. To settle the trade-related disputes.

Introduction

- The developing countries were greatly dissatisfied with the working of the GATT. The principles and procedures underlying it were regarded as the fundamental cause of the weak bargaining position (in tariff reduction negotiations) of the less developed countries.
- Thus, though GATT had made a very significant contribution to the liberalisation of international trade in the post war era, it was condemned since most of its benefits accrued to the advanced nations.
- Hence, it was desired to have some new institutional arrangements of international economic co-operation to deal with problems of world trade and development, especially, those which may reduce the ‘trade gap’ of developing countries. Consequently, the UNCTAD was created.

UNCTAD: INTRODUCTION

- The first United Nations Conference on Trade and Development (UNCTAD) met in March 1964 in Geneva.
- It was an ad hoc gathering of representatives of about 120 states which were members of the United Nations.
- It, however, marked a turning point in international economic relations and ushered a new era in the evolution of world trade and development, since it represented the first major endeavour to examine all the problems of international economic relations, with special reference to the needs of developing countries.

UNCTAD

- Accordingly, a special Secretariat of UNCTAD was set up and with the sincere help of experts possessing knowledge in the field of international trade, finance and allied matters, a highly useful documents, covering various issues was prepared and circulated among member countries and other specialized agencies relating to trade and finance.
- The major factors which were responsible for the establishment of UNCTAD as a permanent agency of United Nations were the widening trade gap between developing and developed countries, growing dissatisfaction of the developing countries relating to the working of GATT, need for new set up of institutional arrangement of international co-operation in the field of world trade and also to reduce the trade gap of developing countries so as to make its balance of payments position easy.

UNCTAD: Origin

- UNO declared 1960-70 as Development Decade.
- In 1961 UNO attempted to increase the income of developing countries with a growth rate of 5% p.a. during this development decade.
- In July 1962, a conference of developing countries was held at Cairo, which resolved to convene a World Conference for this purpose.
- Economic and Social Council of the UNO called a World Trade and Development Conference, which was held between March 31, 1964 and June 16, 1964.
- A worldwide international trade policy was determined in this conference. Various issues related to extension of international trade of developing countries were also discussed in this Conference.
- This Conference came to be known as UNCTAD

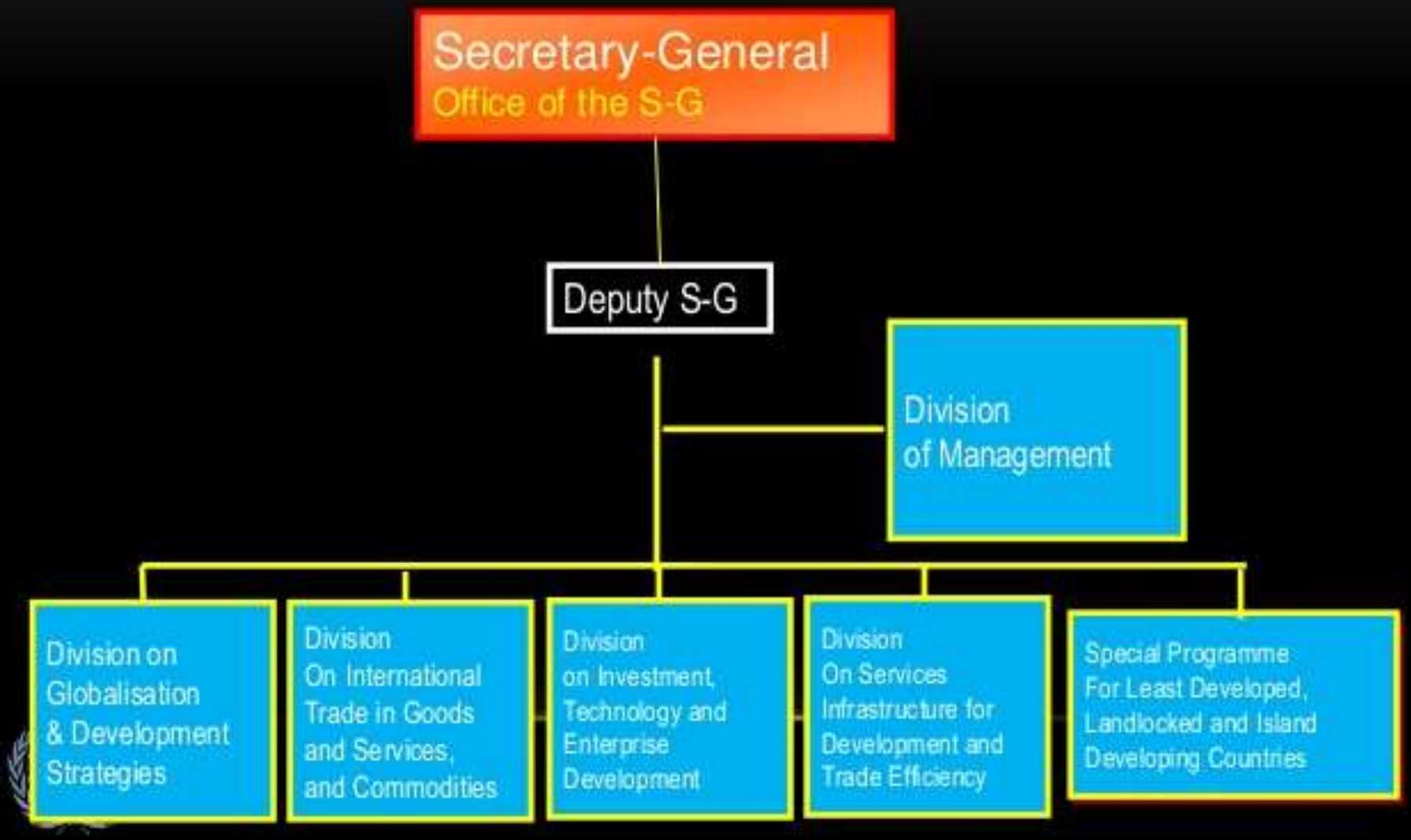
Organisation

- The UNCTAD was established as a permanent organ of the General Assembly of the United Nations, with its staff in Genera.
- At the same time it has its own subsidiary bodies and also a full time Secretariat for serving it.
- The body has also a permanent organ known as Trade and Development Board as its main executive body.
- It functions between the plenary sessions of the conference. It meets twice annually.
- The Board is composed of 55 members, who are elected by the conference from among its regular members on the basis of equitable geographical distribution.
- The Conference usually holds its meetings at intervals not more than four years.
- The Trade and Subsidiary Board have four subsidiary organs for assisting it in its regular functions.

- **These are:**
- (i) The Committee on Commodities;
- (ii) The Committee on Manufactures;
- (iii) The Committee on Shipping; and
- (iv) The Committee on Invisibles and financing related to trade.

- Normally, these committees meet annually although their is provision to call special session for considering urgent matters.

STRUCTURE OF THE SECRETARIAT



Functions of UNCTAD

- **The following are the main functions of UNCTAD:**
- (i) To promote international trade all over the world, i.e., between developed and developing countries so as to accelerate economic development.
- (ii) To formulate principles and policies on international trade and related problems of economic development.
- (iii) To make proposals for putting its principles and policies into effect.
- (iv) To negotiate trade agreements effectively.
- (v) To review and facilitate the co-ordination of activities of the other institutions within the U.N. system in the field of international trade.
- (vi) To work as a centre for a harmonious trade and related documents in development policies of governments.

INTRODUCTION

- The **Bretton Woods Conference**, formally known as the **United Nations Monetary and Financial Conference**, was the gathering of 730 delegates from all 44 Allied nations at the Mount Washington Hotel, situated in Bretton Woods, New Hampshire, United States, to regulate the international monetary and financial order after the conclusion of World War II.
- The conference was held from July 1 to 22, 1944. Agreements were signed that, after legislative ratification by member governments, established the International Bank for Reconstruction and Development (IBRD, later part of the World Bank group) and the International Monetary Fund (IMF).
- This led to what was called the Bretton Woods system for international commercial and financial relations.

INTRODUCTION

- In July of 1944, representatives from 44 nations met at the Mount Washington Hotel in Bretton Woods, New Hampshire for the United Nations **Monetary** and **Financial** Conference.
- The United States government selected the Mount Washington Hotel as the site of the now famous Bretton Woods Conference for various reasons: its remoteness offered seclusion from outside interference; the White Mountains scenery was spectacular; and war-time security was more easily managed.
- The Mount Washington Hotel was closed for business in 1930 and completely restored to greet the arriving delegates.

- The Bretton Woods agreement of 1944 established a new global monetary system.
- It replaced the gold standard with the U.S. dollar as the global currency.
- By so doing, it established America as the dominant power in the world economy. After the agreement was signed, America was the only country with the ability to print dollars.
- The agreement created the World Bank and the International Monetary Fund (IMF), U.S.-backed organizations that would monitor the new system.

Replacing the Gold Standard

- Before Bretton Woods, most countries followed the gold standard.
- That meant each country guaranteed that it would redeem its currency for its value in gold. After Bretton Woods, each member agreed to redeem its currency for U.S. dollars, not gold.
- **Why dollars?**
- The United States held three-fourths of the world's supply of gold. No other currency had enough gold to back it as a replacement. The dollar's value was 1/35 of an ounce of gold. Bretton Woods allowed the world to slowly transition from a gold standard to a U.S. dollar standard
- **Why the Agreement Was Needed**
- Until World War I, most countries were on the gold standard. However, they cut the tie to gold so they could print the currency needed to pay for their war costs. This inflow of currency caused hyperinflation, as the supply of money overwhelmed the demand. After the war, countries returned to the safety of the gold standard.

- All went well until the Great Depression.
- After the 1929 stock market crash, investors switched to commodities trading.
- It drove up the price of gold, resulting in people redeeming their dollars for gold.
- The Federal Reserve made things worse by defending the nation's gold reserve by raising interest rates.
- The Bretton Woods system gave nations more flexibility than strict adherence to the gold standard.
- It also provided less volatility than a currency system with no standard at all.
- A member country still retained the ability to alter its currency's value, if needed, to correct a "fundamental disequilibrium" in its current account balance

History of IMF

- The establishment of International Monetary Fund is a great landmark in the history of international monetary cooperation.
- After First World War, commercial rivalry rose among the major countries of the world.
- The breakdown of gold standard caused a great panic and confusion. USA, England and France tried to establish exchange stability under Tripartite Agreement of 1936 but it also failed during the period of Second World War.
- Some of the major countries of the world again tried to return to the gold standard. Thus, under gold standard, these countries wanted to maximise their exports and minimise imports. To achieve these objectives, several countries resorted to devaluation of currency.
- Thus, during this period, there was almost destruction and devastation in most of the countries. Exchange rates started fluctuating which adversely affected the economy.

INTRODUCTION

- To the close of Second World War, dire need was felt for the establishment of a monetary institution.
- The British put forward a plan called ‘Keynes Plan’ while USA forwarded another plan named ‘White Plan’.
- An international conference was held at Bretton-wood in July 1944. Representatives of 44 countries participated in this conference.
- As a result, the International Monetary Fund came into existence in December 1945 with the objective of **promoting international economic stability by promoting the balanced growth of the member countries.**
- International Monetary Fund started its functioning from 1st March 1947. IMF was established with the motto to increase international liquidity of the member countries to make the balance of payment, favourable.
- Thus, the Fund is a pool of central bank reserves and national currencies which are made available to funding member under certain conditions.
- IMF was established to overcome all trade restrictions and impediments and further to promote multilateral trade.
- Thus, the Fund is most deliberate attempt to organise the conduct of international monetary affairs.

- **Established on 27 December, 1945, Bretton Woods, New Hampshire, United States**
- **Headquarters at: Washington, D.C., United States**
- **Current Members: 190 Countries**
- Finance Minister is the ex-officio Governor on the Board of Governors of the IMF. RBI Governor is the Alternate Governor at the IMF. India is represented at the IMF by an Executive Director, currently Dr. Rakesh Mohan, who also represents three other countries as well, viz. Bangladesh, Sri Lanka and Bhutan.

- # Kristalina Georgieva

- The current Managing Director (MD) and Chairwoman of the IMF is Bulgarian economist **Kristalina Georgieva**, who has held the post since October 1, 2019.

.

Objectives of IMF

- **International Monetary Co-Operation:** The most important objective of the Fund is to establish international monetary co-operation amongst the various member countries through a permanent institution that provides the machinery for consultation and collaborations in various international monetary problems and issues.
- **Ensure Exchange Stability:** Another important objective of the Fund is to ensure stability in the foreign exchange rates by maintaining orderly exchange arrangement among members and also to rule out unnecessary competitive exchange depreciations.
- **Balanced Growth of Trade:** IMF has also another important objective to promote international trade so as to achieve its required expansion and balanced growth. This would ensure development of production resources and thereby promote and maintain high levels of income and employment among all its member countries.

Objectives of IMF

- **Eliminate Exchange Control:** Another important objective of the Fund is to eliminate or relax exchange controls imposed by almost each and every country before Second World War as a device to deliberately fix the exchange rate at a particular level. Such elimination of exchange controls was made so as to give encouragement to the flow of international trade.

- **Multilateral Trade and Payments:** To establish a multilateral trade and payment system in respect to current transactions between members in place of the old system of bilateral trade agreements was another important objective of IMF.

Objectives of IMF

- **Balanced Growth:** Another objective of IMF is to help the member countries, especially the backward countries, to attain balanced economic growth by exchange the level of employment.

- **Correction of BOP Maladjustments:** IMF also helps the member countries in eliminating or reducing the disequilibrium or maladjustments in balance of payments. Accordingly, it gives confidence to members by selling or lending Fund's foreign currency resources to the member nations.

- **Promote Investment of Capital:** Finally, the IMF also promotes the flow of capital from richer to poorer or backward countries so as to help the backward countries to develop their own economic resources for attaining higher standard of living for its people, in general.

Organisation of IMF

- The IMF, which started functioning in March 1947, is an autonomous organisation and is affiliated to U.N.O.
- As per Fund Agreement, the headquarters of the IMF should be located in that country which usually possess the highest quota of capital of the IMF.
- Accordingly, the head office of IMF is located at Washington. At the initial stage, the IMF had 30 countries as its members.
- Later, as on April 30, 1986, the total membership of the IMF rose to 149.
- **Since inception, the management of the IMF is rested on two bodies:**
- (a) Board of Governors and
- (b) Board of Executive Directors.

Organisation of IMF

- Every member country appoints one Governor for participating in the meetings of Board of Governors and also appoints one Alternate Governor to represent the Governor is respect of its absence.
- The Board of Governors is authorized to formulate the general policies of the Fund. To carry on day to day activities of the IMF, the Board of Executive Directors is formed.
- At present, there are 24 members in the Board of Executive Directors, six of which are appointed by members maintaining largest quotas, i.e. USA, UK, Germany, France, Japan and Saudi Arabia and the remaining sixteen directors are elected by other nations.
- The Managing Director and Board of Directors, the top most official of IMF, in elected by the Board of Directors. He is responsible for organisation and management of the Fund.

Financial Structure of the IMF

- **The capital or the resources of the Fund come from two sources:**
- (i) Subscription or quota of the member nations, and
- (ii) Borrowings.
- Each member country is required to subscribe an amount equivalent to its quota. It is the quota on which payment obligations, credit facilities, and voting right of members are determined.
- As soon as a country joins the Fund, it is assigned a quota which is expressed in Special Drawing Rights (SDRs).
- The Fund is authorised to borrow in special circumstances if its own resources prove to be insufficient. It sells gold to member countries to replenish currency holdings. It is entitled to borrow even from international capital market. Though the Articles of Agreement permit the Fund to borrow from the private capital market, till today no such use has been made by the IMF.

Special Drawing Rights (SDRs)

- The Special Drawing Rights (SDRs) as an international reserve asset or reserve money in the international monetary system was established in **1969 w**ith the objective of alleviating the problem of international liquidity.
- The IMF has two accounts of operation—the General Account and the Special Drawing Account.
- The former account uses national currencies to conduct all business of the fund, while the second account is transacted by the SDRs.
- The SDR is defined as a composite of five currencies—the Dollar, Mark, Franc, Yen and Pound.
- The SDRs are allocated to the member countries in proportion to their quota subscriptions.
- Only the IMF members can participate in SDR facility.
- SDRs being costless, **often called paper gold,** is just a book entry in the Special Drawing Account of the IMF.
- Whenever such paper gold is allocated, it gets a credit entry in the name of the participating countries in the said account.
- It is to be noted that SDRs, once allocated to a member, are owned by it and operated by it to overcome BOP deficits. Since its inception, there have been only four allocation to SDRs—the first in 1970, and the last in 2008-09—mainly to the developing countries.

Borrowing methods used by the Fund

- **Stand-by Arrangements:** This method of borrowing has become the most normal form of assistance by the Fund. Under this form of borrowing, a member state obtains the assurance of the Fund that, usually over 12-18 months, requests for drawings of foreign exchange (i.e., to meet short- term BOP problems) up to a certain amount will be allowed if the country concerned wishes. However, the stand-by arrangements can be extended up to 3 years while repayments are required to be made within 3-5 years of each drawing. The term “stand-by” here means that, subject to conditionality, a member has a right to draw the money made available, if needed.
- **Extended Fund Facility (EFF):** Stand-by arrangements to stabilise a member’s BOP run usually for a period of 12-18 months. Developing countries suffer from chronic BOP problems which could not be remedied in the short run. Such protracted BOP difficulties experienced by the LDCs were the result of structural imbalances in production and trade. It then necessitated an adjustment programme and redemption scheme of longer

Borrowing methods used by the Fund

- **Compensatory Financing Facility (CFF):** Apart from the ordinary drawing rights, there are some 'special finances' windows to assist the developing countries to tide over BOP difficulties. CFF, introduced in 1963, is one such special drawing provision. Its name was changed to Compensatory and Contingency Financing Facility (CCFF) in 1980, but the 'contingency' was dropped in 2000. Under it, members were allowed to draw up to 25 p.c. of its quota when CFF was introduced.
- **Structural Adjustment Facility (SAF) and the Enhanced SAF (ESAF):** In 1986 a new facility—the SAF—was introduced for the benefit of low income countries. It was increasingly realised that the so-called stringent and inflexible credit arrangements were too inadequate to cope with the growing debt problems of the poorest members of the Fund. In view of this, SAF was introduced which stood quite apart from the monetary character of the Fund.

Borrowing methods used by the Fund

- **Poverty Reduction and Growth Facility (PRGF):** The PRGF that replaced the ESAF in November 1999 provides concessional lending to help the poorest member countries with the aim of making poverty reduction and economic growth —the central objectives of policy programmes.

- **Supplemental Reserve Facility (SRF):** This instrument provides additional short-term financing to member countries facing exceptional BOP difficulties because of a sudden and disruptive loss of market confidence reflected in capital outflows of countries concerned. Consequent upon the eruption of East Asian financial crisis, the SRF was introduced in 1997.

World Bank: Origin

- The World Bank (WB) was originally created as the International Bank for Reconstruction and Development (IBRD) in 1944 along with its twin, the IMF.
- Together they came to be known as the ‘Bretton Woods’ twin sisters’. When it was set up it was decided that this international bank would assist in the economic reconstruction of the World War II-damaged European economies.
- In early 1946 this international bank launched its carrier as the multilateral development bank and since then the IBRD came to be known as the World Bank.
- Its headquarters is located in Washington, opposite the IMF building, and it lies as the next door neighbour of the White House.

IBRD

- The International Bank for Reconstruction and Development (IBRD), commonly referred to as the World Bank, is an international financial institution whose purposes include assisting the development of its member nation's territories, promoting and supplementing private foreign investment and promoting long-range balance growth in international trade.
- The World Bank was established in December 1945 at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire.
- It opened for business in June 1946 and helped in the reconstruction of nations devastated by World War II.
- Since 1960s the World Bank has shifted its focus from the advanced industrialized nations to developing third-world countries.

INTRODUCTION

- Since the IMF was designed to provide temporary assistance in correcting the balance of payments difficulties, an institution was also needed to assist long-term investment purposes.
- Thus, IBRD was established for promoting long-term investment loans on reasonable terms.
- The World Bank (IBRD) is an inter-governmental institution, corporate in form, whose capital stock is entirely owned by its member-governments. Initially, only nations that were members of the IMF could be members of the World Bank; this restriction on membership was subsequently relaxed.

- **Headquarters: Washington, D.C., United States**
- **President: David Malpass**
- **Parent organization: World Bank Group**
- **Founded: July 1944**
- **Founders: John Maynard Keynes, Harry Dexter White**
- **Current Members: 190 Countries (**Countries must first join the IMF to be eligible to join the World Bank Group

Organization and Structure

- The organization of the bank consists of the Board of Governors, the Board of Executive Directors and the Advisory Committee, the Loan Committee and the president and other staff members. All the powers of the bank are vested in the Board of Governors which is the supreme policy making body of the bank.
- The board consists of one Governor and one Alternative Governor appointed for five years by each member country. Each Governor has the voting power which is related to the financial contribution of the Government which he represents.
- The Board of Executive Directors consists of 21 members, 6 of them are appointed by the six largest shareholders, namely the USA, the UK, West Germany, France, Japan and India. The rest of the 15 members are elected by the remaining countries.
- Each Executive Director holds voting power in proportion to the shares held by his Government. The board of Executive Directors meets regularly once a month to carry on the routine working of the bank.
- The president of the bank is pointed by the Board of Executive Directors. He is the Chief Executive of the Bank and he is responsible for the conduct of the day-to-day business of the bank. The Advisory committees appointed by the Board of Directors.
- It consists of 7 members who are expects in different branches of banking. There is also another body known as the Loan Committee. This committee is consulted by the bank before any loan is extended to a member country.

Objectives of World Bank

- To help in the reconstruction and development of the member countries by facilitating the investment of capital for productive purposes including:

  (a) Restoration of economies destroyed or disrupted by War and

  (b) Reconversion of productive facilities towards peaceful needs.

- Encouraging the development of productive resources and facilities in developing and less developed countries by providing them with investment capital.

- To promote private foreign investment through guarantees, participation in loans and other investments made by private investors.

- To supplement private foreign investment by providing direct loans from its own capital funds on suitable terms and conditions for productive purposes.

Objectives of World Bank

- To promote long term balanced growth of international trade and the maintenance of equilibrium in balance of payments of member countries by encouraging long term international investment so as to develop productive resources of members and thereby raising its productivity, the standard of living and labour conditions.
- To help in bringing about an easy transition from a war-time economy to a peace-time economy and thereby to conduct its operations giving due regards towards the effect of international investment on business conditions of its members and in the immediate post-war years.
- To arrange the loans made or guaranteed by the Bank in relation to its international loans through other channels so as to deal with more useful and urgent project and also with large and small projects meaningfully.

Membership

- At the initial stage, provision was made to include all members of IMF as members of World Bank.
- Accordingly, those countries who were members of IMF as on 31st December, 1945 became the founder members of the Bank. Later on, the membership norms of the Bank were relaxed.
- Now any country can become the member of the Bank if 75 per cent of the existing members support its application.
- Any member can also resign from its membership.
- Similarly, the Bank can also suspend a member if its violates the rules of the Bank.

Functions of World Bank

- **The principal functions of the IBRD are set forth in Article I of the agreement as follows:**
- 1. To assist in the reconstruction and development of the territories of its members by facilitating the investment of capital for productive purposes.
- 2. To promote private foreign investment by means of guarantee of participation in loans and other investments made by private investors and when private capital is not available on reasonable terms, to make loans for productive purposes out of its own resources or from funds borrowed by it.
- 3. To promote the long-term balanced growth of international trade and the maintenance of equilibrium in balance of payments by encouraging international investment for the development of the productive resources of members.
- 4. To arrange loans made or guaranteed by it in relation to international loans through other channels so that more useful and urgent projects, large and small alike, will be dealt with first. It appears that the World Bank was created to promote and not to replace private foreign investment. The Bank considers its role to be a marginal one, to supplement and assist foreign investment in the member countries.

- **The Bank makes or facilitates loans in any one or more out of its own following ways:**
- (a) By making or participating in direct loans out of its own funds; or
- (b) Out of the funds raised in the market of a member, or otherwise borrowed by the Bank; or
- (c) By guaranteeing, in whole or in part, loans made by private investors through the investment channels.
- The total outstanding amount of the loans made or guaranteed by the Bank is not to exceed 100 per cent of its total unimpaired subscribed capital resources and surplus. The interest rate charged by the Bank on its loans is the estimated cost to the Bank of borrowing money for a comparable term in the market and is uniform without distinction among borrowers In addition to the rate of interest, the Bank charges on all loans a commission of 1 per cent for the purpose of creating a special reserve against losses and ½ per cent for administrative expenses.
- In recent years, the Bank has made loans mainly for specific development projects in the field of agriculture, power, transport and industry. Most of the loans have been made to the underdeveloped countries. India is the Bank's largest individual borrower.

International Finance Corporation (IFC)

- The International Finance Corporation was established in July 1956, with the specific subject of providing finance to the private sector.
- Though it is affiliated to the World Bank, it is a separate legal entity with separate fund and functions. Members of the World Bank are eligible for its membership.
- The International Financial Corporation (IFC), established in 1956, which provides various forms of financing of without sovereign guarantees, primarily to the private sector;

IFC International Finance Corporation
WORLD BANK GROUP
Creating Markets, Creating Opportunities

- Formation: July 20, 1956; 64 years ago
- Type: Development finance institution
- Purpose: Private sector development, Poverty reduction
- Headquarters: Washington, D.C., U.S.
- Membership: 184 countries
- Executive Vice President & CEO: Philippe Le Houérou
- Parent organization: World Bank Group

Objectives of IFC

- IFC's objective is to assist economic development by encouraging the growth of productive private enterprise in its member nations, particularly in the underdeveloped areas.
- **Thus, it laid down the following objectives:**
- 1. To invest in productive private enterprises, in association with private investors, and without government guarantee of repayment, in cases where sufficient private capital is not available on reasonable terms.
- 2. To serve as a clearing house to bring together investment opportunities, private capital (both foreign and domestic) and experienced management.
- 3. To help in stimulating the productive investment of private capital, both domestic and foreign.

Working of IFC

- The IFC considers only such investment proposals whose objective is the establishment, expansion or improvement of productive private enterprises which will contribute to the development of the economy of the country concerned. Industrial, agricultural, financial, commercial, and other private enterprises are eligible for IFC financing, provided their operations are productive in character.
- The IFC is authorised to invest its funds in many forms it deems appropriate, with the exception of capital stocks and shares. It does not have a policy of uniform interest rates for its investments. The interest rate is to be negotiated in each case in the light of all relevant factors, including the risks involved and any right to participation in profits, etc.
- IFC makes investments only when it is satisfied that the enterprise has or will have experience and competent management and it looks to that management to conduct the business of the enterprise. It does not itself assume responsibility of managing the enterprise.
- In India the IFC has so far made six investment commitments totaling over $ 7 million.
- However, the actual working of the IFC has been rather slow. That there is great scope for its work is quite evident from its resources and investment portfolios. It is hoped that IFC will in future be more fully able to play a dynamic investor’s role in the economic development of the poor nations.

International Development Association

- The International Development Association (IDA) was established in 1960, affiliated to the World Bank.
- It was started to provide finance to less developed members on a “soft” loan basis, that is, on terms imposing a lower servicing charge on loans than what the conventional bank charges.
- The International Development Association (IDA) is the part of the World Bank that helps the world’s poorest countries. Established in 1960, IDA aims to reduce poverty by providing interest-free credits and grants for programs that boost economic growth, reduce inequalities and improve people’s living conditions.
- IDA complements the World Bank’s other lending arm, the International Bank for Reconstruction and Development (IBRD) which serves middle-income countries with capital investment and advisory services. IBRD and IDA share the same staff and headquarters and evaluate projects with the same rigorous standards.

- IDA is one of the largest sources of assistance for the world's 78 poorest countries, 39 of which are in Africa. It is the single largest source of donor funds for basic social services in the poorest countries.
- IDA lends money (known as credits) on concessional terms. This means that IDA credits have no interest charge and repayments are stretched over 35 to 40 years, including a 10 year grace period.
- IDA loans address primary education, basic health services, clean water supply and sanitation, environmental safeguards, business-climate improvements, infrastructure and institutional reforms. These projects are intended to pave the way toward economic growth, job creation, higher incomes and better living conditions. IDA also provides grants to countries at risk of debt distress.

IDA
International Development Association
WORLD BANK GROUP

Objectives of IDA

- **The following are the principal objectives of the IDA:**
- 1. To provide development finance on easy terms to less developed member countries.
- 2. To promote economic development, increase productivity and thus, raise the standards of living in the underdeveloped areas.

- **Founded: 24 September 1960**
- **Headquarters location: Washington, D.C., United States**
- **Leader: Kristalina Georgieva**
- **Parent organization: World Bank Group**
- **Membership: 173 countries**
- **Purposes: Development aid, Poverty reduction**

Working of IDA

- Thus, IDA is looked upon as a means of furthering the development activities of the World Bank and as a supplementary to the Bank's activities.
- Under its charter, the IDA is to support projects which are calculated to contribute to the development of the country concerned, whether they are directly productive or not.
- The IDA credits would be called development credits to distinguish them from conventional loans, and these would be repayable mostly in the currency lent rather than in the currency of the borrower.
- Since IDA charges nominal rates of interest on its loans, it has also been nicknamed the "**Soft-Loan Window.**"

International Centre for Settlement of Investment Disputes (ICSID)

- ICSID is an autonomous international institution established under the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (the ICSID of the Washington Convention) with over one hundred and forty member States.
- The Convention sets forth ICSID s mandate, organization and core functions. The primary purpose of ICSID is to provide facilities for conciliation and arbitration of international investment disputes.
- The ICSID Convention is a multilateral treaty formulated by the Executive Directors of the International Bank for Reconstruction and Development (the World Bank). It was opened for signature on March 18. 1965 and entered into force on October 14, 1966.

(ICSID)

- The Convention sought to remove major impediments to the free international flows of private investment posed by non-commercial risks and the absence of specialized international methods for investment dispute settlement.
- ICSID was created by the Convention as an impartial international forum providing facilities for the resolution of legal disputes between eligible parties, through conciliation or arbitration procedures. Recourse to the ICSID facilities is always subject to the parties' consent.

ICSID | International Centre for Settlement of Investment Disputes
WORLD BANK GROUP

(ICSID)

- Founded: 14 October 1966
- Headquarters location: Washington, D.C., United States
- Purpose: International arbitration
- Parent organization: World Bank Group
- Secretary-General: Meg Kinnear
- Membership: 163 countries (signatory and contracting states); 154 countries(contracting states only) (India is not the member of ICSID)

- **Organization Structure of ICSID:**
- ICSID has a simple organizational structure consisting of :
- An Administrative Council, and
- A Secretariat.

(ICSID)

- **Administrative Council:**
- The Administrative Council is the governing body of ICSID. It is comprised of one representative of each of the ICSID Contracting States. The Administrative Council convenes annually in conjunction with the joint World Bank/International Monetary Fund annual meetings. All representatives have equal voting powers. The President of the World Bank is ex officio Chairman of the ICSID Administrative Council but has no vote.
- Principal functions of the Administrative Council include the election of the Secretary-General and the Deputy Secretary-General, the adoption of regulations and rules for the institution and conduct of IC SID proceedings, the adoption of the ICSID budget and the approval of the annual report on the operation of ICSID.

(ICSID)

- **Secretariat:**
- The Secretariat consists of a Secretary-General, a Deputy Secretary-General and staff. The Secretary- General is the legal representative of ICSID, the registrar of ICSID proceedings and the principal officer of the Centre.
- The Deputy Secretary-General is responsible for the day to day operation of the Secretariat and acts for the Secretary-General in the event of his/her absence or inability to exercise duties and during any vacancy in the office of Secretary-General.
- Principal functions of the Secretariat include providing institutional support for the initiation and conduct of ICSID proceedings; assistance in the constitution of conciliation commissions, arbitral tribunals and ad hoc-committees and supporting their operations; and administering the proceedings and finances of each case.