The Role of International Institutions in Openness and growth of Indian Economy

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Abstract
The study focuses on ‘openness’ which is expected to have a positive impact on the growth of Indian economy. Each chapter deals with a theoretical perspective on openness and growth. Although, the background of the study includes the post-independence period so as to highlight the lessons learnt from the import substituting industrialization, the analytical content focuses on the liberalization period beginning the 1980s, reinforced during 1990s and carried forward during 2000s. The temporal coverage of the empirical analysis carried out spans the period 1970-71 to 2010 – 11. The research question addressed in the study is: “whether openness has impacted India’s growth rate, and if so, then in what is the role of multilateral international institutions, such as, WTO, InfoWorld Bank and ILO in promoting trade openness and growth has been discussed in depth. The WTO focuses on rules for multilateral trade liberalization and transparency; the IMF on overall macroeconomic policy frame work and balance of payments disequilibria; and the World Bank on long-term growth, development and sectoral trade issues. The ILO’s role has been to ensure that the human face of labourer is not lost in implementing the competitive agenda of trade openness and growth.

Keywords: Openness, growth, IMF, ILO, WTO, Panel Co integration
1. Introduction:

Since 1980s, interdependence among nation-states has increased significantly in respect of trade to Gross Domestic Product (GDP) ratios. Now, it is an established fact that the growth of world merchandise trade has surpassed the growth of world GDP leading to even doubling of the trade-to-GDP ratios for some emerging economies between 1980 and 2008. This has emanated mostly from the increasing openness of the world’s trade and financial markets and ongoing labour migration. These phenomena, in turn, have been stimulated by policy efforts, both at bilateral and multilateral levels through liberalising the rules governing trade and investment and by market forces that prompt MNCs to seek out better factor costs and conditions to site their locations outside the state of their origin. With technological change in the information sector, huge capital flows occur almost instantaneously. The visible impact of integration has been seen in the European Union’s (EU) market that is still expanding. Increasing capital mobility has also acted in a negative manner and endangered the ability of countries to insulate themselves from the external shocks. In the above background of world economy, the structure of Indian economy has undergone a considerable change since mid-1991. These changes include, increasing importance of international trade and capital flows. The services sector has become a major driver of the economy with GDP share of more than 50 per cent and the country becoming an important hub for export of Information and Technology enabled services (ITes). The share of merchandise trade to GDP in India increased from 7.2 per cent in 1980-81 to 13.3 per cent in 1990-91 and further to 38.9 per cent in 2008-09. India has been perceived as an attractive destination for capital inflows and net capital inflows, due to various socio-political and economic considerations. Net capital inflows that were 1.9 per cent of GDP in 2000-01 increased to 9.2 per cent in 2007-08.

Foreign portfolio investment added buoyancy to the Indian capital markets. Indian corporate began aggressive acquisition spree overseas, which got reflected in the high volume of outbound direct investment flows during 2007-2009. However, the year 2008-09 was marked by adverse developments in the external sector of the Indian economy, particularly during the second half of the year, reflecting the impact of global financial crisis.

The subprime crisis of 2008 affected financial institutions in the United States (US) and the European Union (EU) countries, including the shadow banking system comprising of, inter alia, investment banks, hedge funds, private equity and structured investment vehicles. The collapse of US investment firm Lehman Brothers in mid-September 2008 had further aggravated the situation leading to a crisis of confidence in the financial markets. The resulting heightened uncertainty cascaded into a full-blown financial crisis of global dimensions. This fact has demonstrated that openness and its impact on the world economy can be a boon as well as a bane. In the era of globalization, India could not insulate itself from
the adverse developments in the international financial markets, despite having a banking and financial system that had little to do with investments in structured financial instruments carved out of subprime mortgages, whose failure had set off the chain of events culminating in global financial crisis. Emerging economies were affected in varying degrees depending upon the extent of openness and the dependence on capital flows as the external environment deteriorated on account of slowdown in global demand, reversal of capital flows and reduced access to external sources of finance in the face of adverse global credit market conditions.

The episodes of global crises also meant that the economy experienced extreme volatility in terms of fluctuations in stock market prices, exchange rates and inflation levels during a short duration necessitating reversal of policy to deal with emerging situations. These facts are stark reminder of the negative side of openness/globalization that is making countries vulnerable to crisis like situation. The situation started improving afterwards and in the year 2010 – 11 the international or bilateral trade again started again picking up.

2. Concept of Openness

The openness of an economy is a continuous process which has evolved over time and the result of creative innovation and technological progress. It refers to the increasing integration of economies around the world, particularly through trade and financial flows. The trade channel is considered as one of the traditional modes of the integration of global economy. The mobility of capital has provided a new dimension to the concept of openness and economic integration that dominate over conventional trade channel. There are broader political, cultural, and environmental dimensions of openness that has not been covered in this study. In economic literature, the term ‘openness’ has become common usage since the 1980s, reflecting the technological advances that have made it easier and quicker to complete international transactions, both trade and financial flows. Markets promote efficiency through competition and the division of labour – specialization allows economies of scale. Global markets offer greater opportunity for people to tap into more and larger markets around the world. It indicates that, they can have an access to more capital flows, technology, cheaper imports, and larger export markets. However, markets do not necessarily ensure that the benefits of increased efficiency are shared either equally or proportionately by all.

Sometimes, openness is also equated with the process of ‘globalization’. Some view it as a process that is beneficial - a key feature of world economic development - and also inevitable and irreversible, whereas others regard it with hostility, even fear, believing that it increases inequality within and between nations, threatens employment and living standards in poorer regions and thwarts social progress. Countries that have been able to integrate are witnessing robust growth and reduced poverty. An outward-oriented policy has brought dynamism and greater prosperity to many Southeast Asian economies, transforming from one
of the poorest regions of the world 50 years ago. As living standards rose, it became possible to make progress on democracy and economic issues such as the environment and work standards. Improvements in living standards can take place through the accumulation of physical capital (investment) and human capital (labour), and also through use of an advanced technology (i.e., total factor productivity). Many factors can help or hinder these processes.

The experience of the countries that have increased output most rapidly shows the importance of creating conditions that are conducive to long-run growth in per capita income. Economic stability, institution building, and structural reforms are also important for long-term development as much as financial transfers. What matters is the whole package of policies, financial and technical assistance, and debt relief, if necessary (World Bank, 2009). The components of such a package might include: (i) Macroeconomic stability to create the right conditions for investment and saving; (ii) Outward-oriented policies to promote efficiency through increased trade and investment; (iii) Structural reform to encourage domestic competition; (iv) Strong institutions and an effective government to foster good governance; (v) Education, training and research and development to promote productivity; and (vi) External debt management to ensure adequate resources for sustainable development.

3. Openness and Growth in the World Economy

The world economy has witnessed an age of unprecedented globalization since the 1980s. International trade and services along with capital flows have been liberalized and allowed to grow in many developing countries. There is substantial evidence from countries of different sizes and different regions that have benefited from the global process of openness in the form of access to wider variety of goods and services, lower prices, more and better paying jobs, improved health and higher over all living standards. Global markets offer greater opportunity for people to tap into more diversified and larger markets around the world. They can have access to more capital, technology, cheaper import, and larger export markets. More importantly, the information and knowledge get dispersed and shared frequently by developing countries. Stiglitz (2002), despite being a frequent critic of globalization, has observed that “Globalization has reduced the sense of isolation felt in much of the developing world and has given many people in the developing world access to knowledge well beyond the reach of even the wealthiest in any country a century ago”. Perhaps more importantly, globalization implies that information and knowledge get dispersed and shared. In late 1980s, many developing countries, including India, started dismantling their barriers to international trade, as a result of poor economic performance under protectionist policies and various economic crises. In the 1990s, many former Eastern bloc countries integrated into the global trading system and developing Asia - one of the most closed regions to trade earlier - progressively dismantled barriers to trade. Overall, while the average tariff rate applied by
developing countries is higher than that applied by advanced countries, it has declined significantly over the years, especially, in the aftermath of the formation of World Trade Organization (WTO) in January 1995. The world financial markets have experienced a dramatic increase in openness in recent years. Global capital flows fluctuated between 2 and 6 per cent of world GDP during the period 1980–1995 and since then it are raising. In 2008 they aggregated to US$ 7.9 trillion, more than trebling since 1995 (World Bank, 2009). Though the most rapid increase has been experienced by advanced economies, emerging markets and developing countries have also become more financially integrated.

As countries have strengthened their capital markets, they have attracted more investment capital, which can enable a broader entrepreneurial class to develop, facilitate a more efficient allocation of capital, encourage international risk sharing, and foster economic growth. Yet, there is a debate underway, among leading academics and policy experts, on the precise impact of financial openness. Some see it as a catalyst for economic growth and stability. Others viewed it as injecting dangerous and often costly volatility into the economies of growing middle-income countries. The analysis of the past 30 years of data by IMF’s Research Department reveals two main lessons for countries to consider. First, the evidence points to gains from financial integration for advanced economies. However, in the emerging and developing countries, the effects of financial globalization can positively or negatively affect growth and also lead to volatility in economic activity. Second, there are also costs associated with being overly cautious about opening to capital flows. These costs include lower international trade, higher investment costs for firms, poorer economic incentives, and additional administrative / monitoring costs. Opening up of foreign investment may encourage changes in the domestic economy that eliminate these distortions and help foster growth. Stiglitz (2002) has summarized a near circle process of globalization in world economy as follows: About a century ago, the global economy operated in a very open environment. Openness began to wither away with the onset of World War I (1914), and still recovering. Along the process, governments recognized the importance of international cooperation and coordination, which led to the emergence of numerous international organizations and financial institutions. Indeed, the lessons included avoiding fragmentation and the breakdown of cooperation among nations. The world is still made up of nation states and a global marketplace.

4. Objectives and Methodology

The nature of relationship between openness and economic growth (in terms of national output or GDP) has been one of the most debated topics in recent past. It is not yet clear, whether the trade reforms necessarily led to higher economic growth. A few often quoted studies have concluded that countries with a more open trade orientation have tended to grow
faster through time (Krueger, 1997; Michaely et al. 1991) than closed economies. This view has been contested by Rodriguez and Rodrik (2001), who have argued that “there is little systematic evidence linking inward orientation and growth, and that the evidence linking outward orientation and growth has overstated the relationship between the two”. The important question in this regard is: whether growth is ‘exported’ or exports are ‘growth-driven’? These questions are important, because the determination of causal patterns between export and growth have important implications for policymakers’ for appropriate growth and development strategies. The existence of high correlation between exports and real GDP has been well documented in the literature. However, empirical studies have also produced mixed and conflicting results on the nature and direction of the causal relationship between exports and output growth. Following the path of other developing countries, the Indian economy has embraced gradual trade liberalization since the 1980s, and almost compelled to reinforce the same in a big way in 1991. Since then the process of trade liberalization has continued unabated. The developments trends were characterized by a sustained momentum in domestic real activity, corporate sector restructuring, a positive investment climate, a long-term view of India as an investment destination and favorable credit conditions in the global market.

However, the absorption of capital flows has remained low with a moderate level of the current account deficit in the 1990s and 2000s and the consequent build-up of foreign exchange reserves, until the advent of the recent financial crisis. The large capital inflows have implications for the real sector of the economy through interest and exchange rate channels. The excessive capital inflows beyond the absorptive capacity, in conjunction with workers’ remittances and software exports have the potential for overheating the economy, creating an over-valued exchange rate and the consequent erosion of long-term competitiveness of the traditional goods and services sectors – the Dutch disease phenomenon. The study relies on the secondary data published by international institutions and organizations concerned with international trade and business. The publications of the World Bank and IMF on Trend and Progress of Banking in India and China (Annual), Statistics, Report on Currency and Finance, RBI Bulletins and Hand Book of Statistics on Indian Economy and Annual Reports of respective banks provided the data. Data are also drawn from Economic Survey of Government of India. Data published by the IMF and WTO in monthly bulletins; in special issues, annual publications are the official sources of information. In brief, the focus of this paper if majorly on:

- To examine the changing dimensions of India’s trade and its impact on the growth of Indian economy;
- To assess the role of international institutions in the openness and growth process;
The present study follows, with the concept of exploratory research with the adoption of the procedure adopted for performance evaluation by ICRA Ltd., The study evaluates the impact of the International Intuitions on the openness and growth of India Economy by the help of administered research questionnaire based upon the secondary data. Further by analyzing the collected information or data in two ways i) Time-series analysis. ii) Period-wise analysis the impact could be studied on the Indian Economy. Moreover the correlation and regression analysis was applied to study the relation of International Institutions with the growth and openness of economies. Apart from the quantitative analysis, this study examines the role of International Institutions in the growth and openness of economy and its impact on the economies of developing countries after processing the data collected by using the statistical package STATISTICA 5.5 versions is used for principal component analysis and for calculation of linear growth rates and for other computations ‘Microsoft Excel’ is used.

5. Review of literature:

There are many reasons for the countries to engage in international trade. One of the important reasons being a country can get goods from abroad that are cheaper as well as of higher quality than the home-made goods. It has been documented that, all countries in the world engaged in international trade mainly for two reasons, each of which contributes to their gains from trade. First, nations like individuals can benefit from their differences by reaching an arrangement in which each produce the goods relatively better way. This relativity in production and exchange arises from differences in costs, geographical distance, state-of-the art technology used, and political compulsion in the form of economic integration. Second, countries trade to achieve economies of scale in production and distribution in the form of exports with the expanded markets. However, in the real world, pattern of international trade reflects the interaction of both the above motives (Krugman and Obstfeld, 2006). To explain the reasons for countries engaged in international trade, many theories and insights have been propagated by economists over centuries. With the increased application of rationality-based economic models, development economics is reintegrating with other economic disciplines. Very roughly, we can discern an evolution where neoclassical economics had previously been considered a special case relevant for developed countries only. Now, development economics became the special case of neoclassical economics applied in a development setting (Meier and Rauch, 2011). Although few would conclude that the discipline has lost its raison d’être, these changes led Hirschman (1981) to write an essay with the telling title ‘The rise and fall of development economics’. Huge global income differences – the question of why some countries produce so much more output per worker than others, as Hall and Jones (2009) phrase it – is nevertheless still a research area where many economic questions remain unanswered. In Ghana, Kenya and Zimbabwe,
Bigsten et al. (2000a) found that exports had a positive effect on productivity growth. Ahmed et al. (2008) observed that trade liberalization had a positive and significant effect on financial and trade related reforms and these worked to enhance market efficiency, reduced distortions in price and fostered Africa’s competitiveness and access to the global market; thus promoting inflow of capital and expansion of exports. In the 1970s, Africa already had a growing fiscal deficit, a current account imbalance and an overvalued exchange rate and all these were supported by project aids and loans at an interest rate of zero or even negative due to bad decisions made by governments to ration credit and foreign exchange instead of increasing the money supply. This resulted in weak market institutions (Yu et al., 2011). GDP growth rates in Africa have shown little or no improvement, but countries that adopted trade liberalization and export-led growth strategies have seen some improvement (Ahmed et al., 2008).

These theories revolve around the old ideas that are still relevant - the nineteenth century trade theory by David Ricardo remains highly relevant to the twenty-first century world economy. These theories are based on certain assumptions and tried to explain: (i) how and why different countries may gain from trade; and (ii) pattern of trade specialization, i.e., why certain countries export particular goods and import others. The theory written over a hundred years ago still resonates and affects analysis and policy even in the present day. Earlier theories of international trade were particularly well provided with surveys and it would be pointless to try to cover all those. A special mention may be made to the surveys by Haberler (1936), Viner (1937), Caves (1960), Mundell (1960), Bhagwati (1963), and Kemp (1964) as well as the encyclopedic history by Schumpeter (1954). The literature survey in this study is broadly divided into four parts, corresponding to the Classical, Neo-classical, Modern and New Trade theories. The classical approach to trade theories generally revolved around the writings of Smith (1776), Ricardo(1817), and Mill (1917) based on the oversimplifying assumptions on production side has the advantage of bringing out sharply the nature of the problem of international specialization (Chipman, 1965a). The neo-classical approach rests partly on simplifications on both the production and consumption side as represented by the concepts of opportunity cost and community indifference curve surveyed by Lerner (1953), Haberler (1955), Meade (1955), and Chipman (1965b). The modern approach that began with Heckscher (1919) and Ohlin (1933) attach important role to factor endowments represents the most impressive theoretical structure has been surveyed by Chipman (1966). The new trade theories of recent origin follows a sequel to the earlier one covered by Bhagwati (1987). The main concepts that emerged from the analysis of trade theory in its various incarnations are that of comparative advantage and gains from trade. A review of trade theory and policy, and growth literature reveals many aspects of the trade openness and growth process. Those
important aspects can be summarized as follows: Trade theories from the Mercantilism to New Trade models of recent origin focuses on (i) export as a leading sector; (ii) export as a balancing sector; and, (iii) export-linked import liberalization- in both developed and developing countries. In simplest form, various theories explain how the differences between countries give rise to trade and gains from trade. In a nutshell, a country’s production pattern is determined essentially by comparative advantage. The trade benefits a country can be shown in either of the two ways:

(i) Trade as an indirect method of production requiring less labour than direct production; and

(ii) Trade enlarges a country’s consumption possibilities implying gains from trade. The distribution of the gains from trade depends on the relative prices of goods countries produce.

International trade allows creation of an integrated market that is larger than any one country’s market, and thus makes it possible simultaneously to offer consumers a greater variety of products at lower prices. Trade need not necessarily be the result of comparative advantage. Instead, it can result from increasing returns or economies of scale, that is, from a tendency of unit costs to be lower with larger output. Economies of scale give countries an incentive to specialize and trade even in the absence of differences between countries in their resources or technology (endowments). Trade in the presence of economies of scale must be analyzed using models of imperfect competition. Two important models of this kind are:

(i) The monopolistic competition model, and

(ii) The dumping model.

A third model, that of external economies of scale is consistent with perfect competition. In monopolistic competition model, trade may be divided into two kinds: (i) inter-industry, and (ii) intra-industry. Whereas, inter-industry trade reflects comparative advantage, intra industry trade reflects economies of scale. Intra-industry trade does not generate the same strong effects on income distribution as inter-industry trade. Trade policy in less developing economies can be analyzed using the same analytical tools used to discuss advanced countries. In particular, a trade policy in developing countries is concerned with two objectives: (i) promoting industrialization, and (ii) coping with uneven development of the domestic economy. Using the infant-industry argument as justification, many less developed countries have pursued policies of import substituting industrialization in which domestic industries are created under the protection of tariffs or import quotas. Although, these policies have succeeded in promoting manufacturing, by and large, they have not delivered the expected gains in economic growth and living standards.
6. Openness and Growth: The Role of International Institutions

Market capitalism took on a truly global character as barriers to the movement of goods and capital has reduced to a large extent. Specifically, the majority of changes in world economic and political system took place in the late eighties and early nineties and carried forward in the twenty-first century. At the same time, increasing economic prominence of China and India is reshaping the international financial system. Their exports and imports of merchandise and services have grown substantially in recent years. The economic performance, combined with the openness of their economies, makes China and India crucial players in the world economy. Over 1980-2008, the merchandise trade – GDP ratio for China increased from 12.3 per cent to 58.2 percent, while the ratio for India grew from 13.3 per cent to 38.8 per cent (calendar year basis). By 2008, China accounted for 6.3 per cent of global trade, while India taking up a 1.3 per cent share. China and India have also become increasingly prominent in the international financial system in recent years. Both countries have gradually adopted policies that are more market-oriented and open to the flow of capital across their borders. Although their financial systems still remain restricted, China and India have received significant capital inflows in recent years (Lane and Schmukler, 2007). With regard to the above changing scenario, international institutions have played major role in shaping world economic order and help reviving the openness of emerging economies. It has been stated that, the signatories to various trade agreements typically confer some authority to the GATT/WTO on the belief that a neutral or internationalized body is more effective in governing trading relations than an individual nation. Economists focusing on the purpose of various trade agreements identify a range of functions for an independent institution administering trade affairs, such as, a repository of knowledge, an archivist, a provider of research and trade assistance, an information gatherer and disseminator, a negotiation forum, a mediator, a facilitator, a monitor, a surveillance agent and an adjudicator. Multilateral institutions can also foster peaceful relations among countries, thereby creating the general conditions for profitable exchange through trade. Stone (2006) have mentioned that, while the IMF lost its initial mission without fully securing a new role, the World Bank has probably adjusted better to the changing global economic environment by securing more knowledge-driven role for itself.

The WTO emerged out of the General Agreement on Tariffs and Trade (GATT) negotiations with a mandate to extend and embed the global market place, not least, through the integration of developing countries (Narlikar, 2005). However, the International Labour Organization (ILO) failed to respond to the challenges of labour market flexibility in the 1980s and structural adjustment in the 1980s and 1990s. It has failed to provide a coherent response to the insecurities and inequalities thrown up by the ongoing globalization. The ILO
was set up as a means of legitimizing labour relations based on the standard employment relationship as an ingredient of international trade. That seems to be a distant dream in near future (Griffin, 2003). Economic growth in the West also helped in the emergence of new powerful economies in the South as well as East. Notably, the rapidly developing state-controlled capitalism of the Peoples’ Republic of China fed the West with consumer goods while lifting 400 million populations out of poverty (Breslin, 2007). India, although it has not accepted the disciplines of open market as willingly as China, has become a provider of technology-based and business services (Panagariya, 2008). Even though with lesser global impact, Brazil has consolidated its position as a powerful agricultural and commodity trader in the world economy (Higgott and Roadnight, 2008). However, these developments in the world economy have not been without problems. Arguably, these have replicated some of the boom and bust features of the old capitalist systems, at times on larger scale. The first post-world War2 shock to the world economic system came in the form of Asian Financial Crisis of 1997-98, when the economies of Southeast Asia failed to cope up, *inter alia*, with the demands of rapidly liberalizing capital market, the impact of new technology and inadequate institutional structures to ensure the proper management of those markets. The crisis exposed the gap between market perceptions of the strength of the *national economies* and the reality that they were less robust *political economies* than viewed by the analysts (Dieter and Higgott, 2009). In the following discussion, some of the findings from the analysis of international institutions are being highlighted.

The WTO promotes trade by serving as a forum for its member countries to negotiate trade agreements, which forms the legal ground rules for international trade. The distinction between the roles of the IMF and WTO is clearer than the IMF-World Bank division, though it is by no means perfect. Legally, the WTO has jurisdiction over trade restrictions whilst the IMF has jurisdiction over exchange measures. WTO commitments and rules are limitations on the maximum amount of trade protection and the use of other protective policies. The WTO periodically reviews its members’ trade policies. The IMF can cover trade policies in its surveillance and conditionality, although, unlike WTO commitments, IMF trade policy advice is not legally binding. Moreover, IMF policy advice and program design are guided by economic considerations. This may result in the IMF pressing for trade and trade-related reforms to proceed faster and deeper than WTO commitments. Despite the diversity of interests among the contracting parties to the GATT, it has achieved considerable success in reducing tariffs in industrialized countries. Progress in dealing with quantitative trade restrictions was much slower than that of tariffs. A majority of source of grievance within GATT was the relatively poor export performance of many primary-producing countries. Whereas some of the reasons for this state of affairs were to be found in the domestic policies
of the primary producing countries themselves, many of them believed that the industrial nations had used the exceptions in the GATT to protect their own relatively inefficient agricultural industries to the detriment of foreign primary producers.

The WTO was given a broader range of activities including agriculture, textiles and clothing trade, and trade-in services. The trade related aspects of investment and the protection of property rights and some internal policy issues, such as, trade and the environment, competition policy, and labour standards which may feature as protection issues were also covered by the WTO. For the settlements of disputes the WTO was offered greater power. In addition to the setting up of the WTO, tariffs on industrial products were reduced from an average of 4.7 per cent to 3per cent. One of the main purposes of the IMF is to promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation. This responsibility implicitly reflects the view that exchange rate policy has profound implications for the expansion and balanced growth of international trade. But in contrast to exchange rate arrangements and the system of exchange rates, international trade is not under the regulatory jurisdiction of the IMF. The World Bank provides trade support through its lending operations, analytical work (research as well as economic and sector work carried out in its operational regions), advocacy, and capacity building activities. There is, in practice, no clear dividing line between the work of the IMF and the World Bank with regard to trade policy. Thus, coverage of specific trade policy issues may appear in the analytical work of both institutions (surveillance in the IMF and World Bank) and may be the subject of conditionality for lending programs in either institution.

Financial institutions rushed to the regulators demanding protection from the consequences of their own follies. At the outset, it appears that the ILO was also mooted as a development agency for ‘colonies’ and ‘primitive ‘economies that adopt the standards, policies and institutions set in the’ advanced’ countries. Recently, the world leaders embraced the G-20 as the premier forum for international economic cooperation among the advanced industrialized countries and rising powers. This is a good start. But the G-20 cannot be a stand-alone committee. Nor can it ignore the voices of the over 160 countries left outside. The G-20 should operate as a ‘steering group’ across a network of countries and international institutions with a broader membership. It should recognize the interconnections among issues and foster points of mutual interest.

7. Conclusion

World economy cannot exist without the interdependences of the states and international financial Institutions. This fact is proved by more or less advanced processes of regional integration, in which cases, the vulnerability coming from „negative” imports is balanced by a significant plus of productivity and competitiveness, drawn from international trade.
Following this interpretation, economic openness refers to trade relations with reduced or eliminated tariffs and non-tariff trade barriers with the help of International Institutions to maintain parity and security in the world markets. On one hand, the exports illustrate the penetration of internal products on foreign markets. Their structure indicates the national stage of economic development. On the other hand, the imports create opportunities to accumulate upper quality resources that sustain the economy. These movements of goods, services or capitals are complementary, leading to a healthy economic growth. Thus from the above discussion it is evident that the policy of openness has direct impact over the growth of the economy especially in the developing countries like India, China, Russia etc. The International Financial institutions play a very vital role in the development and growth of these economies as the policies of these institutions are framed for the basic objective of the economic and social growth in the member country. India has experienced the recent growth and role of these institutions has been well accorded in the openness of Indian economy and related growth. It is found that openness positively affect economic growth. Openness is not an engine of growth but acts as a catalyst for promoting growth through research and development, wider market access and allowing reduction in production cost.

References


