PREFACE

The less developed countries are trying to catch up with the growth standard of developed countries. Since these countries aspire to have a high rate of growth which requires huge resources from within in the form of high domestic savings and investment. But these countries have low capital base, inadequate domestic savings and above all, low per capita income. The possibility of increased savings by reducing consumption does not exist. The result is heavy dependence on loans or aid on other countries or international financial institutions to meet the development needs. This means a deficit in the balance of payments of a structural nature. When such a deficit persists, it results in fast depletion of foreign exchange reserves, which ultimately affects the developmental imports in the long run for these poor countries. One such instance in the recent times is that of India. As a result of the rise in prices of POL products in 1979, by OPEC countries, the foreign exchange crisis in India became very acute. As a result of this India had to approach IMF for an extended fund facility. The SDRs 5 billion loan was sanctioned to India in 1981-82 by IMF to overcome this problem. This loan was to be availed in three instalments during the years 1981-84.

This massive loan has evoked varying views. Some economists call it a timely respite from acute foreign exchange
crisis while others view that such a loan was totally undesirable. This loan according to them carries very harsh terms and conditions which amount to undermine the economic independence of India. The present research work examines the implications of this loan in the perspective of international economic diplomacy. Such an analysis could not be undertaken without discussing a historical evolution of international monetary system starting from the international gold standard to the emergence of International Monetary Fund (IMF) which is the subject matter of Chapter I. This is followed by a detailed discussion on the nature, background and activities of the IMF. It also describes the various facilities of finance open to member countries of the IMF. Chapter III analyses the nature of development needs of the less-developed countries in terms of 'dual-gap' model and links this with the debt-servicing burden for the less developed countries. It further analyses the role of IMF in overcoming the problem of debt-burden of the less developed countries. In this context the role of IMF has been examined with special reference to Mexican economy in the recent times. The nature and quantum of IMF loan to India has been described in Chapter IV. Since this loan carries certain terms and conditions, the Chapter V therefore examines the nature of this conditionality in the context of Indian economy. This is followed by a discussion on the implications of IMF loan on India's economy in Chapter VI. These implications have been divided
in two parts, Part I calculates the debt-service burden of IMF loan to India, while Part II analyses implications of this loan on other important aspects of India's economy e.g. imports, exports, balance of payments, foreign exchange reserves, fiscal and monetary policy, price policy, etc. This discussion has been done on the perspective of international economic diplomacy, paying particular attention to US foreign policy towards India. It further analyses how US has used aid as an instrument of foreign policy for Third World countries in general and for India in particular. This is followed by a brief conclusion.

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