CHAPTER – II

RESEARCH METHODOLOGY

Background :

The Bretton Woods conference in a way prepared the road map for the economic policy to be followed in the post second world war years by the developing countries, as the developing countries were no where in sight during those eventful years. However, in the 1960s and 1970s as the countries in Africa and Asia won freedom from the imperialist powers, these policies were made applicable to them as well. In essence, the IMF wanted temporary deficit in the balance of payments to be corrected through demand management policies and with the help of the short term borrowing from it. The long term loans required for the economic development were to come from the World Bank, partly at highly concessional interest rates. The medium term and long term loans could also be obtained from the friendly governments. However, the large scale flow of capital from the developed world to the developing world on private account – in the form of FDI and portfolio investment, was no where in sight. All these developments gathered momentum after 1973 when the OPEC countries could accumulated large amount of dollars, due to a big increase in the price of oil and the new phenomenon of euro dollar market came into existence. While the IMF created a few more lines of credit to meet the balance of payments deficits, it also desired that the developing countries, after completing the period of economic stabilization progrmame, should go over to the system of accepting non debt creating capital flows, together with fiscal consolidation and then strengthening the external oriented trade policy. This was essentially different from one that was adopted for 25 years after the end of the second world war 1946-1971.

The set of new economic policies that was recommended to the member country in financial crisis became operational from 1980 and gathered momentum as more and more countries had to approach the IMF and the World Bank for financial assistance to meet the rising deficits of the balance of payments. By 2000, the new policy regime had completed 20 years and it was worthwhile to look into the experiences of some countries. This study selected Thailand and Indonesia to understand how they implemented reforms for a little over a decade and why they came to be severely hit by the unprecedented currency crisis. It intends to understand the weaknesses in the implementation of the new policy measures so that these mistakes are not repeated elsewhere.

Sub-Saharan Africa that adopted the economic reforms from 1980 could not significantly benefit from then. If any thing, they lost two precious decades during which they could not register any significant improvement in per capita income as well as human development index. The demand management policy consisting essentially of demand contraction during the first three or four years of economic stabilization programme together with IMF loans made available to them for a short period singularly failed to do any good to them. These countries need financial support over a larger period of time from the multilateral financial institutions. It is only after their economies are stabilized in terms of some important macro economic parameters, if not all, that they would qualify for the non debt creating capital flows on a significant scale. Their experience points to an important lesson that uniform set of economic policies can not fit the policy requirements of all groups of countries in the world with divergent stages of economic development at a given point of time.

India too adopted the economic stabilization and the structural adjustment programme in mid 1991, while ten years ago in 1981, there was lot of opposition to the conditionalities that were attached to the IMF loan, the severity of the balance of payments crisis of 1991 created conditions in which the economic reforms were acceptable to most sanction of Indian Policy. After ten years, India's economic performance has been quite impressive, with the ground work made ready for more rapid economic growth.

The study attempts to bring out the essential conditions to be fulfilled for the success of the economic reforms as they mark a fundamental departure from the earlier set of polices. It also tries to show in what respects, these set of economic reforms needs to assimilate changes to suit the requirement of different groups of countries.

Objectives of the Study :

The study is carried out with the following objectives :

(i) to study the conditions under which the stabilization and structural adjustment programme were succeeded.

(ii) to study the impact of the above programmes on working of the economies under study.

(iii) to understand the economic implications of these reforms to suggest measures that can save such economies from the destabilizing effects there on if any.

(iv) to study the significance of monetary and fiscal policies, sector policies and trade policies under new policy environment.

(v) to study the factors contributing to the overall effectiveness of the economic reform measures.

Research Design :

(A) Selection of Four Countries :

The selection of four countries was made keeping the following considerations :

(i) Thailand and Indonesia were part of South East Asian crisis which had contagious effect on the whole region.

(ii) India is major East Asian economy that had a crisis twice in 1981 and 1991.

(iii) Sub-Saharan African countries had almost 35 countries those were under crisis for a long period.

(iv) All these economies had crisis during 1980s and 1990s and took loans from the International Monetary Fund and the World Bank.

(B) Period of Analysis :

In this study an attempt is made to study the prevailing economic conditions before the programme, reasons which made them implement the structural adjustment programme and the performance of these four countries after the implementation of the programme. To be more precise it is after the oil price rise in 1973 and again in 1979 that these countries like many others started showing huge deficit in their current account. The period of analysis begins from 1981 to 2003 for Indonesia and Thailand, 1981 to 1997 for Sub-Saharan Africa and from 1981 to 2003 for India. These periods covers the years prior to the crisis, crisis years and post crisis years in each case.

(C) Macro Economic Indicators :

The major macroeconomic indicators studied in this study are inflation rate, GDP growth rate, current account balance, debt service ratio, rate of savings, rate of investment, growth rate of imports and exports, growth of agricultural sector, growth of industrial sector, etc. The performance of these indicators give us clear idea about the performance of these countries during the crisis years and post reform periods. These indicators are also used for monitoring the Stabilization Programme as well as Structural Adjustment Programme.

Data are collected to understand the impact of new economic polices on important economic parameters – such as GDP growth, inflation rate, exports, imports and balance of payments, foreign exchange rate etc. The economic performance of different economies that emerges after the implementation of the economic reforms is compared with one that prevailed before. This would enable us to examine carefully whether the present day IMF polices should be pursued in future. Also an effort is made to study the factors leading to currency crisis among various countries – Thailand and Indonesia and why India could escape from the adverse effects.

<u>Limitations of the Study :</u>

(1) The study is entirely based on the secondary data, and limitation of such data are well known.

(2) It covers four countries only – Indonesia, Thailand, Sub-Saharan Africa and India to derive conclusion relating to IMF's stabilization and structural adjustment programme and it is not very comprehensive survey of experience of other countries that adopted such IMF programme.

(3) The study has not mode use of advanced statistical techniques, as the primarily objective here is to understand switch over from one set of policy regime to another, and to critically evaluate the performance of the latter in comparison with what happened before.

(4) The earlier Bretton Woods regime served the world economy and its member countries quite well for the first twenty five years 1946-1971. The study has not made any forecast regarding the present regime after its working for twenty five years or more.