Role of International Economic Institutions

World Trade Organization

International Economic Institutions

- The International Economic Institutions most frequently associated with economic globalization are:
  - International Monetary Funds (IMF)
  - The World Bank
  - World Trade Organization (WTO)

World Trade Organization (WTO)

- Since 1944, much of the reduction in tariffs and other trade restrictions came through international negotiations.
- The General Agreement of Tariffs and Trade (GATT) was established in 1947, and was replaced by the World Trade Organization (WTO) in 1995.

What is the WTO?

- It is an organization for liberalizing trade.
- It is a forum for governments to negotiate trade agreements.
  - WTO agreements provide the legal ground-rules of international commerce.
  - The goals is to help producers of goods and services, importers, and exporters to conduct their business.
- It is a place for governments to settle trade disputes.

Uruguay Round 1986-1994

- Uruguay Round is an umbrella agreement:
  - Agreement establishing WTO.
  - General Agreement on Tariffs and Trade (GATT): covers trade in goods.
  - General Agreement on Tariffs and Service (GATS): covers trade in service (ex: financial services, insurance, legal services).

Uruguay Round 1986-1994

- Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS): covers intellectual property rights (ex: patents and copyrights).
- Dispute settlement: countries in a trade dispute can bring their case to a panel of WTO experts to rule upon.
- Reviews of governments’ trade policies: lists of commitments made by individual countries allowing specific foreign products or service-providers access to their markets.

WTO: Principles of Trading System

- **No discrimination** between trading partners.
  - Principle of Most-Favored-Nation (MFN): treating other people equally
  - Principle of National Treatment: treating foreigners and locals products equally
- **Freer trade** through negotiation:
  - Reducing trade barriers: tariffs and non-tariffs barriers, such as import bans and quotas.

WTO: The Principles of Trading System

- **Predictability**: through binding and transparency
  - Foreign companies, investors, and governments should be confident that trade barriers should not be raised arbitrarily.
  - Tariffs rates and market opening are “bound” in the WTO.
  - Transparency requires governments to disclose their trade policies publicly.
- **Promoting fair competition**:
  - Discouraging “unfair” practices such as export subsidies and dumping products at below cost to gain market share.

WTO: The Principles of Trading System

- **Encouraging development and economic reform:**
  - Giving developing countries flexibility in the time they take to implement the system’s agreements.
  - Giving developing countries special assistance and trade concessions.

Doha Round

- New trade negotiation launched in November 2001 in Doha, Qatar.
- The original deadline of January 1, 2005 was missed.
- Also known as Doha Development Agenda
- Goal: reduce trade barriers in order to expand global economic growth, development and opportunity.

Doha Round

- The main areas of negotiation:
  - *Agriculture*: the goals are to improve market access, phasing out all forms of export subsidies, and reduce trade-distorting domestic support.
  - *Non-agriculture market access*: reduce or eliminate tariffs.
  - *Services*: liberalization of trade in services
  - *Trade facilitation*: reduce customs-related barriers and improve cooperation between customs.
  - *WTO rules*: trade remedies, fish subsidies, and regional trade agreement.
  - *Development:* Special and differential treatment (S&D) provisions give developing countries special rights.

The World Bank Group

The World Bank

- Created by Bretton Woods Conference in 1944.
- Initially conceived to finance postwar reconstruction of Europe.
- Today its role focuses on poverty reduction in developing countries.

THE WORLD BANK

Working for a World Free of Poverty

The World bank

- The World Bank has set two goals to achieve by 2030:
  - Ending extreme poverty by decreasing the percentage of people living on less than $1.90 a day to no more than 3%.
  - Promoting shared prosperity by fostering the income growth of the bottom 40% for every country.

Source: http://www.worldbank.org/en/about/what-we-do

The World Bank

Today it includes five institutions:

- **International Bank for Reconstruction and Development** (IBRD) lends to countries with good credit (188 member countries).
- **International Development Association** (IDA) lends to poorest countries in interest-free loans with repayment periods up to 40 years.
- **International Finance Corporation** (IFC) makes market-rate loans and equity investments in developing countries.

World Bank

- **Multilateral Investment Guarantee Agency** (MIGA) works with other Bank units to develop foreign direct investment in high-risk countries.
- **International Center for the Settlement of Investment Disputes** (ICSID) is an autonomous unit to settle disputes between governments and private investors (investment disputes).

World Bank: Governance

- **Board of Governors**: one from each member country.
  - Usually held by the country's Minister of Finance, governor of its central bank, or senior official of similar rank.
  - They meet once a year at the Annual Meetings of the Board of Governors of the World Bank and the International Monetary Fund.

World Bank: Governance

- **25 Executive Directors**:
  - 5 Executive Directors are appointed by the 5 largest number of shares: U.S., Japan, Germany, Great Britain, and France.
  - China, Russia, and Saudi Arabia each elect its own Executive Director.
  - The other Executive Directors are elected by other members.

World Bank: Governance

- **World Bank Group President**: Dr. Jim Yong Kim
  – From the U.S. by tradition
  – Chairs meetings of the Board of Directors.

- Responsible for the overall management of the Bank.
- Term: Five-year, renewable.

International Monetary Fund

International Monetary Fund (IMF)

- Established by Bretton Woods Conference in 1944
- IMF Roles:
  - Promote global monetary cooperation.
  - Secure financial stability
  - Facilitate trade.
  - Promote high employment and sustainable economic growth.
  - Reduce poverty
- 188 member countries

IMF: Governance

- Board of Governors:
  - The highest decision-making body.
  - One governor and one alternate governor for each member country (Minister of Finance or the head of the central bank).
  - Meet once a year, during the IMF-World Bank Annual Meetings.

IMF: Governance

- Ministerial Committees:
  - International Monetary and Financial Committee (IMFC):
    - 24 members
    - meets twice a year
    - discusses matters of common concerns affecting the global economy.
  - Development Committee
    - 24 members
    - advising the Boards of Governors of the IMF and the World Bank on issues related to economic development in emerging and developing countries.

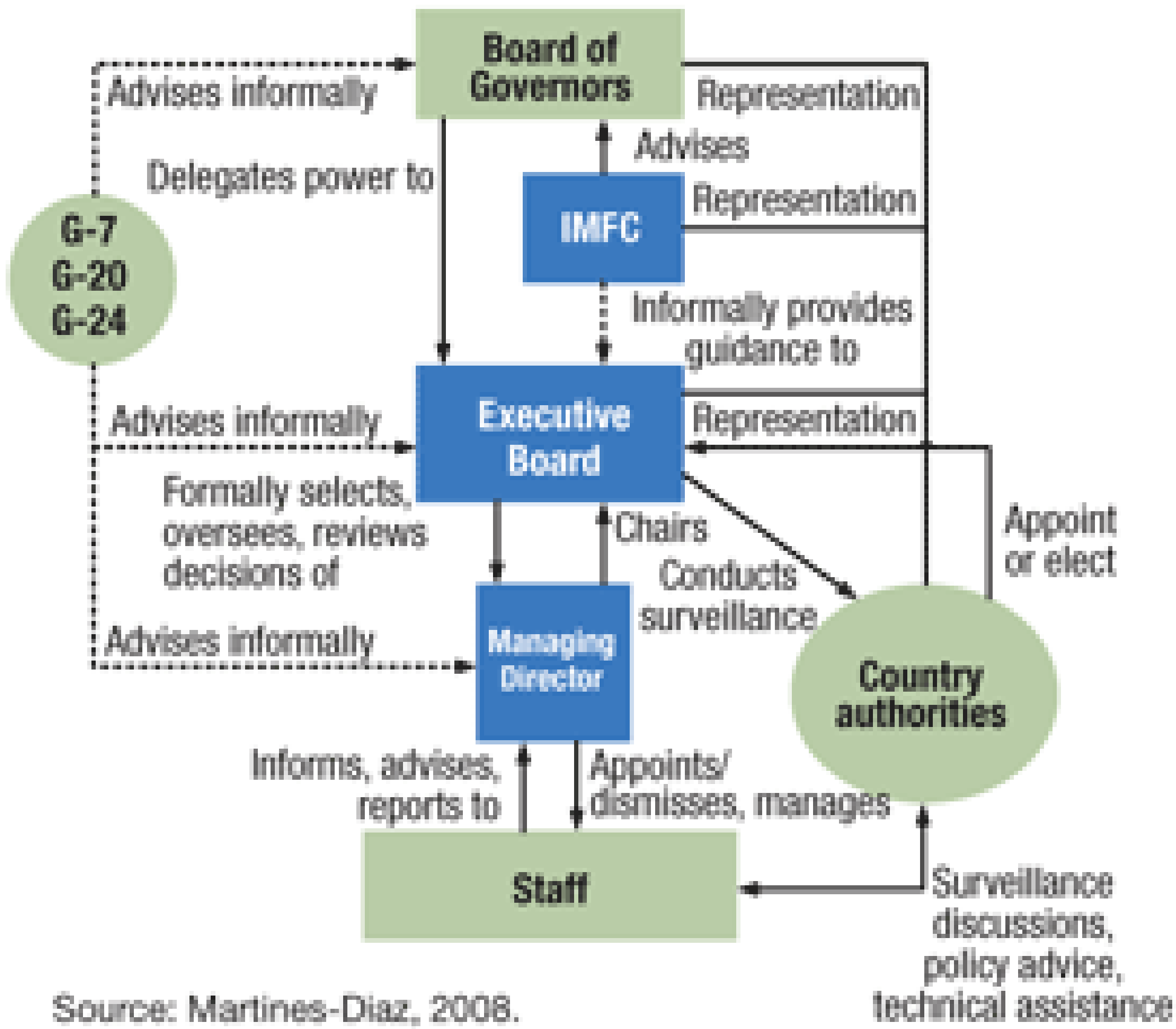
IMF: Governance

- The Executive Board:
  - 24 members
  - Permanent members: Large economies, such as the U.S., China, Japan, Great Britain, Germany, France, Russia, Saudi Arabia.
  - Non-permanent members: elected every two years on a rotating basis. Countries are grouped in constituencies representing 4 or more countries.

IMF: Governance

- Managing Director:
  - Christine Lagarde
  - Elected every 5 years.
  - By tradition from Europe.

Stylized view of IMF Governance



Source: Martines-Diaz, 2008.

IMF: Activities

- The IMF has 3 main activities:
  - Surveillance
  - Financial assistance
  - Technical assistance

IMF: Activities

- Surveillance or Consultation:
  - The purpose of the consultation is to provide an outside check on national decisions that might have an effect on the international economic system.
  - Each year, the IMF analyses the economic situation of each member countries.
  - IMF reviews the fiscal and monetary policy, exchange rate, general macroeconomic stability, trade policy, labor policy or social policy.

IMF: Activities

- Financial Assistance:
  - Financial assistance to national treasury.
  - IMF provides loans to member countries with problems to adjust their economic policies so they will not face another crisis or near crisis.
  - Loans are provided with “conditions”, the member country must agree to implement changes in its fiscal and monetary policies that IMF experts have determined necessary.

IMF: Activities

- Technical Assistance:
  - The objectives are to strengthen developing countries’ abilities to reform and to manage their macroeconomic policies.
  - On fiscal and monetary policies, regulatory procedures, etc.

Structural Adjustment Programs

- What are SAPs?
  - Structural Adjustment Programs are set of economic policies designed to solve macroeconomic problems in developing countries by reforming the internal economic mechanism of developing countries so that they would be in a better position to repay the debts they had incurred.
- SAPs aimed at achieving economic growth.
- Designed by the World Bank and IMF.
- Loans are offered in return for the implementation of a set of reform policies (conditionality).

Key components of SAPs

In order to qualify for loans, governments are required to implement the following policies:

1. A guarantee of fiscal discipline and budget deficit reduction.
2. Reduction of public expenditure, particularly in the military and public administration.
3. Tax reform, aiming at the creation of a system with a broad base and with effective enforcement.
4. Financial liberalization, with interest rates determined by the market.

Key components of SAPs

5. Competitive exchange rates, to assist export-led growth.
6. Trade liberalization, coupled with the abolition of import licensing and a reduction of tariffs.
7. Promotion of foreign direct investment
8. Privatization of state enterprises, leading to efficient management and improved performance.

Key components of SAPs

9. Deregulation of the economy.
10. Protection of property rights.
11. Elimination of subsidies and price controls.
12. Implementation of fee-for-service regimes in education and healthcare.
13. Reform and downsizing the government.

Outcomes of SAPs

- Failed to produce the desired objective to help debtor countries.
- Mandated cuts in public spending translate into:
  - Fewer social programs
  - Reduced educational opportunities.
  - More environmental pollution
  - Greater poverty for the vast majority of people
- “The big stylized facts of adjust lending suggest that structural adjustment did not succeed in adjusting macroeconomic policy and growth outcomes very much” (Easterly).

Outcomes of SAPs

- SAPs harmed countries in terms of poverty levels and income distribution: (Oberdabernig)
  - Rich people seem to profit for the programs.
  - Poor people seem to lose, falling even deeper into poverty.
- Mass unemployment by job cuts in the public sector.

What explains the failure?

- Political economy variables can successfully predict the outcomes of an adjustment loan.
- Example Zambia in 1980s: (Dollar and Stevenson, 1998)
  - World Bank approved $212 million for four structural adjustment loans.
  - Three out of four failed.
  - Reform measures supported by three out of four loans were not satisfactorily implemented.
  - Zambia did not have conditions conducive to reform: the government had not been democratically elected. It had been in power for a long time.

Discussion

Watch the following videos

https://www.c-span.org/video/?c4658142/imf-world-bank-annual-meeting-2016

https://www.c-span.org/video/?c4658145/imf-world-bank-annual-meeting-2016