

International Financial System and WTO in the Context of Economic Perspective

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ABSTRACT

The International Monetary Fund (IMF) and the World Bank (WB) were created as a result of Bretton Woods Agreement. The World Bank is a lending institution for economic development of third world although it had involved in the economic structuring of Eastern Europe at the initial period. The IMF was set up to monitor the economic policies of its member countries to extend them credit when in temporary difficulties with balance of payment and to allow changes in the rates of exchange when a permanent imbalance is seen to have developed. The IMF was set up to promote international currency stability by helping to finance temporary balance of payment deficits and by providing for the progressive elimination of exchange restrictions and the observance of accepted rules of international financial conduct. International Bank for Reconstruction and Development (IBRD/World Bank) was set up to help finance for the reconstruction and development of its member countries.

Together these institutions encourage economic structural adjustment, privatization and market liberalization in emerging markets. Within the competitive global framework, developing countries are left with little choice other than to comply with the neo-liberal subject. As a result member countries are often left with crippling debt and a weak economy. Meanwhile, foreign investors and multinational corporations gain control of a significant portion of the world's resources, finance, services, technology and knowledge. In order to create balanced trade, stable international finance and effective development in poorer countries, the regulation of the global economy must be returned to United Nations. The global public must, through their governments, demand cooperative control over those resources which are essentials to life and should be shared internationally according to human need - not corporate profit. Sharing resources can also reduce the level of corporate controlled trade, debt accumulation and wasteful development projects

INTRODUCTION

Created by the US and British Governments at The Bretton Woods Conference after World War II (1944 Hampshire, USA), The International Monetary Fund (IMF) and The World Bank (WB) were designed to ensure economic and corporate sustainability in countries affected by the war - mainly in Europe. The World Trade Organization was established in 1995, to replace the General Agreement on Tariffs and Trade (GATT). The WTO aims to lower tariffs and non-tariff barriers in order to increase international trade.

Since the 1970's the World Bank has steadily increased its original mandate of providing long term loans for reconstruction, to funding multimillion dollar infrastructure projects in developing countries. It is the single largest source of development finance in the world, lending for broad structural and economic changes, long-term development and poverty reduction, building roads, dams, pipelines, extracting natural resources etc. It is an especially important source of finance for very low income countries that are unable to acquire commercial loans. In this way the World Bank has a direct effect on the lives of millions living in the majority world.

The IMF was created to maintain global monetary cooperation and stability by making loans to countries with balance of payment problems, stabilizing exchange rates and stimulating growth and employment. There have been many changes in the global economy since then, such as the divorce of exchange rates from the stable 'anchor' of gold, massive growth in the global economy and a dramatic increase in de-stabilizing, speculative movements of capital between nations. As a result the IMF has shifted its focus and now mainly intervenes in economically vulnerable nations, particularly in the south.

The WTO fosters 'free-trade' between nations. It does this by liberalizing markets, which means 'opening them up' to global competition. This creates a free market where the unrestricted flow of goods and services can sharpen competition, motivate innovation, create profit and breed success. Most of the world's trading nations are members, and as members they have to ratify WTO trade agreements within their governments. The WTO clearly states that these rules, although binding on governments, are primarily for the benefit of the business community that produce, import and export goods and services. In effect, the WTO overrides a government's sovereign right to regulate its economy, and places corporate interests first.

Forty-four allied nations convened the UN monetary and financial conference on Bretton Woods, New Hampshire, USA in July 1944 in which charters or articles of IBRD (WB) and IMF were made. Roles of WB and IMF are differed but their joint objective was to promote the monetary and financial machinery that would enable nations to work together toward world prosperity thus aiding political stability and fostering peace among the nations.

The main functions of the World Bank are lending for production projects, leading to economic growth, cooperating with affiliation functions of International Financial Corporation (IFC) and International Development Association (IDA). Membership in WB is required for membership in IFC and IDA. Board of Governor (BOG) was the power to admit new members and to determine the conditions of their admission. In order to eligible for Bank membership, a country must join the IMF which involves agreement to observe accepted rules of international financial conduct. The World Bank was established before the establishment of UN. The Bank maintains a very close relationship with UN. As regards other organizations in UN system, the Bank has constituted links with IMF. The main objective of the Bank besides stated above is the promotion of international monetary cooperation, the

encouragement of expansion and balanced growth in international trade, promotion of exchange mobility, elimination of exchange restriction and the correction of balance of payment dis-equilibrium. But the Bank has the objectives of promoting economic growth in member countries through its loans for productive developments projects. The two institutions cooperate closely on operational and analytical matters, hold joint annual meetings.

The success of monitored by IMF seems to have depended upon maintaining overall trade and payment balances; the expansion of world trade and of economic growth and the inadequacies of gold dollars and foreign exchange and changes in direction of trade and economic slowdown abroad. The World Bank makes loan to governments, government Agencies, and private enterprises of member countries mainly for the purpose of helping those countries build foundations of their economic growth. It has lent to IFC, an affiliated agencies. The 1st loans made in 1947 were for European post-war reconstruction. In 1948, the Bank turned to development lending and since then an increasing proportion of its funds has been directed to the less developed areas of the world. The capital of IMF comes from gold and currency which the members pay under quotas assigned to them at the time of they join. IMF facility, SDRs were established in 1970, in order to provide additional international liquidity, when and as the need arises.

The breakdown of the gold standard during the inter-war years resulted in a period of constable exchange rates inadequate world activity and protectionism. While the Bretton Woods framework had no direct linkage with MNCs, yet these organizations have had to work within the international financial environment set up by the Bretton Woods Agreement signed in 1945 which was intended to provide the basis for a new world economic order with a liberal yet stable systems of trade evolving. As soon as a domestic firm begins to internationalize its activities, it encounters foreign financial markets and the global foreign exchange market including currency conversion. If the foreign currency involved weakens against the MNCs, domestic currency during the interval, then the firm's cash flow is reduced. An international firm can also achieve a formidable competitive advantage by borrowing fund in countries with low interest and investing these funds in other parts of its global network including the home country. An MNEs can also achieve a formidable competitive advantage by borrowing funds in countries' with low interest and investing these funds in other parts of its global network including the home country.

DISCUSSION

In virtually all economic dimensions in the world has become more integrated. International trade has grown far faster than global output; cross border capital flows are rising inexorably; information flows across borders almost instantaneously. These integrations provide greater opportunities for open economies, but it also brings the hard discipline of market forces. Global capital markets, for instance, do not eliminate the power of national governments entirely but they punish mistakes severely. Populist policies that lead to fiscal or monetary instability with increasing provoke a quick and hard cutting response from the

global investment community. International policy harmonization and standards will become increasingly important in many areas of economic life.

World Bank Group is an organization formed specifically with an object to ensure that the complementary functions of World Bank, the IDA and IFC are brought together. IMF and World Bank were created as a result of Bretton Woods Agreement. IDA was established in 1960 and was affected to the IBRD. It is an institution to help the cause of development. IDA is an arm of World Bank. It is set up to primarily help the development of structure like railways, roads and means of communication. It gives long term loan. The period may be as long as more than fifty years. The IDA either does not charge any interest at all or charges a nominal rate. So, with this type of aid, social and economic overheads are built up by the developing countries otherwise, neither they could have paid the standard market rate of interest nor they could have developed these essential asserts. To further facilitate the repayment schedule, exemption from return of loan installment may be given for the first ten years.

The World Bank had helped to help in the smooth transaction of war time economy into a peace time economy. The World Bank function is to help finance the reconstruction and development of its member countries. The main functions of Bank today are: lending for productive projects, leading to economic growth, affiliation functions by IFC (1956) and IDA (1960). Membership in WB is required for membership in IFC and IDA. Board of Governors (BOG) was the power to admit new members and to determine the conditions of their admission. In order to be eligible for Bank membership a country must join the IMF which involves agreement to observe accepted rules of international financial conduct. The World Bank was established before UN. Bank maintains a very close relationship with UN. As regards other organizations in UN system, the Bank has constitutional links with IMF. Initially, the World Bank was established when forty-four allied countries convened to organize the UN monetary and financial conference on Bretton Woods , New Hampshire, USA in July 1944 in which charters or articles of IBRD(World Bank) and IMF were established. The World Bank is a specialized wing of UN which borrows in the commercial market. The World Bank is a lending institution for economic development of third world although it is also involved in the economic structuring of Eastern Europe. Apart from the financial assistance and transfer, the Bank gives technical assistance in various forms: the Bank helps with the setting up examples in sound and efficient management policies.

But the Bank has the objectives of promoting economic growth in member countries through its loans for productive development projects IMF is the outgrowth of Bretton Woods conference of 1944, is a sister organization of World Bank. It was formed to promote international monetary cooperation and a balanced growth of world trade. Membership in the Fund is prerequisite of World Bank membership. Financial operations of IMF are in the form of drawings and standby credit to member countries. The capital of the Fund comes from gold and currency which the members pay under quotas assigned to them at the time of they join. IMF facility, SDRs was established in 1970 to provide additional international liquidity when and as the need arise. Its main functions are to promote monetary

cooperation; to promote growth of world trade; to promote smooth multilateral payments arrangements among member states. IMF stand-by loans are available to members in balance of payments difficulties usually on the basis of acceptance of instruction on the necessary corrective measures. The fund also operates other drawing facilities, including several designed to provide preferential credit to developing countries with liquidity problems. Having previously operated in US dollars linked to gold. Since 1977 the IMF has used the special drawing right (SDR) as its standard unit of account, valued in terms of a weighted 'basket' of major currencies.

The IMF and the WTO work together on many levels, with the aim of ensuring greater coherence in global economic policymaking. A cooperation agreement between the two organizations, covering various aspects of their relationship, was signed shortly after the creation of the WTO. The IMF has observer status in certain WTO bodies, and may participate actively in meetings of certain WTO committees and working groups. The WTO Secretariat attends meetings of the IMF Executive Board or the Board Committee on Liaison with the World Bank, and other International Organizations on matters of common interest. Trade policy issues may feature prominently in Fund surveillance activities and are addressed in the context of IMF-supported programs when needed to meet the program's objectives. Equally, IMF surveillance reports are important inputs to the WTO's periodic reports on member countries' trade policies.

The WTO Agreements require that it consult the IMF when it deals with issues concerning monetary reserves, balance of payments, and foreign exchange arrangements. For example, WTO agreements allow countries to apply trade restrictions in the event of balance of payments difficulties. The WTO's Balance of Payments Committee (BPC) bases its assessments of restrictions in considerable part on the IMF's determination of a member's balance of payments situation. Informal consultation between IMF staff and the WTO Secretariat takes place regularly regarding trade policy and global economic developments, as well as on advice for individual countries. Examples of consultations include visits by senior IMF staff to the WTO, and vice versa, to make presentations and attend discussions on issues of common interest (such as recently on macroeconomics of protectionism, trade in financial services, trade finance, and global macroeconomic and financial developments).

The IMF and WTO also regularly share data and research. The IMF, the WTO, and other international organizations and donors often work together to help countries improve their ability to trade. The Integrated Framework for Trade-Related Technical Assistance to Least-Developed Countries seeks, among other priorities, to ensure that poorer member countries incorporate appropriate trade-related reforms into their Poverty Reduction and Strategy Papers (PRSPs), which form the basis for concessional support by the IMF and the World Bank.

In an effort to support progress under the WTO's Doha Round of trade talks, the IMF established the Trade Integration Mechanism (TIM) in April 2004. The TIM is available to all Fund member countries whose balance of payments positions might

suffer, albeit temporarily, as a result of multilateral trade liberalization. It is not a new lending facility, but rather a policy aimed at making Fund resources more predictably available under existing IMF facilities. The Managing Director of the IMF and the Director General of the WTO consult regularly on a range of trade-related issues. At the May 2003 meeting of the WTO General Council, the heads of the IMF and the World Bank shared their views with WTO national delegations on trade issues and coherence in the work of the three organizations.

Looking forward, it is likely that cooperation and consultation between the IMF and WTO will intensify, given the increased areas of mutual support and overlap between the two institutions. Potential areas of heightened interaction include current and prospective WTO agreements on financial services, trade facilitation, and regionalism. With negotiations on the long-running WTO Doha trade round at a pivotal juncture, the Fund strongly supports the multilateral approach for trade negotiations and calls for flexibility and compromises to guarantee security in trade relationships.

Roles of WB and IMF are differed but their joint objective was to provide the monetary and financial machinery that would enable nations to work together toward, would prosperity, thus, aiding political stability and fostering peace among nations. Export-led poverty reduction has been a central area in Asia. The approach which has to be launched within the context of preparation of an export led poverty reduction strategy, involves implementation of such projects in the country. After the restoration of multi-party democracy in 1990, Nepal adopted a liberal economic policy and reform program along with introduction of ESAF in early 1990's and recorded an encouraging macro-economic program. But the growth and reform process slowed in the late 1990's due to political instability.

Nepalese context

In Nepal ITC helped to initiate the export strategy process. Trade liberalization promotes economic growth by raising the production of an economy through static and dynamic gains from trade. Strategic gains accrue through a more efficient allocation of resources as lower trade restrictions reduce the bias against investment in the tradable goods and services sectors of the economy and through economies of scale to producers of exported goods and services who benefit from increased market opportunities abroad. Dynamic gains accrue from faster rates of capital accumulation and technology progress that are encouraged when the economy is opened up-to increased competition and to flows of knowledge and investment from abroad. Appropriate macro-economic policies are regularly cited as being important to support a program of trade liberalization.

More generally, the importance of these, being a positive investment climate to support trade liberalization, has received a great deal of attention for ever. Poor investment climate can undermine the benefits of trade liberalization is unlikely to boost economic growth in an economic environment that is not conducive to investment.

Corruption and lack of, or poor quality, trade related institutes as particular obstacles to raising growth, and notes that trade liberalization can itself contribute to the fight against corruption because lets restrictive, more transparent and non-discretionary is trade policy, the lower are the incentives and opportunities for corruption. Trade liberalization can promote not only faster growth but also more robust economic growth that helps improve the economy's flexibility to external shocks. Market access barriers in world trade remain significant for products of export interest to developing countries. An IMF/WB study suggests that trade liberalization, especially for agricultural products and textiles clothing, can generate large benefits for developing countries in terms of incomes, exports and employment. A number of more advanced countries have granted comprehensive tariff and quota free access to 48 LDCs including Nepal.

CONCLUSION

Broad - based tariff free market access for LDCs can assist in diversifying their export structures. Protection carries a high price in both industrial and developing countries. In absolute terms, developed countries again more, but in terms of GDP, developing countries are the largest beneficiaries from full liberalization, including the removal of distortions in farm trade. Agriculture is one of the most distorted sectors of international trade. Trade barriers facing developing country's exporter of agricultural products are four to seven times higher industrialized countries than the barriers facing their exporters of manufactured products, and two to three times higher in developing countries.

Problems of tariff peaks, tariff escalation, specific duties and subsidies are all more pronounced for trade in agricultural products. Agricultural liberalization in both industrial and developing countries is likely to have long term, dynamic effects on developing country's production and trade. The benefits of global liberalization in agriculture –the elimination of all border restrictions and subsidies -would for top billion –billion Dollars, the world as a whole. Market barriers to some key developing country exports have made it harder for them to take full advantage of the opportunity to grow through integration into world economy. Almost 40 percent of developing countries' exports go to other developing countries.

Clearly, if Asia is to be able to rise to the challenges posed for its development by the accelerated processes of globalization that are presently underway, it would have to undo many of the damaging consequences of its structural adjustment experience for its policy-making and implementation capacity. It would also entail a recognition that the path to effective policy-making does not lie in the denial or narrow, self-serving instrumentalization of politics but in its integration into the mainstream of the policy process. Similarly, the confusion of policy will need to be tempered with a high dose of realism both with regard to its nature and its determinants. This is a task which has been made more urgent by the framework of democratization which is emerging across Asia and which the policy process ought to reinforce rather than seek to undermine.

For policy to be effective, it should not only be democratic but also be anchored on a broad social bargain; in the specific Asian and individual country context, it also

calls for the restoration of a developed-mentalist vision and ideology to the state. Such a state would need to operate a dynamic system of selective intervention and withdrawal in the economy in line with the specific, local requirements of long-term development in the different countries of the continent. The restoration of state's political and technical capacity, together with its legitimization as an actor in the development process would serve as an important step in the effort to equip government, business and society in Asia to respond to the challenges of globalization and democratization. For, like effective policy-making, both the task of development and the quest for democracy cannot be fully realized in the absence of a functioning state system.

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Websites

- www.imf.org: The International Monetary Fund, for a wealth of press releases and IMF policy documents, including much information about individual countries.
- www.worldbank.org: The World Bank, for a wide range of Bank press releases and policy documents. Not as open as the Fund about individual countries, but covering a wide range of development issues.

- www.developmentgoals.org: A World Bank site, for information on the Millennium Development Goals. (It previously covered their predecessors, the International Development Targets.) An invaluable teaching tool.
- www.ChallengeGlobalization.org: The Citizens' Network on Essential Services (CNES), formerly the Globalization Challenge Initiative, a Washington-based NGO that acts as a focal point to organise NGO activities in relation to the Fund and Bank. It has more of a country focus.
- World Bank list of web bulletins: This covers both the Bank's own newsletter aimed at NGOs and a list of fifteen NGO websites, most of which are highly critical of the World Bank.