

Economics from the Ground Up

Large global institutions at the heart of globalisation

The World Trade Organization (WTO)

One of the most important institutions in the global economy is the World Trade Organization (WTO). The WTO came into operation in 1995. Just like the other two global institutions to be considered here, the WTO had its origins in the Bretton Woods agreement of the 1940s. It replaced the General Agreement on Tariffs and Trade (GATT) that had been designed to promote multilateral trade as the global economy opened up after World War II. There were a series of trade negotiation rounds which took place in different cities around the world where the details of the GATT were agreed to. These included removing barriers to trade such as tariffs and import quotas.

The WTO aims to:

- Contribute to economic growth and development by removing obstacles to international trade and creating a level playing field for all
- Create and administer agreed rules to govern international trade among member nations

One of the roles of the WTO is to settle trade disputes between member nations, and it regularly monitors the trading policies of its member countries. For example, each country's trade policy is regularly reviewed and a report written by the WTO on the openness, or not, of its approach to trade. As of August 2012, the WTO had 157 member countries. The WTO includes agreements about the trade in goods and services, international investment and intellectual property rights. Currently the WTO is operating the Doha Round of trade talks, which has a focus on addressing the needs of developing countries in international trade.

The WTO harbours a strong commitment to the opening of all national markets to international trade which it believes will encourage sustainable development, raise living standards, reduce poverty and foster peace and stability. While the WTO does accept there needs to be "justifiable exceptions" and "adequate flexibilities" in opening up trade, critics of the WTO often claim that its approach does not take into account that sometimes freer trade leads to a widening of inequality in global income distribution. Critics also claim that the WTO supports the needs of developed countries over developing ones.

For example, they cite high levels of subsidies on the production of agricultural products in developed countries that make it hard for many poorer countries to access lucrative developed-country markets with their produce. Critics of the WTO note that, despite the WTO's existence for almost two decades, and the GATT for many before that, those protectionist measures remain in place.



The World Bank

The World Bank (formally a collection of five separate agencies) was initially established as the International Bank for Reconstruction and Development following World War II. Initially designed to provide support for Europe to rebuild, it is now focused on reducing global poverty and improving living standards around the world. It provides loans and grants to the governments of developing countries, often to finance infrastructure projects. The World Bank is often the only source of funds for the very poorest of countries, which receive grants from the bank. These loans and grants have been used to finance dams, roads, bridges and hospitals.

Critics of the World Bank have been vocal in their opposition to the reforms often imposed by the Bank on countries prior to granting loans. These can include forcing the countries to sell off public assets, remove subsidies on basic food stuffs, remove tariff barriers and reduce the size of government. Known as "structural adjustment", this approach became synonymous with a series of loans offered by the World Bank to bail out struggling countries

during the crisis in the 1970s when global oil prices rose very sharply. In some countries it led to high unemployment and slowing economic growth and rising inflation.

Critics, including a former Chief Economist of the Bank, Nobel Prize winning economist Joseph Stiglitz, have criticised the bank for imposing these economic reforms too rapidly, sometimes causing major hardship and thwarting economic development in the process. Critics have also pointed out that, even though the Bank is designed to serve all 186 countries that make up its membership, the President of the Bank has always traditionally been an American, and they have been critical of what they perceive as excessive developed-country influence over how the Bank is run.

The International Monetary Fund (IMF)

The International Monetary Fund was established, alongside the GATT and the World Bank, following World War II. After the War, the international financial system, and the system of international payments and exchange rates was in a mess, and the IMF was established to provide stability. Particularly, it acts as a lender to help countries meet their external financial obligations during times of crisis. Members of the IMF contribute funds to a pool based on their relative size and affluence, and then they can borrow from that pool on a temporary basis if they find they have a problem servicing their balance of payments deficit or they need financing that cannot be accessed elsewhere.



Like the World Bank, the IMF also provides technical assistance and policy advice for governments to help them improve their macroeconomic performance. Also like the World Bank, assistance from the IMF usually comes with conditions, and these conditions, just like those imposed by the Bank, have been a source of major criticism of the IMF. Similar to the conditions imposed by the World Bank, the IMF often requires country government to privatise major assets, as well cut their expenditures in order to run budget surpluses, as a condition of receiving assistance.