

The Future of Global Economic Governance

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Crisis for the IMF and WTO

The erosion of the United Nations system has become a familiar theme in recent years. But who could have anticipated that at the end of the century, the Bretton Woods system of multilateral agencies would also be mired in a very serious crisis. The legitimacy of the International Monetary Fund (IMF) is today at an all time low, with many influential voices even in the North calling for its abolition. Moreover, after the collapse of the third ministerial in Seattle, the future of the World Trade Organization (WTO) is uncertain. Reform of both institutions is now the demand in all quarters, drowning the formerly loud calls for UN reform. However, before addressing the question of reform or transformation of these very influential institutions, it might be useful to analyze the evolution of their relations with the Southern project of development as well as their relations with the United Nations development system.

Looking back - emergence of the Southern Agenda

During the period of decolonization in the 1950's and 1960's, the emergence of scores of newly independent states took place in the politically charged atmosphere of the Cold War. Although often split between East and West in their political alliances, Third World countries gravitated toward an economic agenda that had two underlying thrusts: rapid development and a global redistribution of wealth. While the more radical expression of this agenda in the shape of the Leninist theory of imperialism drew much attention and, is

some quarters, condemnation, it was the more moderate version that was most influential in drawing otherwise politically diverse Third World governments into a common front. This was the vision, analysis, and programme of action forged by Raul Prebisch, an Argentine economist who, from his base at the United Economic Commission for Latin America (CEPAL), won a global following with his numerous writings.

Prebisch's theory centered on the worsening terms of trade between industrialized and non-industrialized countries, an equation which posited that more and more of the South's raw materials and agricultural products were needed to purchase fewer and fewer of the North's manufactured products. Moreover, the trading relationship was likely to get worse since Northern producers were developing substitutes for raw materials from the South, and Northern consumers, according to Engels' Law, would spend a decreasing proportion of their income on agricultural products from the South.¹ Known in development circles as "*structuralism*," Prebisch's theory of "*bloodless but inexorable exploitation*,"² served as the inspiration for Third World organizations such as the Non-Aligned Movement, Group of 77, Organization of Petroleum Exporting Countries (OPEC), and the New International Economic Order (NIEO). It was also central to the establishment of the UN Conference on Trade and Development (UNCTAD) in 1964, which became over the next decade the principal vehicle used by the Third World countries in their effort to restructure the world economy.

With Prebisch as its first Secretary General, UNCTAD advanced a global reform strategy with three main prongs. The first was commodity price stabilization through the negotiation of price floors below which commodity prices would not be allowed to fall. The second was a scheme of preferential tariffs, or allowing Third World exports of

manufactures, in the name of development, to enter First World markets at lower tariff rates than those applied to exports from other industrialized countries. The third was an expansion and acceleration of foreign assistance, which, in UNCTAD's view, was not charity but "*compensation, a rebate to the Third World for the years of declining commodity purchasing power.*"³ UNCTAD also sought to gain legitimacy for the Southern countries' use of protectionist trade policy as a mechanism for industrialization and demanded accelerated transfer of technology to the South. To a greater or lesser degree, the structuralist critique came to be reflected in the approaches of other key economic agencies of the United Nations secretariat, such as the Economic and Social Council (ECOSOC) and the United Nations Development Program (UNDP). It also became the dominant viewpoint among the majority at the General Assembly.

The Bretton Woods Institutions focus on the South

The response of the leading countries of the North to the challenge of economic decolonization was conditioned by several developments. Most important of these was the Cold War. The priority of the political enterprise of containing the Soviet Union and Communism pushed the North, particularly the US government, to a less hard-line stance when it came to the question of whether the economic structures of its client countries conformed to free-market principles. While the US upheld private enterprise and demanded access for its corporations, it was more tolerant when it came to protectionism, investment controls, and a strong role for government in managing the economy. It also

promoted at least the image of supporting limited global redistribution of wealth, this being accomplished mainly through foreign aid.

As the emerging countries gravitated toward the UN system, the leading governments increasingly relied on the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) to push their agenda. The Bretton Woods institutions, founded in 1944, began with missions quite distinct from their latter-day involvement with North-South relations. The IMF was conceived by John Maynard Keynes and Harry Dexter White, the two pillars of the Bretton Woods meeting, as the guardian of global liquidity, a function that it was supposed to fulfil by monitoring member countries' maintenance of stable exchange rates and providing facilities on which they could periodically draw to overcome cyclical balance of payments difficulties. The IBRD was set up to assist in the reconstruction of the war-torn economies, particularly those of Western Europe, by lending to them at manageable rates of interest. By the early 1970's, however, a new era of floating exchange rates made the IMF's original mission superfluous. Instead, the Fund became deeply involved in stabilizing Third World economies with balance of payments difficulties. As for the World Bank, it had evolved into the prime multilateral development agency for aid and development.

A turning point for the World Bank was the debate triggered by the 1951 report of a group of experts entitled "*Measures for the Economic Development of Under-Developed Countries*," which proposed making grant aid available to Third World countries.⁴ Using this as a springboard, Third World countries at the General Assembly tried to push through resolutions that would establish "Sunfed," the Special UN Fund for

Economic Development, which would be controlled by the UN and whose criterion for providing loans would not be narrow banking rules but development need. The North, led by the United States, strenuously resisted these efforts.⁵ But when diversion and delay failed to derail the South's drive to set up Sunfed, the North came out with an alternative: an institution for making soft loans for development from capital subscribed by the North but one controlled by the North rather than the Third World majority at the United Nations. Thus came into being the International Development Association (IDA), which was attached to the World Bank as the latter's soft-loan window. The IDA was part of a compromise package that effectively killed the idea of a UN-controlled development fund. The other part of the package was the establishment of the UN Special Fund, later renamed the UN Development Programme, which served as the channel of much smaller quantities of mainly technical aid to Third World countries.⁶ This compromise, however, did not stop the escalation of Third World demands for a redistribution of global economic power.

The Southern challenge in the 1970's

In the 1970's, the World Bank was to be the centerpiece of liberal Washington's response, and Robert McNamara, was appointed President in 1968. The McNamara approach had several elements. First, there was a massive escalation in the Bank's resources, with lending climbing from \$2.7 billion a year in 1968 to \$12 billion in 1981. Second, there was a global programme aimed at ending poverty by focusing aid on improving the "productivity of the poor" but which side-stepped the essential need for

social reform. Third, there was an effort to split the South by picking a few countries as “*countries of concentration*” to which the flow of bank assistance would be higher than average for countries of similar size and income.

The rise of OPEC, however, made World Bank aid and foreign aid less critical to many of the leading countries in UNCTAD and the Group of 77 (G77), since they could gain access to massive quantities of loans that the commercial banks were only too happy to make available in their effort to turn a profit on the billions of dollars of deposits made to them by the OPEC countries. Consequently, instead of aid, UNCTAD focused on changing the rules of international trade, and in this enterprise it registered some successes. During the fourth conference of UNCTAD in Nairobi in 1976, agreement was reached, without dissent from the developed countries, on the Integrated Programme for Commodities (IPC). The IPC stipulated that agreements for 18 specified commodities would be negotiated in order to avoid excessive price fluctuations and stabilize commodity prices at levels remunerative to the producers and equitable to consumers. It was also agreed that a Common Fund would be set up that would regulate prices when they either fell below or climbed too far above the negotiated price targets.

UNCTAD and G77 pressure was also central to the IMF’s establishing a new window, the Compensatory Financing Facility (CFF), which was meant to assist Third World countries in managing foreign exchange crises created by sharp falls in the prices of their primary commodities exports. Another UNCTAD achievement was getting the industrialized countries to accept the principle of preferential tariffs for developing countries. Some 26 developed countries were involved in 16 separate “General System of Preferences” schemes by the early 1980’s. These concessions were, of course,

marginal. In the case of commodity price stabilization, it soon became apparent that the rich countries had replaced a strategy of confrontation with an evasive strategy of frustrating concrete agreements. A decade later, only one new commodity stabilization agreement, for natural rubber, had been negotiated; an existing agreement on cocoa was not operative; and agreements on tin and sugar had collapsed.⁷

Right-wing reaction - demonization of the South and targetting the UN

By the late seventies, however, even such small concessions were viewed with alarm by increasingly influential sectors of the U.S. establishment. Within the UN system these concessions were viewed as indicative of the fact that the strategy of liberal containment spearheaded by the Bank in the area of economic relations had not produced what it promised to deliver: security for Western interests in the South through the cooptation of Third World elites. These elites, which were the backbone of the UNCTAD system, gave in to popular pressure, abetted by local industrial interests, to tighten up on foreign investment. Nowhere did this trend spark more apprehension among American business people than in two countries (Brazil and Mexico) which were considered enormously strategic by US multinational firms. In Brazil, where foreign-owned firms accounted for half of total manufacturing sales,⁸ measures were implemented to reserve the strategic information sector to local industries, provoking bitter denunciation from the US.⁹ In Mexico,¹⁰ legal actions and threats of disinvestment by the powerful US drug industry followed the government's programme for the pharmaceutical industry, which proposed no-patent policies, promotion of generic medicines, local development of raw materials,

price controls, discriminatory incentives for local firms, and controls on foreign investment.¹¹

Disturbing though these actions were they could not compare in their impact with OPEC's second "oil shock" in 1979. To many Americans OPEC became the symbol of the South: an irresponsible gang that was bent on using its near monopoly over a key resource in order to bring the West to its knees. Although OPEC was dominated by US allies such as Saudi Arabia, Kuwait, and Venezuela, its "*oil weapon*" evoked more apprehension than the nuclear arms of the Soviet Union. Indeed, the oil cartel was feared as the precursor of a unified Southern bloc controlling most strategic commodities, and right-wing propagandists would point to the Algiers Declaration of the Non-Aligned Movement in 1973 in their efforts to fan fear in the North.¹²

Moreover, in the late seventies and early eighties, in the view of right-wing circles, the UN had become the main vehicle for the South's strategy to bring about the New International Economic Order. According to one right-wing think tank, the governments of the South devoted "*enormous time and resources to spreading the NIEO ideology throughout the UN system and beyond. Virtually no UN agencies and bureaus have been spared.*"¹³ Especially threatening was the effort by the Third World to "redistribute natural resources" by bringing the seabed, space, and Antarctica under their control through Law of the Sea Treaty, the Agreement Governing Activities of States on the Moon and Other Celestial Bodies (called the "Moon Treaty"), and an ongoing UN study and debate over Antarctica.¹⁴

Resubordinating the South: structural adjustment

When the Reagan administration came to power in 1981, it was riding on what it considered a mandate not only to roll back communism but also to discipline the Third World. What unfolded over the next four years was a two-pronged strategy aimed, on the one hand, at dismantling the system of "*state-assisted capitalism*" and drastically weakening the United Nations system as a forum and instrument for the South's economic agenda. The opportunity came none too soon in the form of the global debt crisis that erupted in the summer of 1982, which drastically weakened the capabilities of Southern governments in dealing with Northern states, corporations and multilateral agencies. The instruments chosen for rolling back the South were the World Bank and the IMF. This was an interesting transformation for the World Bank and the liberal McNamara was replaced by a more pliable successor.

"*Structural adjustment*" referred to a new lending approach that had been formulated during McNamara's last years at the Bank. Unlike the traditional project loans, a structural adjustment loan was intended to push "reforms" that would cut across the whole economy or a whole sector of the economy. In the mid-eighties, structural adjustment became the vehicle for a programme of free-market liberalization that was applied across the board to Third World economies suffering major debt problems. Almost invariably, structural adjustment programmes (SAPs) had the following elements:

- Radical reduction of government spending;
- Import liberalization and removal of restrictions on foreign investment;
- Privatization of state enterprises and radical deregulation;

- Currency devaluation; and
- Wage constraint.

By the late 1980's, with over 70 countries were subject to these SAPs. While justified as necessary to create the conditions that would enable Third World countries to repay their debts, structural adjustment also had a strategic objective: to dismantle the system of state-assisted capitalism. In 1988, a survey of SAPs carried out by the United Nations Commission for Africa concluded that the main goal was "*reduction/removal of direct state intervention in the productive and redistributive sectors of the economy.*"¹⁵ As for Latin America, one analyst noted that the U.S. took advantage of "*this period of financial strain to insist that debtor countries remove the government from the economy as the price of getting credit.*"¹⁶ Similarly, a retrospective look at the decade of adjustment in a book published by the Inter-American Development Bank in 1992 identified the removal of the state from economic activity as the centerpiece of the ideological perspective that guided the structural reforms of the 1980's.¹⁷ By 1992, it was clear that the South had been transformed: state participation in the economy had been drastically curtailed; government enterprises were passing into private hands in the name of efficiency; protectionist barriers were being radically reduced; and, through export-first policies, the internal economy was more tightly integrated into world markets.

Bringing the NICs to heel

East and Southeast Asia was one area that was relatively untouched during this first phase. Here practically all the economic systems displayed the same features of state-

assisted capitalism found elsewhere in the South: an activist government intervening in key areas of the economy, a focus on industrialization in order to escape the fate of being simply agricultural or raw material producers, protection of the domestic market from foreign competition, and tight controls on foreign investment. Where the key East and Southeast Asian economies appeared to differ from other economies in the South was mainly in the presence of a fairly strong state that was able to discipline local elites, the greater internalization of a developmentalist direction by the state elite, and the pursuit of aggressive mercantilist policies aimed at gaining markets in First World countries. The frontline status in Asia of many of these so-called “*Newly Industrializing Countries*” (NICs) during the Cold War ensured that Washington would turn a blind eye to many of their deviations from the free market ideal. But as the Cold War wound down from the mid-1980’s, the US began to redefine its economic policy toward East Asia as the creation of a “*level playing field*” for its corporations via liberalization, deregulation, and more extensive privatization of Asian economies.

It was a goal that Washington pursued by various means in the late 1980’s and early 1990’s. However, access to Japanese capital, which was relocating many of its industrial operations to East and Southeast Asia to offset the loss of competitiveness in Japan owing to the rapid appreciation of the yen triggered by the Plaza Accord in 1985, allowed countries like South Korea, Thailand, and Indonesia to ignore the requirements of formal SAPs that were foisted on them by the World Bank and the IMF in the early 1980’s when they were temporarily destabilized by the debt crisis. This left unilateralism in trade and financial diplomacy as the principal mechanism employed by the US to deal with the increasingly successful Asian “*tigers*.” Washington’s mood was aptly captured

by a senior US official who told a capital markets conference in San Francisco that “Although the NICs may be regarded as tigers because they are strong, ferocious traders, the analogy has a darker side. Tigers live in the jungle, and by the law of the jungle. They are a shrinking population.”¹⁸

Unilateral pressure, with some assistance from the IMF and the World Bank, succeeded in getting key Asian countries to liberalize their capital accounts and to move to greater liberalization of their financial sectors. When it came to trade liberalization, however, the results were meager, except perhaps in the case of Korea, whose trade surplus with the US had been turned into a trade deficit by the early 1980’s. But even this development did not change the US Trade Representative’s assessment of Korea as “one of the toughest places in the world to do business.”¹⁹ As for the Southeast Asian countries, Washington’s assessment was that while they might have liberalized their capital accounts and financial sectors, they remained highly protected when it came to trade and were dangerously flirting with “*trade distorting*” exercises in industrial policy.

The indiscriminate financial liberalization demanded by Washington and the Bretton Woods institutions coupled with the high-interest rate and fixed currency regime favored by local financial authorities brought in massive amounts of foreign capital into the region. But it also served as the wide highway through which \$100 billion exited in 1997 in a massive stampede in response to dislocations caused by overinvestment and unrestricted capital inflows, like the collapse of the real estate market and widening current account deficits. A golden opportunity to push the US agenda opened up with the financial crisis, and Washington did not hesitate to exploit it to the hilt, advancing its interests behind the banner of free-market reform. The rollback of protectionism and state

intervention was incorporated into stabilization programmes imposed by the IMF on the key crisis countries of Indonesia, Thailand, and South Korea. Summing up Washington's strategic goal, Jeff Garten, Undersecretary of Commerce during President Bill Clinton's first term, said: "*Most of these countries are going through a dark and deep tunnel...But on the other end there is going to be a significantly different Asia in which American firms have achieved a much deeper market penetration, much greater access.*"²⁰ By 1998, US financial firms and transnationals were buying up Asian assets from Seoul to Bangkok at fire-sale prices.

Dismantling the UN development system

This assault on the NICs via the IMF stabilization programmes and on the broader South via Bretton Woods-imposed structural adjustment was accompanied by a major effort to emasculate the United Nations as a vehicle for the Southern agenda. Wielding the power of the purse, the United States, whose contribution funds some 20-25 per cent of the UN budget, moved to silence NIEO rhetoric in all the key UN institutions dealing with the North-South divide: the Economic and Social Council (ECOSOC), the UNDP and the General Assembly. US pressure resulted as well in the effective dismantling of the UN Center on Transnational Corporations. Also abolished was the post of Director-General for International Economic Cooperation and Development, which "*had been one of the few concrete outcomes, and certainly the most noteworthy, of the efforts of the developing countries during the NIEO negotiations to secure a stronger UN presence in support of international economic cooperation and development.*"²¹

But the focus of the Northern counteroffensive was the defanging, if not dismantling of UNCTAD. After giving in to the South during the UNCTAD IV negotiations in Nairobi in 1976 by agreeing to the creation of the commodity stabilization scheme known as the Integrated Program for Commodities, the North, during UNCTAD V in Belgrade, refused the South's programme of debt forgiveness and other measures intended to revive Third World economies and thus contribute to global recovery at a time of worldwide recession.²² The northern offensive escalated during UNCTAD VIII, held in Cartagena in 1992. At this watershed meeting, the North successfully opposed all linkages of UNCTAD discussions with the Uruguay Round negotiations of the GATT and managed to erode UNCTAD's negotiation functions, thus calling its existence into question.²³ UNCTAD's main function would henceforth be limited to *"analysis, consensus building on some trade-related issues, and technical assistance."*²⁴ This drastic curtailing of UNCTAD's scope was apparently not enough for certain Northern interests. For instance, the Geneva-based Independent Commission on Global Governance identified UNCTAD as one of agencies that could be abolished in order to streamline the UN system.²⁵

The World Trade Organization: sealing the defeat of the South

UNCTAD has been rendered impotent by the WTO, which came into being following the signing of the Marrakesh Accord in April 1994 and which put in force the agreements concluded during the eight-year Uruguay Round of the General Agreement on Tariffs and Trade (GATT). The WTO was 46 years late in coming into being, though it had initially been regarded by liberal internationalists in the US and Britain as the third pillar of the

Bretton Woods system, doing for trade what the IMF did for finance and the World Bank for economic reconstruction. A global trading organization had initially been scheduled come into existence as the International Trade Organization (ITO) in 1948, but the threat of non-ratification by unilateralist forces in the US Senate, owing to their perception that American interests would be compromised, led to its being shelved in favour of the much weaker GATT. By the mid-eighties, trade rivalries with Europe and Japan, rising import penetration of the US market by Third World countries, frustration at the inability of US goods to enter Southern markets, and the rise of new competitors in the shape of the East Asian NICs made the US the leading advocate of a much expanded GATT with real coercive teeth. Central to the founding of the WTO were the twin drives of managing the trade rivalry among the leading industrial countries while containing the threat posed by the South to the prevailing global economic structure. In this sense, the WTO must be seen as a continuation or extension of the same Northern reaction that drove structural adjustment.

Indeed, the WTO, with its enshrinement of the principle of free trade as the organizing principle of the global trading system, represents the defeat of everything that the South fought for in UNCTAD (e.g., getting fair prices via commodity price agreements and the institutionalization of trade preferences for Southern goods owing to their underdeveloped status, etc.). Instead, the WTO institutionalized free trade, the most favoured nation principle, and national treatment as the pillars of the new world trading order. National treatment, which was institutionalized in the General Agreement on Trade in Services (GATS) of the Uruguay Round, was perhaps the most revolutionary of these principles and the most threatening to the South since it gives foreign service providers,

from telecommunications companies to lawyers to educational agencies, the same rights and privileges as their domestic counterparts. Although the Uruguay Round Accord made reference to the “*special and differential status*” of the developing countries, it did not see this as a case structurally determined differences but as one of gaps that can be surmounted by giving developing countries a longer adjustment period than the developed countries.

While Northern environmental organizations were critical of the WTO owing to their fears that environmental standards in the North would be subordinated to free trade according to the principle of “*free trade uber alles*,” as Ralph Nader put it, the Southern countries articulated their concerns about the GATT-WTO’s anti-developmental thrust. In their view, GATT-WTO was inherently unsympathetic to industrialization. At the same time, it eroded the agricultural base of the developing societies. Yet triumphalism was the order of the day. The birth of the WTO in 1995 was widely acclaimed as the resumption of the process of rapid globalization of economies after a long pause that was triggered by the Great Depression in the 1930’s.

The IMF in the eye of the storm

That note of triumphalism was absent over five years later, when the IMF, in a surprise announcement at the World Bank-IMF annual meeting at the end of September 1999, indicated that henceforth it would put “*poverty reduction*” at the center of its development strategy. The IMF and its sister institution, in other words, were abandoning the model and strategy for development that had reigned since the early 1980s: structural

adjustment. What brought about the 180-degree turn from the Washington consensus in the last years of the decade? The answer is “*spectacular failure*” that could no longer be denied at the pain of totally losing institutional credibility. The World Bank was the first to recognize that something was amiss. With over a 100 countries under adjustment for over a decade, it was strange that the Bank and the Fund found it hard to point to even a handful of success stories. In most cases, as Rudiger Dornbusch of the Massachusetts Institute of Technology put it, structural adjustment caused economies to “*fall into a hole*,”²⁶ wherein low investment, reduced social spending, reduced consumption, and low output interacted to create a vicious cycle of decline and stagnation, rather than a virtuous circle of growth, rising employment, and rising investment, as originally envisaged by World Bank-IMF theory. With much resistance from the Bank’s entrenched bureaucracy, James Wolfensohn, then President, moved to slowly distance the Bank from hard-line adjustment policies and even got some of his staff to (grudgingly) work with civil society groups to assess SAPs in the so-called “Structural Adjustment Review Initiative” (SAPRI). For the most part, however, the change of attitude did not translate to changes at the operational level owing to the strong internalization of the structural adjustment approach among Bank operatives.

While self-doubt began to engulf the Bank, the IMF, in contrast, plowed confidently on, and the lack of evidence of success was interpreted to mean simply that a government lacked political will to push adjustment. Through the establishment of the Extended Structural Adjustment Facility (ESAF), the Fund sought to fund countries over a longer period in order to more fully institutionalize the desired free-market reforms and make them permanent. It was the Asian financial crisis that finally forced the IMF to

confront reality. In 1997-98 the Fund moved with grand assurance into Thailand, Indonesia, and Korea, with its classic formula of short-term fiscal and monetary policy cum structural reform in the direction of liberalization, deregulation, and privatization. This was the price exacted from their governments for IMF financial rescue packages that would allow them to repay the massive debt incurred by their private sectors. But the result was to turn a conjunctural crisis into a deep recession, as government's capacity to counteract the drop in private sector activity, was destroyed by budgetary and monetary repression.²⁷ For a world that had long been resentful of the Fund's arrogance, this was the last straw. In 1998-99, criticism of the IMF rose to a crescendo and went beyond its stubborn adherence to structural adjustment and its serving as a bailout mechanism for international finance capital to encompass accusations of its being non-transparent and non-accountable. Its vulnerable position was exposed during the recent debate in the US Congress over a G-7 initiative to provide debt relief to 40 poor countries. Legislators depicted the IMF as the agency that caused the debt crisis of the poor countries in the first place, and some called for its abolition within three years. Said Rep. Maxine Walters: *"Do we have to have the IMF involved at all? Because, as we have painfully discovered, the way the IMF works causes children to starve."*²⁸ In the face of such criticism from legislators in the IMF's most powerful member, US Treasury Secretary Larry Summers claimed that the IMF-centered process would be replaced by *"a new, more open and inclusive process that would involve multiple international organizations and give national policymakers and civil society groups a more central role."*²⁹

Radical Reform or Decommissioning?

The fact is, in the case of the IMF, as well as that of the World Bank, jettisoning the paradigm of structural adjustment has left them adrift, in the view of many critics, with just the rhetoric and broad goals of reducing poverty, but without an innovative macroeconomic approach. Wolfensohn and his ex-chief economist Joseph Stiglitz talk about “bringing together” the “macroeconomic” and “social” aspects of development, but Bank officials cannot point to a larger strategy beyond increasing lending to health, population, nutrition, education, and social protection to 25 per cent of the Bank’s total lending. It is not surprising that, in these circumstances, the old framework would reassert itself, with, for example, the IMF telling the Thai government, already its most obedient pupil, to cut its fiscal deficit despite a very fragile recovery; the Fund’s pushing Indonesia to open its retail trade to foreign investors, despite the consequences in terms of higher unemployment. Then, there is the issue of accountability. The Bank and the Fund have been responsible for tremendous economic and social damage wrought on Third World economies for over two decades. Shouldn’t they be held to account for that?

Moreover, what would a real process of transformation look like? It would be something that would include more than the open selection process for the new managing director—one that would open the recruitment process to non-Europeans—endorsed by Jeffrey Sachs.³⁰ For the problem lies in the very structure and culture of the IMF: a lack of accountability except to the US Treasury Department; a belief in non-transparency as a condition for effectiveness; and a deeply ingrained elitism that renders the bureaucracy incapable of learning from outsiders.

If this is the heart of the matter, then surgery must be more radical. The following measures could be proposed:

- First, a clean break with the past can only take place with the immediate dismantling of all SAPs in the Third World and the ex-socialist world and the IMF adjustment programmes imposed on Indonesia, Thailand, and Korea following the Asian financial crisis.
- Second, immediate reduction of the IMF professional staff from over 1000 to 200, and major cuts in both capital expenditures and operational expenses of the agency. Most of the Fund's economists are today employed in micromanaging adjustment programs and would definitely cease to be necessary if, as the G-7 Finance Ministers and Central Bank governors suggest, developing countries be given more authority in formulating and implementing their poverty reduction programs.³¹
- Third and most important is the creation of a Global Commission on the Future of the IMF to decide if the Fund is to be reformed along the lines suggested by Sachs and others or, to borrow a phrase applied to aging nuclear plants, it is to be decommissioned, which this author favors. Half of the members of such a body should come from civil society organizations since it is these groups that were instrumental in bringing to light the destructive impact of adjustment programs and are now engaged in many of the most innovative experiments in grassroots social development. Energy from below and decentralized operations are the trademarks of so many successful organizations that the top-down centralized IMF looks positively Jurassic.

With its credibility and legitimacy in tatters, the Fund is in severe crisis. Unless international civil society intervenes, the powers that be will wait for the storm to blow over while talking about reform

The crisis of the WTO and the future of global trade regime

The collapse of the Third WTO Ministerial in Seattle in early December 1999 stemmed from the fatal combination of massive street protests, an in-house revolt against non-transparent decision-making by the developing countries, and the inability of the WTO's two greatest powers, the United States and the European Union, to come to an agreement on key trade issues. Seattle was, in short, the culminating point of resentments and conflicts that had been building up ever since the Uruguay Round that had been papered over by a superficial triumphalism about the WTO's being the vanguard of an inevitable globalization. In the wake of the collapse of the Seattle Ministerial, there has emerged the opinion that reform of the WTO is now the programme that NGOs, governments, and citizens must embrace. The collapse of the WTO Ministerial is said to provide a unique window of opportunity for a reform agenda to increase the internal transparency and inclusion to accommodate a larger and more diverse membership.³² However, what civil society, North and South, should be doing at this point is radically cutting down the power of the institution and reducing it to simply another institution in a pluralistic world trading system with multiple systems of governance.

World trade did not need the WTO to expand 17-fold between 1948 and 1997, from \$124 billion to \$10,772 billion.³³ This expansion took place under the flexible

GATT trade regime. The WTO's founding in 1995 did not respond to a collapse or crisis of world trade such as happened in the 1930's. It was not necessary for global peace, since no world war or trade-related war had taken place during that period. In the six inter-state wars that took place in that period—the Korean War of 1950-53, the Vietnam War of 1945-75, the 1967 Arab-Israeli War, the 1973 Arab-Israeli War, the 1982 Falklands War, and the Gulf War of 1990—trade conflict did not figure even remotely as a cause. GATT was, in fact, functioning reasonably well as a framework for liberalizing world trade. Its dispute-settlement system was flexible and with its recognition of the “*special and differential status*” of developing countries, it provided the space in a global economy for Third World countries to use trade policy for development and industrialization.

Why was the WTO established following the Uruguay Round of 1986-94? Of the major trading powers, Japan was very ambivalent, concerned as it was to protect its agriculture as well as its particular system of industrial production that, through formal and informal mechanisms, gave its local producers primary right to exploit the domestic market. The EU, well on the way of becoming a self-sufficient trading bloc, was likewise ambivalent, knowing that its highly subsidized system in agriculture would come under attack. Though demanding greater access to their manufactured and agricultural products in the Northern economies, the developing countries did not see this as being accomplished through a comprehensive agreement enforced by a powerful trade bureaucracy but through discrete negotiations and agreements in the model of the Integrated Programme for Commodities (IPCs) and Commodity Stabilization Fund agreed upon under the aegis of UNCTAD in the late seventies.

The founding of the WTO served primarily the interest of the United States. Just as it was the US which blocked the founding of the International Trade Organization (ITO) in 1948, when it felt that this would not serve its position of overwhelming economic dominance in the post-war world, so it was the US that became the dominant lobbyist for the comprehensive Uruguay Round and the founding of the WTO in late eighties and early nineties, when it felt that more competitive global conditions had created a situation where its corporate interests now demanded an opposite stance.

Just as it was the US's threat in the 1950's to leave GATT if it was not allowed to maintain protective mechanisms for milk and other agricultural products that led to agricultural trade's exemption from GATT rules, so was it US pressure that brought agriculture into the GATT-WTO system in 1995. And the reason for Washington's change of mind was articulated quite candidly by then US Agriculture Secretary John Block at the start of the Uruguay Round negotiations in 1986: "[The] idea that developing countries should feed themselves is an anachronism from a bygone era. They could better ensure their food security by relying on US agricultural products, which are available, in most cases at much lower cost."³⁴ Washington, of course, did not just have developing country markets in mind, but also Japan, South Korea, and the European Union.

It was the US that mainly pushed to bring services under WTO coverage, with its assessment that the in the new burgeoning area of international services, and particularly in financial services, its corporations had a lead that needed to be preserved. It was also the US that pushed to expand WTO jurisdiction to the so-called "Trade-Related Investment Measures" (TRIMs) and "Trade-Related Intellectual Property Rights

(TRIPs).” The first sought to eliminate barriers to the system of internal cross-border trade of product components among TNC (transnational corporations) subsidiaries that had been imposed by developing countries in order to develop their industries; the second to consolidate the US advantage in the cutting-edge knowledge-intensive industries.

And it was the US that forced the creation of the WTO’s formidable dispute-resolution and enforcement mechanism after being frustrated with what US trade officials considered weak GATT efforts to enforce rulings favorable to the US. As Washington’s academic point man on trade, C. Fred Bergsten, head of the Institute of International Economics, told the US Senate, the strong WTO dispute settlement mechanism serves US interests because “we can now use the full weight of the international machinery to go after those trade barriers, reduce them, get them eliminated.”³⁵

In sum, it has been Washington’s changing perception of the needs of its economic interest-groups that have shaped and reshaped the international trading regime. It was not global necessity that gave birth to the WTO in 1995. It was the US’s assessment that the interests of its corporations were no longer served by a loose and flexible GATT but needed an all-powerful and wide-ranging WTO. From the free-market paradigm that underpins it, to the rules and regulations set forth in the different agreements that make up the Uruguay Round, to its system of decision-making and accountability, the WTO is a blueprint for the global hegemony of Corporate America. It seeks to institutionalize the accumulated advantages of US corporations. Is the WTO necessary? Yes, to the United States. But not to the rest of the world.

Can the WTO serve the interests of the developing countries?

Is the WTO a necessary structure--one that, whatever its flaws, brings more benefits than costs, and would therefore merit efforts at reform?

When the Uruguay Round was being negotiated, there was considerable lack of enthusiasm for the process by the developing countries. After all, these countries had formed the backbone of UNCTAD, which, with its system of one-country/one-vote and majority voting, they felt was an international arena more congenial to their interests. They entered the Uruguay Round greatly resenting the large trading powers' policy of weakening and marginalizing UNCTAD in the late seventies and early eighties.

Largely passive spectators, with a great number not even represented during the negotiations owing to resource constraints, the developing countries were dragged into unenthusiastic endorsement of the Marrakesh Accord of 1994 that sealed the Uruguay Round and established the WTO. To try to sell the WTO to the South, US propagandists evoked the fear that staying out of the WTO would result in a country's isolation from world trade ("like North Korea") and stoked the promise that a "*rules-based system*" of world trade would protect the weak countries from unilateral acts by the big trading powers.

With their economies dominated by the IMF and the World Bank, with the SAPs pushed by these agencies having as a central element radical trade liberalization, much weaker as a bloc owing to the debt crisis compared to the 1970's, the height of the "New International Economic Order," most developing country delegations felt they had no choice but to sign on the dotted line. Over the next few years, however, these countries

realized that they had signed away their right to employ a variety of critical trade measures for development purposes.

In contrast to the loose GATT framework, which had allowed some space for development initiatives, the comprehensive and tightened Uruguay Round was fundamentally anti-development in its thrust.

Oligarchic decision-making as a central, defining process

Is the system of WTO decisionmaking reformable? While far more flexible than the WTO, the GATT was, of course, far from perfect, and one of the bad traits that the WTO took over from it was the system of decisionmaking. GATT functioned through a process called “*consensus*.” Now consensus responded to the same problem that faced the IMF and the World Bank’s developed country members: how to assure control at a time that the numbers gave the edge to the new countries of the South. In the Fund and the Bank, the system of decision-making evolved had the weight of a country’s vote determined by the size of its capital subscriptions, which gave the US and the other rich countries effective control of the two organizations.

In the GATT, a one-country-one-vote system was initially tried, but the big trading powers saw this as inimical to their interests. Thus, the last time a vote was taken in GATT was in 1959.³⁶ The system that finally emerged was described by US economist Bergsten as one that “*does not work by voting. It works by a consensus arrangement which, to tell the truth, is managed by four—the Quads: the United States, Japan, European Union, and Canada.*”³⁷ He continued: “*Those countries have to agree if any major steps are going to be made, that is true. But no votes.*”³⁸

Indeed, so undemocratic is the WTO that decisions are arrived at informally, via caucuses convoked in the corridors of the ministerials by the big trading powers. The formal plenary sessions, which in democracies are the central arena for decision-making, are reserved for speeches. The key agreements to come out of the first and second ministerials of the WTO—the decision to liberalize information technology trade taken at the first ministerial in Singapore in 1996 and the agreement to liberalize trade in electronic commerce arrived at in Geneva in 1998—were all decided in informal backroom sessions and simply presented to the full assembly as *faits accomplis*. Consensus simply functioned to render non-transparent a process where smaller, weaker countries were pressured, browbeaten, or bullied to conform to the “*consensus*” forged among major trading powers.

In damage-containment mode after the collapse of the Seattle Ministerial, US Trade Representative Charlene Barshefsky, WTO Director General Mike Moore, and other rich country representatives have spoken about the need for WTO “reform.” But none have declared any intention of pushing for a one-country/one-vote majority decisionmaking system or a voting system weighted by population size, which would be the only fair and legitimate methods in a democratic international organization. The fact is, such mechanisms will never be adopted, for this would put the developing countries in a preponderant role in terms of decisionmaking.

Building a more pluralistic system of international economic governance

Reform is a viable strategy when the system in question is fundamentally fair but has simply been corrupted such as the case with some democracies. It is not a viable strategy when a system is so fundamentally unequal in purposes, principles, and processes as the WTO. The WTO systematically protects and the trade and economic advantages of the rich countries, particularly the United States. It is based on a paradigm or philosophy that denigrates the right to take activist measures to achieve development on the part of less developed countries, thus leading to a radical dilution of their right to “*special and differential treatment*.” The WTO raises inequality into a principle of decision-making.

The WTO is often promoted as a “*rules-based*” trading framework that protects the weaker and poorer countries from unilateral actions by the stronger states. The opposite is true: the WTO, like many other multilateral international agreements, is meant to institutionalize and legitimize inequality. Its main purpose is to reduce the tremendous policing costs to the stronger powers that would be involved in disciplining many small countries in a more fluid, less structured international system.

It is not surprising that both the WTO and the IMF are currently mired in a severe crisis of legitimacy. For both are highly centralized, highly unaccountable, highly non-transparent global institutions that seek to subjugate, control, or harness vast swathes of global economic, social, political, and environmental processes to the needs and interests of a global minority of states, elites, and TNCs. The dynamics of such institutions clash with the burgeoning democratic aspirations of peoples, countries, and communities in both the North and the South. The centralizing dynamics of these institutions clash with the efforts of communities and nations to regain control of their fate and achieve a modicum of security by deconcentrating and decentralizing economic and political

power. In other words, these are Jurassic institutions in an age of participatory political and economic democracy.

If there is one thing that is clear, it is that developing country governments and international civil society must not allow their energies to be hijacked into reforming these institutions. This will only amount to administering a facelift to fundamentally flawed institutions. Indeed, today's need is not another centralized global institution, reformed or unreformed, but the deconcentration and decentralization of institutional power and the creation of a pluralistic system of institutions and organizations interacting with one another amidst broadly defined and flexible agreements and understandings.

It was under such a more pluralistic global system, where hegemonic power was still far from institutionalized in a set of all encompassing and powerful multilateral organizations that the Latin American countries and many Asian countries were able to achieve a modicum of industrial development in the period from 1950-70. It was under a more pluralistic world system, under a GATT that was limited in its power, flexible, and more sympathetic to the special status of developing countries, that the East and Southeast Asian countries were able to become newly industrializing countries through state trade and industrial policies that departed significantly from the free-market biases enshrined in the WTO.

The alternative to a powerful WTO-- and strong--IMF is not a Hobbesian state of nature. It is always the powerful that have stoked this fear. The reality of international economic relations in a world marked by a multiplicity of international and regional institutions that check one another is a far cry from the propaganda image of a "*nasty*" and "*brutish*" world. Of course, the threat of unilateral action by the powerful is ever

present in such a system, but it is one that even the powerful hesitate to take for fear of its consequences on their legitimacy as well as the reaction it would provoke in the form of opposing coalitions.

In other words, what developing countries and international civil society should aim at is not to reform the WTO and IMF but, through a combination of passive and active measures, to radically reduce their power and to make them simply another pair of international institution coexisting with and being checked by other international organizations, agreements, and regional groupings. These would include such diverse actors and institutions as UNCTAD, International Labor Organization, and other UN agencies or affiliates; multilateral environmental agreements such as the Basel Convention and CITES, and evolving trade blocs such as Mercosur in Latin America, SAARC in South Asia, SADCC in Southern Africa, and ASEAN in Southeast Asia.

It is in such a more fluid, less structured, more pluralistic world with multiple checks and balances that the nations and communities of the South will be able to carve out the space to develop based on their values, their rhythms, and the strategies of their choice.

¹ See, among other works, *Toward a New Trade Policy for Development*, New York, UNCTAD, 1964.

² Bernard Nossiter, *The Global Struggle for More*, New York, Harper and Row, 1987, pp. 42-43.

³ *Ibid.*, p. 45.

⁴ Nassau Adams, "The UN's Neglected Brief—"The Advancement of All Peoples"", in Erskine Childers, *Challenges to the UN*, New York, St. Martin's Press, p.31.

⁵ Nossiter, p. 34.

⁶ Adams, "The UN's Neglected Brief," p. 31.

⁷ Alfred Maizels, "Reforming the World Commodity Economy," in Michael Cutajar, ed., *UNCTAD and the North-South Dialogue*, New York, Pergamon Press, 1985, p. 108; United Nations, *World Economic Survey*, New York, United Nations, 1988, p. 42.

⁸ Karin Lissakers, *Banks, Borrowers, and the Establishment: A Revisionist Account of the International Debt Crisis*, New York, Basic Books, 1991, p. 56.

⁹ Eduardo White, "The Question of Foreign Investments and the Economic Crisis of Latin America," in Richard Feinberg and Ricardo French-Davis, eds., *Development and External Debt in Latin America: Bases for a New Consensus*, Notre Dame, Indiana: University of Notre Dame Press, 1988, pp. 157-158.

¹⁰ Lissakers, p. 56

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- ¹¹ White, p. 158.
- ¹² Quoted in Nossiter, p. 57.
- ¹³ Doug Bandow, "The US Role in Promoting Third World Development," in Heritage Foundation, *US Aid to the Developing World: A Free Market Agenda*, Washington, Heritage Foundation, 1985, p. xxii.
- ¹⁴ *Ibid.*, pp. xxiii-xxiv.
- ¹⁵ Cited in Seamus Cleary, "Toward a New Adjustment in Africa," in "Beyond Adjustment," Special Issue of *African Environment*, Vo. 7, Nos. 1-4, p. 357.
- ¹⁶ John Sheahan, "Development Dichotomies and Economic Development Strategy," in Simon Teitel, ed., *Towards a New Development Strategy for Latin America*, Washington DC, Inter-American Development Bank, 1992, p. 33.
- ¹⁷ Pedro Gerchunoff and Juan Carlos Torre, "What Role for the State in Latin America?," in Teitel, p. 33.
- ¹⁸ David Mulford, "Remarks before the Asia-Pacific Capital Markets Conference," San Francisco, November 17, 1987.
- ¹⁹ Testimony of Ambassador Charlene Barshefsky, USTR, before the House Ways and Means Trade Subcommittee, US Congress, Feb. 24, 1998.
- ²⁰ Quoted in "Worsening Financial Flu Lowers Immunity to US Business," *New York Times*, Feb. 1, 1998.
- ²¹ Adams, p. 43.
- ²² South Commission, *The Challenge to the South*, New York, Oxford University Press, 1991, p. 217.
- ²³ Myriam Van der Stichele, "World Trade—Free Trade for Whom, Fair for Whom?," in Childers, p. 69.
- ²⁴ *Ibid.*
- ²⁵ "South Decries Moves to Close UNCTAD, UNIDO," *Third World Resurgence*, No. 56, p. 41.
- ²⁶ Rudiger Dornbusch, quoted in Jacques Polak, "The Changing Nature of IMF Conditionality," *Essays in International Finance*, Princeton University, No. 184, Sept. 1991, p. 47.
- ²⁷ See Nicola Bullard, Walden Bello, and Kamal Malhotra, *Taming the Tigers: The IMF and the Asian Crisis*, Bangkok, Focus on the Global South, 1998.
- ²⁸ Quoted in AP, reproduced in *Business World*, Nov. 15, 1999.
- ²⁹ Op-ed, *Washington Post*, reproduced in *Today*, Nov. 15, 1999.
- ³⁰ Jeffrey Sachs, "Time to End the Backroom Poker Game," *Financial Times*, Nov. 15, 1999.
- ³¹ *Ibid.*
- ³² Quoted in Proposal for Oxfam Work on WTO Institutional Reform, December 1999.
- ³³ Figures from World Trade Organization, *Annual Report 1998: International Trade Statistics*, Geneva, WTO, 1998, p. 12.
- ³⁴ Quoted in "Cakes and Caviar: The Dunkel Draft and Third World Agriculture," *Ecologist*, Vol. 23, No. 6, Nov-Dec. 1993, p. 220.
- ³⁵ C. Fred Bergsten,
- ³⁶ C. Fred Bergsten, Director, Institute for International Economics, Testimony before the US Senate, Washington, DC, Oct. 13, 1994.
- ³⁷ *Ibid.*
- ³⁸ *Ibid.*