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Globalization and International Institutions: World Bank, International Monetary Fund and World Trade Organisation

The global economy is considered as the international exchange of goods and services that is expressed in monetary units of account. It is a world-wide economic activity between various countries intertwined and thus can affect other countries negatively or positively. In a nutshell, the global economy refers to the economy of the world, comprising several countries, with each economy related to the other in one way or the other. A key concept in the global economy is globalisation, which is the process that leads to individual economies around the world being closely interwoven such that an event in one country is bound to affect the state of other world economies. In the past century or so, the focus on globalisation has intensified a lot. More trade has been conducted among different countries, and restrictions on movement and business across borders have reduced a great deal. This resulted in global economy. People are now able to sell their commodities in any market across the world. Likewise, consumers also enjoy a much wider choice of goods and services since they can sample them from other places and not just their own countries.[1]

The global political economy has changed dramatically since the Industrial Revolution of the late 18th and early 19th centuries. The study of the global political economy involves thinking reflectively about how and why changes in one dimension of the global political economy interconnect and overlap with others. Past experiences have helped us gain a better and more dynamic understanding of the evolution of trade in terms of changing forms of governance, authority, relationships and outcomes in the global political economy. International Political Economy (IPE) has developed since the 1970s to understand the modern world economy based on relations between the states and markets.

THE GENESIS AND GROWTH OF GLOBAL ECONOMY

In the past, there did not exist a global economic system. Trade was mainly local and based on barter– the direct exchange of goods without money. When barter became inadequate owing to distance or the bulk of goods for trade

precious metals like gold and silver were used to make payment. Rome established a monetary system throughout its empire, and even after that empire collapsed its gold coins remained in use and were accepted everywhere.

Europe's medieval world economy evolved slowly under the influence of social and economic changes. In Flanders, Belgium, and northern Italy, self governing city states emerged as commerce flourished. Growing trade required money and banks came into existence. By the end of the 13th century, Florence had become Europe's banking center with 80 banks, and as money replaced other forms of exchange, banking system expanded to other lands. Florentine bankers such as the Bardi and Peruzzi families established branches around Europe and became immensely rich, involved in trading grain, wool and silk as well as in lending and exchanging currency. The most important Florentine banking family was the Medicis, later to become the city's rulers. The Medicis loaned money at high interest rates to European rulers.[2]

As commerce spread northwards, merchant groups from commercial cities along the northern Europe formed the Hanseatic League in the middle of the 13th century. It continued for 300 years. The league provided security for merchants, standardised weights and measures, and fostered trade among Russians, Scandinavians, Germans, Polish, and the English. Its network of alliance grew to 170 cities and it protected its interest from interfering rulers and rival traders using powerful fleet financed by its members.[3] Therefore, Europe's voyages of discovery created new economic links with distant people and places in the course of establishing empires and planting European colonies on distant shores. As territorial states emerged in the form of principal global actors in the 17th and 18th centuries, they assumed the role of providing money and regulating trade. Along with the state, the first international monetary system developed the gold standard, under which gold and money were equivalent.

Immanuel Wallerstein presented an account of the structure of world economy as necessarily divided into cores, peripheries and semi-peripheries. The 'core' in north-west Europe was able to develop comparatively effective and powerful states and to dominate politically and economically. It reflects the importance of communication and transportation in determining the power of states relative to their size.

The agricultural revolution in England significantly increased productivity, and the spread of its empire generated important commodities particularly tea and slavery. In the Atlantic, the 'Golden Triangle' brought together basic commodities from Britain, slaves from West Africa and sugar from the Caribbean Islands. In the early 19th century, in the East the demand for tea from China, the non-availability of products desired by the Chinese Empire led to the development of another triangle, involving British colonial cotton goods, Indian opium and Chinese tea.[4] With the emergence of the industrial revolution/society in the second half on 19th century large scale division of labour existed worldwide, especially after the two world wars.

THEORETICAL PERSPECTIVE OF POLITICAL ECONOMY

There are four dominant theoretical traditions in global political economy - Mercantilism, Liberalism, Marxism and Constructivism, each with distinctive analytic and normative elements on global economy. Mercantilism dominated economic thinking between the 16th and late 18th centuries. Mercantilism influences many countries where it takes the form of protectionism for home industries. In the second perspective, economic liberalism or free market capitalism rose in the 18th and early 19th centuries, spread by imperialism. Marxism developed in the 19th century as an alternative to liberalism, with socialist and communist ideas advocating as an alternative to capitalism.

The Mercantilism

The Scottish political economist Adam Smith (1723-90) coined the term "mercantile system" which he defined as the "encouragement of exportation and the discouragement of importation". Mercantlism's normative premise was that economic policy should advance state power. The mercantilist era was one of intense colonial rivalry among Europe's powers. This system dominated Western European economic thought and policies from 16th to the late 18th centuries. Spain's conquest of South and Central America in the 16th century and its access to precious metals made it the leading power of its age and its new world colonies became part of a great imperial trade bloc. The goal of the mercantilist system was to achieve a favourable balance of trade that would bring gold and silver into the country and also to maintain domestic employment.[5] Jean Baptiste Colbert (1617-83) argued that states should accumulate gold and silver as well as build a strong central government. According to mercantilist states should be self sufficient in industries, especially those needed to wage war. Leaders did not allow skilled labourers to transfer capital goods (goods used to produce other goods) to be exported. Mercantilists argued that infant industries even if inefficient, should be nurtured and protected behind a protectionist wall. They assume that the world economy is an arena of competition among states seeking to maximise relative strength and power. In other words, the international system is like a jungle in which each state has to do what it can to survive. In this sense, mercantilists share the presumptions of realists in international system. For them, the aim of every state must be to maximise its wealth and independence. States will seek to do this by ensuring their self-sufficiency in key strategic industries and commodities and by using state protectionism (tariffs and other limits on exports and imports), subsidies and selective investments in the domestic

economy. The most powerful states define the rules and limits of the system through hegemony, alliances and balances of power.[6] Mercantilists also support imperial expansion and establishment of overseas colonies to obtain larger exclusive markets for their products and access to raw materials. Mercantilist also encouraged population growth to provide colonies with labourers, development of bigger markets and armies. In this way, the English dominated during the colonisation period. They encouraged the building of merchant ships and navies.

England's mercantilist policies played a key role in relations between the American colonies and the mother country. The 1651 Navigation Act required that goods shipped to and from colonies use only English vessels manned by English crew. This law was directed principally against England's arch rival Holland and later against France. Similarly, the Staple Act of 1663 extended the Navigation Act by requiring that all colonial exports to Europe be landed through an English port before being re-exported to Europe. Mercantilism began to give way to economic liberalism during the Industrial Revolution and Britain's conversation to free trade. The Industrial Revolution (1760-1830) transformed Britain from an agrarian to an industrial society. Industrialisation and accompanying urbanisation empowered a commercial middle class, greatly enlarged the number of urban workers and advanced the spread of democracy.[7] Hence in this system stability and order will only achieved where one state can play the role of hegemony.

The liberal tradition

The liberal tradition is the free market in which the role of voluntary exchange and markets is emphasised both as efficient and as morally desirable. The assumption is that free trade and the free movement of capital will ensure the investment flows to where it is most profitable to invest (for example, flowing capital to underdeveloped areas where maximal gains might be made). David Ricardo (1772-1823) developed a theory that states should engage in international trade according to their comparative advantage. The state should produce and export those products which they can produce most efficiently (or specialise), relative to other states. Thus, gains from trade are maximised for all because each state minimises its opportunity cost. National currencies should be bought and sold in a free market system. In such a system of floating exchange rates, the market determines the value of one currency as compared to other currencies. Floating exchange rates will lead to market equilibrium.[8] The economy is pushed forward by freely exchangeable currencies and open markets which create a global system to ensure an efficient and equitable distribution of goods and services across the world economy. The optimal role of governments and institutions is to ensure the smooth and relatively unfettered operation of markets.[9]

Voting in the IMF is based on quotas, and quotas in turn are based on a country's economic power, including its GDP, current account transactions and official reserves. An IMF quota represents the maximum amount of money a country provides to the IMF for lending to correct the balance of payments problems. The United States has the largest vote with 16.8 percent. IMF quotas are recalculated every five years. Increasing and redistributing quotas are controversial steps that require an 85 percent majority vote.[23]

The founders aimed to build a framework for economic cooperation that would avoid a repetition of the disastrous economic policies that had contributed to the Great Depression of the 1930s and the global conflict that followed. During the Great Depression of the 1930s, countries attempted to shore up their failing economies by sharply raising barriers to foreign trade, devaluing their currencies to compete against each other for export markets, and curtailing their citizens' freedom to hold foreign exchange. World trade declined sharply and employment and living standards plummeted in many countries.

Promoting economic stability became necessary for avoiding economic and financial crises, large swings in economic activity, high inflation and excessive volatility in foreign exchange and financial markets. Instability can increase uncertainty, discourage investment, impede economic growth, and hurt living standards. A dynamic market economy necessarily involves some degree of volatility, as well as gradual structural change. The challenge for policy makers is to minimise instability in their own country and abroad without reducing the economy's ability to improve living standards through rising productivity, employment and sustainable growth. Economic and financial stability is both a national and multilateral concern. As 2007-08 financial crises have shown, economies have become more interconnected. Vulnerabilities can spread more easily across sectors and national borders. [24]

ROLE OF IMF

The IMF's main goal is to ensure the stability of the international monetary and financial system. It helps resolve crises, and works with its member countries to promote growth and alleviate poverty. It has three main tools at its disposal to carry out its mandate: surveillance, technical assistance and training, and lending. These functions are supported by the IMF's research and statistics.[25]

Surveillance

When a country joins the IMF, it agrees to subject its economic and financial policies to the scrutiny of the international community. It also makes a commitment to pursue policies that are conducive to orderly economic growth and reasonable price stability, to avoid manipulating exchange rates for unfair competitive advantage, and to provide the IMF with data about its economy. The IMF's regular monitoring of economies and associated provision of policy advice is intended to identify weaknesses that are causing or could lead to financial or economic instability. This process is known as surveillance and divided into three zones: Country surveillance, Regional surveillance and Global surveillance. Surveillance covers a range of economic policies, with the emphasis varying in accordance with a country's individual circumstances. It helps the international monetary system serve its essential purpose of sustaining economic growth by facilitating the exchange of goods, services and capital among countries and ensuring the conditions necessary for financial and economic stability.

IMF economists visit member countries annually to exchange views with the government and the central bank and consider whether there are risks to domestic and global stability. Discussions are mainly focused on exchange rate, monetary, fiscal, and financial policies as well as macro critical structural reforms. During their missions, IMF staff meets with stakeholders such as parliamentarians, representatives of business, labour unions and civil society to help evaluate the country's economic policies and outlook.

The IMF also monitors global and regional economic trends, and analyses spillovers from members' policies onto the global economy. The key instruments of multilateral surveillance are the regular publications such as the World Economic Outlook (WEO), Global Financial Stability Report (GFSR), and Fiscal Monitor. The WEO provides a detailed analysis of the world economy and its growth prospects, addressing issues such as the macroeconomic effects of global financial turmoil. It also assesses key potential global spillovers with a particular focus on the cross-border impact of economic and financial policies in systemic economies. The GFSR assesses global capital market developments and financial imbalances and vulnerabilities that pose risks to financial stability. The Fiscal Monitor updates medium-term fiscal projections and assesses developments in public finances.[26]

The IMF also publishes Regional Economic Outlook reports, providing more detailed analysis for major regions of the world. It cooperates closely with other groups such as the Group of Twenty (G20) industrialised and emerging market economies. The IMF provides analysis as to whether policies pursued by member countries are consistent with sustained and balanced global growth. Since 2012, it has prepared Pilot External Sector Reports, which analyse the external situations of systemically large economies in a globally consistent manner. Twice a year, the IMF also prepares a Global Policy Agenda that pulls together the key findings and policy advice from multilateral reports and