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Abstract

Globalization is a historical process, as it traces back to the 14th century during the origins of civilization. The post-World War II rise of globalization coincided with the post-war roles of these institutions, by forcing them to reform their roles in order to make them relevant to the changing global economic environment. These institutions had a variety of strengths and weaknesses in steering globalization from the period 1945-2006 and our study has revealed that their strengths have outweighed their weaknesses and they have also fairly steered the process of globalization.

JEL codes: F53; F60

Keywords: Globalization, International Trade, FDI, Labour, Migration, Technology, IMF, World Bank, IBRD, WTO, GATT

1 Introduction

The term ‘globalization’ refers to the increasing integration of economies, particularly through the movement of goods, services, capital, people and technology across international borders. There are also broader cultural, political and environmental dimensions of globalization. But, most concerns are related to economic globalization and its consequences. The term ‘globalization’ began to be used more commonly in the 1980s, reflecting technological advances that have made it easier and quicker to complete international transactions, including both trade and financial flows (IMF, 2008). Globalization is often viewed differently by different people in the sense that it depends on how they are affected by it. For instance, those in the developed world see globalization as very beneficial in terms of the trade and investment opportunities that it opens up for them. In contrast, those in the developing world often regard globalization as only benefiting the rich countries, because they don’t experience the same

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opportunities (Srinivasan, 2002). Globalization also produces a world in which the international institutions of global governance have to adapt to a changing global economic environment, by constantly reforming their respective roles, because these institutions were designed during a time when tight controls over flow of goods, capital and labour were effectively exercised by governments all over the world. These institutions, therefore, confront a different world because of the new challenges that globalization creates today (Kahler, 2003).

Since the globalization process is considered by some academic analysts to be good and fair, and on the opposite side it is viewed to be bad and unequal (Srinivasan, 2002), the debate over institutions of global governance with respect to the role that they play in the currently globalized world mainly arose from the controversial issue of unequal facilitation of globalization's benefits. These institutions have, as a result, been endlessly evaluated on their impact in the developing world (Milner, 2005), because many of the developing countries do not have resources to start the process of fuller participation in the world economy and to make globalization to work to their advantage (IMF, 2002). Fairly or not, the main question has been whether after World War II these institutions played a role in steering globalization. The distributional effects of globalization on developing countries and the cost-benefit analysis of globalization, as well as the pros and cons of this phenomenon have been well researched and documented in the international Economics literature (Goldberg & Pavcnik, 2007; Bigman, 2000; Tisdell, 2008). But, scholars have not entirely focused on the role that the institutions of global governance play in ensuring that the globalization process is facilitated smoothly and with equity.

The study focused on the three main institutions, namely; the International Monetary Fund (IMF), the World Bank and the World Trade Organization (WTO), because they are believed to work to promote globalization's benefits and address its risks in the world's economies, with the focus on helping poor developing countries (Milner, 2005). The methodology used was a literature study of the strengths and weaknesses of these institutions in the globalization process. The analysis is from 1945-2006 and it is limited to the pre-Great Recession Period. The paper is organized as follows: section two reviews related literature; section three describes data and methodology used; section four analyses the strengths and weaknesses of these institutions in steering globalization from the period 1945-2006 and lastly section five provides a conclusion

2 Literature Review

2.1 The historical perspective of globalization

The origin of globalization is viewed differently, because some authors have argued that globalization originated in the 1490s, by referring to the origins of civilization when groups of people first came into contact with one another through trade and migration (Mittelman, 2002). It has also been argued that globalization became significant in the 16th century during the beginnings of

colonialism. According to this view world-wide flows of trade, labour and capital connected places, and integrated them into the global economy (Grant & Short, 2002). Moreover, other authors argue that the globalization bang took place in the 1820s, by referring to transport cost declines, commodity price convergence and trade between countries of the world (O'Rourke & Williamson, 2002), while others assert that globalization ran its course from the middle of the 19th century to the outbreak of the First World War, by referring to technical innovations such as telegraphs, telephones, railways and steamships, as well as the adoption of free trade policies by major trading countries of the world (Srinivasan, 2002). However, the First World War of 1914-18 is argued to have interrupted and for a time set into reverse the process of globalization, since the war changed the economic structure of the combatants' economies (Broadberry & Harrison, 2005).

The origin of globalization is deeply controversial and continues to be widely debated. Therefore, one cannot explicitly assert the exact origin of globalization as a deeply felt phenomenon. But, economic globalization is considered to have arrived in the 19th century (Taylor, 2002). There is, however, no doubt that the Industrial Revolution that began in Britain during the 18th century played a role in providing the foundation for the accelerated globalization of the 19th century through industry expansion and trade. For instance, the Industrial Revolution was associated with the growth of industries, such as the textile and iron (McCord, 1991). The developments that took place during the Industrial Revolution were influenced by increases in the level of technology, improved communications and productivity. In addition, the Industrial Revolution period not only reflected innovations in the manufacturing sector, but also changes in the agricultural, financial and international trade sector (Hudson, 1992).

2.2 The origin of international institutions of global governance

During the 1870s a number of countries embraced gold monometallism, as a result, the era of the Classical Gold Standard began in the United States (Selgin, 2013). The functions of the Gold Standard were the maintenance of a fixed price of national money in terms of gold, and it was also to be used as a standard of value and a medium of exchange (Bordo, 1984). The Gold Standard period lasted until about the First World War, because during the war countries suspended their commitment to convertibility (Selgin, 2013). The period preceding the 1920s is believed to have been stable and prosperous. For example, during the Classical Gold Standard Era and specifically, between 1870 and 1913 there was a rapid expansion in international trade, since the growth of trade averaged about 3.7% per annum. Many countries such as in Europe and the United States had a high degree of openness, as their share of trade in openness increased gradually and reached peak in 1913 (Bairoch & Kozul-Wright, 1996). The rapid expansion in trade during this period is considered to have been one of the crucial features of prosperity that prevailed prior to the First World War (Eichengreen & Temin, 2000).

Between 1920 and 1929 many countries attempted to maintain domestic income in the face of shrinking markets through devaluation of their respective currencies, declining production and business activities. These countries resorted to exchange and trade restrictions, which in turn led their trading partners to adopt the same policies, leading to a destructive vicious cycle. During the period 1920-29 there was increasing global economic instability, which was associated with welfare losses and the world economy experienced a contraction, which came to be known as the Great Depression that lasted for 4 years (1929-1933) (Fritz-Krockow & Ramlogan, 2007).

During the Great Depression it was easily observed that the money supply, output and prices all fell precipitously in the contraction and rose rapidly in the recovery (Bernanke, 1995). But, the collapse of output and prices and the loss of savings, as banks closed during the early 1930s were exactly what the Gold Standard had promised to prevent, since it ensured economic stability in the countries that adhered to the operations of this system. The abandonment of the Gold Standard proved to be very consequential, since in the aftermath there was instability in the world economy. It was, therefore, on this basis that the need for a globally agreed code of conduct in international trade and financial markets emerged (Eichengreen & Temin, 2000)

After the Second World War of 1939-44, three international institutions were, as a result, created to manage the global economy. These institutions included the IMF, the IBRD¹, now called the World Bank, and the GATT², now called the WTO (Milner, 2005). The World Bank in the form of the IBRD and the IMF were established at an international conference at Bretton Woods, New Hampshire in 1944. The conference had been called largely at the initiative of the United States, to create a system for global economic stabilization following the Great Depression of the 1930s and for the reconstruction after the Second World War (Phillips, 2009). The GATT was created as part of the 1946 negotiations in London also at the initiative of the United States on establishing an international institution for trade, in order, to complete the existing structure of the Bretton Woods economic institutions. These negotiations on the ITO³ were further continued in Geneva in 1947, where they were successfully conducted and resulted in the initiation of GATT. But, in 1990 the first proposals for the initiation of a new international trade organization were tabled by Canada and the European Community, with regards to improving the institutional mechanisms of the GATT and its dispute settlement system. In April 1994 the agreement of establishing the WTO was signed in Marrakesh, Morocco and the WTO replaced GATT (UNCTAD, 2003).

¹IBRD- International Bank for Reconstruction & Development

²GATT- General Agreement on Tariffs and Trade

³ITO- International Trade Organization

2.3 The objectives and functions of international institutions of global governance

2.3.1 The International Monetary Fund

The IMF is an independent international organization consisting of 185 countries. The primary objective of the Fund is to promote world economic stability and growth (Fritz-Krockow & Ramlogan, 2007).

The functions of the IMF (Fritz-Krockow & Ramlogan, 2007);

1. Financing temporary balance of payments needs.
2. Providing concessional loans to low-income countries that help them to eradicate poverty.
3. Mobilizing external financing and strengthening the international monetary system.
4. Increasing the global supply of international reserves.
5. Building capacity through technical assistance and training.
6. Dissemination of information and research.

2.3.2 The World Bank

The World Bank consists of 180 member countries whose views and interests are represented by a Board of Governors and a Washington based Board of Directors. The main objective of the World Bank is to move towards the creation of a frame-work for world economic governance and assist development and reconstruction (Phillips, 2009).

The functions of the World Bank;

1. To issue interest free loans and grants to poor developing countries (Milner, 2005).
2. Produce research and economic analysis of its members (Gilbert & Vines, 2002).
3. To address market failures with relation to world development (Phillips, 2009).
4. Provide policy advice and technical assistance to its member countries (Gilbert & Vines, 2002).

2.3.3 The World Trade Organization

The WTO had a total number of 160 WTO member countries as of 26 June 2014 (WTO, 2015b). The main objective of the WTO is to promote trade liberalization (Milner, 2005).

The functions of the WTO;

1. To cooperate with other international organizations as set out in Article V of the WTO Agreements (UNCTAD, 2003).
2. Transparency, by making information available on the WTO's website, such as news of the latest developments (WTO, 2011).
3. To provide a permanent forum for negotiations amongst the WTO member countries (UNCTAD, 2003).
4. Dispute settlement, by providing methods for solutions in case of trade conflicts amongst its members (Solanki, 2012).
5. To administer agreements signed at the Uruguay Round (Solanki, 2012).

2.4 The post-World War II trend of globalization 1945-2006

2.4.1 International trade

At the end of the Second World War trade barriers that were used during the interwar period were being removed and policy makers started to stress the importance of international trade in enhancing economic growth and as part of the reconstruction of the world economy that experienced contraction during the war (Terborgh, 2003). During the early 1950s major traders in the world, such as the west European countries and Japan enhanced their exports. The 1960s ushered the Asian NIEs⁴ such as South Korea, Taiwan, Singapore and Hong Kong to an outward orientated trade policy. The NIEs succeeded to increase their share of merchandise exports from 2.4% in 1963 to 9.7% in 1983, as their exports included textiles, consumer electronics and information technology products (WTO, 2008).

Although, an important driver of globalization has been economic policy, which has resulted in the deregulation and reduction of restrictions on international trade and financial transactions, for many years after the Second World War it was the currency and payments restrictions, rather than tariffs that limited the extent of trade the most. The initiation of the Eurodollar market was, however, regarded as the major shift towards increasing the availability of international liquidity and enhancing cross-border transactions in Western Europe (WTO, 2008). With the collapse of the Bretton Woods system in the 1970s, the oil exporting developing countries in the middle-east increased their export

⁴NIEs- Newly Industrialized Economies

earnings, since the OPEC⁵, known as the oil producers' cartel increased the US dollar price of oil by 135% from \$4.31 to \$10.11. The US dollar price for a barrel of oil increased from \$3.35 in January 1970 to about \$32.50 by the end of the 1970s (Hammes & Wills, 2005). There is, however, little doubt that the oil crises played a major role in generating the 1980s debt crisis through a higher import bill for many countries that were economically dependent on oil imports, thus, vulnerable to an external shock (Sachs, 1990).

In the 1990s with the collapse of the Soviet Union the trend of trade changed drastically, as the collapse caused interstate trade to decline and the share of trade with other markets to increase. In 1993 the share of world merchandise exports in industrialized countries of Western Europe, North America and Japan reached a peak and this share combined with that of the NIEs accounted for about 80% of world trade. The expansion of international trade during the 1990s was also partly driven by innovations in the information technology sector (WTO, 2008). During the 2000s the share of developing countries in global exports, including Africa, Latin America, the Caribbean and Asia increased from 32% in 2000 to 37% in 2006. But, this increase was in Asia, and China alone accounted for much of this increase, because its share in global exports increased from 3.9% in 2000 to 8.1% in 2006. Surprisingly, the share of developed countries, including Japan, United States and the European Union declined from 65.6% in 2000 to 59.1% in 2006 (UNCTAD, 2007).

2.4.2 Foreign Direct Investment

Since in the immediate period after the Second World War, globalization was mainly driven by rapid growth in international trade, during the 1980s FDI became more dominant, as this period witnessed unprecedented levels in the flow of FDI. For instance, in 1982 FDI inflows stood at \$59 billion, while in 1990 this number was \$209 billion, which further increased to \$560 billion in 2003 at current prices. FDI outflows rose from \$28 billion in 1982 to \$612 billion in 2003 also at current prices (UNCTAD, 2004). Overall, FDI rose from 6.5% of world Gross Domestic Product (GDP) in 1980 to 31.8% in 2006. But, the most rapid increase has been experienced by developed economies, as they have sound capital markets that have attracted more investment capital, although, the emerging markets and developing countries have also become more financially integrated (IMF, 2008).

2.4.3 Labour and Migration

The flow of people across regions was a major feature of globalization in the 19th century, since in the middle of the 18th century and just before the First World War more than 20 million people moved from Europe to other countries mainly in North and South America, Australia and New Zealand (WTO, 2008). Labour flows increased between 1965 and 2005, as the number of foreign workers

⁵OPEC- Organization of the Petroleum Exporting Countries

increased from 78 million people (2.4% of the world population) in 1965 to 191 million people (3% of the world population) in 2005 (IMF, 2008).

2.4.4 Technology

Since the 1990s technological innovations such as large investments in road infrastructure, personal computers, microprocessors, cellular phones, the Internet and World Wide Web usage are regarded to be one of the chief driving factors of globalization today, since such inventions improved the speed of transportation and communication and have also lowered costs (WTO, 2008). According to the IMF (2008) “The number of minutes spent on cross-border telephone calls on a per-capita basis increased from 7.3% in 1991 to 28.8% in 2006”.

3 Research methodology

The method of research was entirely a literature study to identify the strengths and weaknesses of the IMF, the World Bank and the WTO in steering the process of globalization from the period 1945-2006. Data used for the study was obtained from secondary sources of information which includes textbooks, journals, unpublished manuscripts, previous studies, the Internet and other sources.

4 The strengths and weaknesses of international institutions of global governance in steering globalization

4.1 The International Monetary Fund

4.1.1 Strengths of the IMF

1. Management of the evolving international monetary system

The post-World War II role of the IMF was to support the Bretton Woods fixed, but adjustable exchange rate system. During 1945-60 the Fund facilitated the transition to convertibility among countries for current payments and the removal of restrictions on trade and payments that had been put in place before and during the war. Although, the international monetary system had started functioning well since 1945, major industrialized countries did not achieve full convertibility until the end of 1958 (Bordo, 1993). Until 1969 the Fund has approved about seventy changes in the par values of currencies and also witnessed thirty four countries establish convertibility (Acheson *et al.*, 1972).

However, during the mid-1960s the organization of the world economy was changing radically and the imbalance in international payments, as well as short-term flows of capital that occurred in the late 1950s and the early 1960s were becoming more difficult to manage. The period from 1966 to 1971 was associated with turbulence and fundamental change in the international monetary

system, all of which affected the functions and activities of the IMF (De Vries, 1976). The exchange crises that became a feature of the international arena after 1967 saw the collapse of the Bretton Woods system of fixed exchange rates in the early 1970s, since major developed countries no longer benefited from the prevailing international monetary arrangements. Consequently, the world economic environment changed from an era of almost global fixed exchange rates to free floating exchange rates (De Vries, 1985).

With the collapse of the Bretton Woods system, the post-war role of the Fund changed. The IMF dealt less with the developed countries and more with the developing ones. It provided long and short term loans at below-market interest rates for countries in all sorts of economic difficulty, making it less distinct from the World Bank. The expansion in the magnitude of globalization, thus, greater economic interdependence among countries, also resulted in the IMF becoming more concerned with promoting economic growth and resolving specific crises as its central role (Milner, 2005).

2 Lending in turbulent times

The IMF has been able to finance developments in the post-war crisis. For example, during the 1956 Suez crisis the IMF was called upon to finance external payments imbalances of all four combatants' countries and in nine months the Fund lent \$858 million and also committed itself to providing \$738 million in credits on a standby basis. The Suez crisis marked the first significant role the Fund had played in helping countries deal with an international crisis since its initiation (Boughton, 2001b). The Fund also operated as expected in occasional balance of payments crises among developed countries such as the sterling crises, with the first crisis that began as the pound was devalued from \$4.03 to \$2.80 in September 1949 and the second crisis when the pound was further devalued from \$2.80 to \$2.40 on Saturday 18 November 1967. Inevitably, the pound was propped up by the IMF and G11 rescue loans (Bordo *et al.*, 2009).

Since with the collapse of the Bretton Woods fixed exchange rate system in the early 1970s, the role of the Fund changed (Milner, 2005) and its objective was to promote world economic stability and growth, the IMF was going to achieve this objective through the temporary financing of the balance of payments deficits of countries in need of additional international reserves and providing solutions to international economic problems (Bordo & James, 2000). During the 1980s debt crisis, as in 1982 the total debt of non-oil producing Third World countries rose to \$600 billion (Peet, 2003), most Latin American countries such as Mexico, Brazil and Argentina became prolonged users of the IMF resources. Mexico's indebtedness peaked in 1990 at SDR⁶ 4.8 billion (\$6.5 billion) and declined to SDR 2.6 billion (\$3.8 billion) in January 1995. Brazil also reduced its indebtedness from a peak of SDR 4.3 billion (\$4.4 billion) in 1984 to less than SDR 100 million by the end of 1995 (Boughton, 2001a).

In the aftermath of the Russian financial crisis of 1998, in June 1991 the Fund had agreed to lend \$1 billion monthly support, whereas, in June 1992 as

⁶SDR- Special Drawing Right

Russia became a full member of the IMF, the Fund offered its second \$3 billion loan from the new STF⁷. The mutual relationship between Russia and the Fund was further reflected during a one year \$6.8 billion standby arrangement that was announced in April 1995 (Njoku, 2013). The Mexican crisis, also known as the ‘Peso crisis’ became effective as the Peso was devalued in December 1994 and this crisis was met by a \$17.8 billion IMF standby programme, in combination with \$20 billion from the U.S. Stabilization Fund and \$10 billion from the G-10⁸. The speed with which the IMF-programme had to be put in place in January 1995 shows the way in which globalization requires faster responses and as a result, the IMF-programme was already fully in place by February 1995 (Bordo & James, 2000). In the East Asian financial crisis the IMF agreed to a large financial support towards countries which were severely affected by the crisis. The Fund provided \$17.2 billion for Thailand, about \$40 billion for Indonesia and \$57 billion for South Korea (Valvi *et al.*, 2012).

3 Crisis management strategies

During 1961-70 with the motive to meet the pressures on the Bretton Woods fixed exchange rate system, the IMF developed a new supplementary reserve asset, known as the Special Drawing Right (SDR) and a standing borrowing arrangement with the largest creditor members to supplement its resources during times of systemic crisis (IMF, 2001). The IMF crisis management was put to test between early 1970s and mid-1980s, since the Fund witnessed considerable exchange rate volatility in the world economy. The Fund also witnessed a series of political shocks, especially during the 1990s. As a consequence, IMF’s effectiveness in managing crises was further put to the test (Bordo & James, 2000). During the 1970s oil crises, the establishment of an Oil Facility in the Fund in 1974 for one year to recycle the surplus from oil-exporting to oil-importing countries helped poor countries finance their external imbalances without any motive to restrict economic activity (Buirra, 2005).

The inability of many low-income countries to service their debts during the 1980s, gave way to efforts in renewing and expanding of the Fund’s low interest lending. The effort started with the 1976 Trust Fund and resumed with the concessional lending to low income countries in 1986, the new concessional loan programme, which came to be known as the Structural Adjustment Facility (SAF) The SAF was soon succeeded by the Enhanced Structural Adjustment Facility (ESAF) in 1987, as the ESAF became one of the success stories of the IMF, because the Fund channelled billions of dollars at low cost and for long maturity to many poor countries of the world (Boughton, 2000). During the 1980s debt crisis the IMF also played a central role in managing the debt strategy, which aimed at providing additional financing, in order, to cover the time required for the indebted countries to implement adjustment programmes and generate enough growth to restore normal financial relations (Boughton, 2001a).

⁷STF- Systemic Transformation Facility

⁸Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States

The IMF interventions in the aftermath of the currency crisis in Mexico (1995) were quite effective. For instance, the IMF not only helped to resolve the crisis by putting large amounts on the table in order to avoid a financial collapse of Mexico, but also the Fund provided a calming influence in managing the crisis, by preventing the crisis from spreading to other Latin American countries, known as the ‘contagion effect’ (IMF, 2012). Between 1991 and 2000, the IMF also established a temporary lending facility to facilitate the integration of the formerly centrally planned economies into the world market system, known as the Systemic Transformation Facility (IMF, 2001).

4.1.2 Weaknesses of the IMF

1. Crisis prevention

The IMF’s record in preventing crisis, especially since the 1990s has reflected a mixture of successes and failures, in a sense that its successes includes a great deal of improvements in the standards of macro-economic policy making around the world. But, these improvements did not come soon enough and were not sufficiently universal to avoid the boom-bust cycle of the 1990s. Some examples of the crises that the IMF failed to prevent in the 1990s includes, the Mexican crisis of 1995, the East Asian financial crisis of 1997, the Russian crisis of 1998 and the Brazilian crisis of 1998-99 (Ostry & Zettelmeyer, 2005).

Since the IMF uses surveillance instruments to prevent crisis from taking place in the global economy, such as bilateral Article IV consultations and the publication of reports such as the WEO⁹ and the GFSR¹⁰ to assess global economic and financial stability, the focus of these efforts has been mainly on exchange and monetary policy. Macro-economic policies, such as the structural policy and financial stability of member countries have received less attention by the Fund. For instance, in 2005 the GFSR has been cautioning of an impending crisis in the financial sector and for the fact that the IMF had supported policies and financial practices of the US and the UK, whose emphasis has been on financial innovation and unsustainable rapid growth, are now believed to be the cause of the 2007 financial crisis. Therefore, it may be argued that the post-war crises have exposed the inadequacy of the IMF attempts in preventing crisis (Gnath *et al.*, 2012).

2 Policy prescriptions

Since the IMF stabilization policies have required nation states to follow a set of economic policies and prescribed financial measures based on what the Fund assumes will promote its objective of economic stability and growth (Fritz-Krockow & Ramlogan, 2007), it may be stated that such policies have had a tendency of contradicting with this objective. Tracing the IMF’s first financial operations in 1947 to the start of the Suez crisis in 1956, the Fund lending to

⁹WEO- World Economic Outlook

¹⁰GFSR- Global Financial Stability Report

member countries during this period was in small amounts and the concept of lending subject to policy conditions was still under construction and had only applied to a few cases (Boughton, 2001b). But, the radical restructuring of the Russian economy led to a decrease of GDP to \$395 billion in 1995 from \$516 billion in 1990. These policies increased overall poverty, since in 1989 only 2% of those living in Russia were in poverty, but by late 1998 that number reached 23.8% measured by the \$2/day standard. The official unemployment rate also increased steadily from 5.3% in 1992 to about 13.5% in 1999 (Valvi *et al.*, 2012).

Moreover, during the Asian crisis the strategy of the IMF policies in response to the Asian crisis required authorities in these countries to make adjustments in their respective economic and political structures, in exchange for the IMF financial assistance (Boorman *et al.*, 2000). The early IMF policy prescription to raise domestic interest rates not only failed to stop capital flight, but also intensified the impact of the crises in these countries, causing financial pain through currency depreciation and stock market collapses (Sundaram, 2008). It may also be argued that, although, the Fund eventually arranged what was needed after months of failed efforts, which was a roll-over of the short-term debt into longer-term loans, the economic and human cost of these failures were very large. For example, Indonesia had still not reached its pre-crisis level of per capita GDP by the end of 2004 (Weisbrot, 2007).

4.2 The World Bank

4.2.1 Strengths of the World Bank

1. Diversified role

The World Bank constitutes of five institutions, the Bank itself (1944), the IFC¹¹ (1956), the IDA¹² (1960), the MIGA¹³ (1988) and the ICSID¹⁴ (1966). However, the IDA and the IFC have played a bigger role in globalization compared to MIGA and ICSID, since the IDA and the IFC's role in the global economy has been immense. Further, both the IDA and the IFC perform a more specialized role than the Bank itself. For instance, the IFC lends directly to the private sector and the IDA makes loans to finance socially beneficial projects (Coffey & Riley, 2006). The diversification of the World Bank role has, therefore, been one of its strengths in steering globalization, since the Bank itself, the IDA and the IFC have played crucial diversified roles in the global economy, especially that of making their financial resources available to developing countries. The World Bank has made over \$360 billion in loans and lends about \$10.5 billion a year for some ninety new operations in thirty six countries, while IDA's lending to poor countries has averaged about \$6 billion annually (Peet, 2003). During the 2006 financial year the total IBRD lending reached \$14.1 billion and \$9.5 billion in IDA credit and grants was provided, of which

¹¹IFC- International Finance Corporation

¹²IDA- International Development Association

¹³MIGA- Multilateral Investment Guarantee Agency

¹⁴ICSID- International Centre for Settlement of Investment Disputes

about \$4.8 billion went to Africa. The IDA represented 13% of all external aid to Africa and guarantees provided by MIGA increased to \$1.3 billion, of which \$180 million went to projects in Africa (World Bank, 2006).

The IFC has been the private sector arm of the World Bank, since the institution was a pioneer of project finance in developing countries. From its establishment in 1956 through the 2006 financial year, the IFC has committed more than \$56 billion of its own funds for private sector investments in the developing world and mobilized an additional \$25 billion in syndications for 3 531 companies in 140 developing countries (IFC, 2006).

2 Crisis management

The role of the World Bank after its initiation in 1944 was focused on reconstruction and the World Bank primary function was the provision of finance to a capital-constrained world economy. The poor countries were mentioned on fewer occasions and issues such as poverty were never raised. But, during the 1950s the World Bank shifted its priorities to developing countries, since the Bank went beyond the financing role in poorer countries to incorporating wider problems of economic structure and growth (Phillips, 2009). Therefore, the World Bank focused on reconstruction and later on development, since it moved further towards economic development programmes, as this gave way to the formation of the International Development Association in 1960 (Milner, 2005).

Since by the 1970s the world economy was already globalized, the oil crises during this period that played a role in generating the 1980s debt crisis through a higher import bill for countries that were dependent on oil imports; saw the debtor countries default on their foreign loans, more especially the Latin American countries (Sachs, 1990). The world economy was in a recession during the 1980s and the growth rates of countries declined. The future growth prospects of many countries particularly that of the developing countries were also shattered (Kaminsky & Pereira, 1994). As a consequence, the role of the World Bank further shifted to issues of debt and adjustment, as well as the restoration of private capital flows to developing countries (Phillips, 2009).

During the 1980s recession the Bank expanded the scope of its lending operations to include structural and sector adjustment loans. The 1980s also witnessed a rise in adjustment lending, which is a form of financing that provides short-term support to the balance of payments conditional on policy reforms. This conditionality was linked to the dominant approach to economic policy that focused on fiscal discipline, openness to trade, liberalization and privatization, which was later called the Washington Consensus (De Janvry & Dethier, 2012). From a modest start during the 1980 fiscal year of \$0.5 billion, the adjustment commitments increased more gradually peaking to \$6.5 billion in 1989 (Jayarajah & Branson, 1995).

During the East Asian crisis the World Bank introduced the SSALs¹⁵ for countries with exceptional financing needs, while in 2000s the World Bank also

¹⁵SSALs- Special Structural Adjustment Loans

introduced the PSALs/PSACs¹⁶ to support medium-term reforms (de Janvry & Dethier, 2012). During the 1990s, the level of the Bank assistance to crisis countries increased significantly in absolute terms and fell back to its previous levels soon thereafter. Overall, during the period 1993-2003, the Bank provided about \$21 billion in financial assistance to crisis countries (IEG, 2008).

4.2.2 Weakness of the World Bank

1. Structural adjustment

The big stylized facts of adjustment lending show that Structural Adjustment has not done much in adjusting macro-economic policy and growth outcomes. SALs¹⁷ were repeated many times to the same country, as Argentina received 30 Adjustment Loans during 1980-99, while Ghana and Cote d'Ivoire received 26 Adjustment Loans. There is also no evidence that per capita growth improved with increased intensity of Structural Adjustment lending. For instance, Cote d'Ivoire which received 26 Adjustment Loans had negative growth of -1.4%, high current account deficit of -6.7% of GDP and an overvalued real exchange rate. Interestingly, only Uganda and Ghana of the 12 top African countries that received a great deal of adjustment lending during 1980-99 managed a significant positive per capita growth of 2.3% and 1.2% respectively. The majority of transition countries' per capita growth also remained negative for countries such as Ukraine and the Russian Federation with -8.4% and -5.4% respectively. In contrast, transition countries such as Poland and Georgia attained positive per capita growth of 3.4% and 6.4% respectively (Easterly, 2004).

Furthermore, programme lending evolved to becoming a crucial development instrument, because it filled the need to avoid declines in living standards in countries affected by external shocks, however, the results it generated were mixed. For instance, there was an improvement in developing countries' policies, as during the 1990s inflation fell and macro-economic management improved, exchange rates were more stable and trade barriers were also reduced (De Janvry & Dethier, 2012). But, between the 1980s and 1990s there has been little adjustment and little growth in the developing world, as annual per capita growth for the developing countries averaged about 0% for the years 1980-98, whereas, during 1960-79 their growth had averaged about 2.5% annually. Poverty also remained very high with more than 45% of the world's population living on less than two dollars a day (Milner, 2005).

4.3 The General Agreement on Tariffs and Trade and World Trade Organization

4.3.1 Strengths of GATT and the WTO

1. The GATT conducting of trade rounds

¹⁶PSALs/PSACs- Programmatic Adjustment Loans and Credits

¹⁷SALs- Structural Adjustment Loans

The economic reconstruction after the First World War lacked institutional mechanism to facilitate the reduction of trade restrictions that had increased significantly among trading countries of the world during the war. However, the post-World War II economic reconstruction in Western Europe and in preventing a return to the disaster of the interwar period was made possible by GATT's effort through freeing of Europe's regional and international trade from government restrictions (Irwin, 1993). The GATT has served very well to encourage multilateral trade liberalization and this liberalization has been achieved through a series of trade negotiating rounds amongst GATT's member countries, three of which were held during the crucial early post-war period (Bagwel & Staiger, 1999). The first round of negotiations in Geneva (1947) that produced the GATT, resulted in a package of trade rules and 45 000 tariff concessions affecting \$10 billion of world trade (WTO, 2011).

The second round held at Annecy (1949), led to marginal reductions in tariff levels, as countries exchanged some 5 000 tariff concessions. The third round at Torquay (1950-51) again witnessed contracting parties exchanging some 8 700 tariff concessions and reduced the 1948 tariff levels by 25%. The fourth round at Geneva 1956 produced some \$2.5 billion worth of tariff reductions, while in the Dillon Round (1960-61) countries exchanged about 4 400 tariff concessions worth \$4.9 billion of world trade. During the Kennedy Round (1964-67) a general formula was agreed that tariffs would be reduced by 50% for industrial goods. During the Tokyo Round (1973-79) tariffs were indeed reduced according to the "Swiss Formula" (Patrick & Lattimore, 2009: 83).

The participants during the Tokyo Round exchanged tariff reductions and bindings worth more than \$300 billion of trade. The Uruguay Round which is stated to have been the biggest and far-reaching trade round in the history of GATT was launched in 1986 and concluded with the final deal signed at Marrakesh, Morocco in 1994. The results of this round included the average tariff cuts of 40% on industrial products, an average increase in the percentage of tariff bindings for developing countries, developed countries and transition economies from 21% to 73%, 78% to 99% and 73% to 98% respectively (WTO, 1998). The ninth round, known as the Doha Round, was launched in 2001 as an effort to make globalization more inclusive and beneficial, and to assist the world's poor by cutting barriers and subsidies in farming. However, the success of the Doha Round is argued to be dependent on political leadership (Patrick & Lattimore, 2009), because the round is still not concluded (WTO, 2015a).

2 The GATT and WTO membership structure

The inclusiveness of GATT and the WTO has been an important strength in steering globalization as membership increased from 23 GATT countries in 1947 to 160 WTO member countries as of 26 June 2014 (WTO, 2015b). In the 2000s China was one of the world's largest countries to join the organization and became WTO's 143rd member in late 2001 (WTO, 2012). Accession negotiations tend to be difficult in practice, especially in the case of larger countries. For instance, negotiations with China took 15 years (1986-2001) (Gnath *et al.*,

2012). Since the WTO has limited authority to compel non-member states to abide to the global rules relating to international trade, the expanded coverage has given the WTO's resolutions a great impact on global trade in goods and services (Gnath *et al.*, 2012), although, the majority of the WTO members are still the developing countries (WTO, 2015b).

The importance of having large economies to be part of the WTO has also been of benefit for the WTO and its members. For instance China after joining the WTO in 2001 has actively participated in all kinds of WTO activities, including regular Council and Committee ones and the Doha Development Agenda (DDA) negotiations. China has also been doing its best to help other developing countries, multilaterally, plurilaterally and bilaterally in areas such as the DDA and capacity building. Overall, China has been firmly devoted to the multilateral trading system and the successful conclusion of the Doha Round (WTO, 2012). Therefore, not having large economies as the members of the WTO undermines the credibility of the WTO in achieving its objective of trade liberalization in the global economy (Lamy, 2013).

3 The WTO dispute settlement system

The WTO system is still based on the old GATT principles of negotiation, conciliation, mediation and arbitration, but the WTO system has worked well, as trade disputes brought before the WTO have been effectively handled, compared to the GATT system. Trade disputes are brought before the WTO at approximately three times the rate that had been handled by the GATT, and of the approximately 120 disputes presented before the WTO since its initiation, about one quarter has been successfully settled before the WTO panel decisions (Lash, 2000).

The WTO strengthened the dispute resolution system, as there were a number of improvements in the old GATT dispute settlement system facilitated by the Uruguay Round. These improvements included the recognition of the right to a panel, strict timeframes for panel proceedings and the introduction of the appellate review of panel reports. In comparison to the earlier consensus system of GATT, the WTO system provides for voting on a one-country/one-vote basis as set out in Article IX: 1 of the WTO agreements (UNCTAD, 2003).

The WTO dispute resolution system has also been important for developing countries, because it contributes to levelling the playing field, by providing the economically and politically weak countries a platform in solving trade disputes with more powerful countries. In addition to providing the developing countries with an opportunity to confront the developed countries on an equal footing, the WTO system has led to effective participation of the developing countries, since there has been an increase in developing country participation (Torres, 2012). For instance, shortly after the WTO's initiation, on 13 January 1995 the WTO dispute system was underway as Singapore submitted consultation request for a dispute settlement against Malaysia regarding import prohibition and since then, the Asian developing countries started to use the system more frequently (Ahn, 2005).

But, since the WTO members cannot use the dispute system to compel non-members to follow the WTO rules, this is regarded to be one of the disadvantages of the WTO system, especially during crisis, as a number of non-member countries can set up a number of new trade barriers (Gnath *et al.*, 2012).

4.3.2 Weaknesses of the GATT

1. The GATT dispute settlement system

The rule of positive consensus under GATT was a major weakness of GATT's dispute settlement system. For instance, there was supposed to be a positive consensus in the GATT council, in order, to refer a dispute to a panel. The positive consensus implied that there had to be no objection from any contracting party to the decision, although, the parties to the dispute were not entirely excluded from participating in the decision making process. The respondent could block the creation of a panel, and since both the adoption of the panel report and authorization of countermeasures against a non-implementing respondent required a positive consensus, such actions could also be blocked (WTO, 2004).

The GATT's system has, however, been successful in solving trade disputes during the first ten years of GATT's operation (1948-1958), as a number of trade dispute cases were resolved, especially to the satisfaction of the complaining party. But, during the 1970s prior to the Tokyo Round, GATT's system came under tremendous pressure, since it was ineffective during the so called DISC case, in which the European Community alleged that certain United States tax legislation amounted to an export subsidy. As time went by, GATT's membership grew and for the fact that the world economy was becoming more globalized, the dispute system between 1958 and 1978 fell into disrepute and it was ineffective, since Article XXIII, which is GATT's basic dispute settlement mechanism outlined how disputes are to be processed in the system. It also did not indicate any formal procedure of handling disputes (Davey, 1987).

2 The GATT liberalization of labour and migration

During the second half of the 1940s and with the initiation of GATT, the post-war reconstruction encouraged more liberal immigration policies in developed countries, but, increasing immigration and slower real-wage growth during the 1970s precipitated these countries to revert back to more restrictive immigration policies, particularly for people with low skills and for the poor (Solimano & Watts, 2005). Moreover, since the expansion of services trade was closely tied to further increases in world merchandise trade, the trade in services not covered by GATT's rules prior to the Uruguay Round was a major weakness of GATT, as there was minimal progress in labour and migration flows, especially in the immediate period after the Second World War, although, this situation started to change in the beginning of the 1990s (WTO, 2011). For instance, between 1950 and 1960 the balance of inflows and outflows of international migrants is estimated to have been almost zero in 53 countries. But, during 1990-2000 only

11 countries out of the 187 considered had a zero net international migration balance (UN, 2000).

After the WTO's initiation and during the period 2000-2005, the more developed regions of the world gained an estimated 13.1 million migrants from the less developed regions. Northern America gained the most from net migration with 1.4 million migrants annually. It was followed by Europe with an annual net gain of 1.1 million and by Oceania with a smaller net intake of 103 000 migrants annually. Moreover, during this period the net migration rate of Northern America was the highest at 4.2 migrants per 1 000 people annually, while the net migration rates for Africa and Asia were estimated to be the lowest at 0.5 and 0.3 migrants per 1 000 people every year respectively (UN, 2006).

Although, the WTO broadened the scope of the multilateral trading system by including General Agreement on Trade in Services (GATS), GATS could only facilitate temporary movements of people. This type of temporary movement known as Mode 4 in the GATS is treated as other services in the global negotiations and allows countries to negotiate fixed limits accorded to all foreign workers on a Most Favoured Nation (MFN) basis. A number of developing countries, therefore, see the temporary movement under GATS Mode 4 as their key interest in services trade (World Bank, 2004), and they are expecting progress in the context of the current Doha Development Agenda negotiations (WTO, 2015a).

3. The GATT liberalization of FDI

The perceived need for multilateral rules on investment flows is not a new thing, since the Havana Charter for the stillborn ITO contained provisions on foreign investment. But, the post-war attempts to initiate a binding multilateral agreement containing rules on FDI have not been successful, although, the expansion of FDI during the 1980s was associated with liberalization of national laws and regulations of FDI, especially in developing countries. The BITs¹⁸ for the promotion and protection of FDI have been predominantly used as a source of rules for the treatment of FDI, compared to the Treaties of Friendship, Commerce and Navigation which were popular in the immediate post-war period (WTO, 1996).

Since FDI flows reached unprecedented levels during the 1980s, the Uruguay Round was the first round to attempt negotiations on policies toward FDI, as most of the GATT trade rounds efforts were made on trade liberalization. The Uruguay Round produced TRIMs¹⁹; however, the weakness of TRIMs was only to reduce barriers on the investments related to trade in goods and investments related to trade in services was not covered. Even though, GATT has managed to open a window for FDI liberalization through TRIMs, it is still not clear that the FDI issue could be fully handled by the WTO in the future, because the barriers of FDI are still very high, especially in the developing world (Yunling, 2013). For instance, it has been argued by Arita and Tanaka (2013) that "Regulatory barriers to foreign investment in developing economies remain greater

¹⁸BITs- Bilateral Investment Treaties

¹⁹TRIMs- Trade Related Investment Measures

than in developed economies. The average length of the investment process for foreign investors was 20 days for High-income economies and 47 days for middle- and low-income economies”.

5 Conclusion

During the study it was observed that globalization is not a new process, but, a continuation of the developments that have been going on since the 1490s. But, after the Second World War globalization expanded to become a giant, since it has been forceful and created rapid changes. International trade, FDI, and technology have been the chief drivers of the post-World War II rise of globalization compared to labour and migration, this was true during the 1950s-70s, 1980s and 1990s. The origin of these institutions was a result of the world economic instability that prevailed during the 1920s and early 1930s with the Great Depression, as well as the disruptions caused by the Second World War. These institutions of global governance had a variety of strengths and weaknesses in steering globalization. However, their strengths have outweighed their weaknesses. The IMF management of the evolving monetary system and the World Bank diversified role was extraordinary. These institutions were also instrumental in lending as well as managing the post-war crises especially since the 1970s, because they mitigated negative effects resulting from globalization that were mostly endured by the developing countries. The GATT and WTO membership expansion has given the WTO’s resolutions a great impact on global trade in goods and services. The GATT conducting of trade rounds from 1947 to 1994 cannot be undermined, since the Uruguay Round ushered important developments in the multilateral trading system, such as the new WTO dispute settlement system which has been more successful and the coverage of trade in services.

Overall, these institutions have played an important role in the currently globalized world, since they have been willing to react in accordance with their objectives and functions, and responsible in providing assistance and crucial solutions to international problems triggered by globalization. Without any doubt, these institutions have fairly steered the process of globalization after the Second World War, even though, they were not designed to deal with such a phenomenon. An analysis of these institutions in steering globalization has been undertaken until 2006 and future research should investigate the role played by these institutions during the period of and after the Great Recession

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