Global Trade, Justice, and the Bretton Woods Institutions

At the end of this session, you should be able to understand
- The origins and relevance of Bretton Woods Institutions
- The role of the United Nations in creating these institutions
- World Bank
- International Monetary Fund-IMF
- GATT and the World Trade Organization-WTO
- Criticism of the Bretton Woods Institutions

Video Conference with United Nations Ambassador Kamal (Pakistan) & Ambassador Fahmy (Egypt). Recording of April 5, 2001

Ambassador Kamal was Pakistan’s former UN Ambassador and involved in various UN organizations. He is now President of the UN’s Ambassador Club and involved in educating the public about the UN. Ambassador Fahmy' is Vice Chairman and reporter of the UN Development Agency. He also was member of the Egyptian team in free trade negotiations with the EU and participated in WTO as well as Arab world trade agreements. He is also an influential member of the cabinet of the Egyptian foreign minister

INTRODUCTION

The founders of the United Nations, taught by the sad example of the League of Nations, were aware of the impossibility of attaining stable world peace and security without the presence of institutions responsible for the economic and social development of member countries. Thus economic and social development joined peace and security as one of the two pillars of world stability. The IMF and World Bank developed in order to finance efforts to aid and develop member-nations of the United Nations.

The economic development branch of the U.N. was heavily influenced by political conditions existing during its creation. The victors of the Second World War shaped the United Nations so that they would hold the greatest amount of power in the institution. The U.N. organs of economic and social development were designed in the same matter. The 5 victorious and founding members of the UN understood that their political powers could be easily guaranteed by creating institutions that used weighed voting, where their votes would always carry more weight than the votes of other countries. The Bretton Woods institutions use weighed voting and are still dominated by the V-5 nations.

The three institutions created under the Bretton Woods System are the World Bank, the International Monetary Fund, and the World Trade Organization. The first two institutions were established prior to 1945, but member-nations were unable to
agree on an international trade agreement like the WTO. The GATT treaty was created as a substitute for an official agreement. This treaty was incredibly complex and lengthy (almost 20,000 pages long, with 108 countries involved!), containing each country’s provisions on trade. GATT lasted until the mid 1990’s, at which point the World Trade Organization came into being after much negotiation. Ambassador Kamal noted that the end of the Cold War facilitated the creation of a global trade organization by freeing Eastern European countries from the dominance of Soviet Russia and creating positive feelings about free trade and "Western" ideas. The ideals of the WTO were set out as follows:

1. Eliminating "Most Favored Nation" Status: if you give certain advantages to one country, the same advantages have to be offered to other countries

2. Making Lower tariffs; reducing tariffs by 30% overall

3. Eliminating non-tariff barriers like quotas

4. Developing agreements in the new areas of trade; intellectual property, services, labor, and TRIMs (trade related investment measures: ways in which trade is encouraged or discouraged).

The common complaints about the institutions right now are that they have no social image, are too “hard-nosed,” and are unsympathetic to the needs of their clients. Many nations complain that the IMF and World Bank lack internal governance, yet claim to know how to improve the governments of their client nations. Both developing and developed countries are unhappy. Conditionalities and trade agreements generally affect the developing countries more than the developed countries, but the developed countries are also unsatisfied. The developing countries feel that the Western countries control the tools of economic development and are unwilling to let the developing countries take advantage of a global marketplace. The developed countries fear that economic advances for developing countries may threaten the current international power structure. There is much talk in the UN of reformatting the economic international standards, but currently little is being done.

Ambassador Kamal used the example of textiles to show how developing countries are hurt by non-tariff barriers to trade. He explained the importance of textiles, noting that the textile industry is always among the first industries that develop in any given economy. As development comes, the country becomes more focused on other more advanced industries, like technology. In an ideal trade system textiles would be made by developing countries, while developed countries would produce high-end technology products. One nation's production would complement the production of another nation, and the two would trade goods. However, because of protectionism, this is not so.

For example: the textile industries in the US belongs to old wealthy families who are unwilling to compete with developing countries. The U.S. textile producers use their influence and wealth to convince the U.S. government to impose quotas on textile imports. Although developing countries are cotton-producing countries with newer machines and cheaper labor, their ability to trade is destroyed by
quotas limiting imports of their goods. A WTO agreement was signed to phase out this kind of protectionism in 10 years. Eight years have passed, but nothing has been done. The gradual process that should have begun in 1993 hasn't even started, and developing countries continue to suffer economically from these non-tariff barriers to trade.

**Student Questions:**

*Q. Do you feel that the concerns expressed by IMF/WB protesters in Seattle and more recently in Prague reflect the concerns that your country has regarding these institution?*

Ambassador Fahmy stated that the protests were organized by the developed countries and represented their problems with the IMF and the World Bank. He explained that the interests of the developed countries are very different than those of the developing countries; activists in developed countries want to improve labor standards in the developing countries in order to protect their domestic market, whereas developing countries wish to stop Western countries from limiting trade by creating these kinds of regulations. Ambassador Fahmy felt that the Western protests were economically motivated, while the concerns of the developing countries had greater justification on both social and economic grounds—though there seems to be good reason to believe that many of the protesters in Seattle and Prague were motivated by a genuine concern for the people of developing countries. Perhaps some of these protesters were misled and hampered by their Western worldview, unaware that their protests could economically harm developing countries.

Ambassador Fahmy also mentioned that environmental issues present a conflict of interest between developing and developed countries. Developed countries seek to strengthen environmental standards, which developing countries oppose. While developed countries can afford to make changes to comply with environmental regulations, developing countries do not have the capital to do this. The problem is that environmental damage, regardless who did it for what reason can be irreversible and do affect the entire world population, not just the country producing the damage. Ambassador Fahmay suggested that labor/human-rights issues and environmental protection issues need to be dealt with, but not in conjunction with trade. However, there is also a good argument that these issues are intrinsically linked with trade and that efforts to separate these issues from trade constitutes protectionism on the part of developing countries.

Ambassador Kamal pointed out that the developing countries had made an error by assuming that trade could undergo great changes in a short period of time. The developed countries came up with unfeasible time frames for dismantling protectionism and decreasing tariffs. This made all countries late in fulfillment, allowing the developed countries to blame their slow progress on the developing countries. This error, he assumed, was due to the unequal capacity to negotiate between the countries.
Q.) The NAFTA agreement includes the United States, Canada, and Mexico. Since Mexico is the lesser developed of these three countries, how do you feel it is affected by this agreement? Would it be more beneficial for Mexico to form an agreement with Central and South America?

Ambassador Kamal believes that Mexico profited from this agreement. Mexico has a huge population (soon 100 million) and thus has a large buying market as well as a lucrative labor market. Industries from the U.S. are attracted to Mexico's inexpensive labor, which allows them to increase their profit margins. In this process, the Mexican standard of life improves. As economic conditions in Mexico improve, Mexicans will be less likely to want to leave Mexico for America and the ongoing illegal immigration problem will decrease. Both sides, North and South, gain from this agreement. Ambassador Kamal also thinks that Mexico joining NAFTA is a good example for a model of regionalism, where a developing country joins with a developed country to allow for the development of lucrative markets, while also preventing drug trafficking, etc.

Q.) Why do Arab or Muslim countries not have a free trade agreement amongst themselves?

Ambassador Fahmy explained that, while agreements had been proposed, political problems between Arab and Muslim nations prevented such an agreement from ever reaching fruition. A conference to discuss an Arab free trade area is coming up in November, with hopes to reach an agreement by 2007. Ambassador Kamal also noted that the Economic Cooperation Organization includes Turkey, Iran, Pakistan, Kazakhstan, and Uzbekistan in an effort to establish a tariff-free zone. Ambassador Kamal also posed a question which requires much consideration; which are better: global or regional treaties?

Perhaps the answer lies not in preferring either type of treaty over the other, but in viewing the creation of trade agreements as a gradual process that passes through phases. Regional agreements are reached first, as nations in close proximity to one another often have similar needs. Global agreements may be reached later, as regional blocs gather together to discuss trade agreements.

Q.) Some of the products of less developed countries are made in sweatshops and other poor work environments. Should workplaces that are unhealthy be allowed to exist, especially if the products produced there help the country develop?

Ambassador Kamal explained that labor conditions improve when economic conditions improve. He stated that the countries in the earlier stages of development can't offer the best working conditions to their labor force, and sweatshops therefore seem to be a necessary stage of economic development. But child labor and the existence of sweatshops where workers suffer under unsafe conditions are human-rights issues that deserve concern from both Western and non-Western countries. It is true that these conditions will probably improve if economic conditions
improve, but they also require immediate attention in their own right. Also, poor labor conditions can negatively effect the economic health of a nation. The labor standards set by the country determine how happy the population is, and how willing and able the people are to spend their earnings in the domestic market. If poor labor conditions and insufficient wages leave workers tired and poor, they will be unable to support a growing economy and the domestic economy may stagnate.

Q.) Do you foresee a trade war between the European Union and the United States given disagreements on so many issues? Will less developed countries profit from such a disagreement?

Ambassador Fahmy believes the world is too interconnected for a trade war to occur. A lot of tension may be produced, but a trade war will not result. Ambassador Kamal added that in his opinion the assumption that “integration is always good, and the more integration we have the better off we are” is simplistic. The greatness of the world is that there are different cultures, ways of consumption, cuisines, etc. There is not one singular culture or way of doing things that should become universal. This is why there are disagreements (even among those who are on a path of integration). Disagreements will persist, but they are not necessarily bad.

Q.) Can institutions such as free trade agreements, the WTO, and the IMF prevent rising world inequality?

The general consensus among the Ambassadors was that the “bankers of the world" (i.e., IMF, World Bank) don't wish to meet with their “clients” (LDC's) to discuss social progress and diminish global inequalities per se. The Ambassadors explained how difficult it has been to get representatives of the Bretton Woods institutions to come and sit for ECOSOC meetings. While the Bretton Woods institutions could be used to decrease inequalities among developed and developing countries, it is difficult to implement policies that do this. Ambassador Fahmy seemed optimistic for future reforms, but noted that the institutions could help or hurt inequalities depending on policy changes.

Q.) Developing countries would like their debt reduced or eliminated yet the developed countries do not want to do it. Is anything being done to level the field?

Ambassador Kamal used the example of Sumo wrestlers (players on a level field, but in very different weight categories) to make his point. Population size (market size) is part of strength, but there are also other issues at hand such as the degree of development, access to technologies, capital, networks, etc. For LDC's the only level way to negotiate with the Bretton Woods institutions would be from a position of equal strength but smaller countries can’t muster this strength. They usually have to align on an issue (G-77) to get leverage. Therefore, fairness and
equality is not predominant in negotiations. An indicator for this state of affairs is the fact that the gap between rich and poor countries is doubling every 30 years.

Q.) One of the reasons for the protests against the World Bank and the IMF is how impenetrable and elitist the organizations are. The IMF and World Bank make many very important decisions about the structure of the world behind closed doors and by undemocratic means. Should organizations that are so powerful be so isolated from the influence of the people and from NGO's?

Both ambassadors agreed that the existing economic organizations represent predominantly rich and powerful actors, and thus are ultimately in a stronger position during negotiations. However, this could change if developing countries and NGO’s were to join together. Then they could form a very powerful alliance. Although complete fairness and equality may never be achieved, one can think of arrangements that better equalize the strengths of all players.

Q.) The International Monetary Fund has aided nations in poverty, but with much interference in the nation's sovereign rights. The IMF often requires countries to reduce their government spending, which leaves countries without adequate social services. The IMF also serves to open the country completely, without barriers to foreign trade thus forcing the country to be at the mercy of foreign export and markets. How does the IMF justify this infringement on sovereign rights and how do these policies help the nation out of poverty?

The IMF sets the conditions under which a nation may receive funds. It argues that such conditions are required to help LDC development. They also make sure that loans will be repaid. But the fact is that the conditions do not always contribute to economic and social improvement in the borrowing country. An example of hurtful IMF conditions is Zambia, where the conditions imposed by the IMF created high unemployment and related social ills. After Seattle and under pressure from outside the IMF has promised to reform itself, such as making conditions more focused, including more opinions, and thus hoping to achieve more fairness in their assessments and relieving poverty in the long term.