

Bristol Dissent! Briefing

INFORMATION FOR ACTION

THE IMF, World Bank & WTO

The IMF & World Bank

The IMF (International Monetary Fund) and the World Bank, both formed in 1944, are global organisations whose main purpose is to manage the global financial system, and to provide loans for member states that need them. Both have 184 members.

The IMF and World Bank lend money to poor countries both by themselves, and they also act as agents for poor countries in arranging loans from other countries. But they will only do this if the government of the borrowing country agrees to certain conditions – certain changes in its state apparatus and infra structure – changes of a capitalist and liberalist nature. In other words, the IMF and World Bank will promise to lend the poor country money, but only if the poor country privatises and cuts back its public sector.

The main goal of the IMF and World Bank is to boost so-called free trade – a concept dear to capitalists. The problem with their notion of free trade, however, is that since their power structures are so dominated by a few rich countries, primarily the USA, they tend to work for the benefit of those countries rather than for unbiased free trade. The finance ministers of the seven most industrialised nations (USA, UK, France, Canada, Japan, Italy, Germany) control 45% of the votes in the IMF's board. The 41 most indebted nations control only 3% of the votes.

While the IMF and World Bank make sure to remove subsidies in poor countries, they continue to increase financial assistance and subsidies for American agriculture, cotton and steel. The IMF also facilitated Pakistan in rescheduling \$12.5 billion in outstanding debt to Western countries, after Pakistani President General Musharraf decided to go against the public opinion of his country and support the war on terrorism after the September 11 attacks. After Musharraf's decision to support the war on terror, the USA also decided to cancel \$1 billion of Pakistan's bilateral debts to the US.

Note: Bilateral = between only two parties; a loan from one single nation to another. The IMF and World Bank deal with multilateral loans, i.e. they co-ordinate loans from groups of nations to other groups of nations, or from groups of nations to single nations.

So what's the difference?

On the large scale of things the IMF and World Bank play essentially the same role in international politics. But they are completely separate (although often co-operating) institutions and have different purposes.

The IMF was originally founded to stabilise countries' currencies in relation to each other, and to oversee the currency exchange market. Since the IMF is not really a bank, it doesn't give loans as such. Rather, it has a pool of money from which member countries can borrow when they need to stabilise their currency quickly. This can be compared with an overdraft on a current account. All loans from the IMF must be paid back within 5 years.

The World Bank on the other hand, gives longer term loans for more general purposes. As an investment bank what it essentially does is to intermediate between lenders and borrowers. It sells bonds to corporations, individuals, and sometimes governments, and lends that money to borrowing governments.



Since the World Bank, like any investment bank, makes a living out of lending money, it tends to encourage poor countries to take more loans, regardless of what they are for. For example, the World Bank was quick to offer loans to India for the building of a colossal dam project in the Narmada Valley. Even before any final costs had been computed, and before any studies had been done on the human cost or environmental impact of the dams, the World Bank offered a loan of \$450 million to get the project started. Later, an independent review

showed that the project was ludicrous. The resettlement and rehabilitation of all the people displaced by the projects was not possible, and the environmental concerns were too great. Only after a second review had criticised the project further did the World Bank finally pull out.

The WTO

The WTO (World Trade Organisation) is an international organisation, which oversees a large number of agreements defining the "rules of trade" between its member states. The WTO has two basic functions: as a negotiating forum for discussions of new and existing trade rules, and as a trade dispute settlement body. It has 148 member countries.

The WTO was created in 1995 to replace the General Agreement on Tariffs and Trade (GATT), a series of trade treaties aimed to abolish international trade barriers such as customs duties and trade taxes. Before the WTO, governments would tax imported goods so that they would become more expensive than domestic goods and therefore be less attractive to consumers. The WTO wants to work against such taxes, since it sees them as an obstacle to free trade. If a member state thinks that another member state has breached a previously made agreement, it can file a complaint to the WTO, which then acts as a kind of court.

The WTO is a capitalist organisation concerned with the well being of transnational corporations. It puts free trade above anything else – be it humanitarian concerns or the environment. In 2002 for example, the USA stopped an agreement designed to give poor countries better access to cheaper drugs to prevent diseases like aids, malaria and TB. The agreement would have made it possible for African, Asian and Latin American countries to buy cheaper Brazilian, Indian and Thai imitations of expensive American patented medicines. But the USA thought this was “unfair” and blocked the negotiations.

With the abolition of international trade barriers comes the possibility for corporations to move their factories to poorer countries where unions are weak or non-existent, and workers are more likely to accept bad working conditions.

The WTO can also be used to limit the use of environmental labels such as the Forest Stewardship Council (FSC) label. The FSC label confirms that a product has come from a “sustainably managed” forest. The problem is that these labels can be considered “discriminatory” under WTO rules. Worried about risking trade sanctions by using the FSC label, countries will be less likely to use the environmental label.

In May 2003, the USA government filed a complaint under the WTO's dispute settlement process against the EU ban on GMOs. The WTO challenge was launched despite the fact that the EU was planning to lift the ban within months. This case is a scare tactic by the USA to “encourage” countries in the South to agree to open their markets to genetically engineered (GE) food. Many countries now fear that if they reject GMOs, they will be met with huge trade sanctions (which could be worth hundreds of millions, or even billions of dollars) in the WTO. The US has aggressively gone after a number of developing country governments already, threatening them with action under the WTO if they pass laws on GMOs, such as product labelling that would give consumers the right to choose whether or not they want to eat these foods.

WTO Decision making

The WTO, unlike other international organisations, bases its decision making on consensus. This means that the members, rather than voting, negotiate until an agreement is reached. What's more, all issues must be resolved at the end of a WTO trade meeting – there must be agreement on all issues, or else there is agreement on none and the meeting will end in failure. This puts a great deal of pressure on countries that may be “holding out” on one issue, to give in - or face a political and/or economic backlash from other members. This also creates a system of “trade-offs”, where, because all issues form part of one package, governments will often trade off something they want on one issue, to give them a better chance of winning something important on another issue.

Before each Ministerial meeting, there are often “mini-ministerials” which are meetings of government Ministers held to try to build consensus before the big meeting. The most difficult issues are discussed, and countries start to work on “deals.” However, because these mini-ministerials are by invitation only, only a handful of countries are ever present. US, EU states, Canada, Australia and Japan are a few of those always present.

Resources:

www.wikipedia.org

www.zmag.org

www.imf.org

www.worldbank.org

www.wto.org

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www.greenpeace.org

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