International Economics – Tutorials 2

Dr Wioletta Nowak

Bretton Woods Institutions: International Monetary Fund (IMF)

- Three main objectives:

➢ to promote international monetary cooperation;

➢ to facilitate the expansion of international trade;

➢ to promote exchange rate stability.

IMF

- The primary role of the IMF is providing short- and medium-term financial assistance to the members that have temporary problems with a balance-of-payments equilibrium.

- The resources for the IMF credits come from quota subscriptions paid by the members.

IMF

- Each member country pays the amount of money proportionate to its economic size that is measured by national income and trade volume.

- The size of quota is adjusted to the economic power of a country at intervals of 5 years.
- A 25% of quota is paid in SDRs (Special Drawing Rights) or in international currencies. The remaining 75% a country pays in its own currency.

IMF

- The quota determines the voting power of a country. In result the members of the Fund do not have an equal voice. The largest shareholders have big influences on the IMF’s decisions.
- In 2016 the major shareholders were United States (17.46 per cent of the total IMF quotas), Japan (6.48%), China (6.41%), Germany (5.60%), France (4.24%), United Kingdom (4.24%), Italy (3.17%), India (2.76%), Russia (2.71%), and Saudi Arabia (2.10%).
- Poland (0.86%)

World Bank (WB)

- Main objective initially was to assist in the reconstruction and development of damaged economies by facilitating the investment of capital for productive purposes.

- Responsible for providing finance and advice to countries for the purposes of economic development and poverty reduction, and for encouraging and safeguarding international investments.

World Bank (WB) - group of five international organizations

1. **International Bank for Reconstruction and Development (IBRD)** lends to governments of middle-income and creditworthy low-income countries.
2. **International Development Association (IDA)** provides interest-free loans and grants to governments of the poorest countries.
3. **International Finance Corporation (IFC)** helps developing countries to achieve growth by financing investment, mobilizing capital in international financial markets and providing advisory services to business and governments.

World Bank (WB) - group of five international organizations

4. **Multilateral Investment Guarantee Agency (MIGA)** offers political risk insurance (guarantees) to investors and lenders.
5. **International Centre for the Settlement of Investment Disputes (ICSID)** provides international facilities for conciliation and arbitration of investment disputes.

International Monetary Fund	World Bank
• oversees the international monetary system	• seeks to promote the economic development of the world's poorer countries
• promotes exchange stability and orderly exchange relations among its member countries	• assists developing countries through long-term financing of development projects and programs
• assists all members – both industrial and developing countries – that find themselves in temporary balance of payments difficulties, by providing short- to medium-term credits	• provides to the poorest developing countries whose per capita GNP is less than $1,165 (2018) a year special financial assistance through the International Development Association (IDA)

International Monetary Fund	World Bank
• supplements the currency reserves of its members through the allocation of SDRs (special drawing rights)	• encourages private enterprises in developing countries through its affiliate, the International Finance Corporation (IFC)
• draws its financial resources principally from the quota subscriptions of its member countries	• acquires most of its financial resources by borrowing on the international bond market
• employs about 2,400 staff, 189 member countries	• has a staff of 9,000 from more than 170 member countries, 189 member countries

The General Agreement on Tariffs and Trade (GATT)

- The objectives of the GATT (1947) were to establish an orderly and transparent framework within which barriers to trade could be gradually reduced and international trade expanded.

- The principal mechanism for progress on trade liberalisation within the GATT has been periodic multilateral negotiating rounds.

- The primary focus of the GATT rounds has been the promotion of multilateral tariff reductions, and the extension of the agreed reductions to all members.

GATT/WTO

- The GATT was a set of rules, a multilateral agreement, with no institutional foundation, only a small associated secretariat.

- The World Trade Organization (WTO) came into being in 1995. It is the successor to the GATT.

- The WTO is the international organization dealing with the global rules of trade between nations.

- The WTO has **164** (July 2016) members accounting for over 95% of world trade. Over 20 others are negotiating membership.

GATT/WTO – Observers (22)

- Algeria, Andorra, Azerbaijan, Bahamas, Belarus, Bhutan, Bosnia and Herzegovina, Comoros, Equatorial Guinea, Ethiopia, Vatican, Iran, Iraq, Lebanese Rep., Libya, Sao Tome and Principe, Serbia, Somalia, Sudan, Syria, Timor-Leste, Uzbekistan.

Principles of the WTO's trading system

1. Trade without discrimination
2. Freer trade: gradually, through negotiation
3. Predictability: through binding and transparency
4. Promoting fair competition
5. Encouraging development and economic reform

Principles of the WTO’s trading system

Trade without discrimination

- **Most-favoured-nation (MFN):** treating other countries equally. Countries cannot normally discriminate between their trade partners. If a country grants someone a special favour (such as a lower customs duty rate for one of their product) it has to do the same for all other GATT/WTO members.

- **National treatment policy**: treating foreigners and locals equally. Imported and locally produced goods should be treated equally - at least after the foreign goods have entered the market.

Principles of the WTO's trading system

Freer trade: gradually, through negotiation

- Trade barriers coming down through negotiation.

Predictability: through binding and transparency

- Foreign companies, investors and governments should be confident that trade barriers (including tariffs and non-tariff barriers) should not be raised arbitrarily; tariff rates and market-opening commitments are "bound" in the WTO.

Promoting fair competition

- Discouraging "unfair" practices such as export subsidies and dumping products at below cost to gain market share.

Principles of the WTO’s trading system
Encouraging development and economic reform

- The trading system should be more beneficial for less developed countries - giving them more time to adjust, greater flexibility, and special privileges.

- Decisions in WTO are typically taken by consensus among all member countries and they are ratified by members’ parliaments.

- Trade friction is channelled into the WTO’s dispute settlement process where the focus is on interpreting agreements and commitments, and how to ensure that countries’ trade policies conform with them.

Principal forum for trade liberalisation

- Eight rounds of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT) have significantly decreased trade barriers.

- Successive GATT rounds cut tariffs and liberalised trade.

GATT/WTO Trade Rounds, 1947-2010

Name of round	Period and number of parties	Subjects and modalities
Geneva	1947 (23 countries)	Tariffs: item-by-item offer-request negotiations
Annecy	1949 (33 countries)	Tariffs: item-by-item offer-request negotiations
Torquay	1950-1951 (34 countries)	Tariffs: item-by-item offer-request negotiations
Geneva	1956 (22 countries)	Tariffs: item-by-item offer-request negotiations
Dillon Round	1961-62 (45 countries)	Tariffs: item-by-item offer-request negotiations motivated in part by need to rebalance concessions following creation of the EEC (European Economic Community)
Kennedy Round	1964-67 (48 countries)	Tariffs: formula approach (linear cut) and item-by-item talks. Non-tariff measures: antidumping, customs valuation

GATT/WTO Trade Rounds, 1947-2010

Name of round	Period and number of parties	Subjects and modalities
Tokyo Round	1973-79 (99 countries)	Tariffs: formula approach with exceptions Non-tariff measures: antidumping, customs valuation, subsidies and countervail, government procurement, import licence, product standards, safeguards, special and differential treatment of developing countries.
Uruguay Round	1986-94 (103 countries in 1986, 117 as of end -1993)	Tariffs: formula approach and item-by-item negotiations. Non-tariff measures: all issues, plus services, intellectual property, preshipment inspection, rules of origin, trade-related investment measures, dispute settlement, transparency and surveillance of trade policies.
Doha Round	2001- (150 countries as of beginning 2007)	Tariffs: formula approach and item-by-item negotiations. Non-tariff measures: trade facilitation, rules, services, environment.