| Higher 2 (9173) | Cluster 1: Development, Economy and Environment | TMJC |
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| Cluster 1 Lecture 5 | Multilateral Institutions | 2025 |

## WHAT ARE MULTILATERAL INSTITUTIONS/SUPRANATIONAL ORGANISATION

**Multilateral institutions/Supranational bodies** refer to agencies that have powers above that of the state. These agencies get their power from the agreements between its member states. Such supranational bodies can be divided into two main categories:

### (A) INTERNATIONAL REGULATORS

**International Regulators** are international institutions that seek to regulate activity worldwide. In this syllabus, we will examine **Global Financial Institutes (GFIs)** such as International Monetary Fund (IMF) and World Bank, as well as, World Trade Organisation (WTO). Their aims are to remove trade barriers, promote global trade and stabilise economies.

**World Bank**

The World Bank is made up of 189 member states that provides loans to developing countries for capital programs. It consists of two institutions: the International Bank for Reconstruction and Development (IBRD), and the International Development Association (IDA). They aim to reduce poverty through an inclusive and sustainable globalisation through promotion of foreign investment and international trade and facilitation of capital investment. They do so by:

i. Providing low-interest loans, zero to low interest credits and grants to developing countries.
ii. Supporting social development programs such as education, health, public administration. Infrastructure, financial and private sector development, agriculture and environmental and nature resource management.
iii. Facilitating financing through trust fund partnerships and bilateral and multilateral donors
    Providing advice on innovative knowledge sharing through policy advice, research and analysis and technical assistance

**The World Trade Organisation (WTO)**

The World Trade Organisation (WTO) began on 1 January 1995, replacing what was previously known as General Agreement on Tariffs and Trade (GATT). Its key aim is to promote competition & liberalisation of both goods and services. The major issues covered by the new WTO are outlined as follows:

i. Reduction of tariffs and opening up of markets: For example, the European agricultural market will be opened up with a 30% cut in farm subsidies; protective barriers against imports of textiles will be reduced.

ii. General agreement on trade of services: With rise of internet, it allows for transnational services hence this aim open up world markets and promote international financial and insurance services.

iii. Trade-Related Intellectual Property Rights (TRIPS): TRIPS protects patents by individuals or companies, giving legal protection against piracy or theft.

However, although over 150 members are members of the WTO, effectively most decisions are made by the only more influential powerful 8 – the so-called G8- comprising Canada, USA, UK, Italy, France, Germany, Japan and Russia – which with the exception of Russia, also form the inner circle of the OECD (Organisation for Economic Co-operation and Development).

In contrast, the many LDCs, with their limited wealth, products and technology have the least say and find it difficult to obtain a fair share of the world's trade. E.g. most of the tariffs that had been removed in 1995 was generally on industrial products that benefitted the NICs. In contrast, there was little reform on agricultural products due to strong farming lobbies in the USA and the EU, much to the disadvantage of the LDCs.

### (i) Economic Impact of International Regulators

The economic impact of International Regulators can be studied on a variety of scales:

#### (a) Impact on national economies

On a national scale, international regulators reduce the sovereign powers of the nation state in controlling its economy. By promoting globalisation and the establishment of Export Processing Zones, the actions of the WTO and IMF have led to an *increase in regional disparities*, as regions surrounding EPZs grow, while other areas in the country do not. The case of the Mexico-US border area is a prime example.

#### (b) Impact on regional economies

On a regional scale, international regulators, by liberalising markets, have promoted globalisation via market liberalisation. This in turn has accelerated the growth of economies that have sought export-oriented strategies for growth.

The rapid growth of small, resource-poor East Asian states such as Singapore, Hong Kong and Taiwan have been attributed to the favourable trade climate brought about by the WTO. At the same time, the actions of international regulators such as the IMF have also been blamed for the stagnation of many Latin American economies such as Mexico.

#### (c) Impact on global economies

On a global scale, the impact of International Regulators has been to strengthen the position of Developed Countries, thereby leading to greater disparities between the DCs and LDCs.

This is due to actions taken by DCs to make international export by LDCs difficult by implementing restriction policies. Such as implementation of Voluntary Export Restraint (VER).

Moreover, the new WTO scheme gives DCs control over many of the economic policies of LDCs. For example, while TRIPS covers agricultural products, medicines and other primary products, it is still the DCs which control much of their development and production. TNCs who manufacture pharmaceutical products, genetically engineered agricultural seeds and artificial fertilisers will thus enjoy new patent rights, giving them greater control over the goods. WTO regulations make competition by local industries illegal, thereby hampering the growth of LDC industry.

As a result of WTO, the developing nations which export much of their agricultural produce are now forced to open up their markets. This is in contrast with the DCs, especially the USA and members of the European Union, who refuse to remove trade barriers against imports from the LDCs. Many development experts believe that WTO, is biased towards the richer nations. WTO considers the corporate business interests of the developed nations while paying little attention to the needs of, and the growing poverty, in many developing nations.

### (ii) Social Impact of International Regulators

Increased social-economic polarisation within the state: As aid generally favours the elites and marginalises the middle and lower class, it has resulted in polarised and uneven development within the state.

Gendered impacts: With reduction in government spending on healthcare infrastructure due to reduction of state spending specified by SAPs, this has resulted in the worsening fate of women and children under five years and the declining level in human development. This gendered impact of economic reforms can be understood in terms of commonly accepted gendered roles where women are perceived to be the main family caregiver, responsible for the household reproductive tasks. Thus, women are perceived to be intensive users of health services (like the young children), and with the economic reform, there will be a decline in the government spending in health under adjustment programme, leading to women having to be disadvantaged in the social support provided.

In Tanzania, for example, reduction in public health services has resulted in an increase in the mortality of young children under five years of age from 193 per thousand in 1980 to 309 per thousand in 1987. Women also had to travel further and incur higher costs and had to supplement those public services such as medical and maternity care through their own labour.

### (iii) Environmental impacts of International Regulators

Often, economic adjustments may be achieved at the cost of environmental sustainability. Ghana, for example, was widely recognised by the World Bank as being successful in terms of achieving progress with economic adjustment when the former saw an average high annual growth in GDP of 3.8 percent throughout the 1980s. However, timber exports increased from US$16 million in 1983 to US$99 million in 1988 under the trade liberalisation required by structured adjustment. Because of this, Ghana saw its forest area being reduced to 25 percent of its original size by the late 1980s.

In another instance in Cameroon, the IMF recommended export tax cuts accompanied by devaluation of the currency under structural adjustments in 1995. This greatly encouraged the export of timber resources from the country and lumber exports grew by about 50 percent in just two years and the number of logging enterprises almost tripled. The environmental consequences of such massive scale of deforestation were neglected then and the implications were overlooked.

**Case study of WTO and China**

<table>
<tr><td colspan="2">China officially joined the WTO on 11 December 2001.</td></tr>
<tr><td colspan="2">A condition of its admission was trade liberalisation, including the lowering of tariffs and non-tariff barriers on a range of products in agricultural, manufacturing, and service sectors<br>○ E.g., China agreed not to maintain or introduce export subsidies on agricultural products to make them more competitive on the world market<br>○ E.g., China would phase out its quotas on textile imports<br>○ E.g., China would allow foreign investors to enter service sector markets including banking and telecommunications<br><br>▪ Essentially, China would accord foreign firms the same right to trade as it did local businesses. Currently, China's overall tariff is the lowest among LDCs<br><br>▪ By joining the WTO, China gained access to foreign markets. It also wanted to use competitive pressures on the world market to hasten economic reforms (started since 1978)</td></tr>
<tr><th>Positive impacts</th><th>Negative impacts</th></tr>
<tr><td>Increased trade<br>▪ The expansion of trade has turned the 6th largest trading nation into the 2nd largest<br>○ Value of exports and imports grew 6 times between 2001 and 2011<br>▪ Total value is about US$3 trillion<br><br>▪ A five-fold increase in imports has increased choices for Chinese consumers and created opportunities for employment in other countries<br>▪ Roughly US$750 billion worth of imports per year creating an estimated 14-18 million job opportunities for China's trading partners<br>▪ In 2010, China was the largest export destination for Australia, Brazil, Japan and South Africa<br>▪ It was also a significant export destination for the EU and the US<br>▪ China has also increased its trade in services. It became the world's 4th</td><td>Some critics argue that Chinese inputs account only for 10-15% of the value added of exports produced by foreign firms, so the gains for China are illusory</td></tr>
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| largest exporter and 3rd largest importer in 2010<br><br>**Increased FDI**<br>▪ Rapid growth in FDI<br>  o In 1993 its inward FDI was US$10 billion<br>  o One year after it joined the WTO its inward FDI was US$50 billion<br>  o In 2010 China's accumulated FDI for the decade after it joined the WTO exceeded US$1 trillion<br><br>▪ 34,700 new foreign firms have established a presence in China<br>  o Includes major car manufacturers (e.g., Ford) and retail giants (e.g., Wal-Mart)<br>▪ About half of all Chinese exports are contributed by foreign enterprises (e.g., 57.1% in 2007) | |
| **Complex impact on Rural Activities**<br>▪ There was much concern about small Chinese farmers being unable to compete with more efficient mechanised farmers in DCs (e.g., US, Australia) before 2001<br>  o Particularly for products in which tariff reductions were particularly dramatic (e.g., citrus fruit, dairy products)<br>  o A more recent article in 2006 even suggests that agricultural wages have stagnated and that rural unemployment is severe, with up to 120 million rural workers unemployed or underemployed<br><br>▪ But the impact on rural activities is complex because the rural sphere is very diverse. The impact of trade liberalisation on farmers depends on the type of goods they produce<br>  o A 2005 UNEP study shows that poorer farmers tend to produce agricultural goods in which China has a lower comparative advantage (i.e., less able to withstand global competition)<br>    ▪ Hence poor farmers will probably benefit less than rich farmers<br>  o Farms near the coast also tend to produce more exportable goods such as rice, livestock and horticultural crops which have driven the country's agricultural exports | |

<table>
<tr><td colspan="2"><ul><li>Inland farms tend to produce less exportable goods, such as maize, wheat, soybean, sugar, and edible oils<ul><li>Imports of these goods have been rising</li></ul></li></ul><ul><li></li></ul></td></tr>
<tr><td>Employment and technology transfer (e.g., learning about operating in the international business environment from foreign firms through joint ventures (e.g., developing a global sales network, branding)<br><br>Reduced poverty<ul><li>Household incomes have also risen, from US$800 to US$3300 since China joined the WTO</li><li>200 million people have been pulled out of poverty</li></ul></td><td>Low wages and poor working conditions<ul><li>Low wages and poor working conditions of factory workers as an unacceptable outcome of globalisation<ul><li>E.g., the recent Apple-Foxconn scandals</li><li>A recent survey by non-profit group Fair Labor Association on 3 Foxconn factories in China showed a majority of workers did not believe the wages they received met their basic needs</li></ul></li></ul></td></tr>
<tr><td></td><td>Export production is one of the leading causes of the rise in GHGs in China<ul><li>Carbon emissions grew at a startling 12.5% per year between 2002 and 2007, and reached a total of 8.33 billion tonnes in 2011, accounting for a quarter of the world total</li></ul></td></tr>
</table>

**(B) REGIONAL ORGANISATIONS - REGIONAL TRADING BLOCS**

Regional trading blocs are collaborative agreements formed at a regional scale to create large markets for producers of member states and protecting them from outside competition (State as collaborator). In some ways, the effect of Regional Trading Blocs appear to be contrary to those of the international regulators in that regional trading blocs seek to increase trade between member states while reducing trade with non-member states.

**(i) Major Trading Agreements**

According to WTO, there were approximately 170 regional trading agreements in operation, covering more than 40% of total world trade. The major ones are illustrated in the followi

**ii) Impact of Regional Trading Blocs**

Regional Trading Blocs have both national and regional:

Impact on national economies

- **Generate economic growth**

  Regional Trading Blocs have also impacted economic growth in its member countries. For example, Mexico has experienced high rates of growth in manufacturing as a result of NAFTA. US firms, keen to tap on the cheap labour of Mexico and yet avoid the import tariffs of the US, have relocated a large proportion of their investments from Canada and East Asian locations into Mexican towns such as Monterrey and Ciudad Juarez.

- **Raise bargaining power of nation states in global trade negotiations**

  Regional trading blocs have also led to greater bargaining power for nation states in global trade negotiations. By pooling together, nation states also have greater bargaining power when dealing with TNCs.

  However, the extent of such power depends on the type of trading bloc and the level of internal rivalry between its members. For example, both the UK and French governments competed furiously against one another to vie for Toyota's latest round of FDI in the EU.

- **Weakening of the state regulatory powers over its economy**

  Economic unions such as the EU have also led to a considerable weakening of the state regulatory powers over its economy. Monetary union means a loss of monetary policy as a tool for managing the economy, and common laws on labour, trade and FDI means that small member states have to surrender to the "tyranny of the majority".

**(a) Impact on regional economies**

- **Increase trade within members state, at expense of trade with non-member states**

  The policies of Regional Trading Blocs have <u>increased trade between member states</u> due to liberalisation of trade and commerce. However, these preferential trading rights for members have led to the <u>reduction of trade with non-member states</u> due to discriminatory policies.

- **Change flows of FDI**

  Geographically, they have led to <u>**regionalism**</u>, where TNCs view national economies not as economies in their own right, but as part of a regional investment and marketing policy. This has in turn led to winners and losers within trading blocs.

  For example, the UK enjoyed a disproportionately large amount of inward FDI from Japanese firms in the 1990s. These firms sought to invest in the UK to circumvent EU tariffs and tap into the vast EU market. Mercosur has led to a similar growth of the Brazilian automobile industry, as European automobile makers invest production plants in Brazil to tap into the emerging South American market.

- **Increase regional inequalities in the local economy**

  Increases in FDI may create greater regional inequalities in the local economy. Areas such as Monterey and Ciudad Juarez & Tijuana have experienced higher rates of economic growth than the rest of Mexico, thereby accentuating regional disparities and creating social tensions and migration flows within the country.

<u>**Case study of ASEAN Free Trade Area (AFTA)**</u>

| **Name of Trading Bloc** | **ASEAN Free Trade Area (AFTA)** |
|---|---|
| Countries Involved | Myanmar, Laos, Thailand, Cambodia, Vietnam, Brunei, Malaysia, the Philippines, Indonesia and Singapore. |
| Year Signed | 1 Jan 1993 |
| Rationale for Trading Bloc | 1. Increase trade and access to goods and services among member countries<br>2. Better utilise comparative advantages (e.g. cheaper labour in LDCs)<br>3. Obtain larger markets to take advantages of economies of scale in the production and export of goods and services<br>4. Allow less developed trading partner to strengthen long-term strategic alliances with more powerful countries and key trading partners |
| Agreed Terms | AFTA Common Effective Preferential Tariff Scheme is the main mechanism for reducing tariffs and thereby, according businesses price competitiveness for their goods.<br>- Liberalisation of investment regimes in non-service sectors (i.e. manufacturing, agriculture, forestry, fisheries and mining |

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| | sectors) by the provision of national treatment to investors and investments of ASEAN countries.<br>- Removal of trade barriers (tariffs and non-trariffs) |
| **Impacts of AFTA** | |
| Overall economic impacts | total trade increased significantly from USD 430 Billion (1993) to USD ion in 2011.<br>s and imports also increased remarkably, both from USD223.3 billion D429 billion to USD1,145 billion respectively for the same period.<br>998, ASEAN has been recording trade surplus, peaking at USD109 in 2007 and decline in 2008 (due to the global economic crisis) before up to reach the second highest recording in 2011 at USD99 billion<br>Direct Investments (FDI) into ASEAN also increased overtime, peaking 114,111 million in 2011.<br>sses: ASEAN enterprises benefit from larger economies of scale.<br>sses can modernize their operations by investing in modern logies and larger plants to cater for a larger market. Technologies can hanged and enhanced as the labors become more skilled |
| Political Impacts | as resulted in greater political stability in ASEAN due to greater nic dependence between member states. |
| Uneven development | poorest member state (i.e. Burma), three quarters of the population k electricity after half a century of dictatorship; in the richest, ore citizens are among the wealthiest in the world.<br>ore remains the preferred regional base for 80% of multinational nies<br>d's political instability has led to TNCs pulling out of the business. This ed country's risk and made some TNCs more reluctant to put new nents into Thailand.<br>n: competitive wage levels comparable to coastal China and has been active location for TNC's branch plants e.g. Samsung |

**CONCLUSION**

In conclusion, the impact of supranational bodies have been both negative as well as positive and has contributed to making "winners" and "losers" in the world economy. Evaluating their effectiveness would depend on the scale of analysis as well as the perspective of the evaluating a