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# Chapter 5

## Global regulation and international institutions

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While the previous chapter focused upon economic globalisation driven by private actors, this chapter deals with political globalisation driven by public international actors. One of the points put forward here is that international institutions, like the IFI's and the WTO, constitute an important aspect of economic globalisation, and that the institutions, in several ways, are setting up the frames of reference on which policy can be formulated. It is furthermore claimed that the institutions, under certain conditions, decide or strongly influence the political outcome of national policy processes in developing countries, and hence create a juridical infrastructure for economic globalisation. These hypotheses are tested in the following empirical chapters. The purpose of this chapter, however, is to discuss the political- and economic-historical context in which the so-called Bretton Woods institutions have operated. The policy and scope of the institutions have both changed during the last 50 years, reflecting changes in the development discourse, the international division of labour and the macro economic policy adopted by the larger developed economies, with the US as the decisive power. This chapter also looks into the new paradigm of trade regulation imposed by the WTO, and furthermore the policies adopted by IMF, the WB, and its relevance in an Asian context.

### History of the Bretton Woods Institutions

The process of creating international bodies to facilitate cross-border trade and development started under the Bretton Woods Conference in USA in July 1944, where the allied countries were discussing and preparing for international institutions which could facilitate the expected post-war problems on financial markets, and in international trade. The Bretton Woods Conference concluded with an agreement on establishing three international institutions. 1) The International Monetary Found (IMF), which should help states facing transient financial problems. 2) The International

Bank for Reconstruction and Development (IBRD, now part of the World Bank Group) which should make long term loans available for countries under reconstruction or modernising their economy, and 3) The International Trade Organisation (ITO) which should prevent the return of protectionism and high tariff walls, or other trade barriers, between countries, as it had been the case in the 1930's and which had exasperated the economic problems of the world economy.

The experience of the competitive depreciation of currencies and the following depression in the 1930s led to the acknowledgment of the advantages of an international control over exchange rates. A pool of gold and currencies to be drawn on in case of balance of payments problems was collected from member countries to the IMF. All member countries should take steps to eliminate controls making currencies convertible, though this provision only became slowly and gradually complied with. The Bretton Woods Agreement was for historical reasons mostly concerned with the international monetary cooperation in order to avoid the "beggar-thy-neighbour" policy of the 1930s which to many people constituted one of the war conditions.

### *The World Bank*

While the bank in the period after the end of World War II, allocated most of the loans to reconstruction Europe, the scope changed in favour of developing countries by the end 1950s, making the World Bank probably the most influential of the Bretton Woods institutions during the 1950s and 1960s. The Bank was and still is dependent on raising money by issuing bonds on the private market. In addition, the Bank opened a 'soft window', the International Development Assistance (IDA) based on contributions from donors. Financial assistance from the Bank, in general, comes in the form of loans, with loans for poor countries having extended grace periods and bear low interest rates (IDA loans).

Reflecting the development paradigm of the after-war years, it was assumed that there existed a multitude of feasible projects in developing countries that only required additional investment and technology. Of the four production factors, land (and resources), labour power, capital and technology, the abundance of the two former in the developing countries would lead to

economic growth[17], if supplemented by the two latter through development assistance. In the first hand, industry was regarded the main pillar of development. This idea could be traced back to some sort of dual economy thinking (Lewis model), where the labour surplus in the agricultural sector should be transferred to the industrial sector and increasing capital formation.

Moving into the 1960s, the sectoral coverage of lending was widened from industry and transport towards the agricultural sector, dominating at that time in most developing countries. Adding IDA loans to the original arsenal provided the World Bank with an option to include social projects (health and education), where the return was long-term and less tangible than in economic activity projects.

With the arrival of McNamara in office in the World Bank, the lending policy turned once again, now with a firm focus on small-scale agriculture, population control, health care and water supply. Some observers see the McNamara period and submerge of a 'basic needs approach' as a pre-phase of the World Bank's later emphasis on conditionality (Singer, 1995). When the lending was confined to marginal projects, most economic considerations were reduced to fall within a cost-benefit framework. However, once the scope broadened, it was obvious that the success of social projects depended on the capacity of government.

### The IMF

The IMF was formed mainly to address the economic problems of developed countries relating to exchange rates and convertibility of currencies. Financial resources of IMF come mainly from capital injections from subscribing member countries. Countries pay a quota that determines its voting power and the amount of financial assistance they can receive from the Fund.

Into the 1970'ies the IMF saw its role being diminished, since the gold exchange standard was abolished by the United States and the fixed exchange regime became under increasing pressure from speculative, market forces. IMF resources were limited and far from the 50% of annual world imports, otherwise suggested by Keynes during the Bretton Woods

[17] The then development paradigm was routed in neoclassical growth theories, such as Cobb-Douglas production function, (where $Y = AK^a L^{a-1}$, which can be rewritten to $y = AK^a$ (where A represents the state of technical progress)) or the Harrod-Domar model.

negotiations. According to Peet (2003), there were two events in the 1970s that made the IMF re-appear as the principal lender to developing countries and for a while leaving the World Bank in the second place. An exchange rate crisis in Britain in 1976 and the bill non-oil producing developing countries should pay to OPEC created a view that IMF was the lender of the last resort, when all other creditors have turned their back to the country in need.

With the shocks of the oil crisis in the seventies that resulted in rapidly increasing oil prices and accumulation of billions of petro-dollars in Anglo-American commercial banks, the industrial countries willingly lent any amount of money for almost any purpose of ambitious national development plans in the Third World. The subsequent debt crisis and the somewhat discouraging results of development in the Third World laid the foundation for the split in the perceptions of 'development' from around 1980. Into the 1970s, a typical package funded by the IMF under the Extended Funds Facility was still basically non-quantitatively monitored, though insisting on liberalization of exchange and import controls and lower government deficits. With Mexico not being able to honor its external debt payments in 1982 and the trigger of an international debt crisis, things changed radically. The number of conditions increased and became quantitative. Loans were strictly monitored and released in tranches subject to scrutiny by IMF officials every half year or even each 3 months. In the following two decades IMF and later the World Bank were the main players in shaping the macro and sector policy of almost every developing countries. With the exception of the Asian countries, that managed to scull in troubled waters without wrecking their economies, at least up till the outbreak of the Asian crisis in 1997, the debt crisis of the developing world made IMF and the World Bank to impose strong conditionalities on any concessional lending. This was strongly supported at the political level by president Reagan in USA and prime minister Thatcher in the UK, and at the academic level by the influence of neo-liberal economics, or perhaps or precise "market fundamentalists", at the leading Anglo-American universities.

Nowhere in its charter, was the IMF given the mandate to impose prescriptions about how to formulate and implement a market fundamentalist line in macro-economic policy. Peet (2003: 73) claims that it originally stemmed from a publication 'Guidelines on Conditionality' in 1977, an outcome following complaints from developing countries about special treatment accorded to developed countries in crisis (like England in 1976). Concerns about the health of international banking system (especially

the risk aversion of the big commercial Anglo-American banks) and the arrival of conservative leaders in United States and England in beginning 1980s possibly explain why redressing the macro-economic policies of developing countries based on principles of freeing market forces became the medicine of IMF. However, the underlying economic model IMF uses, is much older. In its financial programming the IMF bases its demands to developing countries on an extended version of a quite simple monetary model, the Pola- model, showing, among other things, the relationship between the stock of money in a given country and the balance of payment.

### *From developers to crisis-managers*

One of the major shortcomings of this approach, apart from its powerful but naïve belief in the market forces, is the uniformity in programming. Hence, IMF and the World Bank in the post-Mexican crisis period gained the reputation of being governed by ideology only. Often the programming is left with in-country offices of the IMF/World bank in the respective developing countries, without much of a general overview of the global economy. This amounts to a 'fallacy of the composition'. If everyone turns to exporting coffee and are successful in increasing production and exports, the global market will collapse, though the developing countries only did what they were told to do in the first place. The uniformity in drawing up the structural adjustment programs, the general term to characterize all IMF/WB macro-economic packages, probably also has to be blamed for the poor record. About half of the proposed programs of the 1980s were never implemented (Mosley and Eeckhout, 2000: 138).

In the 1980s the Bretton Woods institutions shifted their focus from lending for development, with the World Bank in the lead position, to lending for structural adjustment, with the IMF as main player. Developing countries requesting assistance from the IMF to deal with debt problems and balance of payment unbalances have to issue a 'Letter of Intent' and to agree to austerity measures defined by the IMF. The country receive a loan in US $ or SDR which have to be repaid in the same currency. Dasgupta writes: "As the saying goes. IMF prepares the draft of PFP (Policy Framework Paper), the World Bank concurs and the country concerned signs" (Dasgupta, 1998: 74). In Latin America, several countries like Brazil and Argentina attempted to countervail this trend by implementing heterodox economic stabilization policies. Freezing incomes and salaries were supposed to halt the inflation, but instead a black market for foreign currencies unfolded (Duncan, 1996). Even these countries had eventually to follow IMF-sponsored adjustment

measures after failing to break away from the burden of the debt crisis. In terms of political practice, the structural adjustment loans, though less rigid in its performance criteria than loans from the IMF, continue to be the main financial window from the World Bank for Third World countries facing economic crises (Peet, 2003 and Tarp, 1993).

In the beginning of the 1980s the strategy of IMF/WB was simply to reschedule the external debt of developing countries. This strategy sought to waive part of the debt and stretching the rest over a longer period. As debtor countries continued to struggle, new ideas were launched, this time private banks should engage in debt-reduction schemes. Private banks would grant debt relief in exchange of greater assurance of the collectability of the remaining debt obligations. Baker and later Brady, both Secretaries of the Treasury of two consecutive American administrations, drew up the initial plans. By 1994 18 countries have been forgiving $ 60 billion (Peet, 2003:79).

Though a setback was registered in Mexico in 1994, external conditions in export prices improved in the 1990s for Latin America. And only later, by 1997 onwards, did a new financial crisis materialize, now in Asia. Africa did not show sign of regain of economic growth, and the World Bank took over the 'reigns' in this region.

The negative effects of financial crisis apparently diminished, more or less concurrently with the breakdown of the bipolar world order. Foreign exchange controls were abolished in nearly all corners of the world, the last major target of liberalizing the world economy and especially the former centrally planned economies together with the developing country economies came back in. Trade obstacles through deliberate policy measures, tariffs or import controls, had 'survived' the structural adjustment policies. This happened partly because tariff reductions were left to the discretion of the much more loosely structured organization, GATT.

## The establishment of the WTO – a new step in globalisation

While both the IMF and the IBRD formally were established in the end of the 1940's, ITO never came into existence as a permanent institution. As the finally charter for ITO was under preparation, a parallel tariff negotiating conference was hold in Geneva in October 1947 in order to reduces taffies on international trade and to take out other trade restrictions, with the aim of accelerate international trade even before the ITO came into existence. The countries participating in the conference agreed on a temporary multilateral

contact called the General Agreements on Tariffs and Trade (GATT). Due to American reluctance to establishing the ITO, this organisation never materialised, and instead GATT took over the role as the most important institution for regulating international trade.

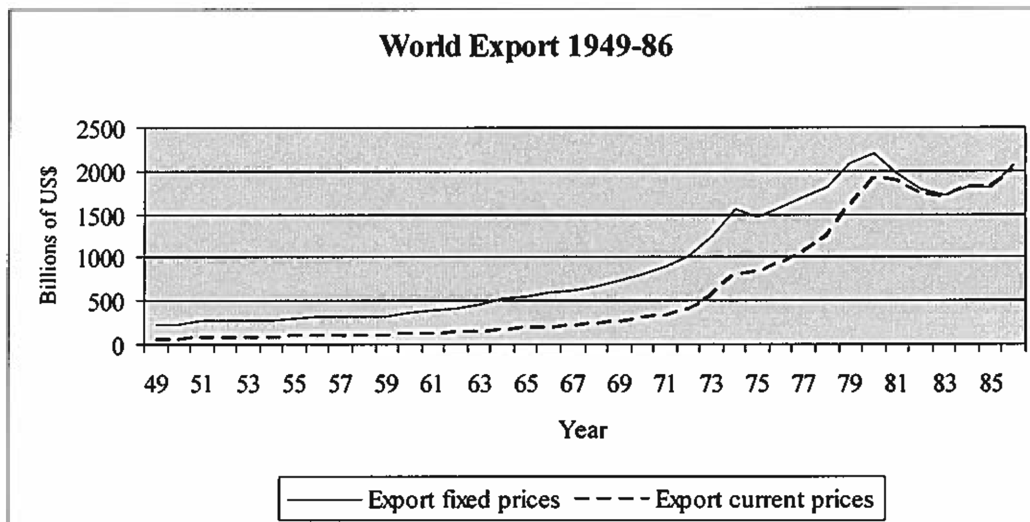


*Figure 5.1 Total World Export in the period from 1949-86, showed in current - and fixed prices (1985-prices). The dramatic increase in oil prices in 1973 is easily identified, but the statistics also reflects increased cross-boarder trade between the developed countries, and the new international division of labour in the 1960'ies and 1970'ies, where cheap labour in the developing countries began to out-compete industries in developed countries, in textiles and simple assembling industries. Own calculations. Source: IMF, 1979&1992.*

After nearly 40 years as an informal organisation the GATT launched the Uruguay Round of negotiations (1986-93), which concluded with an agreement on the establishment of the World Trade Organisation (WTO) from January 1st 1995, which could facilitate the increasing world trade (see above) and regulate new trade related arrears. The core principles of the WTO, e.g. the MFN Treatment, and the national treatment clause stating that imported goods shall be treated equally with locally produced goods after entering the local market was inherit from GATT. However, there are important organisational chances.

One important difference between WTO and GATT is that member countries of WTO are obliged to carry out all decisions made in the WTO (the principle of no single undertaking), and they can't participate as free riders. Furthermore, in contrast to GATT, WTO is a formal organisation with member countries and with a proper legal text, setting out the structures of the organisation. The organisation has an independent Dispute Settlement

Body (DSB) and a Trade Policy Review Mechanism. DSB is an independent juridical system inside the WTO, with the aim to enforce WTO rules and regulations and it has a legal settlement procedure, which can authorise economic retaliation or compensation for countries that win their case before the DSB. Its only formal power is to call attention to defective implementation of WTO rules and regulation in the member countries national legislation, or give other member countries authority to engage in bilateral trade sanctions if authorised by the DSB. This gives the larger economies such as the EU, USA and Japan an advantage in the multilateral trading system because they are less sensitive to economic retaliation from smaller trading parties than reverse.

WTO has from its inception turned out to be the more powerful organisation of the three Bretton Woods institutions not least due to its principle of no single undertaking and its apparently democratic nature[18]. Claims and demands are becoming increasingly intertwined as IMF/WB in negotiating with developing countries on the conditions for structural adjustment lending insists on WTO membership. The invention of a Trade Policy Review (TPR) to be conducted on a biannual basis in big economies is to a large extent replacing the IMF Article IV reports. For the major and stronger developing countries WTO is now the main international player, whereas small and weak countries still have to address and comply with performance criteria of IMF/WB. The past fifty years of global changes and the coordination of the three organisations' policies bring about other features of the 21st Century global changes. Global economic growth has been extremely skewed with oil-rich countries showing GNP per capita equal to OECD countries and the 'Tiger' economies of East and Southeast Asia together with big economies in Latin America, such as Brazil, Argentina and Mexico leave the majority of poor developing countries even more behind. With China entering the WTO in 2002 and new high-tech industries are growing in India, as is the buying power of its middle class, the developing world looks different than during the development epoch. The increasing deviating opinions among developing countries about economic development, on the one hand high-income developing countries and huge economies in Asia and Latin America and on the other hand poor and small countries not least in Africa are more pronounced than ever before. When they negotiated with IMF/WB they stood isolated trying to strike the best possible result, now they increasingly

[18] All decisions in the WTO are in principle reached by consensus. However, in reality the major trading powers like the US and EU twist the arms of the developing countries in the infamous 'green room' negotiations of the WTO {Kwa 2002 469 /id}

group together in more or less loose constellations (G-20) displaying severe disagreements among themselves during the WTO ministerial meetings. A country like Thailand does not share the same interests in trading agricultural products as India or a small African country like Malawi. Officially Thailand, a major rice exporter, is in favour of liberalising the world market, opposing the attitude of India, heavily subsidising its agricultural sector. Malawi, which on the other hand, is as small food importing country, not to gain from a general liberalisation of the world's agricultural markets because it is actually benefiting from reduced prices, due to the US and EU subsidies.

**Specific regulations and their relevance to developing countries**

The WTO is wider in both the extent (number of member countries) and in scope (trade-related areas covered by agreements) than its predecessor GATT and a number of new areas have been covered by organisation. The most important of the agreements is shortly presented below.

***Textiles***

The Multiple Fiber Agreement has been replaced by an Agreement on Textiles and Clothing (ATC), which allows the textile importing countries a ten years period, from 1995 to 2005, to phase out restrictions on textile import and thereby include textiles and clothing fully into GATT. But after seven years with the ATC the North has only reduced the restrictions they was supposed to according to the agreement in technical terms, because previous voluntary reductions, (e.g. under the GSP system) has been included in the calculations (Oxfam, 2002. 108). Hence, the South hasn't experienced the expected increase in textile export.

***The Agreement on Agriculture***

While tariffs on manufactured goods decreased on average from the original level of about 40% in 1947 to only 4% during the GATT trade rounds, tariffs on agricultural commodities still remain at an average of 62%{Beierle 2002 407 /id}. One explanation is that agriculture was kept out of the GATT negotiations as USA in the 1950's threatened to leave GATT unless it was allowed to maintain protective measures for some of its most sensitive agricultural products, such as wheat, maize and sugar. Being the undisputed major player in the GATT negotiations, USA was given a "non-time-limited

waiver" on agricultural products that led GATT to lax enforcement on other agricultural producers for fear of being accused of having double standards. Under these protective measures the European Common Market in the 1970s developed its Common Agricultural Policy (CAP) into a massive complex of agricultural subsidies.

The result of this protected and heavily subsidised market for agricultural products was that the European Union changed from being a net food importer to become a net food exporter during the 1970's. This kicked off a wearing trade war between USA and the EU during the 1980s with the two superpowers competing for export markets for their surplus production of agricultural commodities. The costs of subsidising agriculture were tremendous and as the EU and US during the late 1980's realised that the trade war was a no-win situation for both parties, it was finally agreed between them to have agriculture included as part of the Uruguay Rounds.

As part of the AoA, the developed countries were supposed to reduce the so-called aggregated measure of support (AMS)19 by 20% in six years, while the developing countries shall reduce by only 13.3% in ten years. However, major parts of the domestic support in the OECD countries were classified under the blue box or under the green box, both of which are exempted from reductions. So even though the rich countries were supposed to reduce their domestic support by 20%, the total OECD support to the agricultural sector has since the late 1980s increased by more than 20%. The total OECD support to the agricultural sector was in 1999 360 billion USD compared to the value of agricultural export from developing countries of 170 billion USD (UNCTAD, 1999, p.136). The actual implementation of the AoA has resulted in a surplus production in especially EU and USA that is dumped at the world market and undermine the developing countries' markets while the developed counties' markets for agricultural commodities become further inaccessible.

***Sanitary and Phytosanitary Standards (SPS)***

The recent liberalisation of tariffs and quantitative restrictions on trade in agricultural and food production in the 1990s has increased focus on problems of technical measures in global trade. The new Agreement on the application of Sanitary and Phytosanitary Standards (SPS) complements that on agreement on Technical Barriers to Trade (TBT). It aims to ensure

[19] AMS is a term used to describe the money value of both direct and indirect government subsidies to their agricultural sector that are considered to be trade distorting.

international trade balance between protection of health and safety on the one hand and international trade on the other. The idea is that member states are encourages using international standards[20] on food safety, animal and plant health.

However, some problems are connected to the new agreement. In an attempt to satisfy developed countries, including worried consumers, the agreement allows states to set their own standards of higher protection levels on the basis of science or of an appropriate risk assessment, which put high pressure on authorities regulating SPS and companies in the developing world, since this means that obtaining international standards is not sufficient. Exporting countries are required to follow the individual layout of each required standard on each market.

Many developing countries fear that the concern over food safety might develop into a serious barrier for their exports of agricultural products to the rich country markets. A dispute between the two major players EU and US over the hormone beef issue is a case in point. EU resists GMO and hormone beef due to uncertainty of possible risks for human health and the environment in using it, while US looks at GMO as just a new technological advancement. When EU insists on using the principle of precaution, it is considered by USA and the WTO Dispute Settlement Procedures (DSP) as a technical barrier to trade (TBT).

The dilemma of the developing countries is their legitimate demand for increasing agricultural productivity, while EU could end up blocking imports from developing countries on the one single ground that products are genetically manipulated. In this event, the general lowering of agricultural protection in developed countries will be to no avail, should it ever happen, since EU countries can always resort to this final political-economic instrument. As long as the possible risk to human health can not be scientifically repudiated, at least certain agricultural products from developing can not find its ways through the EU borders.

[20] Standard-setting organisations in the domain of food and animal health are the FAO/WHO Codex Alimentarius Commission and the Office Internationale des Epizooties.

*Trade in Services - GATS*

The purpose of the General Agreement on Trade in Services (GATS) is to liberalise international trade in services, which is "any service in any sector except services supplied in the exercise of governmental authority", defined as services neither supplied on a commercial basis, or in competition with other suppliers. GATS is different from other WTO agreements, because the member countries in principle only have to subscribe to the parts of the agreements they want to, and thereby can decide what kind of service-deliveries there shall be covered by the agreement. Trade in services are furthermore classified according to four different modes of supply (see below), this is important because it is possible for countries on one hand to open up for e.g. trade in business services but on the other hand set up restrictions on how it can be supplied e.g. by putting restriction on cross-border labour supply.

Trade in services is categorised as one of the following:

Mode 1: from the territory of one member to into the territory of any other member. (This type of cross-border service can be services consumed by persons in the importing country through long distance communication with a provider in the exporting country, e.g. a service centre communicating via telephone or Internet);

Mode 2: in the territory of one Member to the service consumer of any other member. (Consumption abroad, when consumers move to the supplying country, e.g. tourists and students);

Mode 3: by a service supplier of one Member, through commercial presence in the territory of any other Member. (A foreign company from another Member country is allowed to set up subsidiaries or branches to provide services in another Member country);

Mode 4: by a service supplier of one Member, though presence of natural persons of a Member in the territory of any other member (persons moving from one country to another)

GATS has been subject to much criticism from South counties and NGO's, which tend to see the agreement as yet another attempt from the North to get further market access in a area where they have comparative advantages. The criticism is aimed at two different points; the first is that it become more difficult for indigenous service suppliers to survive and develop with competition from companies based in the developed world and with access

to large capital resources, better know-how and technology. Another argument against GATS is that agreement, along with IMF and World Bank conditionality for privatisation, will force aid depending countries to liberalise areas, such as health care and public utilities and thereby open up for foreign companies which are only interested in supplying a smaller segment of the population who can afford to pay. The end result will be worse, not better, services for the large low-income group.

***The TRIPs-agreement***

TRIPs is an abbreviation for Trade Related Aspects of Intellectual Property Rights and the agreement deals with different aspects of commercial use of creative ideas such as copyrights, trademarks, industrial design and patents. The TRIPs-agreement furthermore includes an agreement on geographical indicators, which shall prevent goods originating in one geographical area to be marketed under the name of another geographical area.

The TRIPs-agreement does not spell out clear-cut rules, leaving room for the agreement's part on patents to be interpreted and expounded in different ways, and this has created some confusion as to if and under which circumstance compulsory licensencing is allowed, e.g. for vital medicine. This resulted in a controversial court-case in South Africa in 2001,pitting a number of the world's largest pharmaceutical companies against the Republic of South African. While the court-case ended with an out-of-court settlement, the issue was reopened in WTO-negotiations, due to comprehensive political pressure from developing countries and international ngo's (Wendt, *et. al*., 2003:57). This lead to the adoption of the "Declaration on the TRIPS agreement and public health" at the Doha Ministerial conference in 2001, which allowed the authorities to issue compulsory licenses on vital pharmaceutical products. The agreement furthermore offered least developing countries a twenty years respite, meaning that they can wait until 1st January 2016 before they have to implement the TRIPs-agreement on medicine (there is a ten years transition period for LDCs in other parts of the TRIPs-agreement).

The TRIPs-agreement has in many ways proved to be one of the most controversial issues in WTO. Developed countries are being accused of causing "bio-piracy" by using the TRIPs-agreement to push for patents on micro-organisms originating from developing countries. It can furthermore be argued that the absence of a strong patent regime in some developing and

newly industrialized countries has resulted in faster technological and industrial development (UNDP, 2003:207). E.g. has the absence of product patents for pharmaceutical products in India been one of the main reasons for establishing a large and internationally competitive pharmaceutical industry in the country (Wendt, 2000). The TRIPs-agreement will in principle prevent other countries from copying the Indian strategy and thereby following an industrial policy with emphasis on import substitution. Seen from a welfare economic point of view is it expected that the over all positive welfare-economic effects of the Uruguay Round will be dramatically reduced in the short run for developing countries, due to the TRIPs-agreement (Friis Bach, 2001:27). The UNDP has furthermore concluded that "Developing countries are likely to be worse off under TRIPS if it is viewed from a human development perspective" (UNDP, 2003:205).

### *TRIMs*

Trade Related Investment Measures (TRIMs) is aiming to "facilitate investments across international frontiers so as to increase the economic growth of all trading partners, particularly developing country Members" (Agreement on TRIMs), but especially the developing countries have been reluctant to embrace this new agreement. Even though the agreement only covers trade in goods, the extent of the TRIM-agreement as it stands have far-reaching consequences for many developing countries. The agreement prohibits member countries to:

- set up rules and regulations which require companies to purchase products of domestic origin;
- to set restrictions on the imports by an enterprise, which is related to its export;
- to require a certain sale for export by an enterprise of products locally produced.

Hence TRIMs is clearly targeting the many developing countries applying special local requirement regulations or specific export requirements to TNCs, wishing to set up production plants in third world markets.

### *The "New issues" in WTO*

During the last Ministerial conferences in WTO, a number of new issues has been discussed. Labour and environmental standards have been on the agenda, but so far without much success. The developing countries are basically against, because they fear that this will just be yet another technical

barrier for exporting their goods to the developed countries. Even many radical trade unions in developing countries are against, arguing that the WTO basically isn't protecting their interests, and that these soft issues are best looked after by UN institutions. However, other issues have received more attention during the negotiations. The so-called Singapore-issues, investment, competition, transparency in governmental procurement, and trade facilitation has primarily been advanced by the EU during the negotiations, while the developing countries have reservations towards the new topic-areas – which was the main reason why the Cancun Ministerial conference failed to reach an agreement in 2003. However none of the Singapore –issues has much to offer to the developing countries, because the issues "*are essentially about removing any domestic legislation in developing countries that favour local companies over foreign companies*" (Jawara & Kwa, 2003:39), thereby further constraining the possibilities for industrial policy in developing countries.

If the role of the WTO for economic globalisation shall be shortly summarised, it is first and foremost that the organisation surpasses its predecessor GATT in importance and political impact. As previously mentioned, the organisation is broader, both in extent and scope. But the new areas included by the WTO, furthermore differentiate them self by influencing not only trade barriers between countries, such as customs duties, tariffs and QR, but also by imposing new standards in topic-areas, which beforehand was seen as domestic affairs. The examples given above shows an enlargement of what we call the juridical infrastructure for economic globalisation.

**New issues in the World Bank and IMF**

During the late 1990'ies the IMF and the World Bank introduced the Comprehensive Development Framework (CDF) in an effort to co-ordinate the many requirements imposed on the developing countries by multilateral and bilateral donors. The closer collaboration between the two Washington consensus international organisations, IMF and the World Bank, meant that the former clear division of labour among them gradually vanished or at least became more blurred. Problems in implementation of structural adjustment programmes, forced the Bank to create new concepts, like good governance and ownership to the programmes. As an outcome of the 1992 World Summit in Rio de Janeiro on sustainable development, the World

Bank has requested all poor countries to prepare a National Environmental Action Plan. Since September IMF and the World Bank joined hands and requested all countries seeking debt relief or other concessional loans to develop a Poverty Reduction Strategy Paper (PRSP) within the CDF. Compared to the structural adjustment loans, CDF demonstrates a renewed interest by the World Bank in poverty reduction and developing country ownership. Some argues that good policy environment, laid down in the CDF concept, is comparable to conditionality in structural adjustment programs (Owusu, 2003: 1661), while other praise the Washington institutions to be concerned with poverty eradication and emphasize developing countries' ownership. A closer analysis of the CDF easily raises the suspicion that old wine has come in new bottles.

**New agenda in Asia?**

Many of the high growth Asian countries had no or only minor dealings with the IMF and World Bank stabilization and structural adjustment loans prior to the outbreak of the Asian crisis in 1997-1998. Important is to contemplate their late 1990 experience, asking whether IMF and the World Bank acted differently in treating the Asian economic crisis, than the institutions approached the debt crisis in Latin America in the 1980s ?

More specifically, has there been a qualitative change of course vis-à-vis developing countries running into economic problems from mid-1980s to the 1990s? Did number of conditionalities increase, did the scope of conditionality lean more toward liberalisation of the private sector's financial pattern (corporate finance) or did the sequence of conditionality change so stabilisation and market reforms were sought achieved simultaneously?

***Number of conditionalities on the increase?***

The number of conditions has increased, and today even measures of poverty, military spending, enhancement of the position of women and human development are more and more often features in structural adjustment programmes. But it would be a mistake to regard former structural adjustment programmes as undemanding and concentratin on few conditions. The average number of conditions in the World Bank SAL (Structural Adjustment Loans) signed during the period 1980-1988 was already as high as 39 (Killick, 1998: 5). Although the process was not uniform across Africa, almost every country adopted a series of economic

reforms, including agricultural market liberalisation during the 1980's and early 1990's (Kherallah et al., 2000: 9). In the 1970's the World Bank insisted on getting the prices right through exchange rate modifications (devaluation mostly). In the 1980's the adjustment agenda in Africa was extended to include domestic food-crop marketing (doing away with government boards) and reducing subsidies on inputs (e.g. fertiliser). From the early 1990's the reform agenda extended further to include the introduction of free market systems for inputs, exports and pushing for new land laws (Friis-Hansen, 2000: 14-16). So, we conclude that increasing the number of conditionalities was a gradual process and the most important turn in history in this respect was the debt crisis in Latin America.

***Did the main focus in Asia change?***

If the argument reads that the private sector in Latin America was more indirectly affected by the structural adjustment loans of IMF and the World Bank in the 1980's, but the twin organisations intervened directly in dismantling the 'unhealthy' intermingled links between the private sector and government in Eastern Europe and Asia, it is correct. Then the basic difference shows between development models, one adopted in Latin America, the other one in Asia (and more extremely in Eastern Europe) and henceforth IMF/World Bank loan packages were drawn up according to various historical circumstances and conditions. If, on the contrary, the argument goes that structural adjustment loans were tougher and adjustment more fundamental in Asia than in Latin America, it is incorrect. As a matter of example, Mexcio launched in mid-1985 a gradual dismantling of its traditional industrial policy: protection of Mexican producers by a system of licences and given large tax reductions to exporters of non-traditional goods (French-Davis, 2000: 49). While financial constraints emerged in Latin America, the IMF responded by creating SAF and ESAF in 1986 and in 1987 (Structural Adjustment Facility and Enhances Structural Adjustment Facility).

The web-like coordination of industrial policy by government and the private sector in Asia has not its parallel in Latin America, which bears in perspective that a market oriented reform orchestrated by IMF and the World Bank had to be formulated differently, comparing the two regions. Industrial policy was more selective in Asia and more focused on corporate finance. The aim and the profoundness of the structural adjustment loans were however very alike: making leeway for market forces.

Even in Asia structural adjustment loans included macro-economic policy conditonality. In the 1998 IMF Stand-by Arrangement for Korea, the fiscal budget was supposed to balance or show a small surplus, and monetary policy would be limited to a rate consistent with containing inflation at 5% (IMF, 1997). If anything, IMF extended its usual stabilisation measures with a number of more specific measures related to corporate finance in the same programme. Stabilisation should be achieved simultaneously with structural adjustment. This leads us to the third point about the sequence of the reforms.

***Stabilisation and structural adjustment in one go?***

A typical Latin American structural adjustment programme consisted of three stages, according to Green (1996). It includes a fist phase of stabilisation, followed by a second to implant a market economy and ending with a third phase of moving towards export-led growth. Despite the absence of major macro-economic imbalances in Asia, IMF and the World Bank insisted on deliberate recessionary macro-economic measures. The occasionally fierce debate between the IMF and Joseph Stiglitz is exactly about why IMF used the same medicine and prescription as they applied in Latin America (Stiglitz, 2002: 104-107).

The major change in conditionality seems to have happened in the 1980's with the debt crisis in Latin America. Still in the 1970's and early 1980's money from IMF and the World Bank was allocated to developing countries, exposing low levels of conditionality. The increasing economic difficulties of the developing countries led the World Bank to recognize that it could not continue relying exclusively on the project mode in its lending activities. By the mid-1990's it was about 50% of World Bank's total lending and 20% of bilateral aid that were linked to various form of conditionality (Mosley and Eeckhout, 2000: 137). The reorientation of the World Bank towards balance-of-payments support has contributed to blurring the original well-defined division of labour between the two Bretton Woods institutions. Fielding of joint missions and co-ordination of preparation of policy framework papers, to be signed by the contracting country, was a normal feature already in beginning of the 1990's and even before (Tarp, 1993: 81). Stabilisation and adjustment became two sides of the same coin, not even separated in time, is probably the most distinguished modification in the IMF/World Bank attitude to stabilisation and adjustment at the outbreak of the Asian crisis. But the trend started long before the Asian crisis.

### *The Washington Consensus and Beyond*

Few changes at sight are either marginal or might first translate into practical modifications at a more distant moment in time, three of which are worth mentioning.

First, critics mainly issued by NGOs in the past have been echoed now even in influential political circles. In 1999 the former US Secretary to the Treasury proposed that the institution should return to its 'core' function, namely short-term emergency lending (Mosley, 2000).

Second, adding instead of substituting old with new conditions seems be the logic the twin institutions have pursued. The trend started earlier, but became evident in the wake of the Asian crisis. Even the IMF now takes a more active role in poverty alleviation. In our case-studies this new attitude is only relevant for Vietnam.

Third, the IMF in an unprecedented statement admits to have gone too far in advocating capital liberalisation. IMF has recently (2002) advised Sri Lanka against opening up its capital account until its financial sector is strengthened (Dawson, 2002: 5). An important curiosity is that Asian countries seem to have weathered out of the economic crisis even before the major structural changes to corporate finance and business organisation have left their marks in the Asian development models.

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