Managing the Global Economy Since World War II: The Institutional Framework

In July 1944, delegates from 44 countries convened the Bretton Woods Conference, and within 22 days they endorsed a framework for international economic cooperation after World War II. Two international economic organizations resulted from the Bretton Woods Conference—the International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD) or World Bank—and in 1948 the General Agreement on Tariffs and Trade (GATT) became the main global trade organization. These organizations were part of a complex institutional framework to help manage the postwar global economy. Although the Bretton Woods negotiations were “the first successful attempt . . . by a large group of nations to shape and control their economic relations,” only a small number of states had a critical role in the process. The three years of prenegotiations before Bretton Woods and the conference itself were “very much an Anglo-American affair, with Canada playing a useful mediating role,” and the chief conference planners were Harry Dexter White of the U.S. Treasury and John Maynard Keynes of Britain. Although French delegates were at the conference, France was still occupied by Germany; and Germany, Italy, and Japan as enemy states were not represented. Despite some basic differences of outlook, the Western DCs generally agreed on the postwar institutional order. Above all, they wanted to avoid a repetition of the interwar period experiences, when exchange controls and trade protectionism contributed to the 1930s Great Depression and World War II.

After providing some background on economic relations before World War II, this chapter introduces the postwar institutional framework that the North developed to manage the global economy. The chapter also focuses on two other groups of states that played only a limited role in establishing the postwar
economic order and at times sought to form an alternative order: the South and the former East bloc led by the Soviet Union. Although 27 LDCs (19 of them Latin American) were at the Bretton Woods Conference, their role was marginal, and for many years the South had little influence in most postwar economic institutions. The Soviet Union also played only a limited role in the Bretton Woods Conference, and it refused to sign the final agreements. Instead of joining the IMF, World Bank, and GATT, the Soviets established their own economic institutions. This book examines how globalization has contributed to the gradual integration of the South and the former East bloc with the liberal economic order. We also discuss the challenges some major Southern states are posing to the North’s dominance, especially since the 2008 global financial crisis. Finally, this chapter discusses the role of nongovernmental actors (business groups and NGOs) in the liberal economic order.

GLOBAL ECONOMIC RELATIONS BEFORE WORLD WAR II

This section introduces some general historical benchmarks before World War II, and Chapters 6–11 provide historical background on each issue area such as trade and monetary relations.

The Mercantilist Period

The origins of IPE are closely associated with the development of modern European states and their global markets. The modern European state gained official recognition at the 1648 Treaty of Westphalia, which marked the defeat of the Catholic Hapsburg countries by mostly Protestant countries in Northern Europe. The Peace of Westphalia upheld state sovereignty and territorial integrity by institutionalizing changes to prevent external religious and secular authorities (e.g., the Pope, Holy Roman Emperor, and other states) from interfering in a state’s internal affairs. A major factor enabling the state to establish its authority vis-à-vis internal and external forces was the development of mercantilism. Adam Smith, an eighteenth-century liberal economist who was highly critical of the mercantilists, first used the term in reference to much of the economic thought and practice in Europe from about 1500 to 1750. Mercantilists were acutely aware of the linkage between politics and economics, viewing both power and wealth as essential goals of national policy. The mercantilist states could use their wealth to build up their armed forces, hire mercenaries, and influence their enemies and allies. Thus, they accumulated gold and silver by seeking trade advantages over others in the following ways: They increased their exports and decreased their imports of manufactured goods, restricted raw material and technology exports to prevent others from developing manufacturing capabilities, and imported raw materials they needed to reduce costs for their own manufacturers. Colonialism was central to mercantilism, because the colonies provided the metropole with raw materials and served as markets for its manu-
factures; thus, manufacturing in the colonies was usually prohibited. Although Smith criticized mercantilists for following beggar-thy-neighbor policies that would lead to conflict, their emphasis on national power helped establish state authority and territorial unification. The European state system in turn contributed to the development of the global political economy.

Although sovereignty in principle gives states supreme authority within their own territory, there is a pecking order in which some states are more powerful than others. Chapter 3 of this book discusses hegemonic stability theory, which deals with the role of dominant or hegemonic powers in leading the international system. Some scholars have examined the role of “world powers” such as Portugal, Spain, the Netherlands, and Britain during the mercantilist period, but there is considerable debate as to whether these states were dominant enough to be hegemonic. Most hegemonic stability theorists refer to only two global hegemonic periods, both of them after the mercantilist period: under Britain in the nineteenth century and the United States in the twentieth century.

The Industrial Revolution and British Hegemony

Mercantilism, as the term is used in this book, is a preindustrial doctrine. The Industrial Revolution began in about 1780, affected only some manufactures and means of production, and initially progressed from region to region rather than involving entire countries. However, Britain became the hegemonic power in the nineteenth century as it was the first state to industrialize. By 1860 Britain accounted for about 37 percent of European industrial production, 20 percent of world industrial production, and 80 percent of newer technology industries. In view of its competitive edge, Britain shifted from mercantilist policies toward free trade: It removed most of its industrial trade restrictions by the 1830s, and in 1846 it repealed its Corn Laws, which had restricted agricultural imports. Britain’s decision to liberalize agricultural trade stemmed from both domestic and external factors. Domestically, industrial groups gained seats in the British Parliament at the expense of landed agricultural groups through legislative and demographic changes, and the agricultural elite could no longer prevent the repeal of the Corn Laws. Externally, Britain opened its markets to agricultural and raw material imports so that other countries would accept its manufactured goods. The division of labor served Britain’s hegemonic interests in promoting its industrial exports. Other states oriented their production in line with Britain’s preferences because it was the largest market for their exports. Moreover, Britain’s policies contributed to an extended period of free trade during the nineteenth century, and the 1860 Cobden–Chevalier Treaty between Britain and France resulted in a network of treaties lowering tariffs throughout Europe.

The Decline of British Hegemony and World War I

The growth of trade became slower in the late nineteenth century because of depressed economic conditions, industrial protectionism on the European continent, and a decline of British hegemony. A decrease in Britain’s productivity
relative to the United States and Germany made it less competitive in trade and less able to serve as a market for other countries’ exports. Banks and the state (including U.S. state governments) helped promote U.S. and German productivity through investment in industrial production and infrastructure such as railroads and canals, and the two countries built up their infant industries through protectionist policies that limited imports. Whereas Britain’s share of world trade fell from 24 percent in 1870 to 14.1 percent in 1913, Germany’s share rose from 9.7 to 12.2 percent and the U.S. share rose from 8.8 to 11.1 percent. On the eve of World War I, the United States had become the largest industrial power, accounting for about 32 percent of world industrial output. However, Britain continued to dominate in international finance. The city of London was the main center of the international financial system, the British pound was the key international currency, and in 1913 Britain accounted for about 43 percent of the world’s foreign investment. While Britain’s foreign liabilities increased during World War I, the United States emerged as a net creditor; thus financial preeminence finally shifted from London to New York after the war.

The Interwar Period

The United States emerged from World War I as the world’s largest industrial power and the only major net creditor. Although it lent about $10 billion to cash-short countries during the 1920s, some U.S. policies did not facilitate a return to an open, liberal economy. For example, the United States initially insisted that its close allies Britain and France repay all their war debts, and it imposed import barriers that made it difficult for Europeans to gain revenue from exports. The 1922 Fordney–McCumber Act raised U.S. customs duties, and when the U.S. economy moved into depression after the 1929 stock market crash, the 1930 Smoot–Hawley Act increased U.S. tariffs to their highest level in the twentieth century. European states retaliated with their own import restrictions, and world trade declined from $35 billion in 1929 to $12 billion in 1933. Hegemonic stability theorists argue that the lack of a global hegemon prevented the development of an open, stable international economy in the interwar period. Whereas Britain was the global hegemon in the nineteenth century, during the interwar period Britain was no longer able, and the United States was not yet willing, to assume the hegemon’s role. (Chapter 3 assesses the validity of hegemonic stability theory.) Other theorists argue that domestic U.S. politics lead to the economic disarray. The U.S. Constitution gives Congress the authority to regulate foreign commerce, but as a large unwieldy body, Congress could not resist constituent demands for protectionism from special interests. Thus, U.S. tariffs increased because of domestic politics despite the growing economic power of the United States.

In efforts to reverse the damage caused by the Smoot–Hawley tariff, the U.S. Congress passed the *Reciprocal Trade Agreements Act* (RTAA) in 1934. The RTAA delegated tariff-setting authority to the president, who could resist special interest pressures and negotiate tariff reductions more effectively than Congress. However, the RTAA reflected a conviction that the reduction of
tariffs through bilateral bargaining would help restore U.S. export markets, and “protection at home remained an important goal of American trade strategy.” Although the RTAA agreements resulted in a substantial reduction of some tariffs, tariff rates were so high in the early 1930s that the agreements were not sufficient to stem the forces of protectionism.

The Institutional Framework Before World War II

Most IOs formed from 1815 to 1914 were designed to utilize technological innovations and promote economic regulation and commerce mainly among European states. For example, the Central Commission for the Navigation of the Rhine was formed in 1815 to gain commercial advantages from the development of the steamship, the International Telegraph Union was established in 1865 to benefit from the invention of the telegraph, and the Universal Postal Union was created in 1874 to promote speedy and efficient postal deliveries. The first financial IO, the Bank for International Settlements (BIS), was established in Basle, Switzerland in 1930 to oversee the settlement of German reparations after World War I, but its main purpose was to promote cooperation among central banks (see Chapter 6). Other than the BIS, economic IOs in the interwar period were mainly concerned with developing international standards for facilities, equipment, and installations required for the functioning of the global economy. These organizations were not able to deal with major economic problems such as the Great Depression. As economic differences increased in the 1920s–1930s, several international conferences were convened to confront the trade and financial problems. For example, a 1922 conference in Genoa, Italy, pressured central banks to manage currency exchange rates and use currencies that were convertible into gold. However, these conferences failed to resolve the problems of war reparations and debt, disorderly currency exchange conditions, and a decline in world trade. In 1936, Britain, the United States, and France finally reached an agreement that recognized international responsibility for exchange rates. This experience emphasized the need for international bodies to promote open and stable economic relations after World War II and as a result the IMF, World Bank, and GATT were formed.

THE FUNCTIONS OF THE IMF, WORLD BANK, AND GATT

The United States emerged as a more mature power after World War II, both willing and able to lead. Under U.S. leadership, the North established institutions to develop a liberal economic order and prevent a recurrence of the interwar problems. As the hegemonic power, the United States had the most influence over the formation of the new institutions; however John Maynard Keynes, a British economist, also had an important role. Although some writers refer to the IMF, World Bank, and GATT as the Bretton Woods institutions, GATT was formed several years after the Bretton Woods Conference. We refer to these IOs as keystone international economic organizations (KIEOs) because of their central role in monetary relations, development, and trade. The IMF was created to monitor a
system of pegged or fixed exchange rates, in which each currency had an official exchange rate in relation to gold and the U.S. dollar. This system was designed to avoid the competitive devaluation of currencies that led to trade wars during the interwar period. Devaluation refers to a reduction in the official rate at which one currency is exchanged for another. States with balance-of-payments deficits (i.e., with more money leaving than entering the country) may devalue their currencies in efforts to increase their exports and decrease their imports. Thus, the IMF provided short-term loans to help states deal with temporary balance-of-payments deficits and maintain the fixed exchange rates of their currencies. In contrast to the IMF’s short-term loans, the IBRD or World Bank provided long-term loans for postwar reconstruction in Europe and economic development in LDCs to avoid the financing problems that developed after World War I. The GATT lowered tariffs in multilateral trade negotiations, established rules for conducting international trade, and developed procedures for settling trade disputes. These functions were designed to avoid the protectionist barriers of the interwar period.

The functions of the KIEOs evolved as events unfolded after World War II. For example, European reconstruction was a larger task than anticipated, and the United States established the European Recovery Program (or Marshall Plan) in 1948 to give bilateral aid to Western Europe. The World Bank therefore had only a minor role in European reconstruction, and shifted its loans to LDCs for economic development. The IMF lost one of its main functions when the fixed-exchange-rate system for currencies collapsed in the 1970s and was replaced by floating exchange rates. However, the IMF’s role increased again in the 1980s and 1990s when it became the lead international agency for the foreign debt and financial crises (see Chapter 11). GATT was formed under special circumstances that affected its evolution. After the Bretton Woods Conference, negotiations were held to create an international trade organization (ITO) comparable in strength to the IMF and World Bank. However, the U.S. Congress refused to support the formation of the ITO, and the “temporary” GATT which had initiated postwar trade negotiations became our global trade organization by default (see Chapter 7). States joining GATT were “contracting parties” rather than formal members because it was designed to be a provisional treaty (this book uses the term GATT members for the sake of brevity). Despite its humble origins, GATT was quite effective in liberalizing trade; but its dispute settlement system was weak, its regulations were often circumvented, and it was unable to deal with new areas of trade. Thus, the formal World Trade Organization (WTO) superseded the informal GATT as the main global trade organization in 1995. Unlike GATT, the WTO deals not only with trade in goods but also with trade in services, intellectual property rights, and trade-related investment measures (see Chapter 7).

THE KIEOs AND THE UNITED NATIONS

Figure 2.1 shows that the IMF and World Bank are specialized agencies and that the World Bank is in fact a World Bank group of five institutions (see Chapter 10). As specialized agencies, the IMF and World Bank are
The United Nations System

Principal Organs

Subsidiary Bodies

- Trusteeship Council
  - International Criminal Tribunal for the former Yugoslavia (ICTY)
  - International Criminal Tribunal for Rwanda (ICTR)

- Security Council
  - Military Staff Committee
  - Standing Committee and ad hoc bodies
  - Peacekeeping Operations and Missions
  - Counter-Terrorism Committee

Programmes and Funds

- UNCTAD United Nations Conference on Trade and Development
- ITC International Trade Centre (UNCTAD/WTO)
- UNDCP United Nations Drug Control Programme
- UNEP United Nations Environment Programme
- UNICEF United Nations Children’s Fund
- UNDP United Nations Development Programme
- UNIFEM United Nations Development Fund for Women
- UNV United Nations Volunteers
- UNCDF United Nations Capital Development Fund
- UNFPA United Nations Population Fund
- UNHCR Office of the United Nations High Commissioner for Refugees
- UNRWA United Nations Relief and Works Agency for Palestine Refugees in the Near East
- WFP World Food Programme
- UNRWA United Nations Relief and Works Agency for Palestine Refugees in the Near East
- UN-HABITAT United Nations Human Settlements Programme
- ICAO International Civil Aviation Organization
- CTBTO Preparatory Commission
- OPCW Organization for the Prohibition of Chemical Weapons

Research and Training Institutes

- UNICRI United Nations International Crime and Justice Research Institute
- UNITAR United Nations Institute for Training and Research
- UNRISD United Nations Research Institute for Social Development
- UNIDIR United Nations Institute for Disarmament Research
- UN-INSTRAW United Nations International Research and Training Institute for the Advancement of Women
- UNFIP United Nations Fund for International Partnerships

Other UN Entities

- UNOPS United Nations Office for Project Services
- UNU United Nations University
- UNFPA United Nations Population Fund
- UNHCR Office of the United Nations High Commissioner for Refugees
- UNOPS United Nations Office for Project Services
- UNAIDS Joint United Nations Programme on HIV/AIDS
- UNDEF United Nations Democracy Fund

NOTES:

1. Solid lines from a Principal Organ indicate a direct reporting relationship; dashes indicate a non-subsidiary relationship.
2. UNRWA and UNDF report only to the GA.
3. The United Nations Ethics Office, the United Nations Ombudsman’s Office, and the Chief Information Technology Officer report directly to the Secretary-General.
4. In an exceptional arrangement, the Under-Secretary-General for Field Support reports directly to the Under-Secretary-General for Peacekeeping Operations.
5. ICAO reports to the Security Council and the General Assembly (GA).
6. The CTBTO Prep Com and OPCW report to the GA.
7. Specialized agencies are autonomous organizations working with the UN and each other through the coordinating machinery of the ECOSOC at the intergovernmental level, and through the Chief Executives Board for coordination (CEB) at the inter-secretariat level.
8. UNFIP is an autonomous trust fund operating under the leadership of the United Nations Deputy Secretary-General. UNFIP’s advisory board recommends funding proposals for approval by the Secretary-General.

FIGURE 2.1

The United Nations System

autonomous organizations affiliated with the United Nations. Although they report on their activities to the Economic and Social Council (ECOSOC)—a principal UN organ—once a year, the United Nations has little authority over them. Indeed, the United Nations signed an agreement with the World Bank (and a similar one with the IMF), acknowledging that “it would be sound policy to refrain from making recommendations to the Bank with respect to particular loans or with respect to terms or conditions of financing.”
The UN General Assembly has at times tried to influence World Bank lending decisions, but it has been largely unsuccessful. When the WTO was established in 1995, the members decided it should be a “related organization” rather than a specialized agency, so it does not even issue a yearly report to the ECOSOC (see Figure 2.1).

A major reason for the lack of UN leverage is that the IMF, World Bank, and WTO do not seek UN funds. In September 1995, the United Nations even indicated that it might deal with its deficits by borrowing money from the World Bank, but some major UN members vetoed this idea. The DCs have directed most of their funds for multilateral economic management to the IMF and World Bank because they prefer their weighted voting systems to the one-nation, one-vote system of many UN bodies (see Chapters 6 and 10). Despite the United Nations’ limited leverage, it has sometimes induced the KIEOs to revise their policies and adopt new programs. Examples include the UN role in the World Bank’s creation of a soft-loan agency (see Chapter 10), the IMF’s establishment of a compensatory financing facility (see Chapter 6), and the IMF and World Bank’s decision to introduce human and social dimensions in their lending programs. The World Bank has also cooperated with UN bodies in providing development assistance.

THE POSTWAR ECONOMIC INSTITUTIONS AND CHANGING NORTH–SOUTH RELATIONS

The North has had the dominant role in the postwar global economy and in most international economic institutions. However, some major Southern states have posed a challenge to this Northern dominance in recent years, especially since the 2008 global financial crisis. The North’s role in the global economy is marked by several characteristics:

- The United States has been the most powerful single state, but its economic hegemony is giving way to a triad composed of North America, Western Europe, and East Asia.
- The DC-led triad is responsible for the largest share of global economic transactions, including foreign investment, trade in manufactures and services, and capital flows.
- Countries within the triad have conducted most of their international economic transactions, such as foreign direct investment and intra-industrial trade, with each other.

Although the DCs have occupied the dominant position in the global economy, some developing and transition economies are increasing their economic power and challenging the DCs’ dominance. This book will focus on four groups that have posed the biggest challenge:

- The Organization of Petroleum Exporting Countries (OPEC) formed in 1960 is a group of LDC oil exporters that acts as a resource cartel to
manipulate oil supplies and prices. OPEC posed a major challenge to DCs in the early 1970s when it limited oil supplies and drastically increased prices. Although OPEC's influence declined in the 1980s and 1990s, its control over oil supplies has become more critical in recent years. The current members of OPEC are Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela.

- A small number of rapidly developing newly industrializing economies (NIEs) in East Asia and Latin America presented a growing competitive challenge to the North in the early 1980s. The most prominent NIEs include Hong Kong, Singapore, South Korea, Taiwan, Argentina, Brazil, and Mexico.

- The rapidly growing Brazil, Russia, India, and China economies—or BRIC economies as coined by a researcher with Goldman Sachs in 2001—pose a major challenge to the North. Most notably, China displaced Germany in 2009 as the world's largest merchandise exporter, and has recently displaced Japan as the world's second largest economy after the United States. Some economists predict that India's economic growth will soon begin to outpace China's.\(^25\)

- The emerging market economies are developing and transition economies that have adopted many elements of a free-market system and have achieved rapid economic growth. The emerging economies include many BRIC, NIE, and OPEC economies, and some other LDCs and transition economies.\(^26\)

The following discussion shows that although the North continues to have the most influence in the international economic organizations, the pressure for change is increasing, especially from the BRICs and other important emerging economies.

**The IMF, World Bank, and WTO**

Most of the funding for IMF and World Bank loans comes from the North, and five DCs—the United States, Japan, Germany, Britain, and France—have had the most votes in these institutions. Although the WTO has a one-nation, one-vote system, the major trading nations, mainly DCs, are instrumental in setting the agenda for multilateral trade negotiations. Moreover, the North has had a dominant position in the bureaucracies of these institutions. By tacit agreement, the World Bank president has always been American, and the IMF managing director has always been European. All the GATT/WTO directors general have been from DCs except Supachai Panitchpakdi of Thailand, who was the WTO director general from 2002 to 2005. The South has also been underrepresented on the professional staffs of all three KIEOs, and most Communist states were not KIEO members from the 1940s to the 1970s.\(^27\)

The KIEOs have made some moves to give the South more voice, especially since the 2008 global financial crisis. For example, the IMF agreed to quota
increases for emerging countries such as China, South Korea, Mexico, and Turkey; the World Bank shifted some voting power from smaller European countries to China, India, and Brazil, and as a result the Bank received the first general increase in its capital since 1988. Despite the changes for emerging economies, critics in NGOs such as Oxfam argue that the gains are “all but meaningless” for the poorest LDCs.  

The KIEOs are often credited with contributing “to almost unprecedented global economic growth and change over the past five decades.” However, the type of growth these institutions foster has closely followed the prescriptions of the North. The KIEOs support a liberal economic approach, which holds that the free flow of goods and capital throughout the world promotes prosperity. (Critical theorists by contrast argue that the liberal economic approach benefits some states and individuals at the expense of others.) In the 1950s and 1960s, the liberal economic order contributed to economic growth and stability for several reasons. First, the Cold War increased U.S. determination to cooperate economically with Western Europe and Japan; vigorous economic recovery was viewed as a prerequisite for a strong anti-Soviet alliance. Second, the United States as global hegemon helped establish principles and rules for the conduct of postwar trade, financial, and monetary relations, and the major DCs generally accepted U.S. leadership. Third, the KIEOs enabled governments to abide by international rules and obligations without jeopardizing domestic policy objectives such as full employment.

In the 1970s, however, several changes began to pose serious problems for the KIEOs. First, the United States became less supportive of economic liberalism as its economic dominance declined; for example, U.S. protectionism increased after its balance of trade shifted to a deficit position in 1971. Europe and Japan also began to question U.S. leadership, and frictions among DCs increased with the decline of the Cold War. Second, the Arab OPEC countries limited the supply of oil after the October 1973 Middle East War, and oil prices increased by more than 400 percent; this disrupted the global economy and challenged the management capabilities of the KIEOs. Third, the KIEOs had difficulty managing the forces of globalization, because their economic resources “pale in comparison to daily market-driven foreign exchange cash flows,” and no IO regulates the MNCs and international banks which are major contributors to these capital flows. Finally, the growing membership of the KIEOs with the influx of LDCs and transition economies has sorely tested their management capabilities. By October 2010, the membership of the IMF, World Bank, and WTO had grown to 187, 187, and 153 states, respectively. This enlargement makes the KIEOs more broadly representative, but their large, diverse memberships can pose an obstacle to consultation, coordination, and decision making.

The large memberships of the IMF, World Bank, and WTO have caused some analysts to argue that “they must be led by a much smaller core group
The Postwar Economic Institutions and Changing North–South Relations

THE SMALLER GROUPS

United States
Japan
Germany
France
United Kingdom
Italy
Canada
Belgium
Netherlands
Sweden
Switzerland

G7

G5

G10

whose weight confers on them the responsibility of leadership. The decline of U.S. economic hegemony has also contributed to the need for collective leadership, and DCs often confer among themselves before seeking endorsement of their policies by the KIEOs. As Figure 2.2 shows, the smaller DC-led groups include the Organization for Economic Cooperation and Development (OECD), Group of 10 (G10), and Group of Seven (G7). Although the G7 superseded the Group of Five (G5) in 1986, we include the G5 because of its members’ influence in the IMF and World Bank. Whereas liberal economists believe that these groups promote economic leadership
and stability, critical theorists argue that they exclude LDCs from the decision-making process.

The OECD
The OECD, which is located in Paris, has 33 mainly DC members (see Figure 2.2). When the OECD was created in 1961, the United States viewed it as a forum where it “could sit down together on equal terms” with “the Europeans and other ‘industrial democracies’.” The OECD is committed to liberalizing international transactions such as trade and capital flows, and in this sense it has been an agent of globalization. The OECD also serves as a forum for the North to discuss members’ economic policies and promote policy coordination. In an age of globalization, a state’s domestic policies often have international consequences, and OECD members try to reach a consensus on domestic policies that will minimize conflict. The OECD usually operates through a system of mutual persuasion, in which members exert peer pressure on each other to meet their commitments. The North also uses the OECD to develop a more unified position on issues in the IMF, World Bank, and WTO. For example, the OECD’s work on services trade helped the North legitimize the idea that the WTO should include rules for trade in services as well as goods. Although the OECD normally maintains a low profile, its efforts to negotiate a Multilateral Agreement on Investment (MAI) in the 1990s were highly controversial. The MAI would have provided much more protection for Northern investors than for Southern recipients, and the negotiations were suspended in 1998 because of divisions among OECD members and strong opposition by LDCs and civil society groups (see Chapter 9).

In earlier years, the DC economies in the OECD accounted for a vast share of world production, trade, and advances in science and technology. However, that share has been decreasing as emerging countries have been integrated into the global economy. This led to growing pressure on the OECD to include nonmembers in its work, and in 1992 the OECD decided to develop principles for participation and eventual membership of nonmembers to retain its influence. As Figure 2.2 shows, nine countries outside the industrial core group became OECD members after 1992: Mexico in 1994; the Czech Republic in 1995; Hungary, Poland, and South Korea in 1996; the Slovak Republic in 2000; and Chile, Slovenia, and Israel in 2010. The OECD is also involved in accession talks with Estonia and Russia, and has offered “enhanced engagement” to Brazil, China, India, Indonesia, and South Africa. Enhanced engagement has the potential to lead to future membership. Critics argue that further enlargement will jeopardize the OECD’s strength as an organization of like-minded members, that China and Russia do not meet the democratic requirements of OECD members, and that too much enlargement will turn the OECD into a mini United Nations. However, others question whether the OECD can retain its importance if it does not include the emerging economies.
The G10, G5, G7, G8, and G20

These groups are smaller and much more informal than the OECD. For a number of years the most influential groups (the G10, G5, G7, and G8) were largely comprised of DCs; but more recently the G20 (composed of DCs and emerging economies) has become much more important. The G10, which was formed in 1962, includes 11 countries: the United States, Japan, Germany, France, Britain, Italy, Canada, Belgium, the Netherlands, Sweden, and Switzerland (see Figure 2.2). In the early 1960s, the IMF lacked sufficient funding to meet its members' borrowing requirements; therefore, the G10 countries established the General Arrangements to Borrow (GAB) to provide the IMF with supplementary loans if needed (see Chapter 6). This represented a shift from U.S. to collective management, because the G10 had to approve each IMF request for supplementary support. Although the OECD and G10 continued to coordinate DC economic policies, the main focus of policy coordination shifted in the 1970s to the G5 and G7, which had some special advantages.

- They were smaller informal groups without formal constitutions.
- They included the most powerful DCs in the global economy.
- Top political leaders with authority to implement agreements often attended their meetings.  

The G5 included the finance ministers and central bank governors of the five largest DC economies with the most votes in the IMF and World Bank: the United States, Japan, Germany, France, and Britain (see Figure 2.2). The G5, which had informal discussions since its formation in 1967, began holding more formal summit meetings in 1975. Later, when Italy and then Canada were invited to attend, the G7 was created. The G7 summits resulted from the move toward collective leadership with the decline of U.S. economic hegemony, the growing interdependence among DCs, the 1973–1974 OPEC oil crisis, and the world economic recession. G7 members use the summits to reach a consensus on key issues at the highest political level. From 1975 to 1986, the G5 and G7 both continued to meet, but the G7 superseded the G5 in 1986. Presently, the G7 has two layers: At the top level are heads of state or government who meet in annual summits, and at the second level are finance ministers and central bank governors. In 1991 the G7 invited Russia to the summit to help it come to terms with its loss of superpower status and to encourage it to continue with economic and political reforms. Russia gradually became more involved, and the G7 became the Group of Eight (G8). However, Russia is more involved in political than economic discussions, and only the G7 countries' finance ministers continue to meet to discuss economic issues.  

Most analysts consider the G8 to be an informal forum of individual leaders rather than an institution. It has no constitution or legal status, no headquarters or formal meeting place, no formal rules of membership, and no means to enforce its decisions. The main G8 objectives are “to raise consciousness, set an agenda, create networks, prod other institutions to do things that they should be doing, and, in some cases to help create institutions.” Although the G8 has
been quite successful in some areas such as managing the end of the Cold War and addressing the issue of debt relief for LDCs, its influence has declined because of DC divisions with the demise of the Cold War and the difficulties in coping with globalization; for example, massive international capital flows interfere with the ability of G8 monetary authorities to influence currency markets.

Most importantly, G8 members had to confront the fact that, other than Russia, they did not include major emerging economies such as China, India, and Brazil. The DCs in the G7 accounted for about 65 percent of global output from 1965 to 2002, but by 2008 their share had fallen to 52 percent, and their share of global output is expected to fall to 37 percent by 2030 and to 25 percent by 2050. Thus, the Group of 20 (G20) was formed in 1999, and it became a permanent forum for informal dialogue among “systematically important” developed and emerging economies. As Table 2.1 shows, the G20 includes 19 countries and the European Union. The immediate motivation for creating the group was the East Asian financial crisis in the 1990s (see Chapters 10 and 11). As with the G7/G8, the G20 is not a decision-making body, has no charter or permanent staff, and does not take votes or make legally binding decisions. Instead, the G20 finance ministers and central bank governors try to reach a consensus on economic and financial issues, shape the international agenda, and lead by example. As this book discusses, the role of the emerging economies in the global economy is increasing, and it is not surprising that the G20 has become more important than the G7/G8. The countries in the G20 represent about two-thirds of the world’s population and 85 percent of the global GNP. The 2008 global financial crisis further increased the G20’s influence, and in September 2009 the major countries decided that the G20 should replace the G8 as the main forum for discussing global economic issues. Some DCs want the G8 members to continue to have global influence because the larger, more diverse G20 is vulnerable to divisions between the United States and China, and between regional groups (Europe, North America, and Asia). The G20 has clearly eclipsed the G8 as the main informal group dealing with global economic issues, but to this point the G20 has not been very effective in dealing with the economic problems related to the global financial crisis.

### Table 2.1

<table>
<thead>
<tr>
<th>The Group of Twenty (G20)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
</tr>
<tr>
<td>Australia</td>
</tr>
<tr>
<td>Brazil</td>
</tr>
<tr>
<td>Canada</td>
</tr>
<tr>
<td>China</td>
</tr>
<tr>
<td>France</td>
</tr>
<tr>
<td>Germany</td>
</tr>
</tbody>
</table>
POSTWAR ECONOMIC INSTITUTIONS AND THE SOUTH

The G20 is more representative than the G8 because it includes a number of emerging economies from different geographic regions: Argentina, Brazil, China, India, Indonesia, Mexico, Saudi Arabia, South Africa, South Korea, and Turkey. However, these are “systematically important” economies, and there is no seat at the G20 for the poorest LDCs. It is important to be aware that poverty, disease, and hunger are prevalent in much of the world, and that a major gulf remains between the North and much of the South. The Bretton Woods system and its institutions are often credited with contributing “to almost unprecedented global economic growth and change over the past five decades.”

However, this economic growth has not been shared by all. We begin by looking at the South’s position vis-à-vis the North in general, and we then discuss the divisions within the South. The most common measure economists use to compare the economic development of states is per capita GDP or per capita income (a country’s GDP or GNI divided by its population). We use exchange rates, or the rates at which currencies are exchanged for one another, to convert per capita GDP figures in other currencies into the U.S. dollar (the key international currency). However, comparing countries’ per capita GDPs does not tell us fully about their standards of living because the exchange rate does not accurately reflect the purchasing power of the local currency in each country. Countries often have different price levels for comparable goods, and prices are generally lower in LDCs than in DCs. In comparing per capita GDPs, we therefore often convert the figures into purchasing power parity (PPP) based exchange rates. PPP rates are “the number of units of a country’s currency required to buy the same amount of goods and services in the domestic market as a United States dollar would buy in the United States.”

For example, The Economist magazine has used a “Big Mac index” to compare PPP rates for hamburgers. If a Big Mac costs 2.75 euros in countries using the euro and $2.65 in the United States, the PPP exchange rate for Big Macs would be 2.75/2.65, or 1.0377. The PPP rate for different goods and services are weighted according to their importance in the economy. PPP exchange rates have limitations because they are based on price comparisons of “comparable items”; but the quality of these items may differ across countries. Nevertheless, they are more accurate in comparing living standards, and this book sometimes provides PPP-adjusted per capita GDP figures (e.g., see Table 2.2).

Even PPP-weighted figures are an imperfect indicator of well-being because they do not take account of income inequalities, leisure time, and quality of the environment. For example, a country where a relatively small number of people are extremely rich and most are extremely poor has less well-being than a country with the same per capita GDP that has less extreme wealth and poverty. Furthermore, PPP-adjusted per capita GDP figures only measure a country’s economic development. Since 1990 the United Nations Development Program (UNDP) has published a Human Development Report with a human development index (HDI) that measures social as well as economic development. The HDI includes three dimensions: a long life measured by life expectancy at birth, knowledge measured by adult literacy.
Table 2.2 compares HDI values and per capita GDPs for a number of countries during 2007. The first column lists each country’s HDI value and rank, the second lists its PPP-adjusted per capita GDP, and the third lists its per capita GDP rank minus its HDI rank. For example, in 2007 Norway ranked first (of 182 countries) in HDI and fifth in GDP per capita, so its figure in the third column is (5–1) or plus 4; the United States ranked thirteenth in HDI and ninth in GDP per capita, so its figure in the third column is (9–13) or minus 4. Some countries have

<table>
<thead>
<tr>
<th>Country</th>
<th>HDI Value (and Rank)</th>
<th>GDP Per Capita (PPP* U.S. $)</th>
<th>GDP per Capita Rank minus HDI rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
<td>0.971 (1)</td>
<td>53,433</td>
<td>4</td>
</tr>
<tr>
<td>Canada</td>
<td>0.966 (4)</td>
<td>35,812</td>
<td>14</td>
</tr>
<tr>
<td>Japan</td>
<td>0.960 (10)</td>
<td>33,632</td>
<td>16</td>
</tr>
<tr>
<td>United States</td>
<td>0.956 (13)</td>
<td>45,592</td>
<td>-4</td>
</tr>
<tr>
<td>Germany</td>
<td>0.947 (22)</td>
<td>34,401</td>
<td>2</td>
</tr>
<tr>
<td>Korea, Republic of</td>
<td>0.937 (26)</td>
<td>24,801</td>
<td>9</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>0.903 (35)</td>
<td>54,626</td>
<td>-31</td>
</tr>
<tr>
<td>Poland</td>
<td>0.880 (41)</td>
<td>15,987</td>
<td>12</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.854 (53)</td>
<td>14,104</td>
<td>5</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>0.817 (71)</td>
<td>14,690</td>
<td>-16</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.813 (75)</td>
<td>9,567</td>
<td>4</td>
</tr>
<tr>
<td>China</td>
<td>0.772 (92)</td>
<td>5,383</td>
<td>10</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.734 (111)</td>
<td>3,712</td>
<td>10</td>
</tr>
<tr>
<td>Botswana</td>
<td>0.694 (125)</td>
<td>13,604</td>
<td>-65</td>
</tr>
<tr>
<td>South Africa</td>
<td>0.683 (129)</td>
<td>9,757</td>
<td>-51</td>
</tr>
<tr>
<td>India</td>
<td>0.612 (134)</td>
<td>2,753</td>
<td>-6</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.572 (141)</td>
<td>2,496</td>
<td>-9</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>0.543 (146)</td>
<td>1,241</td>
<td>9</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>0.414 (171)</td>
<td>779</td>
<td>0</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>0.365 (180)</td>
<td>679</td>
<td>-5</td>
</tr>
<tr>
<td>Niger</td>
<td>0.340 (182)</td>
<td>627</td>
<td>-6</td>
</tr>
</tbody>
</table>

*Purchasing power parity

HDI rankings that are much lower than their per capita GDP rankings. For example, Table 2.2 shows that the HDI rankings for Botswana and South Africa were lower than their per capita GDP rankings by 65 and 51, respectively. Lower HDI rankings relative to per capita GDP in Africa often result from the high incidence of HIV/AIDS (human immunodeficiency virus/acquired immunodeficiency syndrome). For example, Botswana has an adult HIV prevalence estimated at 23.9 percent, the second highest in the world after Swaziland. Life expectancy in Botswana fell from 65 years in 1990–1995 to less than 40 years in 2000–2005.47

Two other countries in Table 2.2, Norway and the United Arab Emirates (UAE), are oil-rich countries. However, the UAE’s HDI rank is well below its GDP per capita rank (minus 31 in column 3), while Norway ranks first in HDI. Norway is a developed country in which health care, education, and other social benefits are widespread throughout the population. The UAE has been able to transform itself from seven small impoverished desert principalities to a relatively modern state, but the benefits have been less widespread among the population. Although the UAE has a high mean per capita GDP, it is skewed—not only toward UAE nationals over foreign laborers, but also toward Abu Dhabi and Dubai over the other principalities. The society also sometimes discourages women from meeting their economic potential.48 Russia’s HDI rank is also well below its per capita GDP rank (minus 16). Although Russia’s economic standing has increased greatly in recent years because of its energy wealth, it has been undergoing a “mortality crisis” in human terms. Life expectancy for Russian men was 59 years in 2003, down from 65 years in the mid-1960s. Russians have high rates of cardiovascular disease, tuberculosis, HIV/AIDS, and homicide and suicide. Scholars often attribute Russia’s high mortality rates to instability caused by transition from Communism to a free market system, but this is not the case in transition economies such as Poland, where life expectancy has been increasing.49

Despite the disparities between the HDI and per capita GDP rankings, Table 2.2 shows that both HDIs and per capita GDPs tend to be higher for DCs than LDCs. The five DCs on the list (Norway, Canada, Japan, the United States, and Germany) have the highest HDIs as well as per capita GDPs; and the six LDCs with the lowest per capita GDPs on the list (India, Pakistan, Bangladesh, Ethiopia, Sierra Leone, and Niger) also have the lowest HDI values on the list. This is not surprising, because the poorest LDCs are less able to provide health care and education to their population. However, it is important to note that HDI values also have limitations in measuring well-being. For example, the HDI does not measure political aspects of human rights such as free speech and elections. Table 2.2 shows that China’s HDI rank exceeds its per capita GDP rank (by 10), whereas India’s HDI rank is lower than its per capita GDP rank (by 6); these figures do not reflect the fact that India has a more democratic political system than China. The HDI ranking also is not always a good predictor of the future. Although Iceland ranked third in HDI in 2007, it was one of the countries most severely affected by the 2008 global financial crisis! Despite its shortcomings, the HDI is important because it takes account of social as well as economic aspects of development.
In some respects, conditions of LDCs have improved on average in recent years. For example, since 1990 life expectancy in the South has increased by two years, 3 million fewer children are dying annually, and 30 million fewer children are out of school. High income growth in China and India has been a powerful factor behind the improving LDC income poverty figures overall, but this tends to mask the lack of progress in a number of other countries. The most severe problems are in Sub-Saharan Africa, the only region where HDI scores have been decreasing. Sub-Saharan Africa’s problems stem from colonial experience, economic reversals, and the human costs of conflict, but the most important factor has been HIV/AIDS. Three million people died from AIDS in 2005 alone, and more than 39 million are infected with HIV. The following statistics provide stark examples of the North–South socioeconomic gap:

- Forty percent of the world’s population lives on less than $2 a day and accounts for only 5 percent of global income. The richest 10 percent of the world’s population by contrast accounts for 54 percent of global income.
- Ninety percent of the people in OECD countries are in the top 20 percent of the global income distribution.
- The average life expectancy gap between low- and high-income countries is about 19 years. Japan’s life expectancy is 35 years longer than Burkina Faso’s, and the United States’ is 14 years longer than India’s.
- Almost all child deaths occur in the South, while most of the funds to prevent child deaths are spent in the North.

Although the North–South gap is the most important division, there are also major differences within the South. Table 2.3 shows that Latin America, East Asia, and the Arab states score higher in terms of most socioeconomic indicators than South Asia and Sub-Saharan Africa. For example, in 2007 the HDI index ranged from 0.821 in Latin America and the Caribbean to 0.514 in Sub-Saharan Africa; life expectancy ranged from 73.4 years in Latin America and the Caribbean to 51.5 years in Sub-Saharan Africa; the adult literacy rate ranged from 92.7 percent in East Asia and the Pacific to 62.9 percent in Sub-Saharan Africa; and the PPP-adjusted GDP per capita ranged from $10,007 in Latin America and the Caribbean to $2,031 in Sub-Saharan Africa. Although Latin America and the Caribbean had the highest GDP per capita on average, the East Asian NIEs had higher incomes than any Latin American state in 2007. For example, the per capita GDPs for Singapore; Hong Kong, China; and South Korea were $49,704, $42,306, and $24,801, respectively. This compared with per capita GDPs for Mexico, Chile, and Argentina of $14,104, $13,880, and $13,238, respectively. Table 2.3 also shows that East Asia and the Pacific have had higher annual GDP per capita growth rates (6.1 and 5.8 percent) than other LDC regions. Chapters 10 and 11 discuss the reasons for the economic prosperity of the East Asian NIEs. In marked contrast to East Asia and Latin America is Sub-Saharan Africa, which scores lowest in HDI value, GDP per capita, GDP per capita growth rate, life expectancy, and adult literacy (see Table 2.3).
In 1971 the United Nations compiled a list of 24 least developed countries (LLDCs), which has now grown to 49 countries. The United Nations describes the LLDCs as having low per capita incomes; weak human assets (i.e., nutrition, health, school enrollment, and adult literacy); and high economic vulnerability (i.e., instability of production and exports, exposure to shocks, and economic smallness and remoteness). Thirty-four of the 49 LLDCs are in Africa; the others are in Asia and in islands in the Pacific and the Caribbean. The LLDCs as a group had fairly strong economic growth from 2002 to 2007, but that is currently in jeopardy. With the 2008 global financial crisis, LLDCs have lost export revenue because of declining commodity prices and have found it more difficult to attract external finance. LLDCs as a group also have high levels of indebtedness, amounting to 42 percent of their GNI. The DCs have indicated that their foreign aid, or official development assistance (ODA), to LLDCs will not decline, but historical trends show that donor countries tend to shift their funds from aid-giving to domestic budgetary priorities in response to financial crises. LLDCs also depend on remittances, or the transfer of money from foreign workers to family members and others in their home countries. This basic source of supplementary income in LLDCs is also under threat because of the financial crisis. Thus, the 2009 United Nations Least Developed Countries Report warns that the LLDCs are likely to be the major victims of the global financial crisis.51
It is also important to consider inequities within states. Statistics show that within-country income inequality declined from the 1950s to 1970s in most DCs, LDCs, and centrally planned economies (CPEs). However, this decline slowed beginning in the 1980s, and income inequality has been increasing in many states in recent years.\textsuperscript{52} Within-country inequities stem from differences in educational opportunities, gender, race and ethnicity, and region of birth. For example, there are persistent gender gaps in access to education, employment, and equitable pay for work. Women account for about two-thirds of adult illiteracy today. Although the number of women in the workforce has increased in LDCs, they usually have lower pay and poorer working conditions. Some areas such as rural China and northwest India have significantly more boy than girl infants because of sex-selective abortion and differential care after birth.\textsuperscript{53} Although this book discusses within-country inequities and inequities among LDCs, it gives more emphasis to North–South inequities. Some LDCs have improved their socioeconomic positions, but many have been frustrated in their efforts to promote development and exert more influence. Because most LDCs are in a weak position individually, only collective action provides some opportunity to extract concessions from the North. From the South’s perspective, some KIEO policies pose major obstacles to economic development. This chapter briefly discusses the United Nations Conference on Trade and Development (UNCTAD), which gives priority to the interests of LDCs (see Chapter 7).

In the 1960s many LDCs gained political independence, and the number of African and Asian states in the United Nations increased from 10 in 1955 to 55 in 1966. In 1964, the 77 LDCs in the United Nations from Africa, Asia, and Latin America (“the Third World”) met to express their dissatisfaction with the KIEOs, and this LDC caucus, which now has 130 members, is still referred to as the Group of 77 (G77).\textsuperscript{54} The G77 was highly critical of GATT, which it viewed as a rich countries’ club, and it was instrumental in organizing the first United Nations Conference on Trade and Development, or UNCTAD I, in March 1964. UNCTAD subsequently became a permanent forum or conference under the UN General Assembly, with facilities to do research and policy analysis (see Figure 2.1). Unlike the KIEOs, UNCTAD depends on UN funds for its operating budget and its technical cooperation activities. Although all UN members are in UNCTAD, its secretariat openly supports LDC interests, and the UNCTAD secretary general has always been from the South. UNCTAD established some international commodity agreements and has induced the GATT/WTO to give more priority to Southern trade interests (see Chapter 7). However, the DCs refused to accept UNCTAD as a major forum for trade negotiations, and the WTO continues to be the unrivaled global trade organization. UNCTAD acts mainly as a pressure group for Southern interests and as a source of technical expertise. For example UNCTAD has assisted LDCs with the complex process of joining the WTO. In recent years, UNCTAD’s critical approach has been replaced by a greater acceptance of orthodox liberalism, but the 2008 global financial
crisis has caused it to warn against the danger of an unrestrained free market. Thus, the *UNCTAD 2009 Least Developed Countries Report* states that “it is widely recognized that the current financial crisis is the result of weaknesses in the neoliberal model that has been shaping global economic policies in the last three decades.”

**POSTWAR ECONOMIC INSTITUTIONS AND THE CENTRALLY PLANNED ECONOMIES**

All states can become members of the IMF, World Bank, and WTO, which are universal membership organizations. However, the CPEs of Eastern Europe, the Soviet Union, and China were nonmembers or had a very limited role for many years. At the end of World War II, the United Nations focused mainly on political security and the KIEOs focused on economic cooperation, but there are of course close linkages between political and economic issues. The U.S. negotiator Harry Dexter White thought that universalism would create a more secure environment, and his 1942 draft Bretton Woods plan asserted that to exclude “Russia would be an egregious error. Russia, despite her socialist economy could both contribute and profit by participation.” The West also expected the Eastern European states to become KIEO members. Although the Soviet Union feared capitalist encirclement, it participated in the Bretton Woods Conference and wanted financial aid to reconstruct its war-damaged economy. As the only Communist state at Bretton Woods (Poland and Czechoslovakia were not yet Communist), the Soviet Union was critical of IMF and World Bank voting procedures, rules on state-trading, and requirements that members provide detailed information. Although the West made limited concessions to the Soviet Union and it signed the Bretton Woods agreements, the Soviets continued to oppose the IMF and World Bank voting systems, the transfer of gold to U.S. territory, and the IMF conditions on its loans. Cold War issues also intruded (e.g., disputes over Berlin and the Soviet occupation of Eastern Europe), and the Soviet Union decided not to become a member of the KIEOs.

In 1947, the United States created the European Recovery Program or Marshall Plan to help Western Europe build up its foreign exchange reserves. Although U.S. secretary of state George C. Marshall invited the Soviet Union and Eastern Europe to participate, the Soviets refused and vetoed the idea of East European participation. They objected to the fact that the United States would have advisory authority over the internal budgets of Marshall Plan recipients, European states would have to cooperate with each other in using Marshall Plan aid, and most of the aid would be used to purchase U.S. exports. Only Western Europe participated in the Marshall Plan, and the Soviets established the *Council for Mutual Economic Assistance* (CMEA) in 1949 as a counterweight. Composed of the Soviet Union and Eastern European states other than Yugoslavia, CMEA solidified the East–West economic and political divisions. CMEA’s strategies to promote economic cooperation differed
sharply from the market-oriented Bretton Woods system. For example, CMEA emphasized central economic planning, nationalization of the factors of production such as capital and natural resources, the collectivization of agriculture, and insulation of the domestic economy from external influences. CMEA’s main goals were to reorient Eastern European trade away from the West and to solidify Soviet–East European economic linkages. However, CMEA performed poorly because it contributed to bilateralism, inward-looking policies, and a currency (the ruble) with unrealistic conversion rates that limited trade.\(^{60}\) U.S. as well as Soviet policies were responsible for the growing East–West economic rift. For example, the United States restricted trade with Communist countries and pressured its allies to participate in the Coordinating Committee (COCOM), which organized Western embargoes of strategic goods to the Soviet bloc. The liberal economic orientation of the KIEOs also contributed to the East–West split. Although the IBRD Articles of Agreement state that “only economic considerations shall be relevant” to the Bank’s decisions,\(^{61}\) the KIEOs in fact base their decisions on political and ideological as well as economic factors. The values of the KIEO professional staff members, who have received their education mainly in Western countries, affect the decision-making process.\(^{62}\)

In view of the East–West divisions, most linkages between Communist states and the KIEOs were severed. Czechoslovakia, Poland, Yugoslavia, China, and Cuba were founding members of the IMF and World Bank, but their membership ended or their status changed after they became Communist (the sole exception was Yugoslavia). As Table 2.4 shows, Poland withdrew from the IMF and World Bank in 1950 charging that they were controlled by the U.S. government, and the World Bank and IMF expelled Czechoslovakia in 1954 ostensibly for failing to pay its capital subscription.\(^{63}\) Yugoslavia, which was a special case because of its independence from the Soviet Union, was the only Eastern European state that remained in these institutions in the 1950s. Taiwan occupied the China seat in the IMF and World Bank after the People’s Republic of China took over the mainland in 1949, and Fidel Castro’s Cuba withdrew from the Bank in 1960 and the IMF in 1964. As for the GATT, Table 2.4 shows that China and Czechoslovakia were founding members in 1948, but the Chiang Kai-shek government (which had fled to Taiwan) withdrew from GATT in 1950, purportedly on behalf of China. Czechoslovakia remained in GATT, but its membership was inactive for many years. This was possible because of GATT’s status as an informal organization.

As nonmembers of the KIEOs, the Soviet bloc countries joined the South in supporting alternative organizations such as UNCTAD. However, the Eastern Europeans began to take notice of the KIEOs by the late 1960s because of their increased economic problems, their growing dependence on Western markets for their exports, and their efforts to gain more independence from the Soviet Union. Thus, Table 2.4 shows that Poland, Romania, and Hungary joined the KIEOs beginning in the late 1960s, and the People’s Republic of China replaced Taiwan in the IMF and World Bank in 1980. The most
<table>
<thead>
<tr>
<th>Year</th>
<th>Event Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>Poland, Czechoslovakia, Yugoslavia, China (founding members of IMF/World Bank)</td>
</tr>
<tr>
<td>1948</td>
<td>Czechoslovakia and China (founding members)</td>
</tr>
<tr>
<td>1950</td>
<td>Poland withdraws from IMF/World Bank</td>
</tr>
<tr>
<td>1954</td>
<td>Czechoslovakia ousted from IMF/World Bank</td>
</tr>
<tr>
<td>1966</td>
<td>Yugoslavia</td>
</tr>
<tr>
<td>1967</td>
<td>Poland</td>
</tr>
<tr>
<td>1971</td>
<td>Romania</td>
</tr>
<tr>
<td>1973</td>
<td>Hungary</td>
</tr>
<tr>
<td>1980</td>
<td>People’s Republic of China (replaces Taiwan in IMF/World Bank)</td>
</tr>
<tr>
<td>1982</td>
<td>Hungary</td>
</tr>
<tr>
<td>1986</td>
<td>Poland</td>
</tr>
<tr>
<td>1990</td>
<td>Czech and Slovak Federal Republic</td>
</tr>
<tr>
<td>1991</td>
<td>Albania, Lithuania</td>
</tr>
<tr>
<td>1992–1997</td>
<td>Russian Federation, other FSU republics, Croatia, Slovenia, Macedonia, Bosnia and Herzegovina, Czech Republic, Slovak Republic (IMF/World Bank)</td>
</tr>
</tbody>
</table>
dramatic change occurred in the early 1990s after the breakup of the Soviet Union, when Russia and other FSU republics joined the IMF and World Bank, and a number of former East bloc countries joined GATT. Other major changes occurred when China, Taiwan, and Ukraine became WTO members in 2001, 2002, and 2008, respectively. However, Russia has not yet become a WTO member. Later chapters discuss both the opportunities and difficulties presented by the transition economies’ membership in the KIEOs.

**NONSTATE ACTORS**

A wide range of nonstate actors have had a growing presence in the global political economy. Business firms, which often support the neoliberal globalization process, are the most influential nonstate actors in the global economy. They have established their own business institutions, influenced the policies of the KIEOs, and interacted with governments and IOs in the World Economic Forum (WEF). The WEF’s origins stem from the European Management Forum, a group of European business leaders that began meeting in Davos, Switzerland, in 1971 to help Europe reclaim some leadership of the international business community from the United States. The group gradually shifted to a global focus; changed its name to the WEF in 1987; and became a venue in which business executives, political leaders, and multilateral institutions discuss global economic, political, and social problems. The WEF’s core members are the top 1,200 global firms and banks in terms of global sales or capital. In addition to its

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**TABLE 2.4 (Continued)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998–2001</td>
<td>Serbia/Montenegro (IMF/World Bank)</td>
<td>Kyrgyz Republic, Estonia, Croatia, Albania, Georgia, Latvia, Lithuania, Moldova, China</td>
</tr>
<tr>
<td>2002</td>
<td>Montenegro (IMF/World Bank; Serbia continues membership of former Serbia/Montenegro)</td>
<td>Chinese Taipei (Taiwan)</td>
</tr>
<tr>
<td>2003</td>
<td>Montenegro (IMF/World Bank; Serbia continues membership of former Serbia/Montenegro)</td>
<td>Armenia, Macedonia</td>
</tr>
<tr>
<td>2007</td>
<td>Montenegro (IMF/World Bank; Serbia continues membership of former Serbia/Montenegro)</td>
<td>Ukraine</td>
</tr>
</tbody>
</table>

FSU = Former Soviet Union republics

annual meeting in Davos, the WEF holds regional summits and issues influential publications such as *the Global Competitiveness Report* and the *Global Information Technology Report*. Although the WEF is a private institution with no publicly sanctioned authority, it has a public agenda and considerable influence in the public sphere. For example, the Mexican president initiated discussions at the WEF in 1990 that led to negotiation of the NAFTA. Many liberals believe that business entrepreneurs in the WEF are acting in the global public interest, and they note that the WEF’s founder (Klaus Schwab) adheres to a multistakeholder model that takes account of the interests of a wide range of private and public actors. Critical theorists by contrast argue that NGOs account for less than 2 percent of those at the Davos meetings, and that members of the WEF governing boards are “overwhelmingly male, predominantly white and substantially from the wealthiest nations of Europe, North America and Japan.”

In contrast to global business firms, NGOs and social movements focusing on labor, women, the environment, development, and human rights have been largely excluded from positions of power. These diverse groups are often categorized together as civil society, which can be defined as a wide range of nongovernmental, noncommercial groups that seek to either reinforce or alter existing norms, rules, and social structures. Scholars discuss three types of civil society orientations in terms of objectives and tactics: conformist, reformist, and transformist or rejectionist. Although much of the literature focuses on civil society protests aimed at the IMF, World Bank, WTO, and other symbols of neoliberal globalization, most civil society organizations (CSOs) are conformist CSOs “that seek to uphold and reinforce existing norms.” Conformist CSOs include many professional associations, business lobbies, philanthropic foundations, some research groups such as the Institute for International Economics and the Brookings Institution, and the WEF, which has official NGO consultative status with the United Nations. Reformist CSOs want the KIEOs to become more democratic, transparent, and open to participation by underrepresented groups, but they do not seek to replace the underlying structure of capitalism. Although reformists often engage in peaceful protest such as passive marches, they also interact with the KIEOs through lobbying, discussions, briefing sessions, and negotiations. Transformist or rejectionist CSOs seek “a comprehensive change of the social order (whether in a progressive or a reactionary fashion).” Leftist rejectionists adopt an anticapitalist position and see the KIEOs as unreformable. Although rejectionists employ a diversity of tactics, they are generally committed to confrontational and disruptive actions; extreme rejectionists such as anarchists may engage in property destruction, clashes with the police, and violence. Some scholars refer to rejectionists as “anti-globalizers” because they oppose international trade and financial integration, but others argue that rejectionists are not opposed to globalization *per se*; they oppose the current neoliberal form of globalization.

A major obstacle to scholarly analysis of civil society groups is that “civil society” is a vague term that is used in “many different theoretical, practical, and
Some scholars view the term transnational advocacy networks (TANs) as more useful for analyzing the relations between NGOs and other actors. A TAN “includes those relevant actors working internationally on an issue, who are bound together by shared values, a common discourse, and dense exchanges of information and services.” TANs support value-laden causes and are especially important in areas such as the environment, women, infant health, and indigenous peoples. However, they are also involved with economic matters, and we will examine the position of TANs on trade, development, and foreign debt issues. TANs incorporate not only NGOs, but also social movements, the media, trade unions, consumer organizations, religious institutions, intellectuals, and various parts of international organizations and governments.

THE 2008 GLOBAL FINANCIAL CRISIS: A TURNING POINT?

This chapter has examined the institutional framework for managing the post-war global economy. Subsequent chapters discuss the role of the IMF, World Bank, WTO, OECD, UNCTAD, and informal groupings such as the G20 and G8 in greater detail. The DCs at the Bretton Woods Conference had faith in the ability of international institutions to promote economic stability and growth, and the three KIEOs have contributed to postwar prosperity. However, there is a hierarchy of states in the IMF, World Bank, and WTO, with the North having the most votes in the IMF and World Bank and the most influence over multilateral trade negotiations in the GATT/WTO. The South has had less power and wealth in the global political economy, and has tried to alter the KIEOs and establish alternative organizations such as UNCTAD. However, the South’s gains have been limited, and foreign debt and financial crises in the 1980s and 1990s induced many LDCs to become more closely integrated with the KIEOs (see Chapter 11). For many years the centrally planned economies did not participate in the KIEOs, and the Soviet Union established the CMEA as an alternative organization. However, these countries began to join the KIEOs because of growing economic problems and dependence on the West. The breakup of the Soviet bloc and Soviet Union sped up this integration process.

The KIEOs are therefore becoming universal membership organizations, but it is increasingly difficult for them to reach a consensus and manage global economic relations. A major change is that emerging economies such as China, India, Brazil, and Russia have been growing more rapidly than the United States, Europe, and Japan, and are less willing to accept the North’s leadership in the formal and informal international institutions. As we will discuss, the 2008 global financial crisis marked a turning point because emerging economies such as China, Brazil, and India are recovering from the crisis more rapidly than most DCs, and without the budgetary and debt burdens plaguing the United States, Britain, and a number of other DCs. In September 2009 the
G7 finance ministers (from the United States, Japan, Germany, Britain, France, Italy, and Canada) agreed to cede responsibility for steering the global economy to the G20 developed and emerging economies, and this was the first sign of a significant change in the global institutional framework. As an informal grouping, the G20 can deliberate and propose, but it cannot make decisions that bind the international community. However, since 2005, the G20 has discussed the issue of reforming the IMF and World Bank. G20 emerging economy members have argued that the selection of senior management of the IMF and World Bank should be based on merit, and that the process for selecting the IMF managing director (who has always been European) and the World Bank president (who has always been American) should be changed. The IMF and World Bank have accepted the idea that change in their governing bodies is necessary, and that some votes should be redistributed to emerging economies such as China, India, and Brazil. Although, some reform is now taking place, resistance from DCs, especially in Europe, is delaying the process. Furthermore, as mentioned, the LDCs in the G20 are larger emerging economies and there is no representation for the poorest countries, the 49 LLDCs.73 In sum, the 2008 global financial crisis has been somewhat of a turning point in giving emerging countries such as the BRIC economies more influence, which is slowly being translated into more voice in the IMF, World Bank, and WTO. However, the influence of the least developed, poorest countries in the South will continue to be extremely limited for the foreseeable future. This chapter has examined the role of the postwar institutions in promoting globalization, and the complexities globalization is presenting for their management capabilities. The next three chapters examine the IPE theoretical perspectives.

**QUESTIONS**

1. Why were the IMF, World Bank, and GATT/WTO created, and why are they called the “keystone international economic organizations”?
2. What is the role of smaller organizations and groups such as the OECD, G7/G8, and G20? Why was the G20 formed, and why is it displacing the G7/G8?
3. What are the advantages of using PPP-adjusted per capita GDP figures, and what are the shortcomings of the PPP-adjusted figures?
4. What is the human development index, and what are its strengths and weaknesses?
5. Why were the G77 and UNCTAD formed, and how successful have they been? Is the growing influence of the G20 likely to benefit all LDCs?
6. What are some of the most significant divisions within the South? What are OPEC, the NIEs, the BRIC economies, and the emerging economies? Do these groups have anything in common with the LLDCs?
7. How has the relationship changed between the former centrally planned economies and the KIEOs?
8. What is the World Economic Forum, and in what way does it contribute to a blurring of lines between “public” and “private” in the global political economy?
9. What are civil society groups, and how do they differ in terms of their tactics and goals? What are TANs?
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KEY TERMS

Bank for International Settlements 22  
Bretton Woods Conference 18  
BRIC economies 27  
central bank 31  
General Agreement on Tariffs and Trade 18  
Group of Five 29  
Group of Seven 29  
Group of Eight 31  
Group of 10 29  
Group of 20 32  
Group of 77 38  
emerging market economies 27  
exchange rates 33  
human development index 33  
International Monetary Fund 18  
newly industrializing economies 27  
Organization of Petroleum Exporting Countries 26  
Organization for Economic Cooperation and Development 29  
purchasing power parity 33  
transnational advocacy networks 44  
United Nations Conference on Trade and Development 38  
World Bank 18  
World Economic Forum 42  
World Trade Organization 23

FURTHER READING


A recent study on the many facets of the OECD is Rianne Mahon and Stephen McBride, eds., The OECD and Transnational Governance (Vancouver: University of British Columbia Press, 2008).


NOTES


15. Lake, Power, Protection, and Free Trade, p. 204.


44. For example, see “Big MacCurrencies,” The Economist, April 11, 1998, p. 58.
55. UNCTAD, *The Least Developed Countries Report 2009*, p. i.


