

International Economic and Financial Institutions: An Instrument for Third World Dependency

By

Abdullahi, D. Jibrin (PhD)

Department of Political Science, Federal University of Lafia,

Nnaji Emmanuel Onyemaechi.

Department of Political Science, Federal University Wukari,

Email: nnaji76@yahoo.co.nz. Tel: 08034617454

&

Kefas Iramae Nathaniel

Department of Political Science, Federal University, Wukari,

nathanielkefas88@gmail.com. 08087686896.

Abstract

The current international economic regime and the international financial institutions formed at the end of the Second World War is a product of the United States of America's initiative with other few European nations contributing ideas not funding. As the saying goes, he who pays the piper dictates the tune. In fact, all is geared towards keeping the spoils of the hard won war, keep an open border and allow free movement of goods and services, avoid future wars as the present status quo favours them. This paper is aimed at tracing the origin, impact and trends of the present international economics with emphasis on the role played by the three most important international financial institutions namely the General Agreement on Tariffs and Trade/the World Trade Organization (GATT/WTO), the International Monetary Fund(IMF)and the World Bank (IBRD) in creating and maintaining African Underdevelopment and dependency. The institutions have greatly reduced rancour among nations through the implementation of free movement of goods and services, protection of property rights etc., but it has worsened the plight of the poor countries of the South which it has impoverished the more. The study recommends that the South should break out of this quagmire through the creation of regional agencies, the intensification of scientific research in indigenous technology among others and concludes that the Bretton Wood institutions were never meant for the development of the Third World Countries but for their continuous exploitation in favour of the advanced and industrialized countries of the world.

Key Words: International economic, Financial institutions, Third world, Dependency

Introduction

The end of every major crisis in the world leads to the establishment of a system by the victor to guard against reoccurrence and safeguard the victory won. That system manifests itself in the development of procedures and institutions that act as the executive arm for the victor. In this case we have institutions like GATT, WTO, IMF, and IBRD. America and Europe have through these institutions influenced many states to accept the value of free market, liberal democracy and free trade; this is because states after the Second World War preferred co-operation to that of chaos or anarchy.

The global economic system was shattered during the Second World War but American economy was among those that survived it. And so America championed with their allies the



desire to reduce the restriction to free movement of goods, this desire led to fashioning an economic system that will be to their advantage and that of their allies; allow free movement of goods and services the world over and keep the spread of socialism in check.

According to Goldstein (2011) economic liberalism in its alternative approach generally shares with liberal internationalism a belief in the possibility of cooperation between states to achieve common goal. It believes that by forming an international organisation, institution and norms, states will mutually benefit from economic exchange among each other. Most international economics exchange contains some element of mutual interest realised in cooperation. Liberalism emphasise the shared interest in economic exchange. The belief is that international trade makes both partners in international trade better off and eventually increase overall efficiency as a result of specialisation brought about by international division of labour (D'Anieri, 2014)

For Ricardo and other economic liberals, it does not make sense for government to protect their country`s jobs or profits at the expenses of other countries because the market forces will distribute the jobs and profits in most efficient way regardless of nationality and in a way that will provide more wealth, growth and development for all in the long run, firms should specialize where they have comparative advantage (Kaarbo and Ray, 2011). Comparative advantage invariably emphasizes the international division of labour between the developing and the developed nation, nay the producers of raw materials and the producers of manufactured goods.

It is against the above background that this paper attempts an analysis of the role of international economic and financial institution in foisting dependence on the Third World countries. The paper begins with an introduction, the development of international economics, a theoretical analysis, the formation of international financial institutions among others, before drawing appropriate conclusion and recommendations.

The Development of International Economics

The genesis of the present world interconnectedness is a thing of historical antecedents, but of late it can be traced to the growth in international trade and capitalism especially from the 16th century after the formation of modern state system in Europe, growth of nationalism, industrial revolution and colonial imperialism. The interaction of states is mostly based on established treaties, laws and understanding, working within the rules of the game as its norm; this procedure shapes and maintains the international economic system. States work together by following rules they develop to govern their interactions, they usually follow the rule and as time passed the rules becomes more firmly established and institutions grow around the rules (Goldstein, 2011).

In the light of the above in 1944 a group of 44 states gathered in New Hampshire, USA to fashion out new rules and institutions to govern international trade and monetary relations after the World War II. This was a move towards mercantilism, where greater role is assigned to states than markets in managing economic interaction and strategy for gaining national wealth. The contemporary international economic system in order to create openness and free

trade created three institutions to maintain the liberal international economic order, the institutions include GATT/WTO, IMF and IBRD

According to Immanuel Kant in his paper “*perpetual Peace*” (1795) quoted in Alan (2018) international organisation is a reflection of methods of avoiding wars and instituting order. He recommended the formation of “federation of free states” to help resolve dispute between nations and regulate international commerce. This liberal thought about international institutionalisation was quite in order because it was meant for equals especially Europeans and American states. In reality the international organisations and protocols served the interest of the developed nation, and strongly entrenched dependency on the developing states. This could be the reason behind the formation of Bretton woods institutions.

Theoretical Framework

Several approaches and theories have been developed by scholars to explain the relationship between the international institutions and the Third World. The sole aim of the use of theory is to enable us arrive at amore scientific and valid explanation of the relationship between the two variables or phenomenon. This paper adopts dependency theory as a framework of analysis. It is a neo-Marxist theory developed by the scholars like V.I Lenin, Rosa Luxemburg, Dos Santos, Andre Gunder Frank, Samir Amin, etc. This theory tries to explain the fact that the underdevelopment of the Third World is the consequence of capitalist development of the industrialised nations of the north, as Third World states were fully integrated into the world capitalist economy through colonisation, exploitation, unequal exchange among others. The central idea behind dependency is that the growth and development of the north was at the same time the impoverishment of the Third World and the entire developing nations. They believe that it was what was taken from Third World and the whole developing countries that were used in building the economy of Europe, America, etc. So the underdevelopment of underdeveloped/developing nations especially the Third World countries is a deliberate and planned process. This process is being sustained by the Bretton Woods institution till date.

These institutions dictate the rules and laws in economic relations in the world. This rules and laws are seen in the centre and periphery model of the dependency theory where it is believed that development could only trickle down from the developed nations through policy adoption, loan and grants. The believe that grant and financial aid from the developed world could help in the development of the Third World is seen as the pitfall of the dependency theory as aid has helped in further impoverishment and over dependence of the Third World states. This notwithstanding, dependency theory is best suited for the explanation of the relationship between the Third World and the Bretton Wood institutions. As the Third World states were integrated as suppliers of raw materials and consumers of manufactured products from the developed nations. So the Bretton Wood institutions is like the executive of the developed nations implementing policies to maintain the position of the former and improve on it over the Third World and developing nations.

Advent of International Financial Institutions



International commerce is necessary for wealth creation which in turn provides needed impetus for national development. States being the major actor in international economic relations work to preserve trade to enable wealth accumulation and ensure national security. It is believed that any state's gain is another state's loss under realist school of thought, thus making international trade a kind of zero-sum game.

States were encouraged to go into economic nationalism under the protectionist cover of their economy. This is seen in works of scholars like Alexander Hamilton's Report on Manufactures (1913) and Friedrich List's National System of Political Economy (1841) both of United States of America. This policy is contrary to the liberal ideology of mercantilism by Adam Smith. During the industrial revolution much goods and services were produced and because of protectionism trade was low arising from the fact that only intra trade was encouraged. This policy led to the great depression of the 1929. With the need to create a stable international economic order, maintain currency exchange stability in a multilateral cooperative world under a liberal ideology it led to the formation of these under listed international financial institution, GATT/WTO, IMF and IBRD.

General Agreement on Tariff and Trade (GATT)

To prevent return of depression after the Second World War and facilitate expansion of world trade, International Trade Organisation was conceived. But in the absence of final agreement on ITO, an agreement was signed by 23 states on bilateral tariff concession, these treaties were rewritten into a final act called general agreement on trade and tariff which was assumed to be a temporary agreement. This was aimed at creating free trade among signatories to the treaty.

The post-World War II States created GATT as organisation for promoting free trade. The primary idea is to encourage an increase in international trade and reduce barriers to trade, whether in the form of tariffs, quotas or impediments, such as regulations regarding labour standards or environmental protection. This institution practice most favoured nation commitment never to discriminate (Haywood, 2014). Three major principles on which GATT operate include:

- a. Reciprocity promise of GATT was for mutual lowering of trade barriers. Meaning that country that lowers their tariff could expect their trading partners to do same
- b. Non-discrimination. All member states have equal access to each other market. Here we have most favoured nation principle meaning that what was granted any member must also be extended to any other member and national treatment meaning that foreign goods are treated same as domestic goods. No law to give advantage to local goods.
- c. Transparency in trade policy, meaning that trade policy, regulations and barriers need to be known among member states.

It is important to note that GATT was set up as a framework of rules and principles to help in the revival of the war torn economies of the then industrialised world. The founders of the GATT many of them Western democracies with broadly comparable relations with a set of rules appropriate to them, their colonies or dependents and a small number of co-founders



from the non-industrialized world. These member states have demonstrated the faith that GATT provides the best means for sustaining and developing world trading rules (Decalercq, 1987)

The GATT process of negotiation was designed not only to give new impetus to the liberalisation of the world trade and to strengthen the multilateral ground rules for trade, but most importantly to create conducive ground for trade in the 1990s, and into the 21st century. GATT has achieved progressive reversal of barriers to trade under conditions of equality and equity. Member nations of GATT in 1993 in Punta del Este declared in the firmest possible terms that protectionism is not needed by nations to conduct their economic relations with other states. In fact, they all agreed to develop a more open, viable and durable multilateral trading system. The basis here is the creation of free trade where states neither restrict import from nor export to the other countries. Similarly, commercial liberalism believes that the reductions of barriers to trade among trading partners through cooperative agreements, prosperity of both countries will increase. When this happens it ties the whole trading partners in the web of interconnectedness or interdependence from which all parties benefit, although mostly not equally. In the views of economic liberals, it is good to promote free trade for the benefit of all concerned. This is because free trade increases incentives and war declines. It is the ultimate path to peace (Charles and Shannon, 2011). The expansion of free trade has led to a worldwide drastic reduction of number of armed conflicts between states because free trade settles revenge, hatred, jealousy among trading partners. This is a non-military strategy to peace.

World Trade Organisation (WTO)

This is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. These were voluntary agreements made by states to surrender their role in decision making on economy as a sovereign nation to WTO on the belief that cooperation and openness brings more profits than losses.

World Trade Organisation came on stream on January 1, 1995 as a successor to GATT which came to conclusion at the 1986-1993 Uruguay rounds of global multilateral trade negotiations and the signing of Marrakesh agreement in Morocco in April 15, 1994.

According to Aja (2002) WTO was not entirely a new international trade institution; it was a rebirth of GATT and more commitment to multilateralism in trade dispute and negotiations. It has a great impact on global and states economy, it greatly shaped production process and exchange relations. In fact, it is a multilateral negotiation and structure geared towards more benefit to developed and industrialised economy than underdeveloped economy. WTO can hold a powerful nation accountable for trade practices. The ability of WTO members to access 153 members market can serve to open societies and improve quality of state governance. The WTO accession process as well as the periodic trade policy review required of WTO members may have good impact on governance. In Doha Round which began in 2002 it has a very ambitious agenda for trade liberalisation that treated all the non-tariff barriers, intellectual property right, environmental issues, trade in services, and trade related investment measures. WTO has handled many disputes including those that concern powerful



nations. It punishes through trade sanctions and rewards states through provision of access to a large member nation state's markets. Through its accession process states reform (periodic trade policy reviews that will in the long run effect overall quality of governance, including states transparency and political participation) their way of doing business to conform to international standard before they are accepted as member nation of WTO.

The WTO is confronted with many problems like subsidies to agriculture, intellectual property rights, trade in services, environmental protection measures, labour standards and government policies. These new problems are much more difficult to handle than tariff reduction treated by GATT as it mostly run contrary to nation states' laws. WTO provides a well-developed institution for the world trading system.

International Monetary Fund (IMF)

This is an institutional mechanism charged with the role of managing the exchange rate across countries, it maintains currency exchange stability by championing international monetary cooperation and peaceful exchange and most importantly serve as lenders of last resort to financially indebted states.

This institution was established in July 1944 by 44 nations to deal with the problem of exchange rate stability. IMF set a cooperation of non-exchange rate system based on US dollar, backed by Gold in order to provide a stable monetary environment for economic relations. According to Charles and Shannon (2011) IMF is set up to provide stabilization fund to help countries offset short term balance of payment problems. It functions like global credit union as countries contributed to the fund and were able to draw capital from it to help maintain balance of payment equilibrium and exchange rate stability. Its purposes were as a result of the perceived cause of the 1930s economic catastrophe and its belief about the need for active US leadership. The US sought for free trade, open markets and monetary stability based on theoretical promise of commercial liberalism which advocates free market.

IMF coordinates international currency exchange, balance of international payment and national accounts. It set a stable monetary exchange rate of fixed dollar value equal to 1/35 of an ounce of Gold that first lasted from 1944 to 1971. Other states currencies were exchanged at a fixed rate relative to the dollar. The fixed exchange rates were set by IMF based on the long term equilibrium level that could sustain each country's currency. International currency markets operated within a narrow range around the fixed rate. If a country currency falls more than 1 percent from fixed rate, the country has to use its hard currency reserve to buy its own currency to drive the price down. When the Gold standard was dropped in 1971, IMF established a new world currency the Special Drawing Rights (SDR). It is created in limited amount by IMF and it is held by country's central banks and can be exchanged for various international currencies. This SDR is close to Global currency only that it cannot buy goods only currency and it is owned by states not individuals or companies. When major currencies rise the SDR also rises too. States bargain politically over the targets for currency exchange rate in the meetings of G8, which ironically has only developed and industrialised countries as members.

IMF technical mechanism is based on state's depositing financial reserves with it. On joining the IMF states are assigned a quota for such deposits, partly of hard currency and that of states currency. This quota is based on the size and strength of the economy. The IMF and WB use weighted voting system where each state has a vote equal to its quota. The advanced economy controls the IMF, although nearly all the world are members. Three main activities of IMF since inception includes:

- Provide stability and access to capital for states ravaged by WWII, this was a huge success
- Promote economic development of poor countries, this role has been less successful
- In 1990s it focused on integration of Eastern Europe and Russia into the world capitalist economy.

International Bank for Reconstruction and Development (IBRD)

This is the international financial organisation for economic assistance established in 1944, first for countries recovering from Second World War, and then developing nations. It provides long-term loan and funds for reconstruction of devastated Western Europe and Japan. According to Alison (2014) the bank was designed to aid wartime recovery by encouraging capital investment for the reconstruction of members by providing loans and private funds. The bank equally raises fund for development by selling bond on the world market. It issues direct loans to government or government serves as a guarantor for its loan. The World Bank has come to serve as a forum for discussion among developed and rich nations about treatment of less developed countries.

The World Bank as an international financial institution provides loans and grants to poorer countries for the purpose of pursuing capital projects. It comprises of two institutions, the International Bank for Reconstruction and Development IBRD and the International Development Association IDA. The World Bank established in July, 1944 has now 189 members, and IDA has 173 members. The headquarters are in Washington DC, USA. The World Bank most recent stated goal is the reduction of poverty. The president is traditionally from America from inception.

Before granting of loan the World Bank demands policy reforms from recipient nation. The World Bank provides loan for the construction of projects like seaports, highway system and power plants. These projects will generate income to enable the borrower repay their loan. In 1960 International Development Association (IDA) was established to provide soft loan to developing countries. The first country to receive loan from the World Bank was France. Before then France was made to meet some stringent conditions like, producing balanced budget and agreement to repay the loan before any other business, and removal of communist members in their coalition government. With this procedure it shows that the institution was set up for a purpose, to fight socialism.

These processes have greatly exacerbated the issue of imperialism, underdevelopment and widening of the gap of inequality between the developed countries and the developing countries. Karl Marx in Capital Vol. 1, aims at explaining the inward and outward character

of capitalist mode of production in the advanced stage as a result of workings of its laws of motion.

At the realization of surplus value from the workers, the problem of market to sale the surplus value now converted to product in further production sets in.

So the growth of capitalism, and the industrialisation of advanced countries, brought about world market and international division of labour.

The Effect of the Bretton Wood Institutions on Third World: A Path to Dependency

The formation of GATT/WTO, IMF and IBRD has entrenched and perpetuated dependency of the Third World through the policies of liberalisation and deregulation which has dealt a blow to the fledging and underdeveloped economy of the South which cannot compete in free movement of goods and services, together with the effect of multinational cooperation under the policy of Foreign Direct Investment (FDI). In the words of Dos Santos(1970) dependence means a situation in which the economy of a state is so much conditioned that it cannot develop nor expand on its own unless on the condition of development and expansion of another economy to which it is subjected to. In effect it denotes that states here depend on external stimulus in order to make any meaningful impact with regards to development. Liberal system lead to privatization and commercialisation in the third world. This policy was built into Structural Adjustment Programme (SAP) that was one of the conditionalities to accessing loans and grants from the Bretton Woods institutions.

Dependency theory links the underdevelopment of the Third World countries of the South to the consequence of the linkage with North and as a result of the capitalist developments of the industrialised nations. The backwardness of the Third World was created through contact with Global North in periods of; free trade, slave trade and colonial imperialism. The dependency school of thought believes that what made the North rich was taken from the South by force through the contact with them. Das (2016) believes the growth and development of the North was at the same time the impoverishment of the South, It is what was taken from the South that is used to develop the North. He stated further that the underdevelopment of the South was a deliberate and planned process and package.

In fact, this advocacy for change of the status quo led to the formation of G77. This group is made up of 131 members of the developing nations of the world who came to ask for the betterment of the economic fortune of the developing countries through its advocacy in NIEO. This group used consensus method to gather and form a policy advocacy from subgroups, and it is negotiating with other groups in the UN, they got the listening ear of the UNCTAD Secretariat in Geneva. At long last they could not succeed to alter the International Economic Order. The collapse of Soviet Union and socialism saw its demise. The dependence structure invariably creates unfavourable trade. As Ake (1981) records that through trade, interdependency ensued and specialisation created division of labour between the developed and underdeveloped countries. Africa countries specialised in primary product which they export to buy manufactured products from the West and this created unfavourable international trade. Partly because primary products pricing fluctuates, it has substitutes and its price is at the dictates of the developed countries. According to Friedrich List in Alison



(2004) the interest of the developed economies are better protected by free trade which WTO projects, while underdeveloped states will be seriously constrained developmentally in open, competitive economy. Another means of perpetuating the dependency of the third world is through aid, this makes Third World states become an appendage of the developed countries because those aid were never utilized for what it was meant for, it ends up corruptly enriching the political elites who in most cases repatriate the fund to the foreign banks of the developed countries.

Unfavourable International Trade

The importance of trade and trade relations can never be underestimated. In the Third World international economic products export has traditionally being the bulk of their contributions to the world market. Many African states and Latin America countries according to Michael and Stephen (2011) have a substantial percentage of their economic earnings from sale of agricultural and other primary products or commodities like coffee, cotton, cocoa, sugar, palm oil, bauxite and copper and most annoying aspect is that the oil producing state of the South sale unrefined crude and import refined products from the North.

In International trade, prices for exports are often unstable, in fact primary product export dependence carries with it a degree of risk and uncertainty that few nations desire. The long term trend of primary product prices is usually on the downward slope, they stated. In the report of the UNCTAD 2006, out of 141 countries, 95 are dependent on commodity export among the developing nations of the South.

The worrisome aspect is that many countries in the South depend on importation of raw materials, machinery, capital goods, intermediate products, goods and consumer products to power their industrial expansion and rising demand of goods at home. This creates imbalance of trade in their policy of import substitution all in the quest to industrialize their economy.

The import demand generally outweighs the total amount generated in export of primary products with this they are perpetually in debt crises or balance of payment and trade deficits. The deregulation and liberalization policies from IMF, IBRD made matter worse for the states of the Third World and the South in general. All these because according to Kaarbo and Ray (2011) the Third World primarily earn by exporting primary products whose prices are unstable, and they have substitutes and worst of all the prices are being dictated by the North.

Conclusion

The international economy is a template drafted by the victor of the Second World War to hold in servitude the conquered states. While the GATT, WTO, IMF and IBRD are the agency of the conquerors' executive for managing the loot. The good thing here is that the agencies have succeeded in stopping fulltime war but it breeds discontents and disharmony. In the view of YashTandontrade is war, meaning the war that ended in 1945 literally continues.

Recommendations





- Scholars had at different forum suggested that regional structures and arrangements are keys to the development of any states or region. I will alien with them to suggest same for third world. But regional arrangement on the basis of outward looking approach in form of Export-led Industrialisation as being practiced by Asian Tigers because inward approach seen in Import Substitution Industrialisation practiced by developing countries failed to generate needed industrialisation and growth of the economy.
- Third World sates should clamour for democracy within the world economic administration in international economic institutions under review. The system that uses autocracy or quota system does not work well for the Third Worldcountries and there is need to develop a new international economic order NIEO that will take into cognisance the peculiarities of third world states and developing countries in general.
- Breaking out of the dependent status and pursuing their own industrial development remains the greatest foreign policy goal of the Third World countries.
- Research should be intensified in evolving an indigenous technology appropriate to third world country's resources and problems.
- Science education is key to development, efforts should be made to acquire technical skills, educate the populace and the Third World countries should work on their cost of governance and strengthen institutions that fight corruption.

References

- Aja,A. (2002) *Selected Themes in International Economic Relations, Understanding Trends of Globalisation and Regionalisation*. Enugu: Kenya and Brothers Enterprise
- Alison, W (2014) *An Introduction to International Political Economy*. New York:Continuum Press.
- Bigelow, G, (2005) *Let there be Markets, The Evangelical Roots of Economics*, London: Harpers and Row, pp.33-38.
- Charles, K and Shannon, B (2011) *World Politics, Trends and Transformations*. Australia: Wadsworth
- Das, P. (2016)*Modern Political Theory*. India: New Central Books.
- D'Anieri, P.(2014)*International Politics. Power and Purpose in Global Affairs*, Australia: Wadsworth.
- Decalercq, W. (1987) *The Role of GATT in International Trading System*. USA: Harvard Press



- Goldstein, J. (2011) *International Relations*. London: Pearson Publishers.
- Hamilton, A. (1913) *Report on Manufactures*. Washington DC : Scholars Press
- Haywood, A. (2014) *Global Politics, 2nd Edition*. London: Palgrave Foundations.
International Review, Vol.9, No.3(February/March 1987) pp10-12
- Kaarbo, J and Ray, J. (2011) *Global Politics, 10th Edition*. Australia: Wadworth
- List, F (1987) National System of Political Economy, *International Review*, Vol.9, No.3
February/March, pp10-12
- Michael, S and Stephen, S. (2011) *Economic Development 11th edition*. London: Pearson.
- Obasi, I. (2002) *Politics and Globe Dictionary*. Enugu: Jamoe Enterprises.
- Samir, A (1992) *Empire of Chaos*. New York:Monthly Review Press.

