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**Course DS3201:** Globalization and Development

**The emergence of global institution and its role to global economy**

**Introduction:**

In international business, globalization has several facets, including the globalization of market and globalization of production. The globalization of markets refers to the merging of historically distinct and separate national markets into one huge global market. On the other hand, the globalization of production refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in cost and quality factors of production (such as labour, energy, raw materials, land, and capital). As markets globalize and an increasing proportion of business activity transcends national borders, institutions need to help manage, regulate, and police the global marketplace, and to promote the establishment of multinational treaties to govern the global business system. During the past 55 years, a number of important global institutions have been created to help perform these functions. These institutions include the “General Agreement on Tariffs and Trade” (GATT) and its successor, the “World Trade Organization” (WTO); the “International Monetary Fund” (IMF) and its twin sister, the “World Bank “; and the “United Nations” (UN). All these institutions were created by voluntary agreement between individual nation-states, and their functions are enshrined in international treaties. These organizations have many important roles in creating international business ethical rules and regulations.

Especially, The World Trade Organization is primarily responsible for policing the world trading system and making sure nation states adhere to the rules laid down in trade treaties signed by WTO member states. Now it has over 145 nations, and the last member is the Republic of China. The WTO is also responsible for facilitating the establishment of additional multinational agreements between WTO member states.

**Some of the major international institutions are:**

* General Agreement on Tariffs and Trade (GATT)
* World Trade Organization (WTO)
* International Monetary Fund (IMF)
* World Bank (WB)
* South Asian Free Trade Area (SAFTA)
* South-South Cooperation

**IMF and WB policies in the context of global economy:**

The institution of the International Monetary Fund was created in 1945 through the provisions of the Bretton Woods agreement, as a specialized financial-monetary organism of the United Nations System, responsible at first for the good functioning of the Gold Exchange Standard.

The main responsibilities assumed by its status refer to:

* The promotion of an international monetary cooperation and the goal of assuring a harmonious evolution in the international trade
* The promotion of a stable exchange rate system, while respecting the engagements assumed by its members
* Permanent assistance concerning the establishment and the coherent functioning of the multilateral payment system established among its members
* Maintaining the climate of trust in the policies of the institution, by permanently availing temporary resources to the members in order to balance the current balances of payments
* Preventing and diminishing the negative effects determined by the unbalances able to affect the fund members’ international balances of payments.

The main connections of the global economy with the international monetary-financial system result from the operational credit-financing operations, discount operations and liquidities regulation operations. The IMF and the WB group are notorious international financial-monetary authorities, built on the basis of global-scale concession, called to govern the dynamics and balance of the international financial monetary system.

The lack of cohesion in the political decisions worldwide and the difficulty of the global cooperation approach given by the heterogeneity of the actors involved led the two organisms to go further and further from the reason of their creation, arriving by the end of the 20th century not just outside the dialogue with the system of the United Nations, but also outside the dialogue with parallel organisms and even with its own members.

The World Bank is oriented towards economic assistance programs, development programs, and structural adjustment programs meant to fight poverty. In relation to the World Bank, the IMF represents the primordial institution as specialization and responsibility sphere in connection to the international financial monetary system – by its configuration and the arbitration of its functional architecture.

The IMF’s main functions concern the specific processes of cooperation, assistance, information, supervision and intervention concerning the institutions of the international monetary-financial system. Gradually, as both of these institutions got involved increasingly and steadily in finding solutions to reduce the debts of the developing countries, their activities partially overlapped.

There are multiple variables encompassing all the five essential dimensions of the national regional or international balance, namely: the economic plan, the monetary-financial plan, the social plan, the political plan and the cultural one. It has been noticed that the countries that assumed eventual sanctions by acting against the measures required by the IMF managed to rehabilitate their economy much faster (e.g.: Malaysia), compared to other countries that were technically subordinated to the monetarist networks of the IMF.

**Role of GATT in global economy:**

The main role of GATT in the international trade was regulating the contracting parties to achieve the purpose of the agreement which were reducing tariffs and other barriers, and to achieve the liberalization in international trade. The role was reflected in following aspects:

Firstly, GATT established a set of standard to guide the contracting parties to participate in international trade practices. GATT stipulated several of basic principle to conduct the contracting parties in international business, such as General Most-Favoured-Nation Treatment, Non-discriminatory Administration of Quantitative Restrictions and General Elimination of Quantitative Regulations and so on in the “GATT 1947″. Every contracting party should obey these basic principles when they were involved in trade relations, otherwise they would be condemned, even be taken revenge by other parties.

Secondly, GATT reduced the tariff on the basis of mutual benefit, accelerate the trade liberalization after the World War II. GATT’s major contribution was to reduce of tariffs by sponsoring “rounds” of multilateral negotiations. By sponsoring the multilateral negotiations, there was a significant reduce of the tariff. There were about 35% average tariff reductions in both Kennedy Round and Tokyo Round. Future more, in the Uruguay Round which was the most productive in the history of GATT multilateral negotiation, the contracting parties practiced the rules that kept cutting the tariff rate, there was an average tariff cut of 39% in this round of negotiation.

Thirdly, GATT reduced the discrimination in tariff and trade which promoted to reduce other trade barriers. As stated in the Article II: schedule of concession in “GATT 1947″, “Each contracting party shall accord to the commerce of the other contracting parties’ treatment no less favourable than that provided for in the appropriate Part of the appropriate Schedule annexed to this Agreement.” According to this statement, GATT regulate the contracting parties cannot increase the levels of tariff as their wish, but some countries used other non-tariff barriers to promote their protectionism. Therefore, GATT claimed the contracting parties should not use other barriers to protect their own industries, it requested the reduction of the non-tariff barriers and quantitative restriction to make sure the benefit from the reduction of tariff not be erased by the non-tariff barriers.

Fourthly, GATT protected the benefits of the developing countries to a certain extent to international trade. One of the basic objectives of GATT was that “raising of standards of living and the progressive development of the economies of all contracting parties, and considering that the attainment of these objectives is particularly urgent for less-developed contracting parties.” (GATT 1947) In order to achieve this objective, GATT established some special measures for less-developed countries, such as provide tariff protect for specific industries, quotas which are with the purpose of balance of payment.

Finally, GATT acted as the “court of international trade”, by providing a platform for contracting parties to negotiation and talk to settle disputes in international trade. One of the objectives of GATT was to settle the disputes between two or more parties. When two or more parties are involved in the international trade, it is inevitable that without disputes. Some of the disputes may be solved by the two parties themselves, however, some disputes could not be solved by themselves, without the help of the third party, and the disputes may be remaining unresolved for years. So, it needed GATT to solve those disputes which could not solve by parties themselves.

**Role of SAFTA:**

There has been increased interest in regional economic integration in South Asia. With the stalemate of the World Trade Organisation (WTO) negotiations, it is expected that the interest in regional trading arrangements will increase further. Regional integration in South Asia got the momentum in 1995 when the South Asian Association for Regional Cooperation (SAARC) Preferential Trading Arrangement (SAPTA) was signed. In early 2004, the SAARC member countries agreed to form a South Asian Free Trade Area (SAFTA), which has become a parallel initiative to the multilateral trade liberalisation commitments of the South Asian countries. SAFTA has come into force since July 01, 2006, with the aim of boosting intraregional trade among the seven SAARC members.

SAFTA has been able to generate significant interests among the policy makers, business community and researchers in South Asia. There are debates on whether South Asian countries stand to gain or lose from SAFTA. Findings of a number of qualitative and quantitative studies in this regard have been inconclusive, which have intensified this debate. The results of these studies have however been influenced by the differences in the methodologies used in these studies.

**Role of South-south cooperation:**

South-South Cooperation plays a central role in the framework of the 2030 Agenda because it is based on the same philosophy of development, a philosophy based on collective action and solidarity among allies. Through cooperation, we are joining efforts and systematizing them under the framework of the Sustainable Development Goals, thus taking advantage of synergies that allow us to be strategic in achieving each objective. On the other hand, our way of working is also a reflection of the philosophy of the 2030 Agenda, which encompasses a solidary, horizontal, peer-to-peer way of working that is based in the principle, that there is no country so rich that it cannot learn, and no country so poor that it cannot teach.

One of the most valuable and unique features of Ibero-American cooperation is its dynamism and its vocation to learn from its own experience. Between 2006 and 2015, our countries participated in approximately 7,335 South-South Cooperation programmes, projects and actions. Eighty per cent were carried out in bilateral modality, 13 per cent through triangular cooperation and a small but significant number at the regional level.

At the Ibero-American General Secretariat (SEGIB) we have taken advantage of this vast data to develop an annual report on South-South Cooperation (SSC) in the region. The SSC report, is a unique report that is now in its eleventh edition. The protagonists of these reports are each and every one of the countries of the Ibero-American region, who have shared their experiences through an online platform that we have created and that is also unique in the world. These reports have allowed us to analyse impacts, look for efficiencies and offer increasingly wider ranges of solutions adapted to the specific challenges of each country. Our South-South Cooperation reports are the best example of how much we can achieve when we work with engagement, seriousness and enthusiasm. Therefore, we are very happy to be here: we have a lot to teach and a lot to learn!

Despite the magnitude of current global south-south exchanges, and the positive outcomes achieved benefitting millions of people around the developing world, the potential of horizontal partnerships is yet to be unlocked. Much has been learned around the practice and processes of SSC and TrC, with valuable key lessons to guide our way to the achievement of the 2015 MDGs. It is time to move decidedly towards a common understanding and shared commitments to improve the results and effectiveness.

**Conclusion:**

In an increasingly globalised world, it is becoming even more difficult for nation states to adapt to the international consequences of market failures, government failures and global externalities without co-operation and co-ordination with other countries. In the absence of any form of world government, the most effective solution to this problem is either to create new international institutions, reform existing ones or work within the prevailing institutional framework.

From 1960 to 2019, global trade as a percentage of global GDP increased from 25% to 60%. In the post-World War II period, global trade grew consistently faster than GDP (though this trend has not held in recent years). The stock of global foreign direct investment (FDI) grew from 6% of global GDP in 1980 to 42% in 2019. The growing integration of the world economy has been facilitated by myriad technical advances in transport and communication, which have significantly reduced natural geographic barriers that separate economies. In addition, both domestic and multilateral policies have steadily lowered man-made barriers to international exchange since World War II (such as tariffs, quotas, subsidies, immigration regulations, and capital controls). While most economists argue that globalization has lifted living standards worldwide, an ongoing debate remains regarding the extent to which greater economic integration has been inclusive, benefited some groups more than others, and contributed to inequality within countries.

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