



POLI 150: International Economic Institutions

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Today's Class

- Trade Review
- World Trade Organizations (WTO)
- International Monetary Fund (IMF)



Review of Trade Theories

- **Hecksher-Ohlin:** a state will export products that make use of its abundant factor of production
- **Stolper-Samuelson:** individuals that use scarce factors of production will support trade protectionism
- **Ricardo-Viner:** whether or not sectors benefit from trade protectionism will determine whether or not individuals support protectionism



Japan

- Japan is abundant in capital, but has scarce land
- Huge tariffs on imported rice to protect the rice industry
- Other agricultural goods, especially fruit, are competitive exports



Japan & Theories

- **Heckscher-Ohlin:**
- **Stolper-Samuelson:**
- **Ricardo-Viner:**



Japan & Theories

- **Hecksher-Ohlin:** Japan should export capital-intensive goods and import goods that use land like farm goods
- **Stolper-Samuelson:** individuals who sell land-intensive goods should support protectionism
- **Ricardo-Viner:** rice farmers should support protectionism, while fruit farmers should oppose it



Trade & Institutions

- Given that trade improves global welfare in the aggregate, but individual states have incentives to enact protectionist policies, how does the international community encourage free trade?
- Just like in other aspects of international politics, institutions structure interactions to encourage cooperation
- They set standards of behavior, gather information, monitor and enforce compliance, and structure repeated interactions



Norms of Trade

- Countries generally adopt policies of reciprocity: a mutual agreement to lower barriers to trade
- States also use most-favored nation (MFN) status to one another: a guarantee that the parties will extend *any* favorable terms offered to other trade parties
- MFN status assures that a state cannot be discriminated against with respect to a particular policy



Formal Institutions of Trade

- The most important global economic institution is the World Trade Organization (WTO)
- Evolved from the General Agreement on Tariffs and Trade (GATT) in 1995
- These global institutions are complemented by regional trade agreements (RTAs) like NAFTA or the EU



World Trade Organization

- The purpose of the WTO is to encourage free trade amongst nations
- WTO organizes “rounds” of negotiations in which states bargain over multilateral reductions in protectionist policies
- Agreements between states are then passed amongst all other WTO members because of the institutionalization of the MFN rule



WTO Interactions

- All members have an equal vote, but negotiations are dominated by the largest trading states (i.e. US, EU, and Japan)
- Recently, Doha Round has been characterized by conflict between developed and developing states
- Developing nations complain about agricultural protectionism, in place because of powerful domestic actors



Why has the WTO Been Effective?

- WTO monitors compliance and shares information with potential trade partners
- Members must report all restricting policies and RTAs
- Members can file complaints, which are settled by a panel chosen by all member states
- The ruling chosen by the panel becomes *binding* with the threat of sanctions



WTO & United States

- Part of the reason that the WTO has been successful is because the US has frequently abided by rulings (even complaints from relatively weak states)
- The Trump administration has been hostile toward the WTO and other trade organizations
- This has caused concern in other states, who worry that if the US abandons the WTO, the system will need to change



Regional Trade Agreements

- RTAs have become increasingly common in recent decades
- Agreements among three or more states in a region to reduce barriers to trade (i.e. NAFTA and the EU)
- Questions about whether RTAs are building blocks or stumbling blocks to integrated *global* economy



- No deal between the UK and EU would result in the UK's trade being subject to WTO rules
- What does this actually mean?



International Financial Institutions

- Institutions have been important in structuring relationships between creditors and debtors
- The most notable financial institution has been the International Monetary Fund (IMF)
- Today, the IMF primarily deals with financial crises, mostly in developing nations



Power in the IMF

- IMF consists of both lending and borrowing countries
- All members of the IMF have a vote on its actions, but votes are proportional to the contribution of the states to the IMF
- With an 85% supermajority required, the US and EU can veto activities → complaints that IMF is a tool of rich countries



What Does the IMF Do?

- Countries that cannot deal with their debt turn to the IMF
- The IMF agrees to give relatively cheap loans in exchange for economic and political reforms
- These reforms, called “structural adjustment programs,” are often very difficult for the state to implement
- These negotiations are usually in developing countries, but following the 2008 global crisis, developed states sought help from the IMF as well



How Does the IMF Negotiate?

- Most international institutions facilitate cooperation between states, but the IMF negotiates directly with governments
- IMF is often representing the interest of private creditors, leading some to argue that it is biased in favor of lenders against debtors
- Proponents claim that the IMF allows creditors and debtors to peacefully resolve their bargaining problems
- Critics argue that the IMF is biased on behalf of international creditors that do not have the best interests of debtors in mind



Crises & International Involvement

- Debt crises in one country can have huge effects on the international economy
- They are self-reinforcing: default on debt cause creditors to stop lending, which causes debtors to default ...
- The IMF can impose austerity measures and other policies to try to rebound, but sometimes governments step up
- This attempt to prevent the spread of crisis can work, but is often unpopular with taxpayers in creditor countries



Critiques of the IMF

- During a 1989 financial crisis, Venezuelan president Pérez secured a loan from the IMF; the IMF's reforms led to the impeachment of Pérez and a coup by Hugo Chávez
- Grievances over the 'strings attached' to IMF money; claim that austerity measures harm the poorest citizens and aren't in debtor nations' interests
- Bargaining is unequal: although IMF loans are 'voluntary,' states in crisis often have no other choice
- IMF works in the interest of creditors only



Defense of the IMF

- Supporters of the IMF argue that the long-term benefits of cooperation outweigh short-term costs
- IMF allows developing countries access to lending in the first place
- States get themselves into trouble with unsustainable borrowing, and IMF gets them back on track
- The role of the IMF in financial crisis management is very controversial!



Do International Economic Institutions Work?

- The 2008 global financial crisis was a litmus test for the effectiveness of these institutions
- Next class: how well did these institutions work in response to the financial crisis?



Review

- A nice review of some of these concepts