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# Globalisation and the Role of International Organisations

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# Globalisation – a definition

- Globalisation is used as a general term for a complex series of economic, social, technological, cultural and political changes seen as increasing interdependence, integration and interaction between people and companies in disparate locations.

For the purpose of this lecture:

- “(Economic) globalisation is the growing interdependence of countries worldwide through increasing volume and variety of cross-border transactions in goods and services, free movement of international capital flows, and more rapid and widespread diffusion of technology”.

# Introduction

- Globalization and its critics
- WTO, World Bank and IMF
- 20th century income trends - Unparalleled growth
- Does globalisation harm workers' interests in advanced countries?
- Are periodic crises an inevitable consequence of globalisation?
- Globalisation and democracy
- Concluding remarks

# Globalisation

- Globalisation is a historical process, the result of human innovation and technological progress.
- Globalisation promotes efficiency through competition and division of labour.
- Countries facing the prospect of participating more deeply in the globalisation process must be prepared to embrace the policies needed; the poorest countries need the support of the international community.

# Globalisation and its critics

- Criticism against free trade
- Attac: "Speculative economy has gained supremacy over the primary or real economy"
- Critique against international organisations of being too "liberalistic" in their policies or that their "conditionalities" for assistance being wrong, undemocratic, non-transparent



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# World Trade Organization (WTO)

- Founded 1995, successor to the General Agreement on Tariffs and Trade (GATT), 149 countries as members; Geneva
- To ensure that trade flows as smoothly, predictably and freely as possible
- WTO's agreements – **multilateral trading system** – legal ground rules for international commerce
- Latest trade negotiations: the Doha Development Agenda launched in November 2001; negotiations stalled in July 2006

## Critics towards the WTO

- *“WTO tells antidemocratically to its members how to conduct their policies.”*
- This is a **misconception**. The WTO is a “member-driven” organization.
- Decisions taken in the WTO are virtually all made by consensus among all members – they are negotiated, accountable and democratic.
- A legitimate criticism of the WTO may be that it has helped to construct the world trade system that is “complicated, cumbersome and rigid”.

# The World Bank

- Founded 1945, Washington DC
- Goal: global poverty reduction and improving of living standards
- Source of financial and technical assistance to developing countries
- Not a bank in a common sense; made up of two unique **development institutions**: BRD International Bank for Reconstruction and Development and IDA International Development Association
- Owned by 184 member countries:
- Low-interest loans, interest-free credit and grants for education, health, infrastructure, communications and many other purposes.





# Millennium Development Goals

- Eradicate extreme poverty and hunger
- Achieve universal primary education
- Promote gender equality and empower women
- Reduce child mortality
- Improve maternal health
- Combat HIV/AIDS, malaria and other diseases
- Ensure environmental sustainability
- **Develop a Global partnership for Development**

**World Bank** has a central role with respect to these goals.

# Global Partnership for Development

- Push forward world trade talks to **reduce agricultural protectionism** (WTO)
- Finance debt relief properly (WB)
- Step-up delivery of the "education for all" targets (WB)
- Make available substantial extra resources for TB, malaria and HIV/AIDS to eliminate preventable diseases (WB)



# International Monetary Fund (IMF)

- Founded 1945, Washington DC
- 184 member countries
- Ensuring stability of international monetary and financial system
- Three main functions: surveillance, technical assistance, lending
- **Monetary institute**, whose resources are provided by its member countries, primarily through payment of quotas which broadly reflect each country's economic size.

# IMF promotes global growth and economic stability

- IMF encourages countries to adopt sound economic policies through **surveillance – regular dialogue and policy advice**; Article IV reports.
- **Technical assistance** and training are offered in several areas: fiscal policy, monetary and exchange rate policies, banking and financial system supervision and regulation, statistics.
- In the event that member countries encounter difficulties financing their balance of payments, the IMF is a **fund** that can be tapped to help in recovery.

## Criticism against the IMF

- A standard criticism against the IMF is that conditionality imposes too much hardship on the already strained economy.

Three comments:

- The basic reason for balance of payments crisis is misplaced economic policies which need to be corrected anyway.
- At times of economic hardship people instinctively start to seek the culprit for all the difficulties they have to suffer.
- The IMF is a financial institution and it has to act prudently in granting loans to its members - conditionality is needed (IMF does not require a pledge or collateral from its borrowers).

## 20th century income trends: unparalleled growth

- Global GDP per capita increased almost five-fold.
- The strongest expansion during the second half of the century, a period of rapid trade expansion.
- Progress was unevenly distributed; income inequality clearly increased.
- However the trend of inequality may have changed now when more and more countries have abandoned their inward-oriented policies.
- **Enormous progress has taken place in Asia, but even in Africa,** where per capita incomes declined relative to industrial countries, there have been positive developments in last few years.

# Does globalisation harm workers' interests in advanced countries?

- Mature economies become more service-oriented and there is a shift towards more highly skilled jobs. **Workers in declining older industries may not be able to make an easy transition to new industries.**

**Government policy** should focus on two important areas:

- education and vocational training
- well-targeted social safety nets to assist people who are displaced.

Role of **multilateral institutions** important in promoting open economy.

# Are periodic crises an inevitable consequence of globalisation?

The crises would not have developed without exposure to global capital markets, **but** nor could these countries have achieved their impressive growth records without those financial flows.

- Efforts to increase stability of international capital flows are central to the work on **strengthening the international financial architecture**.
- Key goal of this work is to develop **standards and codes** that are based on internationally accepted principles that can be implemented in many different national settings.



# Globalisation and democracy

- There is evidence that indicates that globalisation and democracy influence positively one another.



## Concluding remarks

- Strongest gains of globalisation have been made in countries which have most **actively participated in the globalisation process**.
- This can be contrasted with the developments in the 1970s and 1980s of many countries in Latin America and Africa which **pursued inward-oriented policies**, with their economies stagnating or declining, poverty increasing and high inflation becoming a norm.



## Concluding remarks

- The **income gap** between high-income and low-income countries is a matter for concern, but
- it is wrong to jump to the conclusion that globalisation has caused the divergence, or that nothing can be done.
- Failure to integrate with the global economy has been one of the policy failures of poor countries.
- The international community should endeavour to help the poorest countries in this integration process.

## Concluding remarks

- **International organisations** – WTO, World Bank, IMF – play important role in this process.
- **Attacks against these institutions** may at worst translate itself into clearly demonstrated political will, which could lead to an eclipse of multinational institutions at the time they are mostly needed.
- **A multilateral system** forces individual countries to look beyond their own narrow short-term interests and in doing so enables participants in the international economy to gain.