Financial markets

Article I: The world trade organization and the future of multilateralism

The article provides an in-depth analysis of the World Trade Organization (WTO) and the reason for its establishment. It explains that the central purpose of creating WTO was to develop a rule-based world trading system that facilitated trade liberalization. This rule-based system is today accepted across the world and respected by 163 members. Although WTO has been effective in lowering trade barriers Doha Round failed to attain its purpose. Doha Round was launched in 2001 following an agenda of trade negotiations. The prominent success of WTO includes cutting of tariffs across the world. The paper examines the historical context of GATT agreement and rules that supported its agenda.

It is important to understand the reasons behind the failure of the Doha Round. Uruguay was the last GATT negotiations round that focused on generating momentum for free trade by broadening its emphasis on making more countries part of the agreement. Broadening demanded to change some historical rules of GATT. The rules were created for designing a global economy that made selling and movement of goods possible. Involvement of high-technology nations in offshoring has altered the rules of WTO because this gave birth to a new type of international commerce. These countries are offshoring technology to the low-wage countries. This raised concerns about the protection of intellectual property and investments rather than tariffs. The article explains that “the GATT, and now the WTO, focuses on the design, implementation, updating, and enforcement of procedures, rules, and guidelines rather than on seeking to agree upon the volume of exports or market shares” (Baldwin). The historical analysis depicts that the GATT rules were influenced by the concept of liberalization.

I think the article provides a deeper analysis by elaborating five principles of WTO that include non-discrimination, transparency, reciprocity, flexibility and consensus decision-making. The principle of non-discrimination explains the idea of the most favored nation. This reflected that idea that WTO must treat trading partner better than other nations. This principle acted in the favor of member nations of WTO. The principle of transparency focused on eliminating conflicts among nations due to trade. The agenda was to make actual policies transparent and effective. Reciprocity was another principle used for promoting trade. The countries that remove import barriers expected reciprocity from other nations. When any nation engaged in an act that undermined gain for another nation, the aggrieved nation reciprocated. The principle of flexibility allowed nations to deal with domestic pressures.

The article follows an effective theoretical framework that uses liberal trade theory. Trade liberalization justifies the principles and role of WTO. A clear theoretical framework is adopted by highlighting the factors that impact liberal trade such as tariff reduction and cross-border agreements. The dynamics of tariff cutting such as political economy relied on the two-level game approach explained by Putnam in 1988. Juggernaut dynamics identifies that governments negotiate with nations and with special interest groups.

I agree with the point that lack of multilateralism is problematic because it causes inefficiencies of trade diversion that also minimize welfare. The selection of effective framework allowed the author to prove the claim that the success of GATT was due to the changes in domestic political realities. Pro and anti-tariff interests also influenced policies and practices. Bilateral investment treaties have not provided benefits as expected that depicts the need for rebalancing. The rise of off-shoring has limited the benefits of the trade agreements.

The analysis of WTO and GATT raises some questions; how WTO negotiations like Doha Round can represent a win-win bargain? How WTO agreement can be used for limiting high-tech offshoring in low-wage countries?

Article II: The new role of the World Bank

The article examines the new role of the World Bank and its influence over the world. the initial purpose for the establishing World Bank was to address imperfections caused by the capital markets. The transformed role was to eliminate poverty and promote equality by responding to the failures of the capital markets. It designed rules for the International Development Association (IDA) that gives concessional loans to low-income countries. The agenda is to control poverty by providing opportunities for growth and promoting equality. The articles explain that the failure of international markets remains the central reason for minimized growth. Capital market failures are linked to poverty reduction. The grants and loans are offered to the low-income or underdeveloped countries on concessional terms that provide opportunities for growth.

World Bank designed a clear policy that highlights its role and agenda. The policy explains the budget of the recipients and donors. It focuses on allocating funds for the healthcare sector, education and social protection. World Bank follows a clear policy that explains the features and responsibilities of the recipient countries. Irrespective of strong policy measures many underdeveloped countries are still engaged in corrupt practices such as misuse of funds and loans. The failures in managing imperfections of capital markets or reduction in poverty indicate that strict policy implementation is required that ensures that the recipient governments are spending on health, equation and social security.

The framework explains the practices adopted by the World Bank for providing aids in underdeveloped countries. Economies of scale are used for highlighting the practical role of the World Bank and defines the scope of multilateral aid institution. The paper follows a clear structure that provides a brief overview of the World Bank in the beginning. Theories like economies of scale are used for justifying the argument. It identifies the need for due diligence for improving roles of an organization that ensures poverty reduction. Economies of scale stress on measures that ensure efficient allocation of grants and loans. This stresses on adoption of strict compliance parameters such as accountability and transparency reports. The framework also highlights the probability of frauds and risks faced by the multilateral aid institutes. There is a need for controlling the exploitation of grants by organizing negotiations between recipient and donor countries. The framework highlights areas of weaknesses that demand policy chances for making the process of fund allocation more fair and transparent. The framework also relies on the optimal path of consumption explaining how multilateral organizations can focus on improving incomes of the people.

I agree with the argument presented in the article that the World Bank needs to monitor how the governments of the recipient countries utilize grants and loans. This is because the absence of regulations will increase the scope of misuse and exploitation of funds. Many underdeveloped countries fail to control poverty or provide relief to the poor because their governments are involved in corruption. I agree with the claim that “a multilateral institution can reduce asymmetries of information, increasing the chance of an efficient bargain” (Clemens and Kremer). Donors must be able to obtain reliable evidence that proves that the recipient country is using grans for the welfare of its people. Dialogue is an effective tool for establishing negotiations between donor and recipient countries. Reassessment is needed for determining factors that are undermining the World's Bank mission of poverty reduction.

The article raises the following questions;

* What measures can be adopted for providing real opportunities for growth to the poor?
* Why did the World Bank fail to attain the targeted level of poverty reduction?

Article III: The international monetary fund: 70 years of reinvention

The report provides a deeper analysis of the role of the International Monetary Fund (IMF) and its implications on the world. it provides a detailed history of the institutes starting from history and explains how reinvention occurred during the 70 years of its existence. the report explains that several factors contributed to the reinvention of IMF. Initially, the organization was concerned about managing the banking crisis and sovereign defaults until the 1980s. It provided balance-of-payments for resolving problems of debt sustainability when markets were based on fixed exchange rates. Today IMF is seen as an institute involved in serial lending that follows long-term programs.

The framework relies on the demand-driven theory of institutional change explaining that it was the result of customers needs. The theory explains that an increase in demand causes changes in the output. The demand for IMF loans increased massively that was addressed by transformed policy. When the demand for loans and grants increased the institute had to formulate a new policy and rules that were imposed on the recipient countries. Demand-driven growth affects the intuitional settings of the organization. IMF is commonly known as lender of the last resort because it is working to save banks from insolvency. The theory explains, “fund has redefined the issues it seeks to address and the tools it employs based on the evolving needs of its clientele” (Reinhart and Trebesch). The shifts in the clientele have also initiated policy change. The institute follows the strategy of obtaining funds from the high-income nations and providing to low-income countries. The report follows a coherent format that starts from a brief overview of the institute, its role, agenda and mission.

The article explains, “the institution faces a growing risk of lending into insolvency, most widespread among low-income countries in chronic arrears to the official sector, but most evident in the case of Greece since 2010" (Reinhart and Trebesch). As many underdeveloped countries are now approaching IMF for grants the institute face risks of managing funds. Low-income countries are not in a position of returning loans immediately and it might take more than twenty years. Many countries have never returned lacks to IMF that reflects challenges for the institute. IMF provides loans on the basis of conditions such as it defines the investment policy and wages for the labour. The inability of poor countries to return loans also ended many programs that were directly supported by the IMF. The policy of IMF stated that the reason for providing funds was to give temporary relief to the countries that help them to safeguard their procedures. it also provides an opportunity for correcting the maladjustment in balance-of-payments. The purpose of lending was to help institutes form insolvency.

I agree with the viewpoints of the authors that highlights the need for an effective policy for attaining efficiency. The increased dependence of poor countries on the IMF for loans minimize its capacity of supporting new countries. It is also observed that the countries that take loans continue to rely on the IMF. They are unable to pay back loans for many decades that poses risks for managing future programs. The institute needs to ensure that the recipient countries are investing in areas that will have a positive influence on the economy. Irrespective of IMF’s involvement in protecting institutes from insolvency no recipient country reported significant improvement.

The report raises two questions; first: has the IMF helped countries to improve their economic conditions? What measures can be adopted that will guarantee fair and transparent use of loans by recipient countries?

Work cited

Baldwin, Richard. "The World Trade Organization and the Future of Multilateralism." Journal of Economic Perspectives 30.1 (2016): 95–116.

Clemens, Michael A. and Michael Kremer. "The New Role for the World Bank." Journal of Economic Perspectives 30.1 (2016): 53–76.

Reinhart, Carmen M. and Christoph Trebesch. "THE INTERNATIONAL MONETARY FUND: 70 YEARS OF REINVENTION." 2015.