CHAPTER-7

CONCLUSION

7.1 Concluding Remarks

The international financial institutions are intergovernmental organizations. They are subjects of international law, and thus capable of possessing rights and duties under international law. The extent of these rights and duties depends on the purposes and functions as specified or implied in the constituent documents of the organizations and developed in practice. The IMF and the World Bank’s policies have had negative economic and social impacts on many countries that have had financial assistance from them especially the developing countries. They impose conditions on their loans based on what is termed the “Washington Consensus” which is criticized by many as a neo-liberalist approach of trade liberalization and development, investment and the financial sector, deregulation and the privatization of nationalized industries, conditions that are not flexible to individual countries circumstances and the prescriptive recommendations by the World Bank and the IMF fail to address the economic problems within countries thereby promoting massive global economic inequalities. While it is argued that each individual country is responsible for its own social and economic policies, national policies are overridden by the conditions of the structural adjustment programmes thereby leaving such countries indirectly losing their governance to the World Bank or the IMF.

International economic law is very likely to be one of the most significant areas of law throughout the twenty-first century. As is well-known, it is an interdisciplinary area of law covering very broad and different fields since it deals with all economic aspects of relations among the subjects of international law. In today’s world, the relations among States, international organizations and individuals have dramatically intensified. It is a sine qua non requirement that the conflicts or cases deriving from the application of the principles of international economic law must be

solved by the dispute settlement mechanisms of international law, which are crucial both for the protection of international peace and security on the one hand and for the implementation of international economic law on the other.

World Bank and the IMF are the prime causes of increased poverty and suffering around the globe. Both are specialized agencies of the United Nations. The World Bank was given domain over long-term financing for nations in need, while the IMF’s mission was to monitor exchange rates, provide short-term financing for balance of payments adjustments, provide a forum for discussion about international monetary concerns, and give technical assistance to member countries. The World Bank, initially known as the International Bank for Reconstructions and Development, was formed to fund the rebuilding of infrastructure in nations ravaged by World War II. Its focus soon changed in the mid 1980’s. The Bank turned its attention away from Europe to the Third World Countries, most of which are in Africa. It started funding massive industrial development projects in Africa, Asia, and Latin America. The IMF is funded by a quota system where each country pays based on the size of its economy and its political importance in world trade and finance. When a country joins the organization, it usually pays a quarter of its quota in the form of U.S. dollars, Euros, Yen and Pound. The other three quarters can be paid in its own currency. Generally, these quotas are reviewed every five years. The IMF can use the quotas from the economically-sturdy countries to lend as aid to developing nations.

The IMF is also funded through contribution trust funds where the organization acts as trustee. This comes from the contributions from members as opposed to quotas, and is used to provide low-income countries with low-interest loans and debt relief. The IMF watches the economics and economic policies of its members. There are two main components of surveillance, country surveillance and multilateral surveillance. Through country surveillance, the IMF visits the country once a year to assess its economic policies and where they are headed. It reports its findings in the Public Information Notice. The second way, multilateral surveillance, is when the IMF surveys global and regional economic trends. It reports these twice a

year in the World Economic Outlook and Global Financial Stability Report. These
two reports point out problems and potential risks to the world economy and financial
markets. The Regional Economic Outlook Report gives more details and analysis.
The IMF helps countries to administer their economic and financial affairs. This
service is provided to any membership country that asks for assistance, and is
typically provided to low- and middle-income countries.\(^6\) Through the use of technical
assistance, the IMF can perform useful surveillance and lending to help the country
avoid economic pitfalls which creates sustainable economic growth. Technical
assistance helps countries strengthen their economic policy, tax policy, monetary
policy, exchange rate system and financial system stability.

The IMF does serve a very useful role in the world economy. Through the use
of lending, surveillance and technical assistance, it can play a vital role in helping
identify potential problems and being able to help countries to contribute to the global
economy. However, countries like the United State and Europe have historically
dominated the governing body, and the IMF has had successes and failures. While no
organization is perfect, the IMF has served the purposes that it was established to do
and continues to keep evolving its role in an ever-changing world.

In order to achieve these objectives, the Bank provides member governments
with lending and non-lending services, including loans at near market rate,
concessional loans, grants, analytic and advisory services, and capacity building. The
IMF was established to ‘promote international monetary cooperation, exchange
stability, and orderly exchange arrangements; to foster economic growth and high
levels of employment; and to provide temporary financial assistance to countries to
help ease balance of payments adjustment’. It advances these objectives through
surveillance of members’ policies, financial assistance and technical assistance. As
the international economy has evolved and the needs of its members changed, \(^7\) the
IMF has adjusted its practices to the new conditions. Since the late 1990s, the IMF
has counted poverty reduction as one of its main objectives.\(^8\) In 1996, the IMF and the

World Bank established the HIPC Initiative and since 2005 the Fund has participated in the Multilateral Debt Relief Initiative. Since the late 1990s, the Fund has placed greater emphasis on ensuring that member governments follow economic policies consistent with monetary and fiscal stability through its surveillance activities, and it has developed a new lending instrument to provide concessional finance over the longer term, the Poverty Reduction and Growth Facility. Many donors have become deeply involved in peace building efforts in conflict-affected countries and have gradually realized that conflict prevention is less expensive than recovery. The conflict focus provided a major incentive for beginning to tackle the problem of unaccountable and ineffective security services. This in turn enabled development donors to begin to discuss the linkages between security and development and the appropriate role of development assistance in strengthening accountable, affordable and accessible security in developing and transition countries. This enabled some modification in security assistance policies and the beginning of a dialogue between development and security donors. World Bank work on the legal sector initially focused on legal frameworks and institutions necessary for effective private sector development. Over time, broader issues of justice sector reform have become a part of the Bank’s agenda on ‘law and development’. In 2007, the Bank identified four major entry points for law and justice reform: 1) improving access to justice for the poor, 2) private sector development, 3) anti-corruption efforts and 4) justice reform in fragile states. The World Bank increasingly views its public financial management work and its support to the PRS process in conflict-affected countries as legitimate areas for addressing security issues. It is important that this work is expanded to all Bank clients and institutionalized. The issues paper on security and the PRS process is an important first step in terms of institutionalization and should be followed by operational guidance. It would be desirable for the Poverty Reduction and Economic Management Network, the institutional home for public financial management work, to develop a similar issues paper for PFM and security as well as operational guidance for staff as soon as possible. In the context of security budgeting, it is essential for the Bank to resist the temptation to focus on the level or composition of security expenditure and instead to concentrate on improving public financial management in

---

the security sector. It is also essential that the Bank resist the temptation to follow the line of least resistance and turn the ‘security is a public good and essential for development’ argument on its head by uncritically accepting a host government’s contention that the country’s security situation requires substantial expenditure on the security forces without adequate accountability or transparency.

7.2 Testing of Hypothesis

The role of IMF shall be looked from the perspective of aiding and facilitating for member countries in which it has mandates. In a similar vein the World Bank Group assistance is more essential for reconstruction and development of needy people around the globe. The hypothesis has been tested according to the data collected and it has answered in the chapters meticulously and keenly.

7.3 Findings of Research

- The availability of international liquidity is critical for the operation of a state’s economy and indeed the functioning of the global economic system. International liquidity is concerned with the relationship of the volume of money with the volume of transactions at any given time.

- Although the IMF has the mandate to formulate conditionality, conditionality itself is not as such defined in the Articles of Agreement.

- The difficulties of maintaining trade and employment with many countries encountered soon led them to erect various types of trade barriers. The system of multilateral trade suffered heavy blows as quotas, import-restrictions and bilateral forms of trade began to be applied.

- IMF in generally, responsible for promoting the stability of the international monetary and financial system that the system of international payments and exchange rates among national currencies that enables trade and financial transactions to take place between countries.

---

• Promoting development requires spurring to grow the private investment and productivity. Development assistance will never be able to achieve desired outcomes on its own, no matter how well designed and implemented the projects, simply because levels of development assistance are small relative to other financial flows and to the scale of the challenge at hand.

• The international development community has recognized that assistance is most effective when recipient countries are the primary drivers of their own reforms and institutional development. Financial aid benefits most the countries that have shown they can use it well. Advice and capacity-building comprise an important complement, especially in the poorest countries and in those that do not have the capacity to absorb significant financial transfers. Advice is often more acceptable and credible when linked to resource transfer.

• Although seemingly neutral institutions, in practice, the IMF and World Bank end up serving powerful interests of western countries. At both institutions, the voting power of a given country is not measured by, for example, population, but by how much capital that country contributes to the institutions and by other political factors reflecting the power the country wields in the world.

• Increased globalization over the last decade, in tandem with rapid economic growth in middle-income countries, has heightened the sense of economic, social and ecological interdependence while intensifying concerns over a growing list of global problems. Perhaps the most striking aspect of such interdependence is the realization that climate change is occurring and that the implications for developing countries could be severe.

• The developing state is a sociopolitical and economic example of an externally-imposed and inter-subjective creation of Great-Power responses to material conditions. All the anomalies, paradoxes, and dilemmas inherent in the weak developing state, are products of a prevailing ontology, in this case, a post-Cold War ontology. The modern state system comprised of both developed and developing states is constitutive of contending interest-based images of appropriate socio-economic and political order which divide North and South, and create tensions among competing ethnocommunal groups.
• Finance, trade and investment in terms of capital, technology and manpower are intrinsically involved in the national planning of economic development, so much so that a national economic development plan cannot omit inclusion of measures tending to enhance and coordinate social, cultural and educational aspects of development of human resources, not to mention service sectors such as telecommunications and transport, as well as the exploration and exploitation of natural resources, living and non-living resources of the land, sea and atmosphere, power and energy. All these and more are inevitably included in the notion of national development.

• Economic cooperation is part of the more important process of international political cooperation. Successful coordination of policies in the economic arena can strengthen political and national security ties. Unfortunately, however, all too often the process of international economic negotiation creates new sources of conflict and tensions as each participating country seeks to impose its own preferences and judgments on the economic policies of the other governments.

• Globalization is powerful in biting the traditional scope of power of public agencies, which withdraw from the original domain or fail to reach many new fields, and much power moves to private institutions or NGOs. However, the advantages of private institutions in accepting powers are of impact on the lawmakers of international economic liberalization, hence deepening the phenomenon of unbalance of power/rights among such micro subjects. Eventually, the unbalance of power not only exists within a state but also becomes more outstanding at mutual, regional or global level.

• In fact, the recent development of international economic law has formed a preliminary global free market order system around the world. Certainly, in essence capital expansion and global inflation is endless forever, which requires free flow of productive elements and an integral and truly unified free market system, while the current lawmaking achievement can only meet such requirement initially. Therefore, the essence of market and capital expansion or inflation determines that they will not stop at the present achievement of lawmaking of international economic law but request it to move further in broadness and depth.
• However, in the prosperous phenomenon of the recent lawmaking of international economic law, the crisis of legitimacy in itself must be paid significant attention to international community. For instance, the failure of the negotiation on Multilateral Agreement on Investment (MAI), the financial crisis of Southeast Asia with influences overall world, increasing poverty and the marginalization of numerous developing countries. The heating anti-globalization movement, which mainly occurs in developed countries that have taken initiatives to advocate the lawmaking of international economic liberalism and is sponsored by NGOs, has rendered people doubtful about the economic globalization motivated by market economy and the lawmaking of international economic law based on liberalism.

• There is a growing hysteria about these emerging states regarding their rising role in the international politics and their establishment as providers of development assistance. An existing perception is that they may undermine the norms and concepts established by the traditional donors and that they may jeopardize even more the efforts of making aid more efficient.

• International development has become the favoured path to addressing the glaring differences between underdeveloped states and the rest of the world. It has replaced colonialism and military intervention as the most conducive way to transformational change within foreign communities. Initially state-oriented, international development has grown to reflect the current realities in international political economy, including new concepts and actors into its mainstream conceptions.

• It is critical to understand that while international development may be structured upon liberal concepts, the motivation to use it is directly influenced by realist thought. Those who understand this, realize that international development is merely another tool in the proverbial toolbox of statesmen and global actors. International cooperation is much significant in promoting human rights and improving the world’s peaceful coexistence. In the financial system part, it helps much in those economically stable and developed nations to provide support to the developing nations. In leads to improved international policies which guides developed and developing nations as well.
• The World Bank has emerged as an important source of multilateral aid for development and it exercises influence over national priorities of the developing countries. The significant achievement of the Bank in India has been to integrate the country in the world system so that the international investors get a huge market for export of capital and technology to maximise their profits.

7.4 SUGGESTIONS

• The IMF should create a stable climate for international trade by harmonizing its member’s monetary policies and maintaining exchange stability.

• The World Bank should serve to improve the capacity of countries to trade by lending money to war-ravaged and impoverished countries for reconstructions and development projects.

• The World Bank group should conduct their operations so as to bring about a smooth transparency from wartime to a peace economy.

• Banks require assistance from their member governments to finance their operations.

• The IMF should work for global prosperity by promoting the balanced expansion of world trade stability of exchange rates, avoidance of competitive devaluations and orderly corrections by balance of payments problems.

• By working to strengthen the international financial system and to accelerate progress towards reducing poverty as well as promoting sound economic policies among all its member countries. The IMF should help to make globalization work for the benefit of all countries.

• In today’s globalised economy where the policies of one country may attract other countries, international co-operation is essential. The IMF, with its nearly universal membership, international co-operation should be essential.

• IMF as one of the largest multilateral organizations should reinvent itself by revising the policy making and implementation. Current policies are no longer
applicable in the developing world as they have largely failed with disastrous consequences.

- Apart from that, the leading policies of the IMF and the World Bank do not provide development aid to the Third World, but fill the pockets of dictators and western corporations while threatening local democracies and forcing cuts to social programs. To abolish the World Bank and the IMF that does more to prevent democracy than to promote it. In order to avoid further crisis its enormous financial and political power should be used in the betterment of people in the developing nations.

- The IMF and the World Bank have responsibility respectively for exchange rate and currency stability, and reconstruction and development. The post-war agenda of exchange rate stability and reconstruction has been broadened to assist members with their efforts to achieve monetary and financial stability, create sustainable economic growth to reduce poverty, and enhance development; focusing on their capacity to improve the domestic infrastructure that is necessary in most cases to deal with the prescribed assistance the institutions provide

- IMF conditionalities may additionally result in the loss of a state’s authority to govern its own economy as national economic policies are predetermined under IMF packages. Issues of representation are raised as a consequence of the shift in the regulation of national economies from state governments to a Washington-based financial institution in which most developing countries hold little voting power. IMF packages have also been associated with negative social outcomes such as reduced investment in public health and education. There shall be equal participation in decision making.

- The IMF should help countries explore a broader range of feasible options for the fiscal deficit and public spending. This requires less emphasis on negotiating short-term macroeconomic conditions in its programs and a greater focus on helping countries strengthen their understanding of the consequences of different options.
• The IMF should be more transparent and pro-active in discussing the rationale for its policy advice and the assumptions underlying its programs.

• The IMF needs to adapt its approach in low-income countries to its expected role and be crystal clear about what that role is. The Working Group's recommendations assume that the IMF will remain an important macroeconomic policy and risk advisor in these countries. But if this is to be the case, some significant changes in the "IMF way of doing business" are needed.

• The Bank must be governed and managed by directors and senior staff appointed through open and meritocratic rules. The composition and voting power of the boards must elect fairer representation of the recipient countries, rather than the rich countries’ influence and corporate interests.

• Voting procedures in the board must be transparent and formalized and key documents published. Final authority for national development strategies must rest with sovereign parliaments, not with the board Public accountability: Greater powers must be given to independent evaluation bodies. The Bank and the Fund must become subject to international law.