

## WEAKENING INTERNATIONAL INSTITUTIONS

The intense links among nations and the new economic environment resulting from new market entrants with different economic systems are weakening the traditional international institutions and are therefore affecting their roles.

The formation of the WTO has provided the former GATT with new impetus. However, the organization is confronted with many difficulties. One of them is the result of the organization's success. Historically, a key focus of the WTO's predecessor was on the reducing tariffs. With tariff levels at an unprecedented low level, however, attention now has to rest with areas such as nontariff barriers, which are much more complex and indigenous to nations. As a consequence, any emerging dispute is likely to be more heatedly contested and more difficult to resolve. A second traditional focus rested with the right to establishment in countries. Given for the right to operations in a country without seeking to establish themselves there. For example, given the opportunities offered by telecommunications, one can envision a bank becoming active in a country without establishing a single office or branch.

Another key problem results from the fact that many disagreements were set aside for the sake of concluding negotiations. Disputes in such areas as agriculture or intellectual property rights protection continue to cause a series of trade conflicts among nations. If the WTO's dispute settlement mechanism is then applied to resolve the conflict, outcries in favor of national sovereignty may cause nations to withdraw from the agreement whenever a country loses in a dispute.

A final major weakness of the WTO may result from the desire of some of its members to introduce "social causes" into trade decisions. It is debatable, for example, whether the WTO should also deal with issues such as labor laws, competition, and emigration freedoms. Other issues, such as freedom of religion, provision of health care, and the safety of animals have been raised as well. It will be difficult for the WTO to remain a viable organization if too many nontrade-related issues are loaded onto its trade and investment mission. The 144 governments participating in the WTO have diverse perspectives, histories, relations, economies, and ambitions. Many of them fear that social causes can be used to devise new rules of protectionism against their exports. Then there is also the question of how much companies-which, after all, are the ones doing the trading and investing-should be burdened with concerns outside of their scope.

Similar problems have befallen international financial institutions. For example, although the international Monetary Fund (IMF) functions effectively, it is currently under severe challenge by new substantial financial requirements. So far, the IMF has been able to smooth over the most difficult problems, but has not found ways to solve them. For example, the IMF recently promised Brazil a gradual disbursement of \$30 billion in loans to avert its financial crises. Yet, given the financial needs of many other nations, the IMF simply may not have enough funds to satisfy the needs of all. In cases of multiple financial crises, it then is unable to provide its traditional function of calming financial markets in turmoil.

Apart from its ability to provide funds, the IMF must also rethink its traditional rules of operations. For example, it is quite unclear whether stringent economic rules and benchmark performance measures are equally applicable to all countries seeking the IMF assistance. New economic conditions that have not been experienced to date may require different types of approaches. The link between economic and political stability also may require different considerations, possibly substantially changing the IMF's mission.

Similarly, the World Bank successfully met its goal of aiding the reconstruction of Europe but has been less successful in furthering the economic goals of the developing world and the newly emerging market economies in the former Soviet bloc. Some even claim that instead of alleviating poverty, misguided bank policies may have created poverty.

The pressures upon the WTO, the IMF, and the World Bank demonstrate that at a time when domestic policy measures are becoming less effective, international institutions that could help to develop substitute international policy measures have been weakened by new challenges to their traditional missions and insufficient resources to meet such challenges.

Czinkota, Michael R., Ilkka A. Ronkainen and Michael H. Moffett. Fundamentals of International Business. Mason: South-Western, 2004.