Table 7.2 Differences between the International Monetary Fund and the World Bank

International Monetary Fund	World Bank
Oversees the global financial system	Promotes economic development in developing countries
Offers financial and technical assistance to its members	Provides long-term investment loans for development projects with the aim of reducing poverty
Only provides loans if it will prevent a global economic crisis – the international 'lender of last resort'	Via the **International Development Association (IDA)**, provides special interest-free loans to countries with very low per capita incomes (less than US$865 per year)
Provides loans to help members tackle balance of payments problems and stabilise their economies	Encourages start-up private enterprises in developing countries
Draws its financial resources from the quota subscriptions of member countries	Acquires financial resources by borrowing on the international bond market
Has a total staff of 2,300 from 185 member countries and always elects a European managing director	Is a larger organisation with 7,000 staff from 185 countries and always has an American president

approach to their respective tasks. As part of their conditions for financial assistance, the IMF has been known to impose severe cuts on education and welfare spending by governments in developing countries. Similarly, the World Bank has been criticised because the conditions attached to loans have not always had the effect of reducing poverty. The Bank was also responsible for funding major '**top down**' projects, such as large multi-purpose dams to provide hydro-electric power (HEP) in less developed countries, which did not help to reduce poverty. Since the 1990s the Bank claims to support more '**bottom up**' sustainable development projects.

Key terms

Bottom up – When local people are consulted and supported in making decisions to undertake projects or developments that meet one or more of their specific needs.

Top down – When the decision to undertake projects or developments is made by a central authority such as government with little or no consultation with the local people whom it will affect.

The World Trade Organization (WTO)

The WTO deals with the global rules of trade between nations. It is the global institution responsible for facilitating international trade and its role and main aims are as follows:

- to supervise and liberalise trade by reducing barriers
- to act as an arbitrator sorting out trade problems between member governments
- to negotiate to reach agreements that become legal ground rules for international commerce
- to provide stability by giving trading nations confidence that there will be no sudden policy changes.

The WTO, which came into being in 1995, is the successor to the General Agreement on Tariffs and Trade (GATT), which was established in the wake of World War II. The WTO currently has over 160 members, over three quarters of which are developing or least-developed countries. The WTO is run by its members and all decisions are taken by consensus.

The WTO holds series or 'rounds' of talks on particular issues:

- 1986–1994 – the **'Uruguay Round'** made much progress on reducing barriers for trading manufactured industrial goods; this progress is ongoing.
- The most recent round of talks started in 2001 in Qatar's capital and is known as the **Doha Development Agenda.** Its focus has been on reforming trade in **agricultural produce,** especially between advanced and developing economies.

It was hoped that an agreement could finally be reached on the Doha Round in Geneva in 2008.

Hopes for the Doha talks in Geneva (2008) were that:

- tariffs could be reduced by 30 per cent
- a reduction could be made in subsidies paid to produce farm products

Key term

Outsourcing – A cost saving strategy used by companies who arrange for goods or services to be produced or provided by other companies, usually at a location where costs are lower.

Outsourcing

The practice of **outsourcing** is largely one directional, that is, taking manufacturing or service jobs from high wage economies in Europe and North America and having them undertaken by a sub-contracting organisation in a lower wage economy such as China. Outsourcing provides jobs and investment in one country but often takes them away from another country. The consequences of outsourcing for the original country are usually negative:

- **Loss of jobs:** This has a knock-on effect in communities, especially where one large employer has outsourced. Unemployment means there is less spending in the local economy, so service workers, such as shopworkers, lose their jobs and services will close down. This is known as the **de-multiplier** effect.
- **De-industrialisation** of the economy: The closure of manufacturing companies because of outsourcing eventually leads to the closure of local suppliers. Areas go into decline with derelict factories, etc.
- **Structural unemployment:** The skill set of local workers is no longer compatible as the jobs they trained for have now moved abroad. They are often ill-equipped for the new types of work that enter their local economy. High investment from government is required to retrain workers and it may take a generation before a new workforce, with the education and skills required for the local economy, emerges.

Inequality issues

Globalisation should increase prosperity for all and make the planet more equal in terms of income distribution. There are two measures of inequality to consider:

- the difference *between* richer countries and low-income countries and whether the difference between the two is increasing or decreasing
- the inequality in incomes that exists *within* each country and how this is being affected by globalisation.

Indicators suggest that globalisation is reducing global inequality through the transfer of capital and income from richer to poorer economies. Paradoxically, it may be increasing inequality within countries as richer members of societies cope better with the changes in jobs and technology.

Inequalities between countries

As communication and transport increase the integration of economies, developing countries are closing the gap with their rich-world counterparts. The development continuum, with the exception of some of the least developed countries, has become more condensed. The fastest growing economies continue to be in Asia and although countries in sub-Saharan Africa have a large gap to make up in living standards, their economies are now growing more quickly than most developed economies.

Table 7.4 (page 298) shows the considerable differences in average income between twelve developed and developing economies both in 1985 and in 2014. The figures, however, support the idea that developing countries have increased their average incomes more rapidly than richer countries, and also tend to have faster economic growth rates (Figure 7.18).

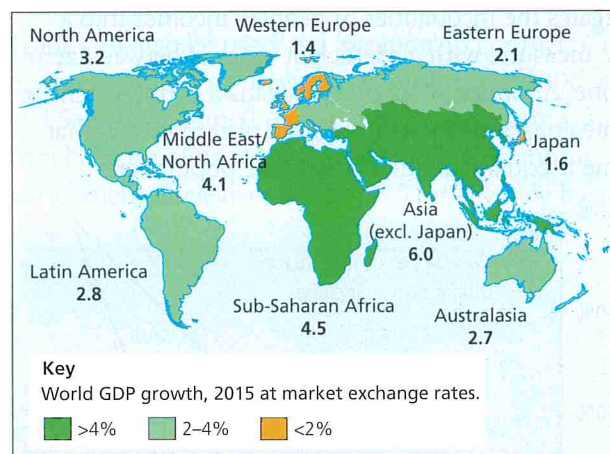

Figure 7.18 Global differential rates of GDP growth by continent

Skills focus

Consider methods of presenting the data in Table 7.4 (page 298) graphically, in particular to show relationships between the size of GDP per capita and growth rates.

This data could also provide the basis for a statistical analysis of relationships using a Spearman's rank correlation test.