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# RECENT DEVELOPMENTS IN INTERNATIONAL ORGANIZATIONS

## INTERNATIONAL ECONOMIC INSTITUTIONS: THE CHALLENGE OF COORDINATION\*

Stephen A. Silard\*\*

### INTRODUCTION

In order to understand our world today, we need to understand the principal international economic institutions that provide the foundation and structural support of the world economy. This does not mean that the day of the nation-state is over, nor that the institutions have become so successful that a brave new world of supranationalism is about to dawn. Rather, it means that the creative institutional experiments in international cooperation, born out of the ashes of World War II, have become so well established that there is a tendency to take them for granted. Having such institutions in place is a major asset for mankind in dealing with growing economic integration and increasingly pervasive interdependence with its inherent vulnerabilities.

To reflect on these achievements in institution-building is also to ponder questions about the future. This is an important subject that deserves much further thinking. The propositions emerging from the re-

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flections set out in this article are that: increasing cooperation among international economic institutions, leading to coordination, is a likely direction for the future; law has a central role to play in this process; and some promising techniques for coordination, already tested and improved by experience, have been developed and may provide the basis for further evolution.

## I. ORIGINS OF INSTITUTION

There are three principal international economic institutions of a universal character: the International Monetary Fund (Fund),<sup>1</sup> the International Bank for Reconstruction and Development (World Bank or Bank),<sup>2</sup> and the General Agreement on Tariffs and Trade (GATT).<sup>3</sup> All three originated in wartime planning for a better economic future, although the GATT was created later than the Fund and the Bank after the charter of the planned International Trade Organization (ITO)<sup>4</sup> failed to enter into force. The planning took place against the background of the impoverishing economic policies of the 1930s, and in the context of ambitious planning that led to the establishment of the universal political institution, the United Nations. The history of these institutions is thus short by historical standards. The economic institutions are based on the recognition that in an interdependent world economy national and international prosperity are inseparable.

As befitting the purposes of these institutions, they are of universal scope, with a growing membership reflecting the common interests among states, and hence the growth of community among them. They represent a potent force of attraction, that has led to a diminishing number of non-members, a shrinking category that may be expected to disappear altogether. The universal economic institutions coexist with international economic organizations of a regional or more limited character that are more or less patterned after them or have overlap-

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1. International Monetary Fund, Articles of Agreement, Dec. 27, 1945, 60 Stat. 1401, T.I.A.S. No. 1501, 2 U.N.T.S. 39, *as amended* May 31, 1968, 20 U.S.T. 2775, T.I.A.S. No. 6748, and Apr. 30, 1976, 29 U.S.T. 2203, T.I.A.S. No. 8937, *reprinted in THE INTERNATIONAL MONETARY FUND, ARTICLES OF AGREEMENT OF THE INTERNATIONAL MONETARY FUND* (1985) [hereinafter FUND ARTICLES OF AGREEMENT].

2. Articles of Agreement for the International Bank For Reconstruction and Development, Dec. 27, 1945, 60 Stat. 1440, T.I.A.S. No. 1502, 2 U.N.T.S. 134, *as amended*, Aug. 25, 1965, 16 U.S.T. 1942, T.I.A.S. No. 5929 [hereinafter Articles of Agreement for the International Bank for Reconstruction and Development].

3. General Agreement on Tariffs and Trade, *opened for signature* Oct. 30, 1947, 61 Stat. A3, A1365, T.I.A.S. No. 1700, 55 U.N.T.S. 194 (as amended 1969) [hereinafter GATT].

4. Havana Charter of 1948, *opened for signature* Mar. 24, 1948, E/Conf.2/78, U.N. Doc. ICITO/1/4 (1948).

ping or related functions, such as the Organization for Economic Cooperation and Development (OECD),<sup>5</sup> the European Communities (EC),<sup>6</sup> the Bank for International Settlements (BIS),<sup>7</sup> the regional development banks, and in the distinct orbit around the Soviet Union, the Council of Mutual Economic Assistance (CMEA).<sup>8</sup>

The three principal institutions, the Fund, the World Bank, and the GATT, thus started out sharing the broad unity of purpose of promoting national and international prosperity. They were to do so with a historical division of work among them: the Fund was to promote a stable and open international monetary system, the World Bank economic growth through post-war reconstruction and development through productive investment, while the GATT would provide the framework for the establishment of an open international trading system. With the pursuit of prosperity being thus attended to, peace would be achieved through political cooperation institutionalized in the United Nations.

The postwar reality was not kind to the grand design. In retrospect it is easy to see the unforeseen conflicts, the design flaws, and the imperfections of implementation, even if the issues involved in these judgments are still controversial. It would be mistaken, however, to discount the existing imperfect reality too harshly against the ultimate goals, because the future of these institutions, and what can be made of them, is still ahead of us. Their evolution to date illuminates the path ahead.

## II. BASIC FUNCTIONS AND DECISION-MAKING ARRANGEMENTS

### A. THE FUND

The Fund can be regarded as the centerpiece of the international monetary system. As an interesting paradox of imperfect understanding at the creation, the very notion that there is such a thing as an international monetary system did not develop until almost two decades after the establishment of the Fund.<sup>9</sup> By now, following the Second Amend-

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5. Organization for Economic Cooperation and Development (OECD), *opened for signature* Sept. 30, 1961, 12 U.S.T. 1728, T.I.A.S. No. 4891, 888 U.N.T.S. 179.

6. European Communities (EC), *opened for signature* Jan. 1, 1958, 298 U.N.T.S. 11, 4 E.Y.B. 412, U.K.T.S. 15 (1979), CMND 7480, J.O.F. Feb. 2, 1958; 1958 R.T.A.F. 5, 12 Vest. A. 134.

7. Bank for International Settlement (BIS), Jan. 20, 1938, 104 L.T.S. 441.

8. Council of Mutual Economic Assistance (CMEA), Apr. 13, 1968, 368 U.N.T.S. 5245.

9. International Monetary Fund, Decision No. 1289-(62/1) (1962), *as amended*, International Monetary Fund, Decision No. 7337 (83/37), *reprinted in* INTERNA-

ment of the Fund's Articles of Agreement in 1978,<sup>10</sup> the concept had become a basic one in the Fund, even though its full implications remain to be drawn. The Fund's Articles of Agreement constitute an element of the constitution of this system, and hence of international economic law. It is important to note, lest the evolution of the Fund's activities in the past decade toward the financial problems of economic development detract attention from its basic mission, the Fund's functions are not limited to developing states.

In fact, the Fund represents a unique combination of consultative, regulatory, financial, and technical assistance functions at the inter-governmental level for both industrial and developing countries. As appropriate for the performance of these functions, the Fund has developed a unique technical machinery: policy conditionality regarding balance of payments adjustment and its financing;<sup>11</sup> stand-by and similar arrangements,<sup>12</sup> the exchange of currency as the legal basis for making loans in the economic sense,<sup>13</sup> maintenance of value in terms of the special drawing right (SDR), and SDR allocation as an international fiduciary issue to supplement global official liquidity.<sup>14</sup> As appropriate for a financial institution, the Fund is self-financing for administrative expenditures, in the sense that it does not depend on annual contributions or levies on its membership (as the United Nations); and as appropriate to an independent inter-governmental institution, it has the power of self-interpretation of its constituent instrument. The combination of these two attributes provides important institutional support for operational independence.

Institutional adaptations throughout the Fund's history have oc-

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TIONAL MONETARY FUND, SELECTED DECISIONS OF THE INTERNATIONAL MONETARY FUND AND SELECTED DOCUMENTS 157-71 (13th ed. 1987) [hereinafter SELECTED DECISIONS OF THE IMF]; see 2 J. GOLD, LEGAL AND INSTITUTIONAL ASPECTS OF THE INTERNATIONAL MONETARY SYSTEM: SELECTED ESSAYS 22-28 (1984) [hereinafter J. GOLD, SELECTED ESSAYS] (describing the evolution of the notion of an international monetary system as a legal concept).

10. See FUND ARTICLES OF AGREEMENT, *supra* note 1, art. IV, §§ 1, 2(b), 2(c), 3, 4 (1985) (recognizing that the essential purpose of the international monetary system is to provide a framework that facilitates the exchange of goods, services, and capital among countries, and that each member must collaborate with the Fund and other members to promote a stable system of exchange rates); *id.* art. VIII, § 7 (stating obligations to collaborate regarding policies on reserve assets); *id.* sched. D, para. 2(a) (describing the role of the Council, if established, to supervise the management and adaptation of the international monetary system).

11. See J. GOLD, SELECTED ESSAYS, *supra* note 9, at 435-43 (describing the policies and facilities under which the Fund provides financial assistance).

12. *Id.*

13. *Id.* art. V, § 3(b).

14. *Id.* art. XV-XXV.

curred through amendments of the Fund's Articles of Agreement or the development of facilities within the framework of the Articles. Thus, the SDR system was established by the First Amendment in 1969, while the replacement of the par value system based on gold with the present freedom of exchange arrangements, subject to a code of behavior under the Fund's surveillance, and the demonetization of gold in the Fund occurred under the Second Amendment in 1978.<sup>15</sup> The establishment of the Trust Fund in 1976 and the successor Structural Adjustment Facility in 1986 with the proceeds of profits from sales of gold held by the Fund illustrate this process by showing the internalization of developing function, while the establishment of financial facilities show the versatility of the Fund's legal machinery in support of policy-based lending.<sup>16</sup>

Decision-making arrangements in the Fund give significant weight to the principle of seeking to approximate the economic importance of countries outside the institution with their voting power within the institution, in order to have the institution take decisions on matters within the scope of its functions.<sup>17</sup> A weighted voting system is thus the foundation of decision-making. Quotas assigned to members are the basis not only for decision-making, but also for access to resources, financing other than through borrowing, and SDR allocations and acceptance obligations. The decision-making system based on quotas is modified to a limited extent, however, by the existence of basic votes that reflect the competing doctrine of equality of states in international law.<sup>18</sup> The system for determining quotas available to members is decided by the Fund, and it currently takes into account the members' GDP, average reserves, current payments, current receipts and variability of current receipts.

The decision-making system is not as simple, however, as its foundation in weighted votes may suggest. Most decisions at Fund meetings are taken by ascertaining the sense of the meeting rather than through actual voting.<sup>19</sup> This procedure promotes consensus while taking into account the members' underlying voting power. In order to protect the

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15. See J. GOLD, *SELECTED ESSAYS*, *supra* note 9, at 754-63 (explaining how the Second Amendment has contributed to a gradual decline in the role of gold in the international monetary system).

16. *Id.* at 435-43.

17. See F. LISTER, *20 DECISION-MAKING STRATEGIES FOR INTERNATIONAL ORGANIZATIONS: THE IMF MODE 37-42* (Monograph series in World Affairs, book 4, 1984) (analyzing the principle of weighted voting).

18. See *FUND ARTICLES OF AGREEMENT*, *supra* note 1, art. XII, § 5.

19. See J. GOLD, *SELECTED ESSAYS*, *supra* note 9, at 403-07 (discussing the relative voting power of the individual member countries and the various classes of members).

interests of the minority, and of particular members where certain of their specific interests are at stake, various techniques have been superimposed on the weighted voting: special majorities, enabling powers, powers to vary, decisions subject to opting out (SDR allocations), or the concurrence of the member affected.<sup>20</sup> Apart from the decision-making procedure as such, further safeguards are provided by adherence to the highly developed principle of uniformity for policy decisions which requires the uniform treatment of members to which the policy applies, as distinguished from decisions in particular cases. In sum, the Fund's legal structure represents a flexible framework of constitutional rules, subject to safeguards, but with policy and operational discretion lodged in the institution to permit evolution both through rule-making and improvisational case-by-case decision-making. Discretion is particularly important in periods of rapid changes in the international economy with the attendant problems of adjustment and financing, such as the debt problem since 1982.

The organs of the Fund through which decisions are taken are: the Board of Governors at the ministerial level, an Executive Board in continuous session in which Executive Directors cast all the votes each is entitled to cast as a unit, and the Managing Director and the staff. In addition, and even though not organs in the sense of having no voting and no power to take decisions, two ministerial level committees, the Interim Committee and the Development Committee, which are joint committees of the Boards of Governors of the Fund and the Bank, round out the structure. Reference also needs to be made to groupings of members for formulating common positions: G-5, G-7, G-10, and G-24,<sup>21</sup> in order to see the workings of this machinery in a broader context.

## B. THE WORLD BANK

The World Bank is the central institution for the promotion of economic development. It is the leading source of lending for productive investment to countries that have not reached the stage of economic development at which they are able to generate sufficient domestic savings for investment or obtain needed external financing on commercial

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20. FUND ARTICLES OF AGREEMENT, *supra* note 1, art. V, § 6(c).

21. G-5 consists of: the United States, the United Kingdom, the Federal Republic of Germany, France, and Japan. G-7 includes these countries plus Canada and Italy. G-10 includes the first seven countries plus Belgium, the Netherlands, and Sweden. G-24 was established by developing countries and consists of eight representatives each of the African, Asian, and Latin American member countries, but any member of the Group of 77 (UNCTAD) may participate in all of its meetings and deliberations.

terms.<sup>22</sup> Its mission is thus, different from the Fund's, being both broader and narrower at the same time. It is broader in that economic development is an open-ended task, unlike the balance of payments adjustment that addresses temporary disturbances in the country's economic relations with the rest of the world. It is narrower in that once countries are able to generate savings or attract capital inflows without the need for the Bank's assistance, they "graduate," that is, cease to qualify for Bank lending. Although on graduation the Bank thus achieves its purpose to assist in the economic development of these countries, the countries may experience occasional balance of payments problems that may lead them to request the Fund's assistance.

The Bank is the central institution for development finance, not only as a matter of relative size, but also because it is the model for other multilateral development banks in charter, functions, policies, and procedures. It is a highly efficient institution for financial intermediation because, unlike the Fund, which obtains its financing from official sources, thus far, the Bank's financial structure is substantially one of market-financing. The Bank thus finances itself through borrowing in the international capital markets against the backing of the official credit by members in the form of subscribed, but uncalled capital. By lending what it borrows, investing for liquidity, and earning what it spends on administration, the financing cost to the Bank's membership is minimal, because the machinery is self-sustaining as long as the Bank succeeds in its task, and thus the official backing that stands behind the Bank need not be called.

Decision-making arrangements in the Bank are similar in broad outline to those of the Fund, reflecting common parentage and membership, but there are differences of procedure and practice. These differences are due to the Bank's institutional culture of project orientation, which was until recently the norm in its operations, and market financing relative to the Fund's culture of policy-based lending and official financing. There are similar supports for operational independence through self-financing for administrative expenditures, and self-interpretation of the constituent instrument.<sup>23</sup> Interestingly enough, however, institutional adaptations for the Bank have taken place for the most part through the establishment of juridically separate entities as affiliates, "members of the World Bank Group," rather than by the

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22. E. MASON & R. ASHER, *THE WORLD BANK SINCE BRETTON WOODS* 18 (1973) [hereinafter MASON].

23. An effective limitation on self-interpretation is relations with non-members, which are far more extensive for the Bank than for the Fund because of the financial structure of the Bank.



establishment of financial facilities within the institution itself, as in the case of the Fund. This process can be seen to some extent to reflect, on one hand, the interplay between market-based and official financing for development, with the desire to separate the two juridically and symbolically, and on the other hand, the desire to limit the financial risk of new functions for the Bank itself. Thus, the International Finance Corporation (IFC)<sup>24</sup> was established in 1956 to assist the economic development of developing countries by promoting growth in the private sector of their economies, and helping to mobilize domestic and foreign capital for this purpose where sufficient private capital is unavailable without government guarantee and on reasonable terms; the International Development Association (IDA) in 1960<sup>25</sup> with subscribed official resources of richer countries to lend to the poorest member countries on concessional terms; the International Centre for the Settlement of Investment Disputes (ICSID)<sup>26</sup> in 1966 to promote foreign investment through facilitating settlement of investment disputes between states and foreign investors; and the Multilateral Investment Guarantee Agency (MIGA),<sup>27</sup> established in 1988, to encourage foreign investment by promoting a favorable environment for it, and providing guarantees against certain noncommercial risks, such as the transfer risk, repudiation, armed conflict, and civil unrest.

### C. THE GATT

Although the GATT originated in the same context and period as the Fund and the Bank, its beginnings already foreshadowed difficulties ahead. The initial planning to establish an International Trade Organization (ITO) to implement the comprehensive provisions on commercial policies of the Havana Charter of 1948 did not succeed.<sup>28</sup> Although the ITO did not thus come into existence, some of the

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24. Articles of Agreement of the International Finance Corporation (IFC), *opened for signature* Dec. 5, 1955, 7 U.S.T. 2197, T.I.A.S. No. 3620, 264 U.N.T.S. 117, *amended* Sept. 1, 1961, 12 U.S.T. 2945, T.I.A.S. No. 4894, 439 U.N.T.S. 318, *amended* Aug. 25, 1963, 24 U.S.T. 1760, T.I.A.S. No. 7683.

25. Articles of Agreement of the International Development Association (IDA), *opened for signature* Aug. 9, 1960, 11 U.S.T. 2284, T.I.A.S. No. 4607, 439 U.N.T.S. 249.

26. Convention on the Settlement of Investment Disputes between States and Nationals of Other States, *opened for signature* Mar. 18, 1965, 17 U.S.T. 1270, T.I.A.S. No. 6090, 557 U.N.T.S. 159.

27. Convention Establishing the Multilateral Investment Guarantee Agency, *opened for signature* Oct. 11, 1985, 24 I.L.M. 1598, 1 ICSID REV. FOR. INV. L.J. 147 (1986).

28. See *supra* note 4 (citing the Havana Charter, the document establishing the ITO).

provisions of the Havana Charter were agreed in 1947 during separate multilateral tariff negotiations to be implemented on a provisional basis in advance as the GATT, and as it turned out since then. As a result, the GATT, strictly speaking, is a general international agreement, but not an international organization like the Fund or Bank. Accordingly, it is called an international economic institution in this Article in a broad sense only, more as a framework for negotiations among "the Contracting Parties" than an organization that has "members" as the Fund and the Bank. It embodies a combination of a code of conduct on trade policies with schedules of tariff concessions, built on the principle of unconditional most-favored-nation treatment, but given effect through bilateral reciprocity as a system of enforcement.

Although both the Fund and the Bank have their critics, there is close unanimity of opinion about the GATT. The opinion is that, while the functions of the GATT are important, and much has been achieved in the reduction of tariffs among industrialized countries, the GATT is in disarray and basic reforms are desirable. These reforms are now the subject of negotiations, the "eighth" round, over a four-year period that started with the Ministerial Declaration on the Uruguay Round of Trade Negotiations on September 25, 1986.<sup>29</sup>

What went wrong? Comparison with the Fund's regulatory jurisdiction over exchange restrictions, of which trade restrictions can be regarded as counterparts, is instructive.<sup>30</sup> A strong contrast emerges between the two central concepts of non-discrimination: the Fund's through the observance of international obligations by all members to an international organization with regulatory powers and financial lev-

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29. See THE URUGUAY ROUND: A HANDBOOK ON THE MULTILATERAL TRADE NEGOTIATIONS 1-3 (J.M. Finger & A. Olechowski eds. 1987) [hereinafter THE URUGUAY ROUND] (covering specific aspects of GATT negotiations in the Uruguay Round); Patterson & Patterson, *Objectives of the Uruguay Round*, in THE URUGUAY ROUND, *supra*, at 8 (stating that the objectives of the Uruguay Round are to bring about further liberalization and expansion of world trade in goods and services). Objectives include the improvement of access to markets through the reduction and elimination of tariffs, quantitative restrictions and non-tariff barriers. *Id.* These goals are to strengthen the role of GATT and bring about wider coverage of world trade under agreed principles, and to improve international cooperation involving trade and other economic policies affecting growth and development. *Id.* at 7-8. See also *id.* at 7 (finding it indisputable that many Contracting Parties violate existing rules, Contracting Parties often circumvent the system, and the rules do not cover large and growing sectors of international trade); Kelly, *Functioning of the GATT System*, in THE URUGUAY ROUND, *supra*, at 82 (estimating that approximately half of the trade in the world is preferential, and does not follow the general principle of non-discrimination that GATT supports).

30. Silard, *The Impact of the International Monetary Fund on International Trade*, 2 J. WORLD TRADE L. 121, 134-40 (1968).

erage in support of its purposes, and the GATT's through the contractual multilateralization of negotiated concessions among countries whose approach both to negotiations and to multilateralization may be substantially different from one another, not even to speak of the lack of financial leverage. The contrast is sharpened by differences in decision making: the Fund's centrally multilateral model is far different from the requirement of unanimity for major GATT decisions by all the Contracting Parties,<sup>31</sup> as is the process of negotiation on policies in the Fund with the uniform treatment of those to whom the policies apply when compared with the bargaining of concessions in the GATT on specific commodities or categories.

In the Uruguay Round, then, a number of these problems will be addressed, including reform of the GATT machinery itself. It will be desirable to come to grips both with the limited coverage of the GATT, that is non-coverage of trade in services and agriculture, and a self-defeating system of snowballing preferences, in which negotiated tariff preferences, mostly for the benefit of developing countries, but also for customs unions and free trade areas involving industrial countries,<sup>32</sup> are defeated through non-tariff barriers,<sup>33</sup> which then became the subject of negotiations leading to the establishment of codes to deal with them in the 1974-1979 Tokyo Round.<sup>34</sup> The codes, in turn, lack full support and adequate dispute settlement and enforcement mechanisms.

The absence of a full-fledged parallel to the Fund in the trade field has thus created an effective vacuum in many areas of commercial policy. As having such a vacuum is inconsistent with the purposes of the other two principal international economic institutions and the assumption on which their functions rest, it is being filled to some extent by them, as discussed below.

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31. It is revealing that the GATT Secretariat has no authority to initiate action on infractions of the rules of the GATT, but acts only on complaints.

32. See Hindley: *Different and More Favorable Treatment - and Graduation*, in THE URUGUAY ROUND, *supra* note 29, at 67-74 (stating existing preferences under GATT). In particular, preferences exist under GATT article XVIII, Part IV of the GATT (with specific reference to article XXXVI (8)), article XXIV, the Generalized System of Preferences, and exemptions in the non-tariff trade barrier codes.

33. *Infra* note 34. The "favorite" non-tariff barriers are "orderly marketing arrangements," and "voluntary export restrictions."

34. See Baldwin, *Multilateral Liberalization*, in THE URUGUAY ROUND, *supra* note 29, at 43 (finding that codes are legally imperfect substitutes for amending the GATT, which was considered not feasible). The coverage of the codes includes subsidies, countervailing duties, antidumping measures, government procurement policies, technical barriers to trade, customs valuation practices, and import licensing procedures. *Id.*; see also Stern & Hoekman, *The Codes Approach*, in THE URUGUAY ROUND, *supra* note 29, at 65-66.

### III. LINKAGES AMONG INSTITUTIONS

The formal, operational, and evolving relationships among the institutions are broadly based on the recognition that each institution can promote its purposes effectively only if the purposes of the other institutions are also promoted in a mutually reinforcing way. This recognition is reflected not only in the organic relationships among them that were established at the outset, but also in operational relationships that give substance to reaffirmations of close cooperation and procedures based on them. Indeed, what is striking about these relationships is how institutions have taken the lead in assuming functions that they considered necessary in order to fulfill their own purposes, even in certain circumstances in which the functions arguably belonged to another institution, but the other institution did not effectively fill its own area. Three examples are revealing: the initial interpretation of its Articles of Agreement by the World Bank, which clarified its authority to lend for balance of payment stabilization;<sup>35</sup> conditionality relating to trade policy by both the Bank and the Fund; and structural adjustment lending by the Bank and more recently by the Fund in order to promote policies for economic development. Efforts to deal with the debt problem both by the Bank and the Fund illustrate a further relationship: a challenge to both institutions to come to grips with a problem that did not seem to fall clearly within the purposes of any economic institution, but which creates a serious obstacle to the performance of the functions of both of them. These considerations lead to the topic of coordination among the institutions, the desirability for which has evolved from the need both to reinforce their effectiveness and to enable them to deal with common problems.

#### A. ORGANIC LINKAGES

Membership in the Fund is the basic principle, based on the central importance of a cooperative and stable monetary order for international economic relations. The closest relationship amongst the institutions is between the Fund and the World Bank<sup>36</sup> in that membership in the Bank is available only to Fund members. The relationship with the

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35. MASON, *supra* note 22, at 25. The Bank's interpretation was that it had "authority to make or guarantee loans for programs of economic reconstruction and the reconstruction of monetary systems, including long term stabilization loans." Based on this interpretation, the Bank made its early program loans to France, the Netherlands, Denmark, and Luxembourg. *Id.*

36. See J. GOLD, *SELECTED ESSAYS*, *supra* note 9, at 453-77 (studying the relationship between the Fund and the Bank).

GATT is again centered on the Fund, although somewhat less tightly: contracting parties to the GATT must be either Fund members or must make arrangements with the GATT based on principles of the Fund's code of conduct with respect to exchange policies. In addition, the GATT is required to give conclusive effect to the Fund's findings of facts and determinations as to what constitutes a serious decline in a country's monetary reserves or very low or inadequate monetary reserves, that are justification subject to the GATT's decision for the introduction or maintenance of quantitative restrictions to safeguard the member's balance of payments.<sup>37</sup>

### B. OPERATIONAL LINKAGES

Sound macroeconomic policies include appropriate policies for balance of payments adjustment and financing. These policies in many cases must promote economic growth in order to succeed. In turn, the formulation of development and investment policies, and the implementation of microeconomic policies and investment projects require a supportive environment of sound macroeconomic policies. Prospects for trade liberalization may depend on an appropriate balance of payments adjustment and investment policies and without externally oriented trade policies the economy may not grow in a satisfactory way.

The economic policies promoted by the institutions are complementary, and this creates the operational matrix for their activities.<sup>38</sup> In addition to linkages among the institutions themselves, each institution brings to the process its own relationships with other entities, the most notable of which are those between the Fund and Paris Club official creditors, the Bank and development donors, and between both the Fund and the Bank and commercial banks. The resulting interactions have created a technically and legally complex web of economic and financial relations, built on the central importance of promoting and supporting sound national economic policies and economic development. An illustration of these relationships is the 1985 Baker initiative to help deal with debt problems by calling on all these parties to join forces and by promoting a program for sustained growth. These relationships can be best understood when seen from different perspectives.

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37. See *id.* at 454 (discussing safeguards which prohibit Contracting Parties from frustrating the intent of the provisions of the Fund's Articles of Agreement).

38. See Silard, *supra* note 30, at 136 (discussing cooperation between the Fund and GATT).

### 1. *The Fund's Perspective*

From the Fund's perspective, policies for balance of payments adjustment are comprehensive, covering both domestic and external policies. The reasons for this include the fact that both domestic and external policies affect international transactions, and reflect the scope of the balance of payments as the account of *all* the international transactions of a country. This perspective is reflected in the general obligations of Fund members regarding exchange arrangements under article IV of the Fund's Articles of Agreement.<sup>39</sup>

They are also reflected in article I, paragraph (v),<sup>40</sup> of the Fund's Articles of Agreement, dealing with the Fund's purposes, which is based on the recognition that there can be various ways of correcting maladjustments in a country's balance of payments, but some of the methods, such as exchange restrictions, may be destructive of national or international prosperity, and hence their avoidance justifies the extension of international official financial support.

These principles are fundamental to an understanding of how the Fund has developed its financial policies. The Fund is a complex finan-

39. FUND ARTICLES OF AGREEMENT, *supra* note 1, art. IV. Article IV, section 1 provides that:

*General obligations of members*

Recognizing that the essential purpose of the international monetary system is to provide a framework that facilitates the exchange of goods, services, and capital among countries, and that sustains sound economic growth, and that a principal objective is the continuing development of the orderly underlying conditions that are necessary for financial and economic stability, each member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates. In particular, each member shall:

(i) endeavor to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability, with due regard to its circumstances;

(ii) seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions;

(iii) avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members; and

(iv) follow exchange policies compatible with the undertakings under this Section.

*Id.*

40. *Id.* art. I. Article I (v) provides that one of the purposes of the Fund is:

(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, *thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.* (emphasis supplied).

*Id.*

cial institution, serving the needs of its members in several ways. The financial policies and arrangements discussed here do not exhaust the Fund's financial techniques, which can be illustrated in a simplified way as follows:

<u>Fund</u>		
<u>General Department</u>	<u>Special Drawing Rights Department</u>	
General Resources <u>Account</u>	Special Disbursement <u>Account</u>	Investment <u>Account</u>
tranche policy	Structural Adjustment Facility (structural adjustment arrangements)	Allocation of SDRs
-reserve tranche		Operations and transactions in SDRs
-first credit tranche*		
-upper credit tranches*		
-emergency policy		
Extended Fund Facility*		
Compensatory Financing Facility (including Cereal Imports Facility)		
Buffer Stock Financing <u>Facility</u>		
In addition, administered accounts of trust resources		

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\* Stand-by arrangements are used to make available resources in the first

The principles deriving from the Fund's purposes help clarify both the scope of policies that are typically covered by the economic programs of members supported by the Fund's resources through stand-by and extended arrangements, and how these arrangements have become the basic and most effective financial technique of the Fund.<sup>41</sup> The scope of policies can be seen through performance criteria that normally include a limit on domestic credit, with sub-limit on public sector credit; external borrowing, and exchange rate and exchange system policies, including the elimination of payments arrears where these exist. Other policies may include interest rate policies, tax measures to raise revenue, reductions in governmental expenditures, elimination of subsidies, and improvements in the financial performance of parastatal enterprises.

A similarly comprehensive technique for policy support is a variant of these arrangements, the structural adjustment arrangement, that provides resources to low-income developing members on concessional terms under the Fund's Structural Adjustment Facility.<sup>42</sup> Under these arrangements, benchmarks or indicators, rather than performance criteria, are used to reflect "first credit tranche" conditionality. An interesting feature of this arrangement is the Policy Framework Paper, discussed below, which extends in a novel and experimental way, but by a long step, the comprehensiveness of the policies to be supported beyond the coverage of macroeconomic policies into the additional area of structural and investment policies and their financing by the World Bank.

## 2. *The World Bank's Perspective*

From the World Bank's perspective, the fundamental objective set out in the Bank's purposes<sup>43</sup> is to encourage economic development by

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and upper credit tranches, and extended arrangements under the Extended Fund Facility. The arrangements may involve the use of resources under the Enlarged Access Policy, including the use of both ordinary and borrowed resources.

41. SELECTED DECISIONS OF THE IMF, *supra* note 9, at 27-29, 62-72 (explaining the standard forms of these arrangements, together with the Fund's guidelines on conditionality).

42. *See id.* at 142-54 (reprinting the Regulations and the Managing Directors' summary of the Executive Board discussion on the establishment of this facility). For materials relating to the Enhanced Structural Adjustment Facility, see 1988 ANNUAL REPORT OF THE INTERNATIONAL MONETARY FUND 119-33.

43. Articles of Agreement for the International Bank For Reconstruction and Development, *supra* note 2, art. 1. Article I of the Bank's Articles of Agreement provides:

Article I  
PURPOSES

The purposes of the Bank are:



facilitating investment for productive purposes. Until 1980, the Bank's emphasis in pursuing this goal through its financial activities has been on project lending, which continues to account for the bulk of the Bank's activities. Lending for projects can prosper, however, only if there are sound projects with a promising rate of return and assurances for repayment, and the projects can succeed. The entire project lending process requires a supportive policy environment. This leads to the broadening of interest from the projects to the economic sectors in which the projects fit, and the sectoral environment and policies, such as the pricing policies for public utilities and agriculture. The sectoral interest then broadens to interest in structural reforms that may be necessary to achieve the desirable policy environment for both specific projects and the relevant sectors of the economy. Based on these considerations, the World Bank has at present five loan categories:

- (a) specific investment loans for projects;
- (b) sector loans addressing such policies as input/output prices and lending rates for the sector being assisted;
- (c) structural adjustment loans, since 1980, to deal with macroeconomic policy programs and institutional changes necessary to modify the structure of the economy so that the economy can achieve and maintain an appropriate growth rate and the viability of its balance of payments in the medium term with emphasis on sectors in which adjustment is considered to be most urgent;
- (d) technical assistance loans for institution building and support; and
- (e) emergency reconstruction loans.

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(i) To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.

(ii) To promote private foreign investment by means of guarantees or participation in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.

(iii) To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories.

(iv) To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first.

(v) To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate postwar years, to assist in bringing about a smooth transition from wartime to a peacetime economy.

The Bank shall be guided in all its decisions by the purpose set forth above.

*Id.*

Of these lending categories, the structural and sectoral adjustment lending best enables the Bank to address basic issues of economic management. Such lending mobilizes domestic resources through a variety of policies. These include fiscal, monetary, and credit policies (such as revenue-raising and expenditure-limiting measures, limitation of external borrowing, and decontrol of interest rates); improvement in the regulatory environment and the efficiency of resource allocation and use by the public sector (including divestiture, where appropriate, of public holdings, and the allocation of resources as between investment and current outlays); and reform of the structure of incentives to promote efficient resource allocation (such as trade reform to reduce bias against exports, rationalized level of protection and price reforms to align incentives in such areas as agriculture, production distribution, energy, and state enterprise pricing). Thus, it is the Bank's need to promote a sound macroeconomic environment and appropriate development policies that have led to the growth of operational relations with the other economic institutions which have dealt with these policies as part of their functions.

### 3. *The GATT's Perspective*

From the GATT's perspective, interactions among the three institutions take various forms. Apart from the Fund's findings and determinations mentioned earlier, the Fund and the GATT have developed arrangements for cooperation. In addition, the Fund's consultative and financial activities are not limited to its regulatory jurisdiction. Thus, the Fund consults regularly with its members on their general economic policies under article IV of the Fund Agreement. The consultations cover trade policies, and the Fund gives advice on these policies. Trade policies are also covered in the members' economic programs supported by Fund resources, normally, both from the perspective of macroeconomic and structural adjustment policies and the understanding that restrictive policies in the payments and trade areas are close substitutes for one another. This last perspective is captured in the principle, in article XV (4) of the GATT, to the effect that:

Contracting parties shall not, by exchange action, frustrate the intent of the provisions of this Agreement, nor by trade action, the intent of the provisions of the Articles of Agreement of the International Monetary Fund.<sup>44</sup>

Trade policy is also an important aspect of the structural and sectoral adjustment policies supported by the World Bank.

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44. GATT, *supra* note 3, art. XV (4).

As the growing disarray in the GATT has led to an effective vacuum in the legal system governing international commercial policies, an interesting paradox has developed for developing countries. They have obtained different and more favorable treatment under the GATT, with the result that they have very few effective obligations, but still have considerable rights under the GATT.<sup>45</sup> The opportunity to exercise these rights, even to the extent that these are not counteracted or avoided by industrial countries through protectionist measures technically or arguably outside of the GATT, has not turned out to be an advantage, however, as a general matter. It has been learned from experience, as encapsulated in the Fund's purposes by reference to the desirability of correcting maladjustments in the balance of payments "without resorting to measures destructive of national or international prosperity,"<sup>46</sup> that restrictions are harmful not only for those against whom they are imposed, but for the country imposing them as well. Because restrictive trade practices are harmful to developing countries as obstacles to balance of payments adjustments and economic growth, both the Fund and the Bank assist these countries to avoid or reduce recourse to them, without reference to the privileged status of such restrictions under the GATT, or the bargaining situation under the GATT built on reciprocity. Reflection on this paradox, and on the filling by the Fund and the Bank of the policy vacuum created under the GATT, suggest that the Fund and the Bank, in order to fulfill their institutional purposes, promote the participation of developing countries in the world economy in a different way from the approach based on the GATT's organizing principle of reciprocity that has led to a blind alley both for developing countries and the international community as a whole. The Uruguay Round offers an opportunity to reform the GATT system, but should the reform fail to take place, or not go far enough, the Bank and the Fund remain as institutional backstops for the international community.

#### IV. COORDINATION AMONG THE INSTITUTIONS

Promotion of the purposes of the Fund, the Bank, and the GATT lead to a need, not only for close cooperation and operational interactions, but what is more, to a need for coordination. Coordination is

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45. See Hindley, *Different and More Favorable Treatment — and Graduation*, in THE URUGUAY ROUND, *supra* note 29, at 67-74 (stating that, in particular, preferences exist under GATT: article XVIII; part IV, with specific reference to article XXXVI (8); article XXIV, the Generalized System of Preferences; and exemptions in the non-tariff trade barrier codes).

46. FUND ARTICLES OF AGREEMENT, *supra* note 1, art. I (v).

desirable as a minimum to avoid conflicting policy advice, but more affirmatively it is a search for complementarity. This is undertaken with the desire to avoid the abdication of independent decision-making authority by each institution, often referred to as "cross-conditionality," that is an issue particularly relevant to financial institutions.

The ultimate in coordination is, of course, merger.<sup>47</sup> This does not seem plausible for the foreseeable future, given the historical evolution of the institutions as independent entities, even if there is reason to doubt that they would be established in their existing form at present. This leads to the consideration of alternative possibilities.

#### A. EXISTING TECHNIQUES FOR COORDINATION

One technique that has developed is to take into account in approving World Bank loans whether a Fund stand-by or extended arrangement is in effect to promote the desirable macroeconomic policy environment for the success of Bank lending. Thus, structural adjustment loans and most sector adjustment loans have been typically accompanied by Fund arrangements that are in effect or about to be approved. Conversely, Fund arrangements take into account the Bank's appraisal and support for investment policies at both the policy level and in terms of available financing for the country to assure the viability of the balance of payments adjustment policies.

A broader technique, involving not only the World Bank and the Fund, but also official donors and creditors, and commercial banks, arises out of the condition that the program of the member country's program be fully financed. The condition of full financing probably has not been seen as a technique for coordination, because the purpose is to seek to assure the success of the country's policy program, and hence of the lending operation supporting the program. Yet, it has that effect in the circumstances of many countries because full financing of the program can be achieved only if all creditors and donors are ready to make their contributions, and this is not practically feasible without coordination among them.

A more limited technique is illustrated by the standard provision included in the Fund's stand-by and extended arrangements:<sup>48</sup> a member's drawing rights under the arrangement are interrupted if the member introduces or intensifies restrictions on imports for balance of

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47. See J. GOLD, *SELECTED ESSAYS*, *supra* note 9, at 475-76 (offering a history of early consideration and rejection of the argument for a single organization during the drafting of the Articles of Agreement for the Fund and the Bank).

48. See *supra* note 41 and accompanying text (explaining standard forms).

payments reasons. This is a standstill provision, and is not designed in itself to promote and monitor the liberalization of the import regime, which may be the subject of other provisions in the Fund's arrangements as well as in the Bank's structural adjustment and sectoral loans.

A more recently developed technique, mentioned earlier, is based on the Fund's innovation of lending in the form of structural adjustment arrangements under the Structural Adjustment Facility. This is the use of a country Policy Framework Paper as a jointly prepared policy umbrella among the national authorities and the staffs of the Fund and the Bank, reviewed by the Executive Boards of both institutions, covering on a medium term basis both the macroeconomic framework and the structural and investment program, at present on a rolling 3-year basis, together with the external financial requirements and availabilities.

#### B. PERSPECTIVES FOR COORDINATION: TOWARD A COMPREHENSIVE ECONOMIC POLICY FRAMEWORK?

The evolution of international economic institutions, as seen over the nearly four decades of their existence, has been toward increasingly comprehensive policy coverage in an environment of far-reaching changes at an accelerating pace in the world economy. A reason for the Fund to have taken the leading role in this process may have been that the achievement of its purposes requires the Fund to support policies that need to address a country's balance of payments problems through a comprehensive set of economic policies. A similar perspective has emerged relatively recently and gradually also from the Bank's interest in the promotion of economic growth through structural adjustment lending. The comprehensiveness of these approaches catalyzes national policy coordination, in that the country seeking Fund or Bank support needs to assemble a coherent set of policies that will be effective in dealing with its balance of payments problem and will promote economic development, even if responsibility for the appropriate policy areas is dispersed at the national level among various ministries and government agencies, and at the international level may be subject to the jurisdiction of different international organizations.

A comprehensive approach that involved not only the Fund and the Bank, but also other international economic institutions and interested entities broadens the scope of this process. In principle, this would result in a better and more efficient service to developing countries, and hold out the hope of evolution toward a medium-term comprehensive economic policy framework as a kind of international economic policy

compact.

What would such a comprehensive framework need to cover if it were to provide for an appropriate medium-term policy package with effective support for economic growth? First of all, building on the country Policy Framework Paper approach, it would include macroeconomic policies, including balance of payment policies, as well as structural and investment policies of the developing country, and an external financing plan by which these policies would be supported as they are carried out. The framework would encompass policies to deal with financial flows, and, more particularly in present circumstances, financing and debt rescheduling or restructuring arrangements between the country and official lenders (Paris Club) and commercial banks. It would also need to include trade policies, in ways that extend beyond the existing GATT framework, so that the country can be assured of markets for its exports while its home market opens up and remains open to incentives for efficiency from the outside world.

Second, the comprehensive framework would need to include an appropriate measure of symmetry between developing countries subject to the financial leverage of the international economic institutions and industrial countries not needing those resources. Multilateral surveillance of the economic and financial policies of industrialized countries that are relevant to the international economic environment in which the developing countries find themselves would thus need to be brought within the framework if it is to achieve its purpose. The relevant policies of industrial countries cover a broad spectrum, including policies on exchange rates, interest rates, trade, capital flows, and economic assistance. As these policies are not separable from the more fundamental economic and financial policies of a country, they also need to be addressed in a comprehensive way. This is an aspect of the Fund's task of surveillance of each member's compliance with its obligations regarding exchange arrangements, that based on the general obligations of members, set out in article IV, section 1, pertaining to their economic and financial policies. When considering the comprehensive approach, therefore, the Fund is, to some extent, in a special position as compared to other international economic institutions. It is the legal duty of the Fund to exercise surveillance over the policies of both industrialized and developing member countries that are necessary elements, even though insufficient in themselves, for the comprehensive approach. Symmetry of obligations of all member countries is, thus, the basis on which the Fund can build to promote its own purposes. Similar considerations do not apply with equal force either to the Bank or to the

GATT,<sup>49</sup> yet the Fund's focus on exchange arrangements may be too narrow and its policy horizon too short to serve the purposes of the other two institutions. It may be desirable, therefore, to find ways of structuring surveillance that would include the perspectives of all three institutions.

The development of such an approach is a challenge for the entire international community, as a way to achieve more coherent national and international economic policies in an integrating world economy. The international legal system can make an important contribution to meeting this challenge. The techniques are already available, to some extent, from the experience of international economic institutions, although further adaptations would be needed. At the decision-making level, the involvement of the Fund and the Bank imply the use of their own decision-making arrangements for their own participation, with such coordinating bodies at the political level as may be consistent with these arrangements, such as the Interim Committee and the Development Committee. How the GATT may fit into these arrangements requires further consideration, for which the Uruguay Round is opportune.

At the technical level, evolution has led to the development of the country Policy Framework Paper as an instrument for coordinating the Fund and the Bank with respect to lending to the poorest, IDA eligible, countries. Extrapolation from this evolution would be:

(a) the generalization of the technique for lending to other countries, including, in particular, the heavily indebted countries;

(b) the broadening of the economic policy framework to be more comprehensive in scope, in that it would also cover the contributions of official donors and creditors, regional development banks, trade policies with a role for a revamped GATT and also the financing arrangements with commercial lenders and other private sources of finance; and

(c) the inclusion of relevant industrial country policies on a multilateral basis in the framework.

The underlying principles of these arrangements, however complex, can be stated rather simply: the formulation and implementation of internationally agreed sound economic policies at the national level, international incentives for these policies, and a coherent international policy framework that would promote the success of these policies.

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49. See The Per Jacobsson Lecture by Sylvia Ostry (Sept. 27, 1987), *reprinted in* S. OSTRY, *INTERDEPENDENCE: VULNERABILITY AND OPPORTUNITY* 12-15 (1987) (stating that trade policy surveillance at the ministerial level was proposed to complement the Fund's surveillance activities, with the recognition that this would call for more effective coordination among the three institutions).

## CONCLUDING OBSERVATIONS

An interesting perspective that emerges from the reflections in this article relates to the dynamics of the evolution of international economic institutions. The institutions were created by statesmen, acting not on abstract theories about international order, but on a far-sighted response to the challenge of learning from the history of the 1930s and World War II. The challenge today is different, in that the institutions exist and changes can be incremental. Evolution or reform of the existing institutional machinery, rather than basic new departures, take the form of responding to the accelerating integration of the world economy. Coordination of the institutions is similarly a gradual process, occurring more under pressure than by design. The pressure is exerted by historical forces as the effects of growing economic interdependence conflict with insufficiently coordinated economic policies. The international economic institutions feel the pressure, perceive it as a call to greater effectiveness, and find that effectiveness cannot be achieved without coordination.