

# International institutions and realism

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Becky, Tam Hing Lui Prof. Chan Ding Ding GPEC 5002 Challenges to the Global System: Insecurity of the World 17 November 2012 HOW CAN INTERNATIONAL INSTITUTIONS FACILITATE COOPERATION? WHAT WOULD A REALIST SAY ABOUT INTERNATIONAL INSTITUTIONS? Nations call for cooperation especially during and after crisis. One example was the Bretton Wood system created in 1944, with the purpose to revive the global economy after the serious damage in WWII. After the 2008 financial crisis, nations again asked for more international regulations and monitoring on the global financial system and suggested the “ Bretton Wood II”.

When we step back and think again, does the international regime facilitate cooperation between nations to solve global issues? The school of Liberalism puts more emphasis on the role of international institutions. Robert Keohane defined institutions as " persistent and connected sets of rules, both formal and informal, that prescribe behavioral roles, constrain activity, and shape expectations" (1). By definition, International Monetary Fund (IMF), World Bank, World Trade Organization (WTO) are formal institution while Bretton Wood Agreement, General Agreement on Tariffs and Trade (GATT) are informal.

Under the anarchy environment in the international platform, it is possible to facilitate cooperation through the establishment of international organizations by two specific features: Centralization and Independence (2). It is the independence and neutral characteristic of the international organizations that enhance the legitimacy of its actions, causing states willing to gather together and authorize the international organizations to

centralize the activities and ultimately achieve cooperation. This reduces transaction costs and increase efficiency.

Institutions coordinate activities including setting up forums and conferences, managing substantive operations, norm elaboration, neutral information provider, acting as trustee/arbitrator, intervention and enforcement (2). We have identified 5 signature international institutions (IMF, World Bank, Bretton Wood System, GATT, WTO) as examples below to illustrate how the conduct of the above mentioned activities through the international organizations facilitate cooperation in the modern history. (I) IMF, World Bank, the Bretton Wood System and GATT

Both IMF and World Bank were established since the Bretton Wood system began. After WWII, countries suffered from poor economy as global production and trade were dampened during the war period. During the Great Depression of the 1930s, countries attempted to shore up their failing economies by sharply raising barriers to foreign trade, devaluing their currencies to compete against each other for export markets, and curtailing their citizens' freedom to hold foreign exchange. These attempts proved to be self-defeating. World trade declined sharply, and employment and living standards plummeted in many countries (3).

There was strong common interest amongst the states to boost up the economy. To facilitate trade and production, a stable monetary system is necessary and this is where the Bretton Wood system began. The US took the lead to stabilize the international monetary system by pegging USD into gold at a fixed rate (USD35 / ounce of gold) while the remaining 44 countries agreed to keep their exchange rates pegged to USD at rates that could be

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adjusted only to correct a " fundamental disequilibrium" in the balance of payments, and only with the IMF's agreement.

The IMF therefore became the independent clearing house of the balance of payments and to ensure the exchange rate mechanism worked as specified. International Bank for Reconstruction and Development (IBRD), now the World Bank Group underwrite private loans to stimulate economy. Both the organizations obtained the legitimacy from their independence and neutrality hence was able to manage the substantive operations between states efficiently and effectively. Members in General Agreement on Tariffs and Trade (GATT) agreed on reduction in tariffs and trade barriers amongst members.

The GATT, unlike the IMF and World Bank, was not an independent organization but rather a forum within which countries met. This provides a platform for elites to negotiate and reach agreement and avoid conflicts and adverse competition. With the GATT rounds held between 1947 and 1967, most barriers have been removed and tariffs have been the lowest. With the Bretton Wood framework in place along with the newly established international institutions which provide free market, long term capital and stable monetary system, global trade and production exploded during the period.

Over the first 25 postwar years, the volume of world trade doubled every 10 years (4). This has been proven as a successful international cooperation in the modern history. (II) World Trade Organization (WTO) Established under the Marrakech Agreement in 1995, the Geneva based WTO replaced GATT as the center of world trade system. Its core principles are to promote market

liberalization, non-discrimination and provide legal structure for international trade. Same as GATT, it provides forum for trade negotiations and administers trade agreements.

In addition, WTO also supplies mechanism through which governments may resolve trade disputes, review and propagate the national trade policies, provide useful data and information, and to ensure the coherence and transparency of trade policies through surveillance in global economic policy-making. The Decision making process is transparent, rules based and members driven. Each member government has one vote. WTO members have agreed that, if they believe fellow-members are violating trade rules, they will use the multilateral system of settling disputes instead of taking action unilaterally.

The Dispute Settlement Board consists of the Appellate Body, the WTO Secretariat, arbitrators, independent experts and several specialized institutions (WTO website). According to WTO data, world merchandise exports worth over \$5 trillion in 1998. In real terms, that represents an 18-fold increase over 1948. Exports of manufactures were 43 times larger than 50 years earlier. Over the same period, world output grew 8-fold, and world production of manufactures 10-fold. It is the independent and fair decision making process and the neutral dispute settlement mechanism given the legitimacy of WTO to attract members.

The monitoring role and dispute settlement mechanism allow states to overcome “ market failures” in international relations. Hence WTO can fully perform its functions to facilitate cooperation in order to promote trade. From the above examples, international institutions while maintaining

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independence and neutrality, promote states cooperation and achieve objectives by increasing the efficiency of collective activities, reducing conflicts, facilitating communications and negotiation and implementation of agreements. Realists had different interpretation in the role of these international institutions.

Traditional realists recognize that institutions are a vital part of the landscape of world politics. Traditional realism assess the effectiveness of institutions in 2 ways (5): [A] Institution as tools of empowerment enable hegemon to rule others and to manage regional and world affairs more effectively and efficiently than would be possible in their absence. [B] Institution as constraint such as balance of power politics and Concert diplomacy guide and direct Great Power behavior in accordance with the established rules of the game. We will continue with the example of 1944 Bretton Wood System to illustrate the above 2 points below.

Harry Dexter White and John Maynard Keynes, the architect of the Bretton Wood System, was disappointed by the final evolution of the Bretton Woods institutions, for Keynes believed that the politicians were perverting the original ideas. The final design guaranteed predominance of the US due to various reasons including emphasis on USD by linking all currencies to USD, dominance of US power in the weighted percentage vote in IMF. However, this is inevitable in the realities of power politics as US was the lender while rest of the world were the borrower and US was the only superpower at that time.

This explained the point A above that the hegemon (US) dominance to rule others and able to manage the international trade and monetary system

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more effectively and efficiently by putting the states into the Bretton Wood agreement and establishment of the institutions. The US and other states were constrained within the agreement and monitoring by the institutions as described in the above point B. While US constrained the other states by the guaranteed predominance in the system, US at the same time was constrained by losing its freedom on domestic policy as USD is pegged at a fixed rate to gold.

Neorealists tend to downplay the role of institutions on cooperation. John Mearsheimer described international institution as “ a set of rules that stipulate the ways in which states should cooperate and compete with one another” and claims that institutions “ matter only on the margins” and “ have minimal influence on state behavior” (6). Structural realists in the Waltzian vein also paid little attention to international institutions. Neorealists argue that institution cause states to behave in ways they otherwise would not behave, for example foregoing short term, self interest in favor of long-term communitygoals(Jervis 1983).

In contrast, neoliberals claim that institutions matter because they enable states to do things they otherwise could not do, that is, achieve mutual gains from cooperation. Neorealists conceptualize institutions as constraints on state behavior; neoliberals see them as enabling states to reach mutually beneficial, cooperative outcomes. Neorealists emphasis on relative gains distribution amongst the actors within the institutions, while Neoliberals emphasis on maximizing overall absolute gains obtained in the community.

The first point made by neorealists on the role of international institutions is “ the emphasis on relative gains among actors could critically inhibit

international cooperation”. Therefore, they may sometimes abstain from cooperation even when it would be beneficial for them in absolute terms. The overall result is that international institutions are more difficult to create and harder to maintain than neoliberals would have to believe. The likelihood for an institution to be put in place and to be stable is the greatest when the expected gains are balanced such that relative losses do not accrue (7).

Without a higher power, states must worry about any state gaining a relative advantage through cooperation, because “today’s friend may be tomorrow’s enemy in war” (8). Just like what we have seen today, most of the institutions were first led by US as a higher power. States not only concern about cheating but also worry over the distribution of relative gains must be overcome for cooperation to blossom. One example would be the refusal of states to join the binding emissions reduction targets for developed countries in the second commitment period under the Kyoto Protocol at UN climate talk in November 2011.

While the biggest emitting countries – US, China and India refused to join, the existing countries in Kyoto Protocol, including Canada, Japan and Russia have already refused to sign on for a second commitment period, objecting to the lack of legal constraints on the world’s biggest carbon polluters. Europe says it can accept a continuation, provided China and the United States show they are serious about major cuts in the coming years. This evidenced when there is relative gains distribution issue and worries on cheating, cooperation is not possible.

The second point is that “institutions are epiphenomenal, that they merely reflect power and interest” (9). They challenge the Independence of the

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international institutions. Institutions existed but do not mitigate in any way the anarchy of the international system and is the same world of power politics familiar to realists – institutions represented by powerful to serve their interests, and they are dissolved when power and interest shift. To illustrate, we will continue with the example of Bretton Wood system.

During the late stage of Bretton Wood system, US power was declining as relied heavily on deficit spending while the other states growing surplus and gaining economic power. The intrinsic value of USD was declining due to deficit spending, over-investment outside US, spending on maintaining the military bases and the two wars US was fighting (Vietnam War and the large increase in social spending known as the War on Poverty) (4). While USD was officially pegged to gold at USD35 per ounce, USD was overvalued and investors and governments rushed to sell USD for gold.

From 1961 until 1968, 7 billion dollars was cashed in, which took up more than 40% of US gold reserve. In 1971, US announced stopping the conversion of USD into gold and devaluation of USD. After the second devaluation of USD in 1973, all the states quitted the fixed exchange rate system and hence the Bretton Wood system officially collapsed since then together with the significantly reduced importance of IMF and World Bank. In my opinion, both schools of thoughts are important to explain different matters in different scenario.

There is no one single answer towards whether international institutions facilitate cooperation or the opposite. As explained with the example of Bretton Wood system throughout the whole article, both liberal institutionalism and realism explained the setup of the system from different

perspective while realism explained the end of the cooperation. It appears that the effective cooperation induced by institutions is more transient in nature while power politics between the states is driving the backbone of the story.

I believe realist view on international institution is more relevant to explain many of the critical outcomes in modern history. However, with globalization becomes the main theme of 21st century, role of state is diminishing as the dominance of multinational corporations does not preclude the characters of state. This creates more common interests between states, which make cooperation easier. The role of international institutions may be gradually enhanced and we may reach another conclusion. Works Cited 1. Keohane, Robert O. *International Institutions and State Power: Essays in International Theory*.

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