Evolution of the International Economic System

Day 34. Bretton Woods to the WTO, the CMEA, the NIEO and neoliberal globalisation. **Revise → write a little → don't break the chain.**

The second half of the twentieth century reorganised the world economy. Two forces drove it: the thrust of technology, and the ideological contest between capitalism and socialism. Four strands, one story — **who writes the rules of the world economy, who gains from them, and how the Global South has tried to change them.**

Four strands, one story

Bretton Woods 1944	CMEA 1949	NIEO 1974	Neoliberal globalisation 1980s onward	Contested order Today
IMF · IBRD · GATT	the socialist counter-model	the South demands structural change	Washington Consensus · WTO	2008 · backlash · reform

A From Bretton Woods to the WTO

The institutions of 1944, the trade regime that replaced them, and the reform fight now

1 Bretton Woods, 1944 — the conference and its logic

- Held at **Bretton Woods, New Hampshire, in July 1944**: **44 Allied nations** met to rebuild the world economy after the Second World War. Led by the **United States** and **Britain** as an institution-building exercise — to prevent a repeat of the depressions and trade conflicts of the 1930s.
- **Henry Morgenthau** argued that the Depression, and the bitterness it bred, had fed the rise of fascism and war. A prosperous, interdependent world was treated as a **condition for peace**.
- The aim: a post-war order of consensus and cooperation, able to escape the self-defeating **"beggar-thy-neighbour"** protectionism of the inter-war years.

The three institutions

- **International Monetary Fund (IMF)** → currency stability; short-term balance-of-payments liquidity.
- **International Bank for Reconstruction and Development (IBRD)**, later the **World Bank** → reconstruction, and long-term development.
- **International Trade Organisation (ITO)** → drafted at the **Havana Conference**, never ratified. Its place was taken by the **General Agreement on Tariffs and Trade (GATT), 1947**, and eventually by the **WTO**.

> A **fixed exchange-rate system**, pegging currencies to the **US dollar**, which was itself convertible to gold.

2 Keynes and White — the contest that set the design

The shape of the system was settled by a contest between two architects.

Two blueprints, one winner

J.M. KEYNES	↔	H.D. WHITE
International Clearing Union · the *Bancor* · symmetric adjustment		Dollar supremacy · US interests
John Maynard Keynes wanted a neutral reserve currency and the burden of adjustment shared between creditors and debtors. He warned against poorly regulated markets.		**Harry Dexter White**, for the US Treasury, pressed for dollar supremacy. **His view prevailed** — the dollar became the de facto global currency, letting Washington shape world finance.

- **Charles Kindleberger** *(The World in Depression)*: Bretton Woods worked because the United States supplied the leadership a stable order needs — and its later retreat from that role undid the system.
- **Susan Strange** *(States and Markets)*: the settlement was an exercise of **structural power** that concentrated authority in the West and marginalised the Global South.

> White's victory built **dollar hegemony** into the foundations. Every later grievance — the US veto, conditionality, the privileged position of the dollar — traces back to the option Keynes lost.

3 The IMF and the World Bank — mandate compared

Parameter	IMF (191 members)	World Bank Group
Purpose	Monetary cooperation; exchange-rate stability; surveillance of the world economy	Long-term development and poverty reduction
Lending	Short-to-medium-term balance-of-payments loans, tied to policy **conditions**; capacity building	Project and programme finance through the **IBRD, IDA, IFC and MIGA**
Funding	Member quotas	Member quotas and bond issuance
Governance	**Quota-based voting** gives the United States an effective veto	By convention the President is an American; the IMF Managing Director a European

The Framework for Cooperation — where the twins work together

Annual meetings · Development Committee · Debt relief — HIPC, MDRI · Poverty reduction — PRSP · Millennium-goal monitoring · FSAP

4 Achievements — and the collapse of the system

What it delivered

- Between **1950 and 1975**, world trade grew at nearly **double the rate of world production**.
- GATT entrenched **non-discrimination**, **multilateralism** and **transparency** as the benchmarks for judging trade practice; the IMF gave monetary affairs a degree of order.

Why it unravelled

The collapse, 1971

US deficits Vietnam War + domestic spending under **Lyndon Johnson** → **Confidence in the dollar falls** by 1971 US gold reserves cannot back dollars held abroad → **Nixon Shock 1971** — convertibility to gold ends → **Floating rates** the regime that still holds: volatility, but domestic policy space

The shift brought volatility — but it also let states set monetary policy to domestic needs.

5 From GATT to the WTO

GATT, 1947 — what it was, and what it could not do

- A forum for tariff bargaining built on **Most Favoured Nation** treatment and **reciprocity**, allowing free-trade areas and customs unions that did not raise barriers.
- **Eight rounds** cut tariffs from about **40% of market value in 1947 to under 5% by 1993**. Trade grew about **8% a year between 1950 and 1973**, slowing to roughly **4%** after the oil shocks.
- **Its limits**: agriculture stayed outside until the Uruguay Round; no effective dispute machinery; no cover for services or intellectual property; widely seen as tilted toward the industrialised countries.

The Uruguay Round (1986–94) — the eighth round

- Focused on **TRIPS, TRIMS and agriculture**. Third World countries feared TRIPS would expose infant industries — **pharmaceuticals above all** — to advanced-country competition, and that services liberalisation under TRIMS would flood their labour markets.
- **Agriculture was the sharpest fault line**: the United States pushed free trade and an end to subsidies; the **EEC, France in particular**, resisted. Washington threatened **Super 301** action.
- **Arthur Dunkel** broke the deadlock with the **Dunkel Draft**.

GATT to WTO

GATT 1947 tariff rounds · weak enforcement → **Uruguay Round 1986–94** TRIPS · TRIMS · agriculture → **Dunkel Draft** signed **15 Dec 1993** ratified **Dec 1994** → **WTO 1 January 1995** supersedes GATT, far wider mandate

6 The WTO — principles, safeguards, and the two verdicts

- Coordinates world trade among **166 members (2024)** on the principle of **multilateralism**.
- **Core principles**: **MFN** and **National Treatment** — foreign goods and services treated like domestic.
- A binding **Dispute Settlement System** is what set it apart from GATT.
- Its reach extends beyond goods to **services (GATS)** and **intellectual property (TRIPS)**.

Cushions for weaker members

- Longer timelines to meet commitments; greater access in **textiles and services**.
- Anti-dumping and safeguard provisions; technical assistance.
- **Maximum flexibility for Least Developed Countries.**

A live fault line — the "developing country" designation

The United States has pressed to curb **self-declaration**, targeting China. **China, India and South Africa** defend self-declaration on **per-capita** grounds.

The two verdicts

- **Robert Gilpin** *(Global Political Economy)*: credits the WTO with a rules-based regime that lends trade predictability and discourages trade wars.
- **Joseph Stiglitz** *(Globalisation and Its Discontents)*: it advances liberalisation without equity — its intellectual-property regime favours developed economies.

7 Dispute settlement and the Appellate Body crisis

- The WTO's judicial core: a **binding, two-tier system** — ad hoc panels, with appeal to a standing **Appellate Body of seven members** (a minimum of three to rule). It gave smaller economies protection against raw power.
- **The United States, once its chief promoter, paralysed it.** It accused the Body of straying from the **Dispute Settlement Understanding** after several US anti-dumping and countervailing measures were found inconsistent with WTO rules.
- Washington **blocked new appointments from 2017** and, in **December 2019, cut off funding** — reducing the Body first to a single member, then to none.

The scholarly split

- **Joseph Weiler**: a **legitimacy crisis** for the multilateral system.
- **D. Ravi Kanth**: the US obstructed appointments precisely because a working Body blocked its unilateral measures.
- **J.S. Deepak**: imperfect though it was, the mechanism curbed unfair trade practices and strengthened the rules-based order.
- **Vineet Hegde**: with rising protectionism, states keep retaliating and raising barriers — an unbroken spiral.

Where it stands now

- Non-functional since **December 2019**. A **130-member proposal** to restart appointments has been blocked many dozens of times.
- Losing parties now **"appeal into the void"** — over **thirty disputes** and counting — while an **EU-led interim arbitration arrangement** covers much of world trade as a stop-gap.
- WTO panels found the **US steel and aluminium tariffs** inconsistent with the rules; with no appeal to hear them, the findings had no effect.
- Consensus among 166 members has stalled reform since the **2018 agenda under Roberto Azevedo**.
- **Richard Baldwin** calls the wider assault a **"Great Trade Hack"** and speaks of a **"reform or die"** moment. **Pascal Lamy**: the world must **reform, not bury,** the WTO.
- **Way forward**: restore appeals, bar unilateral measures, place development at the centre.

> The argument is not **abolition** but **authorship** — who writes and enforces the rules.

UPSC 2020 · 15m

Critically evaluate the role of the United States of America in the World Trade Organization (WTO) dispute settlement mechanism and its implications for the future of the WTO.

8 Decline of the WTO

> ***The purpose that has been lost***
>
> GATT and the WTO rested on **interdependence, transparency and predictability** — a prosperous, trading world was thought less likely to go to war. Tariffs fell from about **40% (1947)** to under **5% (1993)**.

- **Rising protectionism and trade wars** — the **US–China tariff war** on hundreds of billions of dollars of goods. **Dani Rodrik**: economic nationalism as a backlash against globalisation.
- **Dysfunctional dispute resolution** — the blocked Appellate Body. **Robert Keohane**: once the court cannot rule, the incentive to comply erodes.
- **Fragmentation into bilateral and regional blocs — CPTPP, RCEP**. **Joseph Stiglitz**: such deals undermine universal rules.
- **Geopolitical rivalry** — **John Ikenberry** ties the strain to the unipolar-to-multipolar transition. Failure to regulate e-commerce, digital trade and climate-linked measures; **Susan Strange** saw this as a slide into irrelevance.
- **Institutional paralysis** — consensus among 166 members and weak enforcement leave rulings ignorable; US withdrawal from multilateral commitments and unilateral sanctions (**Iran, Russia**) compound it.

The live illustration — the tariff wars of 2025–26

- The **April 2025 US "reciprocal" tariffs** — a universal baseline duty plus country-specific rates — were the sharpest turn to protectionism in decades, likened to the **Smoot-Hawley Act of 1930**. India briefly faced among the highest rates.
- In **February 2026**, the **US Supreme Court** held that the emergency-powers statute did not authorise them, forcing a redesign.

Close on reform, not burial: equitable globalisation needs a reformed WTO, not an abandoned one.

UPSC 2024 · 15m

The return of trade barriers and economic sanctions has diminished the spirit of GATT. In this context, discuss the factors contributing to the decline of the WTO in recent times.

9 The fisheries-subsidies deadlock

Why subsidies are the problem

- Governments spend about **US$35 billion a year** on fisheries subsidies. **Fuel subsidies** make up about **22%** and push distant-water fleets into the waters of poorer states.
- Stocks at biologically sustainable levels fell from **90% (1974)** to **65.8% (2017)**.
- Over **three billion people** rely on fish for about **20% of their animal protein** — a share that reaches half in Bangladesh, Cambodia, Indonesia and Sri Lanka.

The MC12 Agreement — and what it left open

- The **Agreement on Fisheries Subsidies**, adopted at **MC12 on 17 June 2022**, was the **first WTO agreement centred on the environment**, the **first SDG target met through a multilateral deal**, and only the **second agreement** reached since the WTO's creation.
- Three pillars — **illegal, unreported and unregulated fishing**; **overfished stocks**; the **high seas**. It rests on the **polluter-pays** principle and **common but differentiated responsibilities**.
- **Overcapacity disciplines stay unresolved** — the draft is still heavy with bracketed text on fuel and vessel subsidies.

Side	Position	Detail
Developed	Strict limits on capacity-enhancing subsidies	Superior technology and capital. The informal **"Friends of Fish"** grouping presses for curbs; **Japan, South Korea and Chinese Taipei** question the subsidy–overfishing link.
Developing	Flexibility for small-scale and artisanal fishers	Led by **India and the Philippines**. Prohibitions only outside territorial waters; a transition of about **25 years** against the developed preference for roughly **seven**.

- **India's stand**: fuel rebates, motorisation of boats and infrastructure support fall under the targeted list. It seeks flexibility within its **exclusive economic zone**, and argues that heavy past subsidisers should carry more of the obligation.
- **Simon Evenett**: **Special and Differential Treatment** is essential for fairness, but a source of prolonged conflict — developed states fear it dilutes the deal.

> The deadlock is a genuine conflict of interests, not obstruction: **ocean sustainability set against the livelihoods of the poorest fishers.** India's position — conservation cannot be financed by the food security of the Global South.

UPSC 2022 · 20m

Identify and evaluate the reasons for the deadlock in the WTO negotiations on fisheries between the developing and developed countries.

10 India and the WTO

Since **1995** the WTO has been the forum where India advances trade and development goals against larger economies. **Amrita Narlikar** points to India's role as a **Global South leader** on agricultural subsidies and public stockholding.

Food security — the core fight

- India seeks a **permanent solution** to protect procurement at **Minimum Support Price** for over **800 million beneficiaries**, having secured its programmes through the **Bali Package (2013)**.
- It refuses to dismantle its **amber-box** support — arguing, with **Stiglitz** and **Rodrik**, that developing countries need **policy space** within the rules.

India's positions across the agenda

- Opposes a **China-led investment-facilitation pact** as outside the WTO's mandate.
- Presses a **CBDR** line on fisheries.
- Seeks to **end the moratorium on customs duties on electronic transmissions**.
- Resists trade linkage with **labour and the environment** — preferring the **ILO**, and objecting to the EU's **carbon border tax** and deforestation rules.
- Co-sponsored a **dispute-settlement reform proposal with the EU**; opposed a **2018 US move** to bar "defaulters" from presiding over WTO bodies.
- Defends the body's **consensus-driven** character, calling it an **"engine for global trade."**

11 The IMF and India — conditionality and the arc since 1991

- India drew IMF support during the **1991 balance-of-payments crisis**, which triggered liberalisation shaped by the **Washington Consensus** (**John Williamson**): **liberalisation, privatisation, globalisation.**
- **Joseph Stiglitz** faults the Fund's **blanket loan conditions** for imposing austerity that raises suffering; **Erik Reinert** for privileging fiscal balance over growth.
- The pattern is visible in the **Sri Lankan crisis (2022)** and the **Pakistani bailout (2023)**, where loan conditions brought welfare cuts and protests.
- **Susan Strange**: the Fund is a mechanism of **discipline rather than development**.
- India has moved from **aid recipient toward aid provider**. **Rakesh Mohan** and **Devesh Kapur** place it at the front of efforts to reform IMF governance.

12 Rising powers and the reform of the Bretton Woods twins

The two institutions were built for the world of **1944**. The arithmetic still shows it.

- **Voting in the IMF is quota-based**: the United States holds about **16.5%** of votes and an effective veto, since major decisions need an **85% majority**.
- By a standing **"gentleman's agreement,"** the Managing Director is a European and the World Bank President an American. On the Board of Governors the **G7 hold a combined ~43%**.
- The **BRICS** — nearly half the world's population, about a fifth of output — historically held only around **11%** of votes.

How the rising powers are pushing back

- **Quota reform**: the **2010 package** moved India from **2.3% to 2.6%** and China from **3.8% to 6%**, transferring about **6% of quota** to emerging economies and doubling the Fund's permanent resources. Rising powers also seek to move some **two dozen IMF board seats** from Europe to the developing world.
- **Alternative institutions**: the **Asian Infrastructure Investment Bank**, the **BRICS New Development Bank** and the **Contingent Reserve Arrangement** — South–South finance without harsh conditionality. China is now a top contributor and presses to loosen the dollar's reserve role.
- **The theory shifts with it**: from **hegemonic stability theory** (**Charles Kindleberger**, **Joseph Nye**) toward the **cobweb model** (**John Burton**) and **complex interdependence** (**Robert Keohane** and **Joseph Nye**).

Where reform actually stands

- The **16th General Review of Quotas** raised the Fund's resources by half but **left voting shares unchanged**, keeping the US veto intact; realignment is deferred to the next review.
- The three pillars survived 2008 — its chief institutional fruit was the **Financial Stability Board (April 2009)**, from the G20 London summit.
- **Mia Mottley's Bridgetown Initiative** and **Nicholas Stern** demand that **climate vulnerability** count in development lending. India's **G20 presidency (2023)** placed institutional reform at the centre.
- **Thomas Weiss**: incremental reform is insufficient when the architecture itself is obsolete.

> *The verdict*
>
> The machinery is real and so are its asymmetries. Rising powers are moving from **norm-takers to norm-shapers**, but entrenched Western control and the risk of fragmentation cap how far the challenge reshapes the order — **reform proceeds by increments, not rupture.**

UPSC 2019 · 20m

How are the rising powers challenging the USA and Western dominance in the IMF and the World Bank?

13 Criticism and the legitimacy crisis

The structural critique

- **Susan Strange**: a **structural bias** toward developed nations.
- **Martin Khor**: the institutions are a **"rich man's club."**
- **Joseph Stiglitz**: they have become **"part of the problem rather than the solution."**
- **Robert Cox**: institutions are never neutral.
- **Noam Chomsky**: tools of transnational capital — echoing the Latin American structuralists on the **"development of underdevelopment."**
- **Amrita Narlikar**: multilateralism cannot survive on **exclusionary foundations**.

The reform reading

- **Ngaire Woods**: a changing development paradigm.
- **Amrita Narlikar**: assertiveness read as a quest for recognition.
- **Oliver Stuenkel**: the new banks are a pragmatic reshaping.
- **Miles Kahler**: absent reform of IMF and World Bank governance, rising powers become **"responsible stakeholders"** or build **parallel institutions**.
- **Zhao Gancheng**: a shift from **norm compliance to norm creation**.

UPSC 2016 · 20m

"The IMF, World Bank, G-7, GATT and other structures are designed to serve the interests of TNCs, banks and investment firms in a 'new imperial age'." Substantiate with examples of the governance of the new world order.

B Socialist Economies and the CMEA

The planned alternative to Bretton Woods — and why it could not survive its own rigidity

14 The CMEA — establishment, objectives, mechanism

- The **Council for Mutual Economic Assistance (CMEA / Comecon)** was formed in **1949** by the USSR and its socialist allies — the economic counterpart to the political and military ties of the Eastern bloc (later the Warsaw Pact).
- It answered the **Marshall Plan** and the **Committee of European Economic Cooperation (1948)** in the West.
- **Original members**: Soviet Union, Bulgaria, Czechoslovakia, Hungary, Poland, Romania. **Expansion**: Albania (1949, inactive from 1961), East Germany (1950), Mongolia (1962), Yugoslavia (associate, 1964), Cuba (ninth member, 1972), Vietnam (tenth member, 1978). Headquarters in **Moscow**.

Objectives

- Promote economic integration and coordination within the socialist bloc.
- Counter the pull of the Marshall Plan and the Bretton Woods institutions, seen as instruments of capitalist dominance.
- Achieve industrialisation, resource-sharing and economic self-reliance through **centralised planning** under Soviet leadership.

Structure and mechanism — planning against the market

- **Centralised planning**: Soviet-inspired directives set policy, favouring heavy industry, energy, and trade terms favourable to the bloc.
- **Resource sharing and specialisation**: Czechoslovakia in machinery, Romania in oil refining — to reduce redundant "parallel" production.
- **Trade in non-convertible currencies**: transactions ran on **bilateral barter agreements** and **transferable rubles**, since incompatible domestic price systems (prices set by governments, detached from market values) made trade on relative prices difficult. Integration with the outside world stayed limited.

15 Achievements — and the decline

Achievements

- Organised Eastern Europe's **railroad and electric-power grids**.
- Created the **International Bank for Economic Cooperation (1963)** to finance joint investment projects.
- Built the **"Friendship" oil pipeline**, carrying Soviet oil from the Volga region to Eastern Europe.
- Launched, in **1971**, a **Comprehensive Programme for Socialist Economic Integration** in response to the EEC.

Challenges and decline

- **Inefficiency and over-centralisation**: rigid planning misallocated resources; members produced goods unfit for competitive markets.
- **Dependence on the USSR**: the Soviet Union subsidised members with oil and supplies — an arrangement its own economic weakness could not sustain. In return it often received outdated machinery, diminishing its gains.
- **Technological backwardness**: resistance to global integration widened the East–West development gap; the system lacked the competition that spurs innovation.
- **Reforms and dissolution**: liberalising currents — Hungary's **"Goulash Communism,"** Poland's **Solidarity** — drained the model of purpose. After the revolutions of **1989–90**, members shifted to private enterprise and market pricing; by **1 January 1991** trade moved to convertible currencies, and Comecon was renamed the **Organization for International Economic Cooperation**, with only a weak pledge to coordinate.

16 CMEA and the EEC — and the scholars' verdict

Basis	CMEA	EEC
Method	Intergovernmental coordination without credible supranational authority	A supranational, rules-based single market
Authority	Soviet direction; national resistance to central command	Commission, Council, Parliament and Court of Justice make binding law superseding national law in agreed domains
Economics	Administratively set prices; assured markets and predictable supplies inside a closed bloc	Four freedoms, customs union, monetary integration, Schengen; redistributive funds narrow regional gaps
Outcome	Short-term stability without price correction — swift collapse after 1989, formal dissolution in 1991	Self-reinforcing integration; weakness in foreign and defence policy, and reversals such as Brexit

The theoretical lenses used for Europe explain the difference: **Ernst B. Haas's neofunctionalism** (spill-over from sectoral to wider integration), **Karl Deutsch's security community** (dense transactions make war unlikely), and **Joseph Nye** on institutions and elite cooperation sustaining regionalism. The EEC's legal supranationalism produced self-reinforcing integration; the CMEA's design could not.

Views of scholars

- **Alexander Nove** *(The Economics of Feasible Socialism)*: the CMEA showed how a planning-and-solidarity counter-model to capitalist globalisation could be imagined, but its over-centralisation and absence of market signals made it unwieldy.
- **Karl Polanyi** *(The Great Transformation)*: the CMEA reads as a planned countermovement against the commodification of labour, land and capital — though Polanyi stressed local agency, whereas the CMEA was dominated by Soviet power.
- **Joseph Berliner** *(The Innovation Decisions in Soviet Industries)*: its technological stagnation flowed from the lack of competition and incentives to innovate.
- **Andrew Zimbalist** *(Comparative Economic Systems)*: the clash between national and collective interests prevented real integration.
- **Immanuel Wallerstein** *(The Modern World-System)*: a failed alternative to the capitalist world economy — its isolation from global markets made effective opposition to core–periphery dynamics impossible.

Legacy; India and the Global South

- For a time the CMEA gave socialist nations an alternative to Western-led globalisation, extended solidarity to **Cuba and Vietnam**, and supported anti-colonial movements.
- Its failure carries a lesson for regional integration: centralised planning must be balanced with local agency and outward engagement — a caution that resonates in later blocs like the EU.
- India's **non-aligned** stance, and the Nehruvian emphasis on **self-sufficiency and state-led development**, drew it toward CMEA cooperation without full alignment. For the Global South, the rise and fall of the CMEA showed how hard it is to build an alternative to the dominant capitalist order.

UPSC 2017 · 15m

How has global capitalism changed the nature of socialist economies and developing societies?

c The NIEO and the North–South Divide

The South names the injustice of the order — and presses for structural change

17 Background and formal establishment

- Most Third World states had been colonies. They emerged economically dependent, exporting cheap raw materials while the North industrialised under free trade.
- The demand rested on stark asymmetry: developed nations controlled over **80% of world income**, while developing countries — around **80% of the world's population** — accessed less than **20% of resources**.
- Post-colonial trade patterns locked the South into primary-commodity exports, and the gap kept widening as UNCTAD and later the WTO failed to close it.
- The idea drew on resolutions from the early 1950s and on **UNCTAD (from 1964)**, and was pressed by **Raúl Prebisch** and others across the 1950s and 1960s.
- The **Declaration on the Establishment of a New International Economic Order** and its **Programme of Action** were adopted by the **UN General Assembly in 1974** (Sixth Special Session). The **Charter of Economic Rights and Duties of States** followed the same year. In **2018**, the UNGA adopted **"Towards a New International Economic Order,"** reaffirming equity, sovereign equality, interdependence, common interest, cooperation and solidarity.

The NIEO arc

Bandung 1955	→	UNCTAD & G-77 1964	→	Algiers 1973	→	Declaration + Charter 1974	→	Eclipse, then echo 1980s displaced; 2018
Afro-Asian Conference		the South's negotiating machinery		non-aligned summit		UNGA Sixth Special Session		UNGA reaffirms

18 Causes, principles and the key demands

Causes of the demand

- Deficiencies in the existing order, and the failures of **GATT** and **UNCTAD** to deliver on their objectives.
- A system biased toward wealthy advanced countries, leaving the South over-dependent on the North with little decision-making power.
- **Economic neo-colonialism**: political independence without economic sovereignty, as developed nations kept control over raw-material markets, manufacturing, technology and finance.
- Support came from the newly sovereign states of the South, backed by the non-aligned nations.

Principles of the NIEO

- Sovereign equality of all states, non-interference, and the right to choose one's own economic and social system.
- Full sovereignty over natural resources, including regulation of transnational corporations.
- A just relationship between the prices of raw materials exported by developing countries and the goods exported by developed ones.
- Strengthened bilateral and multilateral assistance for industrialisation.
- Guiding values: sovereign equality, interdependence, common interest, cooperation.

> *The slogan that framed it*
>
> **"Trade not aid."** The NIEO sought change across trade, finance, industry and technology — not charity, but a rewriting of the terms on which the South entered the world economy.

Key demands

Trade reform · *Control over natural resources* · *Transfer of technology* · *Reform of the IMF & World Bank* · *Debt relief*

- **Trade reform**: fair practices, guaranteed prices for primary commodities, preferential market access, and a definite share of world exports.
- **Control over natural resources**: sovereign rights against exploitation by multinationals.
- **Transfer of technology**: easier, cheaper access to advanced and dual-use technology, held back by patents and protective policies.
- **Reform of the IMF and World Bank**: a greater voice and vote for the developing world.
- **Debt relief and development aid**: including the target of **0.7% of GNP** as development assistance, and control over the harmful features of MNCs.

19 G-77, NAM and the North–South dialogue

- The **G-77**, formed in **1964**, became the South's negotiating machinery, pressing the NIEO agenda in international forums, especially **UNCTAD**.
- The **Non-Aligned Movement** — under leaders such as **Indira Gandhi**, **Julius Nyerere** and **Gamal Abdel Nasser** — gave political weight to the demand, calling for economic self-reliance and South–South cooperation. The **Afro-Asian Conference at Bandung (1955)** and the **Algiers Conference of non-aligned countries (1973)** laid the groundwork.

The dialogue itself

- Negotiations between rich and poor countries ran from the 1960s across tariffs, financial flows, market access, terms of trade, commodity-price stabilisation, technology transfer, debt and monetary reform.
- The **Paris talks (1977)** produced a modest outcome: developed countries agreed to an additional **US$1 billion** for an aid fund.
- The **Willy Brandt Commission** (established 1977; report 1980) urged North–South cooperation, a common development fund, stronger development lending, and a code of conduct for multinationals.
- In practice the dialogue exposed more confrontation than cooperation, with only limited progress on tariffs.

Reaction of the North

Response	Bloc	Named figures
Incremental accommodation	Social democrats	**Willy Brandt**, **Jan Tinbergen**, **Olof Palme**, **Bruno Kreisky**, **Jan Pronk**
Strategic inversion	Conservative realists	**Henry Kissinger**
Outright opposition	American neoconservatives	**William Simon**, **Daniel Patrick Moynihan**, **Irving Kristol**

Kristol dismissed the NIEO as "mau-mauing" the North. The most common response, however, was neither acceptance nor flat refusal — it was playing for time and deepening divisions within the G-77.

20 Views of scholars on the NIEO

- **Raúl Prebisch** — principal advocate, and author of the **Prebisch–Singer hypothesis**: the post-war order trapped the South in primary-commodity dependence while the North reaped high returns on manufactures. He pressed for diversification and fairer terms of trade, and noted that internal factionalism within the Third World blunted the NIEO's force.
- **Samir Amin** *(Unequal Development)*: the NIEO was the South's attempt to escape the abuses of **centre–periphery** relations.
- **Immanuel Wallerstein** *(world-systems theory)*: an attack on the hegemonic capitalist world order, resisted by entrenched powers defending the core–periphery structure.
- **Arjun Appadurai** *(Modernity at Large)*: the NIEO's critique of economic imperialism set the stage for contemporary debates on postcolonial governance and the decolonisation of economic policy.
- **Dani Rodrik** *(The Globalization Paradox)*: the NIEO prepared the ground for today's demands for fair trade and inclusive globalisation — the South's call for **policy space** returns in current debates on economic governance.

21 India's role in establishing the NIEO

- As a founder of NAM and a leading voice in the G-77, India aligned with the Third World project of correcting global economic imbalance and reshaping the Bretton Woods system's structural bias.
- At the **1973 Algiers NAM Summit**, **Indira Gandhi** stressed that political independence remained incomplete without **economic independence**, tying the NIEO to the aspirations of newly liberated nations. **Amartya Sen** *(Development as Freedom)* read India's support for the NIEO as part of a wider development concern to reduce dependence on the First World.
- **Samir Amin** *(Unequal Development)* recognised India's advocacy of progressive measures — stabilising commodity prices, enabling technology transfer — alongside its diplomacy at UNCTAD.
- India's Foreign Minister **Swaran Singh**, at the Sixth Special Session, proposed the revaluation of raw-material prices, additional liquidity for affected countries, equitable voting rights in the IMF, and external capital and technical assistance for developing countries.
- India helped amend GATT rules to allow import restrictions by developing countries, was central to founding **UNCTAD**, embedded its **Panchsheel** principles in the Bandung declaration, and today advances NIEO-like aims through **BRICS, IBSA, RIC and G4**.

The NIEO as a political project

- Not only an economic-legal package but a political effort to realign international power in the wake of decolonisation.
- Through the G-77, it advanced the claim that the "developing nations" formed a coherent political group, bound by a shared history of resistance to colonialism and imperialism.

22 Assessment — why it failed, and what survives

The NIEO faded through the 1980s, displaced by structural adjustment, the Washington Consensus, and the "end of history."

Reasons for failure

- The political solidarity of the Third World was liable to unravel.
- The logic of collective action doomed commodity cartels to defection.
- Using international law to restrain powerful states ran into jurisdictional fragmentation and forum-shopping.

- The North retained far greater economic, political and military power to check the rise of the South.
- The **oil crisis** and recession of the 1970s reduced the North's willingness to accommodate, and the neoliberal turn of the 1980s prioritised markets over state-led development.

Its afterlife

- The clearest survival is in **climate-change negotiations**, where the North–South framing still dominates the question of climate justice, and where the **G-77** remains the South's main organising agent — pursuing historical responsibility and equity, the reasoning of the NIEO Declaration.
- India continues to voice NIEO principles through the **G20**; its focus on the Global South (the **Voice of Global South Summit, 2023**, under its G20 presidency) reflects an unbroken commitment.
- **Verdict**: full realisation remains unlikely against entrenched governance and the redistributive scale of the ask. Incremental gains — greater voice, technology access, South–South platforms — remain plausible.

UPSC 2020 · 15m

Explain the significance and importance of the demand raised by the developing countries for a New International Economic Order (NIEO). Are they likely to achieve their objectives of the NIEO in the foreseeable future?

23 The North–South divide — and ways to narrow it

An enduring gap in wealth, technology and political power between the industrial North and the mainly agricultural, commodity-exporting South — rooted in colonial extraction, and in markets that favour those controlling capital and proprietary knowledge.

> *Colonialism is "not yet dead"; it survives in "modern dress, in the form of economic control, intellectual control, actual physical control by a small but alien community within a nation."* — **Sukarno, Bandung, 1955**

- **Dev Nathan**: Northern firms take the largest profits in **global value chains** through their monopoly of advanced knowledge, which strict intellectual-property rules keep from Southern firms. South Korea and China escaped the middle-income trap by moving from **knowledge users to knowledge creators**.

Pathways to narrow the gap

- **Reform knowledge systems** — flexible patent periods, collective sharing of green technology, and South-based research and development.
- **Build domestic capability** — **Brahima S. Coulibaly** and **Richard Newfarmer** argue for **"industries without smokestacks"** (tourism, agro-processing, digital services), backed by skills, logistics and broadband.
- **Overhaul global finance** — the **UNDP's 2024 Human Development Report** describes a **"global gridlock"**; proposals include reallocating unused **Special Drawing Rights**, taxing offshore wealth, and directing climate finance to Southern infrastructure.
- **Progressive taxation and reparations** — **Oxfam** calls for higher taxes on billionaires and reparative funds that could seed a Southern development bank.
- **Voice and vote** — greater representation of African, Latin American and Pacific states in the IMF, World Bank and WTO.

D Globalisation of the World Economy

Neoliberalism, its winners and losers, and the backlash that followed 2008

24 Meaning, dimensions, and why it emerged

- **Globalisation**: the integration of societies, economies and cultures through technology, communications, trade, and flows of capital and people. The term gained currency in the **1980s**, though its roots are older.
- **Economic globalisation** involves rising global trade, currency exchange, capital movement, technology diffusion, travel, migration and information exchange.

Reasons for emergence

- **Technological advance** in transport, communication and information technology.
- **Liberalisation** — post-war efforts including GATT (1947) and its evolution into the WTO.
- **Multinational corporations** expanding in search of global markets and production sites.
- **An ideological shift** toward market economies and free trade, seen in China and Eastern Europe.
- **Cultural developments** — global media, popular culture, and the spread of English (viewed by some as US cultural hegemony).

25 Neoliberalism and the Washington Consensus

- **Margaret Thatcher** in Britain and **Ronald Reagan** in the United States led the turn to **neoliberalism**: free markets, deregulation, privatisation, and a smaller state.
- After the Cold War, neoliberal globalisation accelerated under US unipolarity, with the **WTO, IMF and World Bank** as the coordinating institutions.

> **The Washington Consensus**
> Codified by **John Williamson**: **liberalisation, privatisation, globalisation** — enforced through IMF–World Bank conditionality.

Features of neoliberal globalisation

Trade liberalisation | Financial integration | Privatisation | Technological advance

- **Trade liberalisation** — lower tariffs, quotas and barriers.
- **Financial integration** — removal of capital controls, and the rise of global financial markets.

- **Privatisation** — transfer of public enterprises to private ownership.
- **Technological advance** — communication and transport gains enabling global supply chains and digital economies.

26 Views of scholars; winners and losers

- **David Harvey** *(A Brief History of Neoliberalism)*: a project to **restore class power**, privileging the market over social needs and deepening income inequality and the exploitation of the Third World.
- **Joseph Stiglitz** *(Globalisation and Its Discontents)*: it opened growth for some economies but isolated many developing ones, particularly through IMF-imposed structural adjustment.
- **Thomas Friedman** *(The World is Flat)*: the optimistic reading — globalisation levelled the playing field across trade, technology and culture.
- **Jagdish Bhagwati** *(In Defense of Globalization)*: India harnessed globalisation well, but its social and environmental costs must not be ignored.
- **Samir Amin** *(Unequal Development)*: an extension of the neo-colonial accumulation strategy, keeping the periphery subordinate to the core.

Winners	Losers
China, India and Brazil — high growth and industrialisation	**African and Latin American** economies — struggling in a trading order dominated by industrialised nations
Multinational corporations — access to global markets and labour	**Workers in developed countries** — jobs lost, wages stagnant, through outsourcing and automation

Impact on the Global South

- Globalisation catalysed liberalisation and poverty reduction in countries like India and China, but also locked much of the South into a subordinate position dependent on Northern technology, finance and market access.
- Through the 1980s and 1990s, the IMF and World Bank required indebted countries to run **Structural Adjustment Programmes** — strict fiscal limits, cuts to public spending, privatisation and market opening — which widened social inequity in many nations.

27 2008, the backlash, and India

The 2008 Global Financial Crisis

- Triggered by the US subprime housing market and market deregulation, it showed that self-regulating markets could fail. **Raghuram Rajan** *(Fault Lines)* traced it to global imbalances, financial integration and income disparities.
- **Susan Strange** had earlier warned of **"casino capitalism"** and **"mad money"** — unregulated capital surging in speculative bursts, creating unsustainable bubbles.
- Deeper and more genuinely global than earlier crises and — unlike the Asian or dot-com crises — it originated in the heart of finance capitalism, the United States (**Seabrooke** and **Tsingou**).
- It produced political anger against globalisation, a renewed role for the state through stimulus and bank bailouts, and calls for a **"new Bretton Woods."** The chief institutional result was the **Financial Stability Board (April 2009)**, successor to the Financial Stability Forum, from the G20 London summit.

Backlash and the return of protectionism

- The 2010s saw a backlash fed by persistent income disparities and cultural and environmental strain.
- Protectionist politics rose with figures like **Donald Trump** in the United States and the **Brexit** movement in Britain.
- The **US–China trade war (from 2018)** challenged free-trade principles and global production networks.
- **COVID-19** exposed the fragility of globalised supply chains and reinforced tendencies toward protectionism and self-reliance.

India and globalisation

- India's integration dates to the **1991 liberalisation**, which opened trade, investment and financial markets.
- **Gains**: high growth on the back of FDI and expanding exports, and a booming **IT and software services** sector that made India a leading technology and outsourcing hub.
- **Exposure**: vulnerability to global shocks, from financial downturns to the pandemic. **Jagdish Bhagwati** praised India's use of globalisation for growth while warning against neglecting its social and environmental effects.

28 Challenges to the neoliberal order

- **Climate change**: neoliberal economics has often sidelined sustainability. **Amartya Sen** *(Development as Freedom)* argues for growth that includes environmental concern.
- **Digital divide**: globalisation has deepened the technological gap, leaving many developing countries struggling to catch up.
- **Geopolitical rivalries**: China's **Belt and Road Initiative** and the rise of **BRICS** contest Anglo-Saxon globalisation.

E Global Economic Governance and the Reform Debate

Who governs the world economy — and on whose terms

29 Features of global governance — myth or reality?

The trend toward global governance is clearest in economic policy, where interdependence is deepest and the failure of cooperation causes the clearest damage. **Andrew Heywood** identifies its features:

Polycentrism | Intergovernmentalism | Mixed-actor involvement | Multilevel processes | Deformalisation

- **Polycentrism** — multiple institutional frameworks rather than a single one.
- **Intergovernmentalism** — states retain influence; institutions favour consensual decisions and hold weak enforcement powers.
- **Mixed-actor involvement** — NGOs, TNCs and civil society join states and international organisations, blurring the public–private divide.
- **Multilevel processes** — municipal to global, with no single level predominant.
- **Deformalisation** — reliance on norm-based, informal regimes over formal legal bodies.

Myth or reality?

- **The liberal case**: an irresistible trend. The growth of international organisations both shows a greater willingness to cooperate and builds further cooperation, through trust and rule-governed habits. **Heywood** notes that, tied to globalisation, its salience may fluctuate but is likely to grow, since interdependence, once established, is hard to reverse.
- **Against overstatement**: it is more accurate to speak of an **emerging governance process** than an established system, and its norms are far better rooted in some regions than others. **Cooper** portrays Europe as the heart of a **"postmodern"** world for its success in pooling sovereignty — an exception, with much of the world still little affected by international rules, as "rogue" and pariah states show.

30 Reforming the Bretton Woods system — three models

Financial and economic crises have grown more frequent and severe since the 1980s, generating competing models of reform.

School	Position
Market fundamentalists	Do little. Crises are a small price for decades of growth, and more regulation would only worsen matters.
Regulatory liberals	Drawing on Keynesian insights about market fallibility: specific reforms of the global financial architecture and new domestic regulatory regimes. **Held (1995)** argued a new architecture must be more inclusive and oriented around **cosmopolitan democracy**.
Anti-capitalists	The 2007–09 crisis reflected the imbalances of the global economy itself — a substantial redistribution of wealth and power is required (**Monbiot, 2004**).

- **What actually happened**: the three pillars survived. Voting rights adjusted modestly toward developing countries, but fundamental power balances remained. The main institutional change was the **Financial Stability Board (2009)**; emerging economies also built the **AIIB, NDB and BRICS CRA**, with China calling to replace the dollar as reserve currency.
- **Miles Kahler**: absent reform of IMF and World Bank governance, rising powers could either become **"responsible stakeholders"** or build **parallel institutions**.

31 Non-state actors in international relations

Non-state actors reshape power, policy space and rule-making across borders.

- **IMF and World Bank**: shape macro-policy through governance and loan design. Quota-based voting gives the US an effective veto, and conditionality (austerity, liberalisation, privatisation) narrows recipients' choices. **Joseph Stiglitz** links the one-size-fits-all approach to worse outcomes in the South and to the **1997 Asian crisis**.
- **European Union**: the model of supranational integration. The **Single European Act** set the single-market objective and the four freedoms; the **Lisbon Treaty** gave the EU legal personality; binding EU law supersedes national law in agreed domains, and the Union takes common foreign-policy stances (joint sanctions on Russia). This **pooling of sovereignty** is what distinguishes it.
- **MNCs and global finance**: erode domestic autonomy as key economic drivers move beyond national borders; MNC-led production can drive a **"race to the bottom"** in wages and conditions. Marxist scholars read globalisation as the latest phase of global capitalism. **Robert Cox**: global governance limits the autonomy of nation-states. **Immanuel Wallerstein**: core–periphery divides persist.

32 From embedded liberalism to neoliberal globalisation

The move from Bretton Woods to the WTO is often read as a shift from **embedded liberalism** to **neoliberal globalisation** — with real consequences for development strategy.

- The post-war order paired international cooperation with domestic **policy space**. Across the 1980s–90s, conditionality tightened and turned outward — fiscal austerity, trade liberalisation and privatisation, summed up as the **Washington Consensus**.
- Trade governance shifted too: GATT's **MFN** and national treatment gave way to the WTO's binding disciplines under **GATS**, **TRIPS** and the **DSU**. **Robert Keohane** and **Joseph Nye** frame the result as a **"cobweb of interdependence."**
- **The development fallout is a trade-off**: greater openness, thinner policy space. Keynesian welfare policies and protective tariffs became harder to sustain, and under SAPs the rollback of the state deepened class and regional inequalities.
- **The task for development**: secure the gains of integration while buffering the loss of policy space and the social costs that come with rule-bound openness.

33 Latin America and alternatives to the US-led order

Latin America has sought a larger role in a multipolar world, but its diverse economies and unaligned agendas have limited its collective weight.

- The region has long been overshadowed by US dominance. The **Monroe Doctrine (1823)** still informs US policy, now directed at Chinese investment and Russian ties with Venezuela, Cuba and Nicaragua.
- Its assets — natural resources, cultural diversity, geographic advantage in an era of **"nearshoring,"** and the absence of inter-state war — are offset by weak governance, inequality, ideological divides and organised crime.
- **Mello (2020)** describes the **OECD** as a Western-led vehicle promoting a liberal economic agenda; a larger Latin American presence there is seen as important for engagement with the global economy.
- Rather than **Fukuyama's (1992)** **"end of history,"** analysts describe a transition to a **"hot peace"** (**Parsons, 1995**) in which soft power matters amid weak leadership by states and organisations.
- Without a common voice, Latin American states have worked through existing multilateral instruments: the **G20**, Brazil's leadership at **COP30**, Peru's role in **APEC**, Colombia's role in the biodiversity COP, and the **Inter-American Development Bank's** coordination of multilateral development banks. The moment of **relative multipolarity** (**Merino, 2016**; **Acharya et al., 2021**) offers an opening to lead new alliances.
- **Assessment**: the counter-hegemonic push is partial and uneven — a bid for resilience and voice rather than a rupture with the US-led order.

UPSC 2025 · 20m

Latin America has made moderate success in countering the US-led global economic order by forming various organizations emphasizing regional sovereignty, economic integration and alternative development. Discuss.

34 The thread — four strands, one story

- **Bretton Woods** built the institutions. **The CMEA** offered an alternative that could not survive its own rigidity. **The NIEO** named the injustice of the order and pressed for structural change. **Globalisation** deepened both the gains and the grievances.
- Globalisation and neoliberalism drove the fastest integrated growth in history — and exposed recurring financial crises, environmental damage and widening income disparities that keep the demand for reform alive.
- The Global South is no longer only asking to be included in a system others designed. Through quota reform, alternative banks, and platforms like the G20, it is trying to **rewrite the rules**.
- The open question for India and the developing world: whether the gains of integration can be secured without bearing the full social and economic cost — a balance **Joseph Stiglitz** frames as the need to redesign globalisation so that it works for the many rather than the few.

F The Revision Board

35 Scholar index

Acharya · Samir Amin · Arjun Appadurai · Roberto Azevedo · Richard Baldwin · Joseph Berliner · Jagdish Bhagwati · Willy Brandt · John Burton · Noam Chomsky · Cooper · Brahima S. Coulibaly · Robert Cox · J.S. Deepak · Neelam Deo · Karl Deutsch · Arthur Dunkel · Simon Evenett · Thomas Friedman · Francis Fukuyama · Indira Gandhi · Robert Gilpin · Ernst B. Haas · David Harvey · Vineet Hegde · David Held · Andrew Heywood · John Ikenberry · Miles Kahler · D. Ravi Kanth · Devesh Kapur · Robert Keohane · J.M. Keynes · Martin Khor · Charles Kindleberger · Henry Kissinger · Bruno Kreisky · Irving Kristol · Pascal Lamy · McCalla & Nash · Mello · Merino · Rakesh Mohan · Monbiot · Henry Morgenthau · Mia Mottley · Daniel Patrick Moynihan · Amrita Narlikar · Gamal Abdel Nasser · Dev Nathan · Richard Newfarmer · Alexander Nove · Joseph Nye · Julius Nyerere · Olof Palme · Parsons · Karl Polanyi · Raúl Prebisch · Jan Pronk · Raghuram Rajan · Ronald Reagan · Erik Reinert · Dani Rodrik · Seabrooke & Tsingou · Amartya Sen · William Simon · Swaran Singh · Nicholas Stern · Joseph Stiglitz · Susan Strange · Oliver Stuenkel · Sukarno · Margaret Thatcher · Jan Tinbergen · Immanuel Wallerstein · Joseph Weiler · Thomas Weiss · Harry Dexter White · John Williamson · Ngaire Woods · Zhao Gancheng · Andrew Zimbalist

36 Power quotes

> *Colonialism is "not yet dead"; it survives in "modern dress, in the form of economic control, intellectual control, actual physical control by a small but alien community within a nation."* — **Sukarno, Bandung, 1955**

> *An order "based on equity, sovereign equality, common interest and co-operation among all States."* — **UN General Assembly, NIEO Declaration, 1974**

> *The Bretton Woods institutions have become "part of the problem rather than the solution."* — **Joseph Stiglitz**

> *The paralysis of the Appellate Body is a "legitimacy crisis" for the WTO.* — **Joseph Weiler**

> *"Casino capitalism" and "mad money" — unregulated capital surging in speculative bursts.* — **Susan Strange**

> *The IMF and the World Bank are a "rich man's club."* — **Martin Khor**

> *The wider assault on the trading order is a "Great Trade Hack" — this is a "reform or die" moment.* — **Richard Baldwin**

> *The world must **reform, not bury,** the WTO.* — **Pascal Lamy**

> *The Fund is a mechanism of **discipline rather than development.*** — **Susan Strange**

37 How UPSC asks it

Question	Year & marks
"The IMF, World Bank, G-7, GATT and other structures are designed to serve the interests of TNCs, banks and investment firms in a 'new imperial age'." Substantiate with examples of the governance of the new world order.	2016 · 20m
How has global capitalism changed the nature of socialist economies and developing societies?	2017 · 15m
How are the rising powers challenging the USA and Western dominance in the IMF and the World Bank?	2019 · 20m
Critically evaluate the role of the United States of America in the World Trade Organization (WTO) dispute settlement mechanism and its implications for the future of the WTO.	2020 · 15m
Explain the significance and importance of the demand raised by the developing countries for a New International Economic Order (NIEO). Are they likely to achieve their objectives of the NIEO in the foreseeable future?	2020 · 15m
Identify and evaluate the reasons for the deadlock in the WTO negotiations on fisheries between the developing and developed countries.	2022 · 20m
The return of trade barriers and economic sanctions has diminished the spirit of GATT. In this context, discuss the factors contributing to the decline of the WTO in recent times.	2024 · 15m
Latin America has made moderate success in countering the US-led global economic order by forming various organizations emphasizing regional sovereignty, economic integration and alternative development. Discuss.	2025 · 20m

38 Today's practice — write before the evening

1. The return of trade barriers and economic sanctions has diminished the spirit of GATT. In this context, discuss the factors contributing to the decline of the WTO in recent times. *(UPSC 2024 · 15m)*
2. Explain the significance and importance of the demand raised by the developing countries for a New International Economic Order (NIEO). Are they likely to achieve their objectives of the NIEO in the foreseeable future? *(UPSC 2020 · 15m)*
3. Latin America has made moderate success in countering the US-led global economic order by forming various organizations emphasizing regional sovereignty, economic integration and alternative development. Discuss. *(UPSC 2025 · 20m)*

Model answers drop tonight on the Telegram channel — **@psirbyamitpratap**. Every point above is developed in full in your **Foundation & OGP** class notes and handouts — revise it, then write. **Don't break the chain.**

See you tomorrow with Day 35 — The United Nations.