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## **The Role of International Institutions in Enforcing International Economic Law: Analysis of Strength and Weaknesses**

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## Abstract

*This paper aims to highlight the role of international institutions in the enforcement of International Economic Law (IEL) and to critically assess their strengths and limitations. IEL serves as a crucial framework for facilitating global trade and investment, providing a regulatory foundation for cross-border commercial interactions. However, the mere existence of IEL's principles and provisions does not guarantee compliance; their enforcement typically requires robust mechanisms. This article focuses on the enforcement of IEL through key international institutions such as the World Trade Organization (WTO), World Bank and International Monetary Fund (IMF). It highlights the deficiencies of the conventional state-centric mechanism and inspects different enforcement strategies used by these institutions. It also addresses methodological challenges faced by these mechanisms, including their reliance on substantial resources and the redistributive impacts of IMF and World Bank policies. The article concludes by proposing a range of actions that could be adopted to improve the effectiveness of enforcement, from opening up decision-making processes so they are more inclusive and fairer to maintaining international economic norms which have developed in an incompletely globalized but still highly integrated world.*

**Key Words:** International Institutions, International Economic Law, World Trade Organization, World Bank, International Monetary Fund

## Introduction:

Globalization has transformed the global economic landscape over the past few decades, leading to significant growth in international trade and cross-border investment. This evolution has underscored the need for robust regulatory frameworks established by governments to manage these complex interactions effectively. The growth in the number of these practices has made International Economic Law (IEL) an important tool

for their regulation and a guarantor of open, just markets. The IEL consists of treaties, customs and other written approved documents in the field of international trade, investment and intellectual property. The power of IEL however is not just to be seen in the amplitude of how many legal instruments are provided, but also through its mechanism in ensuring the compliance by member states.

The founding of the International Labour Organization (ILO) and the development of transformational functions by groups like as the International Monetary Fund (IMF) provided the groundwork for the formation of international economic institutions. The United Nations Monetary and Financial Conference of 1944, often known as the Bretton Woods Conference, created a new institutional structure by establishing the IMF and the World Bank. These entities had been established to foster international monetary cooperation and provide finance for post-World War II reconstruction activities. Another key event that created the groundwork for a multilateral trading system was the General Agreement on Tariffs and Trade (GATT), which was established in 1947. The World Trade Organization (WTO) was founded in 1995 with the goal of further globalizing trade regulations.

Theoretical perspectives on international institutions provide varied insights into their functions and impact. Liberal institutionalism believes that international institutions play a key role in promoting mutual interests to reduce the probability of conflict between states. Realist scholars on the other hand view international institutions as means of exerting influence through interactions of Great Powers in power-based structures. The Constructivist approaches have sought to highlight the role of ideas (that is norms and beliefs) in state behavior as well as institutions.

Despite the fact they are crucial players, international economic institutions have many challenges that threaten their ability to uphold a rule-based international system. These multilateral institutions operate on the premise that even powerful states should not be allowed to act unilaterally; unilateralism undermines the very framework of cooperation that these institutions aim to uphold. More significantly, the pace at which technological change and trade development are accelerating poses a serious challenge

for institutions like WTO that operate to slowly adjust existing regulations heeding to real global economic requisites. This underscores the case for continuing reform and flexibility in international economic institutions to equip them better with new challenges effectively within an evolving global economy.

## **Literature Review**

This literature review delves into the multifaceted role of international institutions in enforcing IEL. It examines historical practices, theoretical rationales, and contemporary issues related to the enforcement mechanisms of these institutions, as well as factors contributing to their success or failure. Using scholarship as a guide, this review shows that international institutions have helped secure compliance with and the settlement of disputes over key rules which structure one important area of inter-state cooperation: economic relations on an international level. It draws on a variety of scholarly sources to assess the performance of international institutions in facilitating compliance, adjudicating disputes, and coping with challenges in economic governance.

This review provides meaningful insight as to where the landscape of global economic regulation is heading and which areas warrant additional research or reform. The enforcement of IEL is a complex endeavor that necessitates the involvement of various stakeholders, including international organizations as well as states and non-state actors. International institutions serve as key actors in this domain, providing mechanisms for monitoring, adjudicating, and enforcing legal norms governing economic relations among states.

International economic institutions mainly ILO and IMF were established at the beginning of the 20th century to deal with economic relations.<sup>1</sup> These institutions aimed to address pressing economic issues such as Labour rights and financial stability through the formulation of international agreements and the provision of technical assistance to member states. Monetary and economic changes were a consequence of the Bretton

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<sup>1</sup> Beth A Simmons, *Mobilizing for Human Rights: International Law in Domestic Politics* (Cambridge: Cambridge University Press, 2012).

Woods Conference of 1944, which officially declared the establishment of IMF and World Bank. The main goal of these institutions was to relieve countries from global depression, establish monetary cooperation and reconstruction post World War II.<sup>2</sup> The General Agreement on Tariffs and Trade (GATT) was established in 1947 as a foundation for the multilateral trading system, which is now governed by WTO established in 1995.<sup>3</sup>

Regionally, the rise of a variety of regional economic institutions, like the European Union (EU) in Europe and ASEAN in Southeast Asia, laid further emphasis on institutional frameworks for regulating state-level interactions/trade balances etc.<sup>4</sup> Additionally, these institutions aid in economic integration and are instrumental to the enforcement of common rules as well as dispute resolution among member states. They have been analyzed through various theoretical frameworks to assess the role, if any, that international institutions can play in enforcing economic law. According to liberal institutionalism, international institutions are important tools and can help promote cooperation as well as ameliorate conflicts in which its rules/norms/procedures promote.<sup>5</sup> According to this perspective, institutions such as the WTO and the IMF serve as forums for states to negotiate and enforce collective agreements, thereby enhancing the stability and predictability of the international economic system. In contrast, realist scholars take a more critical attitude toward international institutions and describe power relationships between countries as the main determinant of behavior in world politics.<sup>6</sup>

Constructivist approaches foreground the factors e.g., norms and beliefs as determining state behavior and institutional outcomes.<sup>7</sup> In this respect, international

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<sup>2</sup> James M Boughton, *Silent Revolution: The International Monetary Fund, 1979-1989* (Washington, D.C.: International Monetary Fund, 2001).

<sup>3</sup> Petros C Mavroidis, *The General Agreement on Tariffs and Trade* (Oxford University Press, USA, 2005).

<sup>4</sup> Edward D. Mansfield and Jon C. Pevehouse, "Democratization and International Organizations," *International Organization* 60, no. 1 (2006): 137–67, <https://www.jstor.org/stable/3877870>.

<sup>5</sup> Robert O Keohane and Lisa L Martin, "The Promise of Institutional Theory," *International Security* 20, no. 1 (1995): 39–51, <https://doi.org/10.2307/2539214>.

<sup>6</sup> John J. Mearsheimer, "The False Promise of International Institutions," *International Security* 19, no. 3 (1994): 5–49, <https://doi.org/10.2307/2539078>.

<sup>7</sup> Martha Finnemore and Kathryn Sikkink, "International Norm Dynamics and Political Change," *International Organization* 52, no. 4 (1998): 887–917, <https://www.jstor.org/stable/2601361>.

institutions do not only reflect existing norms but also shape the behavior of states and promote new normative attitudes towards economic cooperation and adherence to international law.

This perspective views institutions as platforms where states pursue their self-interests, potentially reinforcing hegemonic power dynamics rather than fostering genuine cooperation or adherence to legal norms. As important as they are, effective enforcement of IEL by international institutions faces a range of obstacles in the contemporary context. The world faces certain challenges that include the escalation of unilateralism and protectionism as has been witnessed in case of USA in its withdrawal from international agreements such as the Paris Accords and the Iran Nuclear Deal. This trend did not help but disintegrate multilateral institutions and weaken the rule-based order which serves as the foundation of IEL. Second, many institutions encounter difficulties because of the growing complexity of global economic governance, they cannot keep pace with technological advancement and rapid changes in the nature and scope of trade and emerging geopolitical parameters. Third, historical evidence is not considered in this regard.<sup>8</sup>

The proliferation of preferential trade agreements and the return of economic nationalism complicated the enforcement of common rules and standards at the international level.<sup>9</sup> A further problem results from the constraints of enforceable powers at current international institutions. Although institutions like the WTO have been equipped with dispute settlement mechanisms, compliance is linked to states' inclination and not an external enforcing authority.<sup>10</sup> This lack of effective sanctions or enforcement mechanisms has made IEL a toothless tiger on this count, thereby its credibility and

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<sup>8</sup> Richard Baldwin, "The World Trade Organization and the Future of Multilateralism," *The Journal of Economic Perspectives* 30, no. 1 (2016): 95–115, <https://www.jstor.org/stable/43710012>.

<sup>9</sup> Simon Evenett and Johannes Fritz, "The Tide Turns? Trade, Protectionism, and Slowing Global Growth," 2015, [https://cepr.org/system/files/publication-files/60208-gta\\_18\\_the\\_tide\\_turns\\_trade\\_protectionism\\_and\\_slowing\\_global\\_growth.pdf](https://cepr.org/system/files/publication-files/60208-gta_18_the_tide_turns_trade_protectionism_and_slowing_global_growth.pdf).

<sup>10</sup> Jack L. Goldsmith and Eric A. Posner, *The Limits of International Law* (Oxford University Press, 2005).

efficacy as an instrument for deterring non-compliance are greatly diminished.<sup>11</sup>

Moreover, the literature review assesses whether there is any room for improvement in the International Institutions in Enforcing IEL. International organizations contribute to states through the initiation and promotion of platforms for dialogue, negotiation, and cooperation among nations faster than working on a bilateral relationship by establishing norms.<sup>12</sup> These include international organizations such as the WTO and the IMF, which alongside public administrations help to smooth over commitments at the government level. Most international organizations set up dispute settlement processes to address conflicts and impose legal responsibilities.<sup>13</sup> The WTO's Dispute Settlement Body, for instance, offers a binding process for adjudicating trade disputes and ensuring compliance with WTO rules.

To assist member states in implementing and enforcing IEL, international institutions provide technical assistance and capacity-building support.<sup>14</sup> IMF and the World Bank distribute grants to countries in various aspects, including fiscal management, financial regulation and trade facilitation. This is because international institutions work to create and promote universal legal norms through advocacy, research, and curation of the best global practices.<sup>15</sup> For instance, historically the ILO was designed to promote Labour rights and social justice on a universal basis. However, the absence of effective enforcement mechanisms in major international law-making bodies has hindered the enforcement of IEL. Although some institutions have ad hoc

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<sup>11</sup> Eric Reinhardt and Marc L. Busch, "Developing Countries and General Agreement on Tariffs and Trade/World Trade Organization Dispute Settlement," *Journal of World Trade* 37, no. Issue 4 (August 1, 2003): 719–35, <https://doi.org/10.54648/trad2003034>.

<sup>12</sup> Robert Keohane and Joseph Nye, "Power and Interdependence Revisited," *International Organization* 41, no. 4 (1987): 725–53, [https://edisciplinas.usp.br/pluginfile.php/4093127/mod\\_resource/content/1/Keohane%20%20Nye%201987.pdf](https://edisciplinas.usp.br/pluginfile.php/4093127/mod_resource/content/1/Keohane%20%20Nye%201987.pdf).

<sup>13</sup> Eric Reinhardt and Marc L. Busch, "Developing Countries and General Agreement on Tariffs and Trade/World Trade Organization Dispute Settlement," *Journal of World Trade* 37, no. Issue 4 (August 1, 2003): 719–35, <https://doi.org/10.54648/trad2003034>.

<sup>14</sup> Beth A Simmons, *Mobilizing for Human Rights: International Law in Domestic Politics* (Cambridge: Cambridge University Press, 2012).

<sup>15</sup> Kenneth W. Abbott and Duncan Snidal, "Hard and Soft Law in International Governance," *International Organization* 54, no. 3 (2000): 421–56.

dispute settlement mechanisms, such as arbitration, these decisions are largely voluntary. When organizations rule against a member state, non-compliance frequently occurs due to the lack of effective enforcement mechanisms.<sup>16</sup>

International institutions may also exacerbate existing power imbalances among member states, inadvertently disadvantaging smaller and less developed countries.<sup>17</sup> When major powers dominate, this can undermine the legitimacy and effectiveness of these institutions, leading to uneven enforcement of economic rules, public expenditures, or environmental standards, and potentially disrupting the benefits of stability. Such dominance can cause institutional fragmentation and competition for jurisdiction, hindering the creation of a cohesive, integrated system and complicating coordination and cooperation among institutions, which slows enforcement.<sup>18</sup> Additionally, many international institutions suffer from democratic deficits, where powerful states or unelected technocrats dictate the rules. Transparency, accountability, and inclusivity are crucial for ensuring that institutional processes are legitimate and for maintaining public trust in global economic governance.

## Analysis and Discussion

The literature suggests that the degree to which international institutions are effective in enforcing IEL depends upon their structural mandate and resources and, the political will of member states. Some scholars argue that international institutions are established to help with compliance, conflict resolution and cooperation, making the international economic system more stable and predictable. For instance, institutions such as the WTO and IMF, act as negotiation platforms in which members make collective commitments that constrain their external behavior. They are making contributions to global economic governance. Critics, on the other hand, argue that

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<sup>16</sup> Jack L. Goldsmith and Eric A. Posner, *The Limits of International Law* (Oxford University Press, 2005).

<sup>17</sup> A. T. Guzman and T. L. Meyer, "International Soft Law," *Journal of Legal Analysis* 2, no. 1 (March 1, 2010): 171–225, <https://doi.org/10.1093/jla/2.1.171>.

<sup>18</sup> Karen J. Alter and Sophie Meunier, "The Politics of International Regime Complexity," *Perspectives on Politics* 7, no. 1 (February 12, 2009): 13–24, <https://doi.org/10.1017/s1537592709090033>.



international institutions are bound to have difficulties enforcing economic law productively and efficiently because of the power balance between member states and the enforcement capabilities that such institutions have.

Realist scholars argue that the pursuit of power and the prioritization of state interests often render the enforcement mechanisms of institutions as mere instruments of hegemonic power rather than genuine cooperative entities. Moreover, the lack of reliable enforcement mechanisms, democratic oversight, and the fragmentation of institutions can weaken the adequacy of resources needed to ensure compliance with IEL.

IEL has emerged as a central legal architecture for the regulation of global trade, investment and financial interactions. To this end, it sets standards to guide nations' conduct within a stable and predictable international commercial regime. The enforcement of these standards is primarily the responsibility of international institutions such as the WTO, the IMF, and the World Bank.

### **Strengths of International Institutions in Enforcing IEL**

The capacity of international institutions to offer a structured and legally governed environment accommodating economic disputes is the first advantage. This not only provides some systematization in an otherwise complex body of international economic activity but also delivers a measure of assurance to member states that disputes will be settled according to principles long established and equal treatment applied. For instance, the WTO is famous for its official Dispute Settlement Mechanism (DSM). There is widespread acknowledgement that the DSM stands as one of international law's most successful contributions to ways and means evolved for settling trade liners. It carries out its work unbiased and unaffected from pressure, applying the principles of due process and acting on behalf of students ensuring they get to make their case thoroughly whether as complainants or respondents.

Contemporary studies emphasized the DSM's pivotal role in not only resolving trade

disputes but also promoting overall compliance with international trade rules.<sup>19</sup> These studies demonstrate that the DSM has performed well in deciding many cases, resolving them in ways supportive of upholding and preserving the international trading order. To the extent that DSM rulings guide in an area of ambiguous legal obligation, they facilitate the rule-of-law function explicitly fostered by international trade agreements.

The WTO, IMF and World Bank provide critical financial aid and policy advice to their member countries, helping them meet international economic standards. The IMF works to identify the cause of financial crises and to address their roots through its lending programs and economic surveillance. It helps countries navigate financially troubled waters, identifying problems early on as well as implementing solutions. The IMF stipulates the conditions of its financial aid to ensure that countries receiving it adhere to sound economic policy concerning international standards. These long-term development projects and structural reforms are supported by specific lending instruments provided to governments, along with the technical expertise necessary to implement plans that foster growth. This support is often referred to in Banking terminology as "technical assistance" programs.

In addition, by operating as forums for coordination and dialogue among member states, they reinforce the notion of shared responsibility in upholding and enforcing IEL. That cooperation is essential for serving global economic challenges too big for any one country to solve.<sup>20</sup> These institutions promote collaborative efforts, which provide a platform for countries to discuss and coordinate economic policy matters, and share experiences in the design of policies while building consensus on their implementation strategies. One embodiment of this collective approach is in the IMF's surveillance and monitoring functions, where countries make commitments to good economic policy. The IMF conducts regular reviews of the economic policies of its member countries and

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<sup>19</sup> Chad P. Bown and Bernard Hoekman, "WTO Dispute Settlement and the Missing Developing Country Cases: Engaging the Private Sector," *SSRN Electronic Journal*, 2005, <https://doi.org/10.2139/ssrn.746384>.

<sup>20</sup> Kenneth Abbott and Duncan Snidal, "Strengthening International Regulation through Transnational New Governance: Overcoming the Orchestration Deficit," *Vanderbilt Journal of Transnational Law* 42, no. 2 (January 1, 2009): 501, <https://scholarship.law.vanderbilt.edu/vjtl/vol42/iss2/4/>.

advices regarding necessary changes.

The Article IV consultations consist of long discussions between IMF staff and national authorities, which eventually translate into policy actions decided with the agreement of government agencies.

International institutions are also crucial as a community to improve the institutional structure of countries and strengthen their compliance with international economic standards. The World Bank, for example, provides technical assistance and training programs that enhance the regulatory and administrative capabilities of developing or third world countries. The programs are sector-based and cover key sectors including public financial management, trade facilitation and investment promotion to make countries more effective participants in the global economy.

The WTO, IMF, and World Bank offer structured legal frameworks for resolving economic disputes and implementing coordinated policies on tariffs to mitigate trade disputes, such as anti-dumping measures and high tariff barriers. Additionally, by fostering consensus among member states through informal processes for agreed solutions and minimum practices, these institutions can enhance the effectiveness of IEL in addressing global economic challenges through collective action and mutual assistance.

## **Weaknesses and Challenges**

International institutions are strong in many respects but face fundamental challenges in enforcing IEL. A major impediment is related to issues of sovereignty, with states often reluctant to cede power to higher authorities. This reluctance can lead to non-compliance or selective compliance with international economic rules. Additionally, powerful states can defy institutional decisions they disagree with, as seen in some cases before the WTO. For example, countries like the United States and other major nations have occasionally bypassed or ignored WTO rulings that adversely

affected them, which diminishes the organization's authority and esteem.<sup>21</sup>

Another significant challenge is the perceived bias and lack of equity within these organizations. Developing countries often feel marginalized in international economic forums and believe that the rules and regulations established by these committees and organizations are crafted by and for wealthy nations, further entrenching existing inequalities.<sup>22</sup> Studies indicate that institutions such as the IMF and the World Bank are systematically captured by the voice of rich countries, and such influence significantly undermines the positions of such organizations and their successful work. For example, the IMF voting system is based on its members' financial contributions, meaning that the larger the contribution, the more power the donor country has when it comes to decision-making. From this perspective, the policy developed by the IMF and its recommendations to developing countries might not be entirely suitable, as it is possible that they do not cover the specifics and the current state of the state receiving them.

Methodologically, there is also a critique of implementation mechanisms. As for the WTO's DSM itself, while it is effective in many respects, it has rightly been criticized as slow and resource-intensive; these qualities can put weaker or less wealthy countries at a disadvantage due to their inability to face long legal battles. The procedural complexity and expense of taking a case to the WTO can in practice make it virtually impossible for many developing countries to seek recourse when they perceive that trade is going against them. On the other hand, the financial incentives and sanctions imposed by the IMF and World Bank not only have their efficiency questioned but often result in negative economic or social consequences for recipient countries. For example, the conditionality attached to IMF loans often calls on countries to impose austerity measures that can worsen poverty and fuel social unrest.

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<sup>21</sup> Thomas Rixen and Bernhard Zangl, "The Politicization of International Economic Institutions in US Public Debates," *The Review of International Organizations* 8, no. 3 (December 22, 2012): 363–87, <https://doi.org/10.1007/s11558-012-9158-5>.

<sup>22</sup> Dani Rodrik, *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth*, JSTOR (Princeton University Press, 2007), <https://www.jstor.org/stable/j.ctvcn4jbh>.

## Conclusion

In conclusion, international institutions have a central function in the development of IEL by offering venues for bargaining and adjudicating as well as state cooperation. The support of these institutions such as the WTO, IMF and World Bank is indispensable to ensure a predictable legal order for global trade which enables investments. They help to resolve disputes in a non-violent manner, ensure good compliance and act as disincentives against violations contributing greatly to the predictability of the global economic environment.

However, the efficacy of these institutions depends on multiple interrelated factors that involve state cooperation, institutional architecture and changing geopolitics. The most apparent issue is the sensitive question of sovereignty; states are understandably reluctant to cede their authority to higher global institutions as things currently stand. This unwillingness to comply with IEL rules can result in selective acquiescence or an outright refusal of compliance, which in turn will erode the authority of institutions like the WTO. Furthermore, suspicion of bias and inequity within these institutions serving as catalysts for transgressions make them all the more difficult to work with when developing countries feel slighted.

To support the effective and stable enforcement of IEL, it's not enough to simply ignore or passively accept the temporary issues caused by unilateral actions and protectionist policies. Instead, it's crucial to clarify and implement essential reforms within international institutions to address these challenges and improve the enforcement of IEL. It involves a degree of scrutiny and reform in the way that methodologies are used, such as concerning resource intensity within the DSM at WTO or socio-economic effects from IMF & World Bank policies.

For future research, attention needs to be directed towards non-judicial means of dispute settlement that can serve as a remedy which is more accessible and less resource-intensive paving the way for smaller and poorer countries being able to participate effectively. This integration of enforcement with non-state actors can improve the inclusivity and responsiveness towards IEL. Further, given new technologies can

provide novel methods for compliance monitoring mechanisms and dispute resolution this becomes important also. Finally, finding the right balance between economic growth and social development is highly needed. IEL also needs to contribute not just to prosperity but to our wider goals of social justice and sustainable development.

In summary, while international institutions are a necessary component for implementing IEL, they are not sufficient on their own. Ongoing research is crucial to better understand their weaknesses and to adapt them to the challenges of global transformation. This approach will help ensure that these institutions continue to play a vital role in maintaining a stable and robust global economy.