

THE FUTURE OF WORLD TRADE

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Abstract

Trade liberalization is often seen as having the potential to contribute to sustainable development, particularly for developing countries. The present paper studies about the World Trade next challenge and tries to analyze whether the negotiating mandate actually has the potential to contribute towards sustainable development in these countries. It is found that though there is great potential for trade liberalization to become an effective tool towards sustainable development in developing world, yet trade agreements alone will not automatically enable such services to fulfill that desirable goal. In order for services trade to work for sustainable development, nations will have to strike a delicate balance between state and market-based policies. It is important to make the domestic sector more healthy and competitive and to build domestic capacity by aligning liberalization with evolving developmental and environmental priorities.

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Introduction:

The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.

On 15 December 1993 the world changed. It may not be as dramatically as the moment when the Berlin Wall fell, but it was a very necessary demolition job, the success of the Uruguay Round was a work of construction. Like the destruction of the wall, though, its effects will be profound and lasting ones felt far beyond its immediate context. It will be seen as a defining moment in modern history¹.

The importance of the Round can be seen in terms of the boost it gives to job creation, to development, to investment; to economic reform; to the rule of law and, in many other ways besides. All of these benefits are real and important. But the true value of the whole is much, much more than the sum of these parts.

Put simply, governments came to the conclusion that the notion of a new world order was not merely attractive but absolutely vital; that the reality of the global market - whatever ambitions some of them may retain for regional integration - required a level of multilateral cooperation never before attempted.

Perhaps the biggest challenge to the WTO comes not from member states but from civil society groups such as non-governmental organizations. Many social activists in the anti-globalization movement draw attention to the difficulties of liberalization in both developed and developing countries, especially for the weaker members of society and less market-competitive forms of economic organization which may none the less be crucial to local identities and cultures. Organized labour maintains an uneasy relationship with the liberalization process, for fear of job losses.

NO LOSERS IN THE ROUND

It has created a revolutionary framework for economic, legal and political cooperation. But now turn to the immediate results of the Round. Seeing them as a profit and loss account or a scorecard of winners and losers is to see them in static terms, as one-off with finite effects. This misses the point completely.

Every nation now needs an effective trading system, but especially so the small and poor. They have it. Everyone will also gain from the huge package of market access results even if they did not get every concession they were seeking from trading partners it is the biggest market access deal ever negotiated.

However, the essence of the Uruguay Round's² achievements is that they are dynamic. The new agreements, the new rules and structures it sets up - all mean a commitment to a continuing process of cooperation and reform of which the agreement in December was only the beginning.

Maintaining the liberalizing momentum will call for continuing effort and vigilance by participating countries. But now their energy can be focused through the Round's greatest innovation; the new World Trade Organization (WTO) in place. of the improvised basis on which the GATT has operated for 45 years, trade will now have a permanent forum appropriate to its importance in the world economy.

Technically speaking, the WTO implementation of the Round's results, will oversee the administer all the implementation of the Round's results, administer all the agreements in goods, services and intellectual property, and manage the unified dispute settlement system. But beyond these. administrative functions, it will raise the political profile of trade a profile which has already been lifted greatly by the Uruguay Round. Through the WTO, the have regular instead of occasional direct Ministerial investment. It will have a clear mandate to act as a forum for further trade negotiations. Most of all it will complete the transition from a trading system which largely restricted itself to policies at the border to one which also covers most aspects of domestic policy-making affecting international competition in goods and services, as well as investment.

GATT and WTO Rounds³

Name	Start	Duration	Countries	Subjects covered	Achievements
Geneva	April 1947	7 months	23	Tariffs	Signing of GATT, 45,000 tariff concessions affecting \$10 billion of trade
Annecy	April 1949	5 months	13	Tariffs	Countries exchanged some 5,000 tariff concessions
Torquay	September 1950	8 months	38	Tariffs	Countries exchanged some 8,700 tariff concessions, cutting the 1948 tariff levels by 25%
Geneva II	January 1956	5 months	26	Tariffs, admission of Japan	\$2.5 billion in tariff reductions
Dillon	September 1960	11 months	26	Tariffs	Tariff concessions worth \$4.9 billion of world trade
Kennedy	May 1964	37 months	62	Tariffs, Anti-dumping	Tariff concessions worth \$40 billion of world trade
Tokyo	September 1973	74 months	102	Tariffs, non-tariff measures, "framework" agreements	Tariff reductions worth more than \$300 billion dollars achieved
Uruguay	September 1986	87 months	123	Tariffs, non-tariff measures, services, intellectual property, dispute settlement, agriculture, creation of WTO, etc	The round led to the creation of WTO, and extended the range of trade negotiations, leading to major reductions in tariffs (about 40%) and agricultural subsidies, an agreement to allow full access for textiles and

clothing from developing countries, and an extension of intellectual property rights.

			Tariffs, non-tariff measures, agriculture, labor standards, environment, competition, investment, transparency, patents etc	
Doha	November 2001	-	141	The round is not yet concluded.

Through the WTO, the Round will change the way the world economy is shaped. But it is not the final victory over protectionism and unilateralism. Any premature rejoicing would have quickly been cut short by the evidence since 15 December that major economic powers are still ready to take the unilateral approach to trade problems⁴. Arguments for protectionism based on the alleged threat of low-cost competition to production and jobs will not just fade away because the Round is a success. The seductive appeal of "beggar-thy-neighbor policies is highlighted by the seemingly greater vigour of the lobbies for protectionism than the advocates of open markets.

These dangers - and the speed with which they have resurfaced - make the achievement of the Uruguay Round all the more important and its successful implementation all the more urgent. Implementation requires more than mutual backslapping about what we have achieved. It requires now that the US, EU and Japan, in particular, rapidly obtain final author I try to ratify and also take a lead in providing the WTO with the means to fulfill its mandate.

The success of the Round⁵ has come at a time when it is even more vitally needed than anyone could have guessed when it was launched in 1986. Old structures and alignments have been turned inside out in trade as in every other area of international relations. We face a world of

change and challenge, in which the reinforced trading system will be a primary source of stability and security.

The developing countries including India have become enthusiastic supporters of the multilateral trading system and the Uruguay Round even if all their demands were not met by industrial countries. The reasons lie in the changing economic policies of many developing countries and the clearer appreciation of the value of the GATT system that has grown along with these changes.

The challenge of new issues in world trade will be a major one for the WTO. The new organization has to consider issues such as the links between trade and the environment, international competition policy, trade and investment, and trade and labour standards. To say a few words about trade and the environment since it is one area in which GATT⁶ member countries have committed themselves already to a comprehensive new work programme. They decided on 15 December, in conjunction with the adoption I of the results of the Uruguay Round negotiations, to draw up a work programme on trade and environment by the Ministerial meeting in Marrakesh. Environmental policy-making is one of the most rapidly evolving areas of national and international policy-making, and it is entirely appropriate that emphasis should be placed now in GATT/WTO on ensuring better policy coordination and multilateral cooperation' over the linkages between trade and environment.

Challenges of the trading system⁷

The WTO establishes a framework for trade policies; it does not define or specify outcomes. That is, it is concerned with setting the rules of the trade policy games. Five challenges are of particular importance in understanding both the pre-1994 GATT and the WTO:

1. **Non-Discrimination.** It has two major components: the most favoured nation (MFN) rule, and the national treatment policy. Both are embedded in the main WTO rules on goods, services, and intellectual property, but their precise scope and nature differ across these areas. The MFN rule requires that a WTO member must apply the same conditions on all trade with other WTO members, i.e. a WTO member has to grant the most favorable conditions under

which it allows trade in a certain product type to all other WTO members. "Grant someone a special favour and you have to do the same for all other WTO members." National treatment means that imported and locally-produced goods should be treated equally (at least after the foreign goods have entered the market) and was introduced to tackle non-tariff barriers to trade (e.g. technical standards, security standards et al. discriminating against imported goods).

2. **Reciprocity.** It reflects both a desire to limit the scope of free-riding that may arise because of the MFN rule, and a desire to obtain better access to foreign markets. A related point is that for a nation to negotiate, it is necessary that the gain from doing so be greater than the gain available from unilateral liberalization; reciprocal concessions intend to ensure that such gains will materialize.

3. **Binding and enforceable commitments.** The tariff commitments made by WTO members in a multilateral trade negotiation and on accession are enumerated in a schedule (list) of concessions. These schedules establish "ceiling bindings": a country can change its bindings, but only after negotiating with its trading partners, which could mean compensating them for loss of trade. If satisfaction is not obtained, the complaining country may invoke the WTO dispute settlement procedures.

4. **Transparency.** The WTO members are required to publish their trade regulations, to maintain institutions allowing for the review of administrative decisions affecting trade, to respond to requests for information by other members, and to notify changes in trade policies to the WTO. These internal transparency requirements are supplemented and facilitated by periodic country-specific reports (trade policy reviews) through the Trade Policy Review Mechanism (TPRM). The WTO system tries also to improve predictability and stability, discouraging the use of quotas and other measures used to set limits on quantities of imports.

5. **Safety valves.** In specific circumstances, governments are able to restrict trade. There are three types of provisions in this direction: articles allowing for the use of trade measures to attain noneconomic objectives; articles aimed at ensuring "fair competition"; and provisions permitting intervention in trade for economic reasons.

Criticism on WTO

The stated aim of the WTO is to promote free trade and stimulate economic growth. Some people argue that free trade leads to a divergence instead of convergence of income levels within rich and poor countries (the rich get richer and the poor get poorer). Martin Khor⁸, Director of the Third World Network, argues that the WTO does not manage the global economy impartially, but in its operation has a systematic bias toward rich countries and multinational corporations, harming smaller countries which have less negotiation power. He argues that developing countries have not benefited from the WTO Agreements of the Uruguay Round, because (among other reasons): market access in industry has not improved; these countries have had no gains yet from the phasing out of textiles quotas; non-tariff barriers such as anti-dumping measures have increased; and domestic support and export subsidies for agricultural products in the rich countries remain high. Jagdish Bhagwati⁹ asserts however that there is greater tariff protection on manufacturers in the poor countries, which are also overtaking the rich nations in the number of anti-dumping filings.

Other critics claim that the issues of labor relations and environment are steadfastly ignored. Steve Charnovitz¹⁰, former Director of the Global Environment and Trade Study (GETS), believes that the WTO "should begin to address the link between trade and labor and environmental concerns". Further, labor unions condemn the labor rights record of developing countries, arguing that to the extent the WTO succeeds at promoting globalization, and then in equal measure do the environment and labor rights suffer. On the other side, Khor responds that "if environment and labor were to enter the WTO system it would be conceptually difficult to argue why other social and cultural issues should also not enter." Bhagwati is also critical towards "rich-country lobbies seeking on imposing their unrelated agendas on trade agreements."

Other critics have characterized the decision making in the WTO¹¹ as complicated, ineffective, unrepresentative and non-inclusive, and they have proposed the establishment of a small, informal steering committee (a "consultative board") that can be delegated responsibility for developing consensus on trade issues among the member countries. The Third World Network has called the WTO "the most non-transparent of international organizations", because "the vast majority of developing countries have very little real say in the WTO system"; the Network

stresses that "civil society groups and institutions must be given genuine opportunities to express their views and to influence the outcome of policies and decisions." Certain non-governmental organizations, such as the World Federalist Movement¹², argue that democratic participation in the WTO could be enhanced through the creation of a parliamentary assembly, although other analysts have characterized this proposal as ineffective¹³.

Findings

- First, most careful empirical studies have found that the quantitative importance of social and environmental dumping, if it exists at all, is quite small.
- Secondly, as the advocates of free trade never cease to point out, nothing works in enhancing labour standards and environmental protection as well as an increase in income levels, which is of course what free trade is designed to achieve.
- Thirdly, trade restrictions are a very blunt and often counter productive instrument for achieving their stated moral objectives.
- Fourthly, the experience within the United States and the European Union demonstrates that a high degree of economic integration can coexist with widely varying labour practices and institutions at the level of States or member countries.
- Fifthly, many environmental concerns can be adequately covered with appropriate labeling of imported goods.
- Finally, since labour and environmental questions go beyond trade relations, these issues should be discussed in their own appropriate multilateral forums and not in the WTO.
- These and many other arguments can be deployed to bolster the developing-country case that labour and environmental concerns do not justify trade restrictions or their inclusion in the WTO.
- However, it may be a mistake for developing countries to believe that the danger will recede if such arguments are repeated often enough.
- The issues are unlikely to disappear on their own, and developing countries will have to work towards establishing a mechanism whereby legitimate demands can be handled without being hijacked by protectionist interests.

Conclusion

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The Uruguay Round may well be the last of its kind, but this in no way means the end of multilateral trade negotiations. On the contrary, it means they become a permanent event. Adhoc negotiating rounds were necessary mainly because the GATT lacked the mandate or the institutional basis to operate the multilateral system to the full on a continuous basis. Between rounds the GATT has tended to lose momentum, often at the very times when it was essential to make the most of the liberalizing impulse. This has allowed protectionism and unilateralism to recover and regroup and meant that each round has to start by regaining lost ground.

But if the trading system is now up to the job of supporting multilateral cooperation on such a wide scale, do the other structures of economic cooperation still meet the bill? The establishment of the WTO will put trade and investment on a par perhaps rather in advance - of cooperation in monetary and financial areas. The WTO will stand alongside its original Bretton Woods sisters, the IMF and the World Bank. The three institutions must learn to work together even more effectively and closely. For example, rather than each body conducting separate reviews of country policies, is there not a case to be made for a more integrated approach on country reviews? But that does not, on its own, add up to effective multilateral economic cooperation. The question really has to be asked seriously: are the G7, the OECD, and the regional groupings adequate to provide that cooperation?

A well-designed social safeguards clause in importing countries is not necessarily inimical to the interests of developing countries. However, such a clause will have to contain two significant provisions: (a) a mechanism to test the legitimacy of the social claim by enlisting exporting and consumer interests in the importing country in the decision-making process; and (b) compensation of the affected exporters, at least in cases where the exporting country possesses a reasonably democratic regime. Such a system will not cost developing countries much. It will have the advantage of engaging the developed countries in a constructive dialogue, and of forestalling the emergence of a new set of "grey area" measures outside of the WTO.

It is the next challenge of international economic leadership the challenge of translating the common interest in global growth into a practical and effective mechanism for solving our common economic problems together. So, the Ministers meeting in Marrakesh is an historic

event which will establish the World Trade Organization and put in place the new multilateral trading system, they will be making not an end, but a beginning.

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