
UNIT 4 GLOBAL TRADING SYSTEM (WTO AND OTHERS)*

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4.0 OBJECTIVES

In this Unit, you will be reading about global trading system – institutions and processes. After going through the Unit, you should be able to:

- Understand and discuss the establishment of the Liberal International Economic Order (LIEO) after the Second World War,
- Describe and analyze the importance and contribution of the General Agreement of Tariffs and Trade (GATT) and its various rounds of negotiations,
- Explain the principles, functions, mechanisms and organs of the WTO,
- Evaluate how the global trading system has treated the developing world,
- Understand and analyze the WTO and India

4.1 INTRODUCTION

One can say that people have been trading for almost as long as they have been around. Trade means buying and selling; or, simply, exchange of goods and services. Initially, trade came about when certain resources and commodities could not be acquired locally or within specific societies; and therefore had to be procured from outside. As societies grew and came into closer contact with one other, the trade became a fundamental form of economic interaction. Often it is

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trade which first brings different people together for the purpose of buying and selling of goods and services. Around first century BC, trade on the silk roads started. Luxury goods from China were hauled up for thousands of miles on the silk roads to be sold in Europe. Around 7th century began the seaborne trade in spices from Asia to Europe via West Asia and Africa. Both the silk roads trade and the spice trade was small in terms of export-GDP ratio. Trade was meant to supply luxury goods essentially to the European elite. Perhaps, it can be said that this was the beginning of global trade.

Modern trading system arose in the 16th century in the age of mercantilism. Two principles guided trade in the era of mercantilism: it is necessary for a country to export more than it imports in order to become wealthy. Secondly, a strong state or a powerful monarch is needed to shape both domestic and international trade flows. A truth got well known: a strong state makes trade possible. .

Trade was facilitated by technological breakthroughs. In the era of industrial capitalism, England, France and Germany all had high level of productivity and competitiveness about them. This made them export a lot of industrial products and import raw materials from colonies and other oversea markets. Adam Smith and David Ricardo advocated the principle of comparative advantage. For instance, nations which have natural resources should exploit them to register economic growth and prosperity. Smith argued that a liberalized trading system that works on the principles of comparative advantage and division of labour produces all round prosperity and peace. He saw an international division of labour working between the industrialized countries of Europe and suppliers of raw materials.

For about four centuries, Europe dominated the global trade. Trade as a ratio of GDP increased. As international trade expanded, norms and rules of trade were also written down. Rules related to currency standards, and standards in the area of weight, measurement and coinage were formulated. Bank of England introduced the principle of gold standard in all money and capital markets of the world. These trade-related norms gave stability to international trade. Some however produced rigidity over the course of time and hampered international trade.

First World War and the Great Depression were two cataclysmic events that destroyed the liberalized trading system that had evolved over the previous centuries. After the War, it had also become clear that axis of global trade had shifted from Europe to the United States of America. When Second World War ended, US brought about a convergence on the need to establish a liberal international economic and trade order. Without an international monetary, financial and trade arrangement, all based on the principles of free market, there was every danger of the global economy once again falling into recession and protectionism. John Maynard Keynes observed that in the inter-war years, European practiced 'beggar-thy-neighbour' policy to prevent domestic economic depression. Countries resorted to protectionism, indulged in competitive devaluations so as to promote their exports and erected tariff walls to prevent import from other countries. When the Second World War ended, there were two challenges: first how to establish international peace and ensure that another world war does not occur. Secondly, it was a challenge for the victorious Allied powers to establish a global financial and trading system which would avoid the disastrous economic and trade policies of the interwar years. Writings and policy

prescriptions of Keynes had a great influence on the economic reconstruction in Europe and the US. Foremost, it had become abundantly clear that some rational economic planning is required to streamline the working of capitalist market economies. Talking of domestic economies, Keynes theorized that government management of the economy could smooth out the highs and lows of the business cycle, which is a principal characteristic of capitalist economy. State regulation and intervention is necessary to produce more or less consistent growth with minimal unemployment.

On 22 July 1944, some 730 delegates from all 44 Allied nations met at Bretton Woods in New Hampshire, US and set up the International Monetary Fund (IMF) for monetary stability and the International Bank for Reconstruction and development (IBRD), the World Bank, to provide finance for development. IMF was the first fully negotiated monetary order in world history. A consensus did not emerge on the creation of an International Trade Organization (ITO) on the lines of the IMF and World Bank. In the absence of an ITO, US took the lead and General Agreement on Tariffs and Trade (GATT) was created in 1948 - a sort of an interim agreement to promote a liberalized trading system.

The Liberal International Economic Order (LIEO) was an attempt to attain a compromise between domestic autonomy and international stability. Bretton Woods institutions allowed states autonomy in pursuing domestic economic growth and social welfare as these very institutions would provide necessary regulation and management of the international economy so as to achieve stability and free trade. Someone described this as the “compromise of the embedded liberalism”. The consensus underlying LIEO was: “Keynes at home and Smith abroad”.

4.2 WORLD TRADE ORGANIZATION (WTO)

The World Trade Organization (WTO) came into being on 1 January 1995 under the Marrakesh Agreement, signed by 124 countries on 15 April 1994. It is an intergovernmental organization whose aim is reduction of tariffs and other barriers to trade among nations. With its formation, WTO replaced the General Agreement on Tariffs and Trade (GATT) which, since its inception in 1948, had worked to regulate international trade between nations. The WTO has 164 members and 23 observer governments. In addition to states, European Union is a member too. WTO members do not have to be independent states only; customs unions with freedom to conduct their external trade relations can also apply for membership.

International trade takes place in goods, services and intellectual property. WTO regulates all three. WTO provides a framework for negotiating trade agreements among countries. There is also provision for resolution of trade related disputes by judges who work independent of governmental control. The idea is that member countries adhere to the trade agreements; and let international trade remain free of discrimination. WTO prohibits discrimination in trade except when member countries do so for reasons of environmental protection, national security or some other weighty reason.

Analyses of international trade show that WTO has successfully raised international trade. Had WTO not been there, on average a country would have faced higher tariffs on its exports by 32 percentage points. Also it has been noted

that countries and groupings when they sign trade agreements among themselves often follow WTO rules and copy many of WTP's major provisions. In other words, WTO has contributed to the standardization of norms and values of interstate trade.

Check Your Progress Exercise 1

- Note:** i) Use the space given below for your answer.
 ii) See the end of the unit for tips for your answer.

- 1) Describe briefly the role of international trading system in promoting global economic development.

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4.3 GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

Two multilateral institutions viz IMF and the World Bank were successfully established for monetary and financial cooperation. No agreement however could be reached on the creation of a comparable international trade organization. The General Agreement on Tariffs and Trade (GATT) was established by a multilateral treaty of 23 countries in 1947. It was sort of an interim agreement; a stepping stone towards the creations of a trade organization. Over the years, however, GATT slowly became a de facto international organization dealing with trade. In that respect, it is said that GATT is the predecessor of WTO.

It is amazing that GATT, a semi-institutionalized multilateral treaty, continued to work for almost half a century on provisional basis. Countries had learnt their lessons the hard way in the period between the two world wars; no country had wanted to go back to protectionism, competitive devaluations and high import tariffs. Every country had wanted free and fair trade under clearly laid down rules. International trade has many subjects and issues to negotiate and agree upon; for instance, trade in manufactures; trade in agriculture; subsidies; anti-dumping; trade in services etc. Each subject goes through tough negotiations; obviously, norms agreed upon differ from subject to subject. Seven major subjects have been negotiated so far. Each subject discussed is called the Round. The first GATT trade round had concentrated on further reducing tariffs. In the 1960s, the Kennedy Round produced an anti-dumping agreement, among others. The principal subject negotiated under the Tokyo Round in the 1970s was non-tariff barriers. A ticklish issue, not every country agreed to the newly laid norms on non-tariff barriers. There are several subjects which are very complex to negotiate; they cause divisions between the developed and developing economies; or subject which affect most the least developed economies. Examples include government procurement, trade in dairy products etc.

Let us discuss briefly two major rounds viz. the Uruguay Round and the Doha Round.

4.3.1 Uruguay Round, 1986-1993

It was the 8th round of multilateral trade negotiations under the GATT framework. Uruguay Round agreed to extend GATT trade rules to areas which until then were exempt from negotiation; they were found to be subjects that were either very difficult or very sensitive to negotiate. For example, not every country would agree to liberalization of trade in agriculture; likewise it is not easy to negotiate on intellectual property. Further, at the end of the negotiations, the 123 “contracting parties” agreed to set up the World Trade Organization.

The main objectives of the Uruguay Round were: to reduce agricultural subsidies; to lift restrictions on foreign investment; to begin the process of opening trade in services like banking and insurance; and to include the protection of intellectual property. It was really very ambitious and expansive in its scope; and affected almost every other rule under GATT. Uruguay Round came into effect in 1995 with deadlines ending in 2000, and for developing countries 2004.

The round was launched in Punta del Este, Uruguay in September 1986. Negotiations continued in subsequent years in Geneva, Brussels, Washington, D.C., and Tokyo. Finally, as many as 20 agreements were signed in Marrakesh in April 1994. The Marrakesh Agreement established the WTO which came into being upon its entry into force on 1 January 1995. This was finally the most profound institutional reform of the world trading system since 1947 when GATT was established.

GATT continues to exist as WTO’s umbrella treaty for trade in goods. Uruguay Round resulted in a comprehensive treaty with six major parts: (i) An umbrella agreement which establishes the WTO; (ii) Agreement on goods and investment. It is the Multilateral Agreements on Trade in Goods and the Trade Related Investment Measures (TRIMS)); (iii) Services (General Agreement on Trade in Services (GATS)); (iv) Intellectual property (Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)); Dispute settlement (DSU); and, reviews of governments’ trade policies (TPRM).

Uruguay Round has been successful in increasing binding commitments by both developed and developing countries. Tariffs in terms of percentage have fallen. However, Uruguay Round has also been criticized for not taking care of the needs and interests of the developing world. It is said that developed adopted a mercantilist approach viz. to open the developing country markets for their predatory export policies. Also, agreement on intellectual property has been insensitive to basic human needs and put undue restrictions on developing countries in accessing technology and know-how.

4.3.2 Doha Round

The WTO launched the Doha round of negotiations in 2001 at its fourth ministerial conference. The Doha Development Round is an ambitious effort to make globalisation an inclusive force; and to help the world’s poor by eliminating farm subsidies and other barriers. Doha Round envisaged further trade liberalization besides making of new rules so as to provide relief to the poor countries.

Doha Development Round has remained stalled; and attempts to revive it have failed. EU and US want to keep their agricultural subsidies and other trade

distorting practices against agricultural exporting developing countries. Besides, EU and US also maintain agricultural subsidies against each other. There are differences between developed and developing countries on issues such as industrial tariffs and non-tariff barriers to trade. Rich countries want full access to developing country markets for their manufactures and services. At the same time, they want to retain agricultural subsidies for their farmers, which effectively work as trade barriers. At Doha US blamed Brazil and India for inflexibility: US does not want to open its domestic market to Brazilian agricultural exports; at same time, it wants India to open its domestic market for American grains and other agricultural products. It is for this reason that attempts to revive the Doha Round at the Bali ministerial meeting in 2013 failed.

The stalled Doha Round means an impasse in the working of WTO. Some skeptics say that WTO has become defunct. Also a trend has been witnessed: developed countries are circumventing WTO and concluded bilateral and regional trade agreements outside the WTO system.

Check Your Progress Exercise 2

Note: i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) Explain the evolution of the WTO from the GATT.

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4.4 WTO PRINCIPLES, FUNCTIONS AND MECHANISMS

WTO has received many of the trade rules framed under GATT; it has also framed many of trade-related rules so as to make the global trade transparent and predictable. Countries do negotiate trade matters; but WTO does perform scores of functions including importantly it provides for dispute settlement. WTO is an exercise in continuation with various mechanisms and organs that perform both policy guiding, detailed studies and reports and recommendations.

4.4.1 Principles of the Trading System

WTO sets the framework for trade policies i.e. laying down certain basic rules for trade negotiations among members. It does not control the outcome of trade rounds. GATT worked on certain principles which came to be incorporated into the working of WTO. One can identify five major principles that guide the working of WTO:

1) **Non-discrimination:** The principle of non-discrimination is incorporated in WTO rules on trade in goods, services and intellectual property. World trade is guided by two basic norms viz the most favoured nation (MFN); and

national treatment policy. MFN requires that a member country would grant the most favourable conditions to all in a certain product; and with discrimination to none. Once an imported product has entered a market, it is to be treated as favourably as a domestically produced good. Any discriminatory treatment on non-tariff grounds such as security standard, technical standard etc. is inadmissible.

- 2) **Reciprocity:** the principle of reciprocity means that one should not seek undue advantage of accessing a market in the guise of MFN. There is no free riding in trade. Gains from a negotiated agreement should invariably be higher than gains otherwise available from unilateral liberalization. Reciprocal concessions means that gains do materialize and are eagerly sought by all parties to the agreement.
- 3) **Binding and enforceable commitments:** Members must abide by the tariff commitments made during negotiations. Any drawdown on these commitments must be negotiated with trading partners. Partners are normally compensated for the trade lost. Any disagreement between trade partners is a fit case for WTO dispute resolution.
- 4) **Transparency:** The principle of transparency entails that WTO members publish national trade rules, provide information sought by other WTO members, and maintain mechanisms which would review decisions that affect trade. WTO also periodically comes out with country specific reports.
- 5) **Safety values:** Under safety norms, countries can restrict trade on grounds such as protection of environment and health of man, animal and plants.

4.4.2 Functions of the WTO

Analysts have identified various functions of WTO, important among these are:
WTO

- i) oversees the implementation, administration and operation of the agreements;
- ii) provides a forum for negotiations and for settling disputes;
- iii) reviews national trade policies and ensures coherence and transparency of trade policies through surveillance of global economic policy making;
- iv) provides technical assistance and training to developing and the least-developed and low-income countries for their smooth transition to WTO rules; and
- v) WTO also works in cooperation with IMF and the World Bank and regional development banks to achieve greater coherence in global economic policy making.

The need and relevance of an international institution such as the WTO is acknowledged in the age of economic globalisation. It is a measure of its success: volume of global trade has continuously increased since the formation of the WTO. Trade related differences and disputes have also become more frequent and more acute. These differences normally are related to protectionist and discriminatory trade policies, subsidies, violation of intellectual property etc. In brief, WTO is a global public good. It serves as mediator between nations and also identifies subjects and frames rules for further rounds of negotiations. Its

research on global trade and related issues have been found extremely useful especially by developing countries which may not have the resources to carry out intensive research on trade matters. It can be said that WTO is the product of globalisation and also as one of the most important organizations in today's globalized society.

4.4.3 Ministerial Conference and Other Organs

The highest decision-making body of the WTO is the Ministerial Conference. All WTO members – countries and customs unions – meet every two years. The Ministerial Conference can take decisions on all matters under any of the multilateral trade agreements. Some known ministerial conferences have been the inaugural ministerial conference in Singapore. There was disagreement on agricultural subsidies between developed and developing countries which came to be known as “Singapore issues”.

China became a member of WTO at the fourth ministerial conference in Doha in 2001. Doha Development Round was launched which was supplemented by the sixth WTO ministerial conference in Hong Kong which agreed to phase out agricultural export subsidies and to phase out tariffs for goods from the least developed countries. Eleven ministerial conferences have taken place so far. The 11th ministerial conference was held in Buenos Aires, Argentina in December 2017; the twelfth ministerial conference is scheduled for 2020 in Astana, Kazakhstan.

Next to the ministerial conference is the General Council which is the real executive of the WTO. It meets several times a year to carry out the functions of the WTO at its headquarter in Geneva. The General Council reports to the ministerial conference.

The General Council has several subsidiary bodies. These organs in turn appoint and oversee works of various committees. Important organs working under the General Council are: (i) The Council for Trade in Goods has a number of specific committees working under its supervision in areas such as textile, manufactures etc. (ii) Council for Trade-Related Aspects of Intellectual Property Rights keeps all the information related to intellectual property and the records of the TRIPS Council. (iii) Council for Trade in Services is responsible for overseeing the functioning of the General Agreement on Trade in Services (GATS). (iv) Trade Negotiations Committee, headed by the Director General of WTO, deals with ongoing trade negotiations. (v) The Service Council has a large number of mechanisms and committees that deal with matters like financial services, regional trade agreements, domestic rules and regulations etc.

WTO arrives at decisions through consensus; and this has been the practice thus far. Although its rules do not rule out voting too. The WTO defines and describes itself as “a rules-based, member-driven organization—all decisions are made by the member governments, and the rules are the outcome of negotiations among members”. The consensual method of arriving at decisions has some interesting dimensions: it means a law-based initial bargaining. In the end however, trade negotiations are finalized through power-based bargaining favouring the Europe and the US. How strong is an economy and the size of its market become decisive factors in decision making.

4.4.4 Dispute Settlement

Settlement of trade-related disputes is necessary for the stability of any global economic order. Such a mechanism is central to the working of all multilateral trading systems. Therefore, the history of settling trade dispute peacefully through negotiation and bargaining is fairly old. Many of these rules have evolved since the inception of trade in the mercantilist age. Since its founding in 1947, GATT itself has framed many rules for resolving trade disputes. The Maarakesh agreement of 1994 had the annexure titled Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU).

Issue-specific panels are set up for resolving disputes under WTO. These issue-specific panels are set up by the Dispute Settlement Body (DSB), the Appellate Body, the Director General and the WTO Secretariat, arbitrators and advisory experts of the WTO. Parties are encouraged to settle disputes through mutually agreed solution. In case, a case has to be decided it should be decided in a year's period. Member countries are obliged to accept the process as compulsory.

Check Your Progress Exercise 3

Note: i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) What are the various objectives, features and functions of the WTO?

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4.5 GATT, WTO AND THE DEVELOPING WORLD

In the creation of the institutions of global governance, be it the Bretton Woods institutions or the UN, developing countries were hardly in the reckoning. They found themselves marginalized and without any voice in global matters economic and political matters. GATT rounds were dominated by the developed economies and their concerns and priorities. During negotiations, all countries are equal; but the final outcome of a round depends on the strength of a nation's economy and the size of its market. On the whole, some critics say, that developing countries have had only few benefits from these GATT rounds. For example, in 1966, developing countries accounted for 11.2 per cent of manufactured exports; twenty years later, in 1986, their share had increased to only 13.8 per cent. Many of the ministerial conferences therefore generated lots of heated debate between the developed and the developing countries. The Seattle ministerial conference in 1999 was a failure; there was a backlash from the global civil society against WTO attempts to push neoliberal policies down the throats of the developing world. Cancun ministerial conference saw developed countries trying to prey open the markets in developing world for their own big MNCs trading in agriculture. Similarly, the Doha development round has remained stalemated since 2001. It was mandated to negotiate liberalization in agriculture, services

and intellectual property rights – with developed countries retaining their agriculture subsidies and other discriminatory trade practices.

Developed countries have dominated the agenda of GATT whose ambit expanded beyond reduction of tariffs on goods. As seen earlier, Uruguay round was the most ambitious and controversial of these rounds; and covered seven major areas – market access, trade in agriculture, textiles, trade related investment measures (TRIMS), trade related intellectual property rights (TRIPS), general agreement on trade in services (GATS), and institutional matters. Developing countries remained dissatisfied with the direction of the Uruguay round as well. The final outcome benefitted the rich and developed countries. They had succeeded in protecting their intellectual property rights which in reality meant that MNC from the rich countries had monopoly over specific technologies and knowledge; and that developing countries had lost out the opportunity to learn and use these technologies. The conclusion of Uruguay round made it incumbent that developing countries bring changes in their domestic laws in compliance with their international obligations. In case they did not, there were provisions for punitive measures such as countervailing duties.

In due course of GATT rounds, it had become clear that US would dominate the entire process – from setting agenda, pace of negotiations and the final outcome. US had also begun working out trade agreements outside the multilateral framework and norms of GATT; it concluded several bilateral trade deals which weakened the multilateral trading system. GATT was also unable to impose discipline on other big trading economies.

On the whole, during the post-War period, the US functioned as the international system's hegemon, provided leadership, stability and the opportunity for the world economy to flourish through the pursuit of monetary management and free trade. In 1971, US suspended dollar/gold convertibility, imposed a surcharge on imports, and devalued dollar – which effectively put an end to fixed exchange rates. Analysts describe these developments as the breakdown of the Bretton Woods system. By 1970s, US ability to lead the world in trade and monetary matters came under challenge. Japan, Germany and several other European economies had grown in economic strength and began to challenge the US hegemony over global trade and economy.

The rise of neoliberalism in the 1970s with its focus on liberalization of domestic economies, deregulation and privatization, and globalisation brought in lots of changes in the domestic economic development strategies of the developing world. Critics express the concern that WTO trading system has weakened the system of sovereign nation states; exposed weak and poor economies to the private predatory forces of global finance and business; and has exacerbated inequality among nations.

4.6 WTO AND INDIA

The objective of creating the WTO was to have a rule-based global trading system which would enhance free and fair trade, and improve economic growth rate through trade. Reduction of trade barriers could lead to overall prosperity and better living standards for all the people of the world. Analyses indicate that global trade has grown since the formation of the WTO. However, WTO has

been severely criticized also especially on grounds that it has failed to protect the interests of the developing countries; and that it has reflected the economic and technological might of the powerful and developed economies. Criticism has also been leveled on grounds that WTO entrenches institutional imbalances which favour the developed countries. Further, to the credit of WTO, its trade-related studies and writing down of norms have greatly benefitted all particularly the developing countries.

India is a leading member of developing world; and has often raised concerns of the poor and developing countries at the ministerial conferences and other meetings. It has experienced a major transformation in economy as a result of the changing multilateral trade discipline within WTO framework. India has been following its commitments accordingly, Quantitative restrictions on imports have been abolished and a tariff rate has been streamlined. However, there has been lot of debates on the issue what India has gained or lost.

The Uruguay Round Agreement and WTO have come in for strong criticism in India. Critics are of the opinion that agreement on the provisions of WTO is beneficial to developed countries alone and developing countries like India stand to lose. It is apprehended that by including agriculture in WTO, Indian farmers are going to become more and more dependent on multinational companies for improved seeds and agricultural technology. The farmers are not being able to save superior quality seeds from their crop and are compelled to buy patented seeds at high rates in the open market. Using patented seeds amounts to improved farm technology but it is often beyond the affordable range of the bulk of farming population in India which comprises of small and marginal holders. The overall cost of agriculture has increased at a time when farmers are not getting enough remunerative prices for their produce. Big farmers alone can take advantage of improved farm technology. This ultimately results in small farmers selling their land; and this aggravates the problem of unemployment in rural sector. Critics are of the opinion that after concluding WTO Agreement, subsidy to agriculture sector is slashed. It is also apprehended that through WTO agreement, surplus of food grain production of developed countries will find an easy access to the domestic markets of developing countries. Already, it is adversely affecting livelihood of poor people in many countries besides unnecessarily putting adverse pressure on their balance of payments situation.

Protection of intellectual property rights – patents, copyrights, trademarks etc – has become more stringent in the Uruguay Round. This has been done essentially to protect the interest of multinational corporations and developed countries as an agreement on TRIPs is in favour of patent holders. It has been said that TRIP is anti-competition and anti-liberalization and goes against the spirit of opening up the world economy and global integration. It amounts to legalizing and legitimizing the monopolistic approaches of the MNCs. Foreign MNCs claimed and tried to secure patent rights over several natural products of India e.g. turmeric and *neem* etc. They tried to patent traditional medicinal knowledge and practices on several occasions.

It is feared that WTO will adversely affect our service sector. Banking, transport, education, insurance, hotel services as offered by MNCs are of superior quality as compared with our domestic standards. As a result, indigenous units engaged in rendering these services will be marginalized and forced to wind up, causing a blow to the domestic entrepreneurship. Besides, entry of private players in

education, healthcare would make educational and health unaffordable for a large portion of the population. And also the provision of TRIMs under WTO prevents India from imposing restrictions on foreign investment. This may allow MNCs unregulated entry into the Indian market, much to disadvantage of domestic industries in India. While this increase FDI in India but it also carries the danger of exposing domestic industry to international competition. It is a hard fact that domestic industry cannot compete with MNCs, owing to high cost of production, and other factors. Consequently, it is feared that domestic industry will be marginalized causing a shift of domestic demand in favour of MNCs. Small and medium enterprises which are generally labour intensive cannot compete with the MNCs. SMEs are a major employer especially of labour which is semi-skilled or unskilled. Once SMEs become uncompetitive, this would cause spread of unemployment.

So, there has been hardly any developing country in the world which agrees in totality with the WTO proposals. On balance, there are gains and losses. In all scenarios, the importance of trade liberalization is overwhelming. But final results depend on implementation of the agreements and commitments of the developed towards the developing economies.

Check Your Progress Exercise 4

Note: i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) Make an evaluation of the role of the WTO in contemporary world?

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2) Write a note on WTO and India.

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4.7 CRISIS OF THE LIBERAL INTERNATIONAL ECONOMIC ORDER (LIEO)

Multilateral financial institutions were established in the 1940s when international power configuration was in favour of US and its European allies; they remain same and continue to reflect the ideas of the 1940s only. No wonder, the liberal world order that these institutions underpin is in crisis, if not a full scale threat. Global economic power configuration has changed so has the flow and pattern of global trade. Asia has emerged as the hub of global finance and trade, which

makes commentators to describe 21st century as the 'Asian Century'. Rise of China, India and other dynamic economies of Asia confirm that it is Asia which is the new centre of global finance and trade, and technological breakthroughs. Emerging economies and powers such as Brazil, Russia, India, China and South Africa (BRICS countries) carry both financial and political weight with them in international affairs. Countries of the Global South today trade among themselves more than they ever did. Besides, the emerging and other wealthy economies of the Global South have large surplus capital ready to be invested in other developing economies. Also, countries like India and others have developed specialization and 'competitive advantage' in select areas; for instance, India is highly competitive in information technology and IT-based services.

From around the 1970s, the ideology of neoliberalism shaped the policy outlook and working of these institutions as well as the governments in the rich countries. However, neoliberalism entered a crisis period with the global financial crisis of 2008. Global financial crisis made it clear that neoliberalism was no guarantee of global financial stability.

The rise of nationalist protectionist administration of President Donald, the decision of a nationalist Britain to get out of the European Union, spread of nationalist sentiments in several European countries and the fact that WTO remains stalled – all only confirm the fact the multilateral financial institutions have lost the capacity to respond to these changed circumstances. Rather, emerging economies are floating new financial institutions such as the \$100 billion New Development Bank (NDB) of the BRICS along with a 'mini-IMF' in the form of a \$100 billion strong Contingency Reserve Fund or the China-led \$100 billion Asian Infrastructure Investment Bank (AIIB). This only means that IMF, World Bank and regional development banks all have fallen short of their expectations in providing developmental finance and contingency financial support to the needy countries.

In brief, there has been no shortage of signals that the global economy's institutional architecture needs to be updated. The Asian financial crisis of 1997 pointed to the potential for contagion in an increasingly interconnected financial system. The global crisis of 2008 which began with the subprime crisis in US housing confirmed that global finance operate in a highly complex and not easily decipherable manner; The contagious would spread like a wildfire throughout a complicated and mysteriously working global finance.

Despite these structural shifts in global economy, attempts to reform the Bretton Woods institutions have not met any great success. In 1999, in the wake of the Asian crisis of 1996, the G20 was established as a forum for finance ministers and central bankers of the 20 largest developed and developing economies, in order to expand representation in global economic governance beyond the G8. After the 2008 crisis, the G20 became a leaders' forum, responsible for rethinking the international monetary and financial system. Reform of the multilateral institutions in particular in their governance structure and the quota structure of the IMF was raised in 2010 by redistributing votes and seats to underrepresented emerging economies, especially China. The reforms have had only limited effect. IMF's governance remains dominated by the same main shareholders, with the United States retaining its veto power and Europe de facto guaranteed the managing director job. Nevertheless there are changes also: in the selection of staff at IMF, and in the policy approaches of the Fund. In 2016, the Chinese

renminbi was also added to the basket of currencies that determines the value of the IMF's reserve asset, the Special Drawing Right.

Can the global financial and trading system survive without US. US has long been the global leader and crisis manager who worked from within these institutions. Its quota in the IMF is around \$113 billion; it has contributed some \$23 billion to the World Bank since 2010. NDB and AIIB are there; but they are no match to the size of the IMF and the World Bank. In the first place, these new institutions are there not to challenge the IMF and the World Bank but rather to complement their activities. A nationalist US under a president like President Trump would not withdraw but could reduce its commitment to these multilateral institutions. Also, US might choose the path of bilateralism rather than multilateralism in providing financial assistance, emergency support and trade concessions to other countries. In that case, US could make its own new rules for bilateral relationships outside the multilateral domain arguing that US is protecting only its national interest.

All in all, the global financial and trade architecture continues with crisis and uncertainties; and ability of the institutions to face financial storms is on the decline.

Check Your Progress Exercise 5

Note: i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) Write a note on the crisis of the International Liberal Economic Order.

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4.8 LET US SUM UP

Trade is as old as human societies. In fact, trade has been the one of the foremost means of interacting with other people and societies. Modern trading system dates back to the era of mercantilism. Mercantile capitalism held the view that exports are necessary to accumulate lots of gold, silver and other rich metals. Gold and silver were the sign of national prosperity. Strong nation states led the process of international trade. In the age of industrial capitalism, trade burgeoned, thanks to the technological inventions and innovations especially in the area of shipping and railways. Overseas colonies came in handy. A division of labour emerged. Industrialized economies were competitive with high rates of production and productivity. Colonies constituted the markets and were also the supplier of raw materials. Adam Smith advocated the principle of comparative advantage. A liberalized trading system could work on the principle of comparative advantage to the benefit of all.

Four about four centuries, Europe dominated the global trade. As trade expanded, trade-related norms and rules also came to be agreed upon; for instance in the

areas of weight, measurement etc and the exchange value of different currencies and the use of gold to prescribe the amount of a national currency in circulation.

The two world wars and the Great Depression of 1929 brought to an end the global trading system. Countries became protectionist and discriminatory in their trade dealings. After the end of the Second World War, one of the biggest challenges was to establish a global financial and trading system which would promote trade and financial flows with minimum hindrances. Countries could choose domestic economic policies but as far as trade is concerned, a rule-based trading order would benefit all.

Bretton Wood institutions came into existence. Some 730 delegates from 44 Allied nations and led by the US set up the International Monetary Fund (IMF) for monetary stability and the International Bank for Reconstruction and development (IBRD), the World Bank, to provide finance for development. A consensus could not be arrived at for the creation of an International Trade Organization (ITO). US took the lead and General Agreement on Tariffs and Trade (GATT) was launched in 1948 as an interim arrangement to promote trade among nations. The purpose of GATT was to reduce tariffs on trade. In subsequent rounds, new subjects came to be added: anti-dumping, trade in manufactures, trade in services and intellectual property rights, etc.

Uruguay round lasted from 1986 until 1993. Uruguay Round agreed to extend GATT trade rules to areas which until then were exempt from negotiation; they were found to be subjects that were either very difficult or very sensitive to negotiate. The main objectives of the Uruguay Round were: to reduce agricultural subsidies; to lift restrictions on foreign investment; to begin the process of opening trade in services like banking and insurance; and to include the protection of intellectual property. It was really very ambitious and expansive in its scope; and affected almost every other rule under GATT. Uruguay Round created the WTO which came into effect in 1995.

The WTO launched the Doha round of negotiations in 2001 at its fourth ministerial conference. The Doha Development Round is an ambitious effort to make globalisation an inclusive force; and to help the world's poor by eliminating farm subsidies and other barriers. Doha Development Round has remained stalled; and attempts to revive it have failed. EU and US want to keep their agricultural subsidies and other trade distorting practices against agricultural exporting developing countries while, at the same time, forcing developing countries such as India to open its economy to agricultural imports.

WTO sets the framework for trade negotiations i.e. it lays down rules for trade negotiations. It does not control the outcome of trade rounds. GATT worked on certain principles which came to be incorporated into the working of WTO. By now there are several agreed upon rules of international trade e.g. the principle of most favoured nation (MFN) and reciprocity in trade matters. WTO has its several organs and mechanisms for instance the ministerial conference which meets every two years. An important WTO organ is its dispute settlement mechanism. Analyses indicate that volume of global trade has continuously increased since the formation of the WTO. However, developing countries also express their dissatisfaction. WTO decisions in the end serve more the interests of the rich and developed economies – often at the expense of developing countries.

Liberalization of trade in agriculture hurts countries like India. WTO rules require that Indian farmers buy patented seeds and knowhow from big MNCs, which hugely hurts especially the small farmers.

Multilateral financial and trade organizations continue to reflect the power distribution of the 1940s while the world has changed a lot in the meanwhile. Asia has risen; today there are scores of emerging economies and powers; US and Europe are backtracking on their liberal commitments and have become inward-looking and nationalist. In this regard, it is appropriate to say that the multilateral system is in crisis.

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4.10 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress Exercise 1

- 1) Your answer should include early periods of global trade, the period between the two world wars, and the need to establish a Liberal International Economic Order (LIEO) after the end of Second World War.

Check Your Progress Exercise 2

- 1) Your answer should cover various rounds of the GATT negotiations in particular focusing on the Uruguay Round and the formation of the WTO.

Check Your Progress Exercise 3

- 1) Your answer should cover the various objectives, features and functions of the WTO

Check Your Progress Exercise 4

- 1) WTO, the developing world and India

Check Your Progress Exercise 5

- 1) Highlight aspects of changing global power distribution and the rising capabilities of the emerging economies.



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