Globalization and the World Trade Organization: The Challenges Ahead

Farid Islam

David McArthur

Ian Wilson
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By

Faridul Islam
Associate Professor
Department of Finance and Economics

David McArthur
Assistant Professor

Ian Wilson
Professor
Department of Finance and Economics

Woodbury School of Business
Utah Valley State College
800 University Parkway
Orem, Utah 84058-5999

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Abstract

The events leading to the creation of the World Trade Organization (WTO), and the subsequent developments point to the fact that the agency may not be able to perform its duties properly and even may be doomed to failure unless the fundamental questions surrounding international trade are duly addressed in full recognition of the diversity of interest of global players. The agency, to be really effective, must protect the interests of every member and be allowed to fulfill its mandate. Pressure is building within the world trade system for changes both in the international trade system and the way the system works as a facilitating agency. An examination of the recent history of; and growing pressures on, the WTO leads readers to believe that within this citadel of liberalism, opportunism and win-lose, power-based tactics by some nations in both negotiations and implementation of agreements are delivering precisely the opposite result. The agency is creating mistrust among its members and thus making itself ineffective. In this case we all will miss an opportunity to take advantage of globalization. Conclusions and policy recommendations are put forward for the WTO to reinvent itself and be seen as neutral.
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1. Introduction
The word "globalization" has become the household word used to refer to the integration of economic, political, and cultural systems across the globe. Even Arabs have coined an artificial term, “al-ulama(t).” By any standard, globalization is not a new historical phenomenon [Hofmann (2002) provides a historical perspective]. Neither is trade. The benefits of trade are well known and, consequently, trade has become one of the components in this new unfolding drama of globalization. In addition, the opportunity for all countries to gain from trade has led to the development of an infrastructure to coordinate and oversee international trade relations.

Up until the first half of the 20th century, the rich and powerful nations could, and would, coerce poorer ones to agree to their terms for trade, or face the consequences. After World War II, the General Agreement on Tariffs and Trade (GATT) was created to promote world trade, some six decades ago. This was accomplished through a series of agreements that would reduce tariffs, quotas and other trade barriers. GATT was a set of agreements, not an administrative organization. The establishment of such an administrative organization was a central topic of the Uruguay Round of GATT negotiations. The result was the creation of the World Trade Organization (WTO) on January 1, 19951. The focus of the WTO is the development of an international, multilateral, trading system that will promote and expand global economic growth.

These trade agreements, in concert with other behavior consistent with the prevailing theory of international relations of the first half of the 20th century (realism1), saw larger, more developed states cooperate only with powerful equals, coerce poorer countries, and ignore or punish those that resisted such coercions. In keeping with the trends of multilateralism (vs. bilateralism), the WTO fosters global integration through free trade. It is interested in economic (and perhaps, political) integration similar to the customs unions that have developed since the 1950’s2. The

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1 For a more complete outline of the paradigm of realism and the idea that states exist in an anarchic international system, doing what they must to survive the enduring inter-state conflicts that arise, see Morgenthau.
2 The Treaties of Rome (1952, 1957, & 1958) led to the formation of the EU. The Association of Southeast Asian Nations, one of the most dynamic forces in regional integration was formed in 1967 to counterweight to communist expansion in Asia. It is not yet a customs union. Some customs unions, such as the Economic Community of West African States founded in 1975 failed to deliver much to their members.
WTO mandate covers issues relating to (a) administering the agreements from the various rounds of negotiations, (b) providing a forum for the rounds and subsidiary negotiations, (c) handling disputes that arise from trade, (d) monitoring national policies, (e) providing technical training to developing nations, and (e) cooperating with other international organizations.

The adverse effect of tariffs on economic growth and welfare is well-documented. The spectacular growth of countries in South and South East Asia such as China, Singapore, South Korea, Taiwan, Hong Kong, and India has led economists to coin a whole new concept: “export-led growth”. This illustrates the opportunities that can be reaped from trade – free or not. It is a win-win strategy for all, at least in theory, if certain conditions are met.

It was hoped that membership in the WTO would provide a guaranteed benefit of free trade. This prediction has not been realized in most cases. It is important to understand that free trade alone will not lead to prosperity. The observed external dissent, and internal negotiations, of recent rounds in Seattle, Hong Kong and Doha point to some of the difficult obstacles that lie ahead if the fruits of trade liberalization are going to be distributed equitably. Reconciling these difficulties will require painful, short-run sacrifice and compromise by all parties. Whether the WTO can deliver on its mandate is far from certain.

The objective of this research is to 1) identify some of the most pressing difficulties the WTO faces, particularly with regard to globalization, and 2) offer a set of policy recommendations. Unless these obstacles to the smooth functioning of the WTO are addressed soon, they will threaten the future of the organization as an effective international agency. This paper contributes to the literature by critically highlighting the latest developments in the WTO saga vis-à-vis what lies ahead. In that sense the paper is a cautionary note to the developed world outlining why all nations must come together to insure equity for all through a properly functioning WTO.

II. A History of Tariffs
Tariffs, a tax on imported goods, take a severe toll on the economy. The World Bank estimates that “if all barriers to trade such as tariffs were eliminated, the global economy would expand by 830 billion dollars by 2015.” (Moffat, 2007) Tariffs have a long history dating back to the
ancient times. They have been used as a source of revenue more than instruments of economic policy. Originally, customs duties were levied for the use of trade and transportation facilities, including ports, markets, streets, and bridges. In the 17th century Europe, tariffs were collected on imports at the borders of countries. A new system called “Imperial Preference” was used in late the 19th century throughout the British Commonwealth of Nations. Colonial powers used preferential tariffs to insure the flow of foodstuffs and raw materials from colonies and to regulate their own exports. European nations retaliated by raising their own tariff walls. A period of high protective tariffs lasted through the Great Depression of 1929.

By the 1920’s US firms faced intense competition from her trading partners. The Smoot-Hawley Tariff Act (SHTA) of 1930 was enacted to protect domestic farmers against agricultural imports. European economic recovery from the shock of World War I had been led by massive farm overproduction in Europe during the 1920’s, which depressed farm prices. Herbert Hoover, the Republican Presidential candidate, offered to help the beleaguered farmer by raising tariffs on agricultural products. Once the agricultural tariff process was initiated, other sectors of the economy wanted to be included. The result was a rise in US tariffs to historical levels across the board exceeding the already high rates provided in the Fordney-McCumber Act of 1922³.

Economic historians differ on the role of SHTA in the Great Depression [Eichengreen (1989), Kindleberger (1973), Temin (1989)]. A common theme is that, even if tariffs did not trigger the Depression, it did not help in the recovery either. The result was a rash of retaliatory measures from other countries creating one of the enduring examples of ‘beggar-thy-neighbor’ policies, and drastically reducing international trade⁴.

By 1934 US legislators tried to defuse the damage done by SHTA by passing the Reciprocal Trade Agreements Act. It was designed to promote trade liberalization and invite bilateral tariff reductions with the country’s biggest trading partners. The US government recognized that trade

³ Some of the major tariffs over the last one and half century include Morrill War Tariff (1861– 1864), McKinley Tariff (1890), Dingley Tariff (1897), Wilson-Gorman Tariff (1894). These tariffs ranged between 40 and 50%. SHTA raised the tariff to 60%, but has since been steadily declining, with a current rate hovering around 5%.

⁴ U.S. imports from Europe declined from $1,334 million in 1929 to just $390 million in 1932. U.S. exports to Europe fell from $2,341 million in 1929 to $784 million in 1932. World trade faced a decline by 66% between 1929 and 1934. Smoot-Hawley did not help establish trust and cooperation either in the political or economic realm.
could be used as a vehicle to prosperity and that tit-for-tat protectionism prevented economic recovery. Following World War II, the US persuaded the European powers to give up Imperial Preferences and to support the GATT. The result was an exceptional period of growth in world trade, and a drastic lowering of published tariff rates (and reduced quotas). Total trade in 2004 was 24 times greater than 1950. Trade under GATT\textsuperscript{5} covered the vast majority of the increases which contributed to economic growth. To achieve this level of trade in the world, a series of negotiations, or rounds, were held. The first rounds dealt primarily with issues of reducing tariffs and quotas. Later, other issues like anti-dumping and non-tariff trade barriers were added. The most dramatic round, the Uruguay Round (1986-94), led to the creation of WTO\textsuperscript{6}.

In response to the increasing number of developing countries that joined the WTO, a new round of negotiations began November 2001 in Doha, Qatar. There was growing dissatisfaction with some of the agreements made in the Uruguay Round, particularly agriculture which had the highest remaining barriers in rich countries but with the greatest potential for gains in further liberalizing trade. The developing countries also want greater participation in negotiations.

The so-called Doha Development Agenda (DDA) included negotiations on non-agricultural tariffs, the environment, WTO rules such as anti-dumping and subsidies, investment, competition policy, trade facilitation, transparency in government procurement, intellectual property, etc. These are among the more contentious issues that the WTO must confront. Subsequent talks in Cancun, Mexico (2003) and Hong Kong (2005) were held to resolve these differences.

**III. Disagreements and Hurdles:**

The stakes were high for those in the WTO with a strong commitment towards the Doha (2001) and the Hong Kong (HK) Ministerial Conference, (2005). There were many unhappy with the direction of the WTO which made it evident that more time would be needed to reach agreement. Some thought that it symbolized the exploitation of poor countries by the rich countries. The size

\textsuperscript{5} Administered since 1994 by the WTO

\textsuperscript{6} Since its creation nine rounds of GATT negotiations have taken place, with an average lapse of 7 years. Included are the Kennedy Round (1967), Tokyo Round (1977), and the before mentioned Uruguay Round (1986). The ninth round began in Doha, Qatar late in 2001 and is aimed at further reducing trade barriers and resolving differences especially in agricultural markets and intellectual property. A summary of the Final Round, can be seen at www.wto.org/english/docs_e/legal_e/ursum_e.htm.
of the WTO itself made it difficult to reach consensus. There were numerous protests and
demonstrations throughout the time of the conference. The obstacles to reducing tariffs and
subsidies on agriculture and manufactured goods stalled the negotiations, and the scheduled
deadline for the completion of the Doha discussion passed with minimal progress.

Despite the difficulties, the HK Ministerial Round did produce some useful results. A decision
was made to establish “modalities” for cutting tariffs and subsidies in agriculture products. There
would be three bands. The EU would be in the top band with the highest cuts in tariffs, the U.S.
and Japan in the second, and the other member countries in the third. A goal was set to eliminate
all export subsidies by 2013. Reducing agricultural subsidies would create a level playing field.

The Non-Agricultural Market Access (NAMA) questions became linked with agriculture. The
Swiss proposed a formula for tariff reductions with bigger cuts for higher tariffs. There was an
effort to achieve equitable reductions in agriculture and non-agricultural markets while taking
into consideration the special circumstances of different countries.

Large obstacles in the areas of agriculture, as well as NAMA remained as formulas for core
modalities were not determined. Peter Mandelson\(^6\) proposed to cut 60% of all tariffs in the
highest bracket by 2010 while maintaining 8% on sensitive products. The G-20 and the Cairn
Group including Australia and NZ wanted to begin in 2008 and complete 70% of the cuts by
2010. Other countries had reservations about the proposal. They wanted to follow the EU
proposal aimed at reducing agricultural tariffs by an average 38-39% with 142 sensitive product
tariff lines. This would resemble duty-free and quota-free market access by the WTO members
for 97% of products from less developed countries. The EU, the US, Japan, and Canada have
over 10,000 tariff lines, of which some 300 would remain outside the so-called “gracious
market” access facility. Countries like Bangladesh with tariff lines of 200-230 products and
services will not be helped by this policy as they will be denied access due to the limits. Benefits
could come from tariffs cuts by a general reduction formula, replacing the average tariff cuts
mandated by the Uruguay Round (1994).
At the center of the challenge ahead are obstacles that still remain from the conference. The divide between the WTO members has deepened. The US wants to help the poorer countries by slashing tariffs to create more open markets. With US tariffs quite low, the EU needs to reduce their trade barriers. Some argue that the developing nations want barriers removed by rich ones, while retaining their own barriers. India sees little to gain from the Doha, as the EU criticizes the US for demanding large tariff cuts while achieving little reform at home. Unless the big and powerful farm lobbies concede, not much can be expected.

In July 2006 in Geneva, Pascal Lamy\(^7\) formally suspended negotiations declaring the demise of the Doha trade talks. The 1990 Uruguay round seemed doomed due to the differences between Washington and Brussels over Europe's farm subsidies. Three years an agreement was signed!

Is there a repeat of the 1990 Brussels at the 2007 Geneva? Compromise appeared missing in the Doha Round, in contrast to the past rounds. Why is that? What has changed? Remember that the purpose of the WTO is to facilitate a dialogue between the developing and developed countries. The organization provides an arena for its members to discuss issues and concerns that influence global trade and economic development. The WTO wants to assist developing countries improve their rural-based economies. This is its intent.

It has been suggested that the HK conference collapsed under the weight of its own agenda (Heydon, 2005). The issues were many and getting more complex with each round of talks. Previous agreements set the general parameters for discussion, now the specifics need to be ironed out. This is a much more difficult task.

Doha Round envisioned involvement of a larger and more diverse group of countries by including more of the developing countries who were marginalized in the past. This was an important goal, but it has led to greater diversity of goals and concerns. The result was the formation of several coalitions like the G20, which includes Brazil, China, India and South Africa, and the larger G90.

\(^7\)Pascal Lamy is the current director general, the World Trade Organization
Other changes have occurred since previous rounds. The recession of the 1990s was in part a driving motivation to complete the Uruguay round, but now there is a strong world economy that doesn’t provide the same urgency. Even without the Doha talks, trade has grown and protectionism has waned. The number of new anti-dumping cases has fallen sharply.

The rise of regionalism and bilateral trade is also having an impact. The US has signed 14 free-trade deals and is preparing to sign another 11 agreements. Although this argues for reduced US interest in Doha, the opposite may prove true. All ten nations of ASEAN have bilateral deals with each other as well as with China, and there are more being negotiated. The US may want to return to multilateral talks to bring more order to global trade.

The opposition to globalization has increased. Globalization was touted by the international media as an effective way to solve economic ills. However, Bardhan (2006) points out that India's global integration and economic reform has been ‘halting and hesitant’. The unpopularity of the reforms among the general public is pervasive⁸. This public pressure has also dampened enthusiasm for continuing the Doha discussions.

Opposition also comes from environmentalists. In developed countries they want the physical environment to be a part of future trade negotiations. Some argue that over-fishing has depleted three-fourths of the world's fish stocks. The major fishing countries still pay about $15 billion annually in subsidies to fishing industries generating sales of $90 billion. The major players - Japan, South Korea, and Taiwan - are under pressure to accommodate global needs.

The condition in India's health sector is appalling⁹. Reform was resisted by environmentalists and protectors of the rights of urban squatters, the indigenous, and the marginalized. The pro-reform group usually prefers the standard trickle-down process of growth rather than arguing about the narrowness of the development goals being pursued through trade negotiations.

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⁸Results from the National Election Survey 2004 suggest that over 67% of the 23,000 respondents thought the reforms favored the rich. Even the supporters of reform from the ruling parties played them down. Opposition is broad based as the recent reversal of a cabinet decision for privatization from a non-left party illustrates.

⁹The percentage of underweight Indian children is five times that in China, and worse than most African nations.
Despite the Uruguay agreement to phase out tariffs on textiles, the developing countries (except China) saw little impact due to a complex "end-loading" provision. Under this the developed countries would liberalize their markets only in the final years. In turn, the developed countries complied with the agreement by phasing out quotas proportionately, but chose products that had not been restrained in any case. As such, developing countries did not benefit.

Talks of democracy were heard but the majority of WTO members, mostly poor only saw high disrespect for such principles. They realized that the issue was ‘interests’ and not ‘substance’. Talks were confined to, and led by, a powerful minority, compounded by manipulative tactics.

IV Policy
If WTO aims at being effective and viable, it must address grievances about implementation of past agreements. Democratic values need emphasize transparency and equal access of all members regardless of their size. The following issues are worth considering.

If developing countries do not benefit, this fact alone puts the credibility of the WTO in doubt. These countries still face significant barriers to access in world markets and no improvement in their condition. Textiles and farm products seemed to offer some promises but they still suffer from a strong sense of disillusionment and, even betrayal.

Integration in the world economy includes liberalization of trade, finance, and investment. If financial liberalization precedes appropriate architecture, it may trigger a crisis as the East Asian experience suggests. The failure of past rounds of negotiations should help re-examine approach to trade policy, vis-à-vis the WTO. Paradoxically, trade liberalization was supposed to promote economic growth, yet many developing countries are now complaining about its negative impact.

Many feel that the benefits of liberalization are a myth, if not a fallacy. The existence of a Pareto superior allocation is simply not true. Some nations have gained more than others; and some of the poorest countries have gained nothing, or even may have suffered severe loss. The political backlash was apparent when President Bush was visiting the Latin American nations (03/07).
The reality is may be seen in the UNDP Human Development Report 1999 which states: "The top fifth of the world's people in the richest countries enjoy 82 percent of the expanding export trade and 68 percent of foreign direct investment --- the bottom fifth, barely more than 1 percent. These trends reinforce economic stagnation and low human development. Only 33 countries managed to sustain a 3 percent annual growth during 1980-96. For 59 countries (mainly in Sub-Saharan Africa and Eastern Europe and the CIS) GDP per capita declined. Economic integration is thus dividing the developing and transition economies into those that are benefiting from global opportunities and those that are not." (p 31)

The negative impact of trade is documented in the Trade and Development Report, UNCTAD 1999. The average trade deficit in the 1990s has been higher than in the 1970s by 3% of GDP while the average growth rate is lower by 2% for developing nations (except China) (Khor, 2005). Trade liberalization may increase a country’s imports but, not necessarily its exports. The latter depends on factors e.g., the price of export products, infrastructure, and enterprise capacity. In some cases trade deficits can widen for the developing countries and lead to persistent stagnation or recession. Countries must make political commitment to liberalize with the right to do so at their own pace. They need to have strategic plan for service and other sensitive sectors.

Problems surfaced over sectors such as services and public utilities. Service agreements have favored the rich. Accelerated negotiations in financial and telecom sectors have widened the gap between the rich and the poor. Unequal partnerships will always leads to unequal outcomes.

In-kind food aid is an indirect support to U.S. farmers which distorts trade. It can be used to clear excess farm products. Aid is directly related to the price shifts on the U.S. market. Reform must address this area as part of future agreements.

Removing obstacles to development such as the principle of "development distorting" and "special and differential treatment" should take precedence. For an effective WTO the following should be done:
i) Problems of the developing nations with regard to trade-related industrial measures (TRIMS), trade-related to intellectual property (TRIPS), and agriculture, needs to be reviewed and changes made inline with those proposed at Seattle.

ii) The needed extension of time must be granted for TRIPS / TRIMS, and a moratorium be placed on pending disputed cases against developing countries that are under review.

iii) The antidemocratic culture in the WTO must be reformed to recognize members’ full participation rights, and to reflect the majority decision. Manipulation and pressure tactics must cease. Items of general interest need to be raised in open forums in a transparent and impartial manner to insure fairness and balance.

iv) The term "less than full reciprocity" as defined in the Swiss formula needs to be revisited\textsuperscript{10} because of the inequity in the distribution of burdens on the developing countries. The "percent reductions in tariffs" should not be used to calculate the relative commitments by any nation.\textsuperscript{11} Developing countries need more help which must be addressed by the developed ones.

\section*{V Conclusions}
While the limitations of the Uruguay Round may have been due to Europe's refusal to take on its farmers, an agreement was reached. For the US, a Doha deal is better than no deal. In 1990 the deadlock was between Brussels and Washington, now it involves players like Brazil, India and China. America looks weaker on the world stage today, and may not be willing to take on a political fight it may not win. Extension of a Doha will have to wait until after 2008 election.

In establishing commercial rules, the WTO must recognize the unfolding complexity in the interaction of its members. Regional blocks are expanding due to the lower cost of negotiations and transactions as well as the pull of market forces. This increase in bilateral agreements has raised the specter of exclusionary blocs and concern over the dangers of trade diversion.

\textsuperscript{10} Under the Swiss formula developing countries would be required to pay higher percent tariff cuts, unless the coefficients are sufficiently far apart.

\textsuperscript{11} See Das, 1998, 1999, for more on this.
Multilateral trade system is now in deep crisis. If multilateral trade is a win-win situation, why are so many protesters? It may be too simplistic to dismiss the problem as belonging to the “left or right”, or an act of some bellicose anti-globalists. The anti-globalists are getting a louder voice and more sympathetic listeners. Young people and college students are particularly attracted to this position, even in the US. Is this enough of a reason to revisit the matter?

An intriguing aspect of the problem is the growing interest of the multilateral agencies (World Bank, IMF etc) in offering generous advice to the Third World. Their message, sweetened by the promise of aid and loan packages, is simple: Reduce the size of government and allow private sectors to run the show. Poverty alleviation programs will be the job of the private sector – job for all. A rosy picture! The catch is tying this aid to the efficiency of governments and opening up their economies to the scrutiny of all kinds of donors.

Under these poor nations will be forced to accept the advice of global agencies and change their policies to be eligible for the aid which includes cars, foreign trips, and other incentives. All these are in the name of poverty alleviation! Who would not accept such gifts? The cynic might say that Adam Smith’s “Wealth of Nations” has been replaced by the “Poverty of Nations.”

Governments in developing nations are routinely presented as corrupt, inefficient and wasteful. The argument for aid is that globalization is panacea to alleviate poverty. The anti-poverty programs will catapult them into the fast track to growth. This is the only way to catch up to the advanced countries! Developing nations are asked to do it without question.

Third World nations are immersed in deep poverty, yet there are irreconcilable differences with the various antidotes. To many the most controversial is globalization. The intellectuals and nationalists oppose globalization pointing to the dire consequences it will bring to the global community; while the World Bank, IMF and the WTO continue to espouse its virtues.

When disagreements over social issues are so strong and passionate, further scrutiny is needed on a philosophical level first. Yet, much of the discussion has focused on economic data about international trade and investment without looking at their theoretical implications. When the
issue is put under the theoretical microscope, we seem to forget classical and neoclassical principles. They have shown clearly, how, and under what circumstances, international and inter-regional trade can fit a sovereign nation.

The Uruguay Round failed largely because the developed world did not live up to the spirit of its commitments to realize the expected benefits of the WTO. Many of the provisions in the areas of services, agriculture, intellectual property, and investment measures have not materialized. Some of these agreements, with a grace period of five years that ended in 2006, suggest that the problems of implementation will only get worse.

There are many examples of the problems facing developing countries. To realize economic progress, developing countries need to make corresponding changes in their own economic and social policies. This will take time. The WTO needs to examine the problems and difficulties that implementing the various negotiated agreements will place upon developing countries, and then, make the necessary changes to assist these countries even at the expense of others.
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