

## **Globalization and Role of WTO in Promoting Free International Trade**

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**Abstract:** *Since the nineties of the last century and with the end of the cold war, globalisation is the new catchphrase that has come to dictate the world. If we see to the march of development of from early 1700's till date, globalization has almost become the part of international trade. The result is the emergence of the specialization in international trade in term of exchange of the goods, services and resources.*

*Now with the passing of time, globalization has become a deeply rooted phenomenon, and the result is, a product that has been manufactured in the outmost part of the globe could easily find its way into the market at the other corner of the globe. This is globalization in true sense. As this trend become more and more well-established, intellectuals provided it with a theoretical backing for the harmonization of such trend, and the name of that backing was WTO. WTO is one of the most powerful international bodies. In total 134 nation states have acknowledged its vast power. This made WTO to play the role of global government. Its main aim is to promote commercial interests, and any obstacles in the path of development and expansion of global business should be treated secondary.*

*The paper aims to examine the role of WTO in promotion of international trade in today's global environment and the cost that we have to pay for the same...*

**Key words:** *Globalization and Law, WTO, GATT, Free International Trade, International Trade*

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### **I. Introduction**

Since the nineties of the last century and with the end of the cold war, globalisation is the new catchphrase that has come to dictate the world. If we see to the march of development of from early 1700's till date, globalization has almost become the part of international trade. The result is the emergence of the specialization in international trade in term of exchange of the goods, services and resources.

With the passing of time, globalization has become a deeply rooted phenomenon. The result is, a product that has been manufactured in the outmost part of the globe could easily find its way into the market at the other corner of the globe. As this trend become more and more well-established, intellectuals provided it with a theoretical backing for the harmonization of such trend, and that backing was World Trade Organisation (WTO). WTO is one of the most powerful international bodies.<sup>1</sup> Its main aim is to promote commercial interests, and any obstacles in the path of development and expansion of global business should be treated secondary.<sup>2</sup>

### **II. Globalization and Its Meaning**

The term Globalization, now-a-days is known to all and has become an expression of common usage. Different people use this term with different colors representing 'a brave new world with no barriers'.<sup>3</sup> It is a process of interaction and integration among the people, companies and governments of different nations, a process driven by international trade and

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<sup>1</sup> The World Trade Organization (WTO) available at <http://www.ifg.org/wto.html>, last visited on 1/9/12

<sup>2</sup> Thus, the term globalization refers to the increasing interdependence of the countries, organizations and people which is an outcome of increasing combination of trade, finance, people and ideas on a global level and that too in one market place. International trade and cross border investment flows are the main elements of this integration. There are many institutions at the global level that promote globalization and their main task is to regulate and monitor international exchange to ensure that there is cooperation in various areas like finance, cross border investment flow etc. One of them is WTO.

<sup>3</sup> Myneni S R, World trade Organization (Asia Law House, New Delhi, 2010)3

investment and aided by information technology. This process has effects on the environment, culture, political system, on economic development, and on human physical well being in societies around the world.<sup>4</sup>

Globalization is also deeply controversial. Proponents of globalization argue that it allows poor countries and their citizens to develop economically and raise their standards of living, while opponents of globalization claim that the creation of an unfettered international free market has benefited multinational corporations in the Western world at the expense of local enterprises, local cultures, and common people.<sup>5</sup>

### **III. Role and Functions of WTO in Free International Trade**

The protectionism which emerged in international trade after the Second World War gave way to gradual liberalization, comprising both unilateral liberalization and rules-based multilateral liberalization.<sup>6</sup> Globalization is the result of free or less restricted trading in goods, services, technology, and capital among various countries. However there are various confronting issues that restrict the growth of international trade, they are trade barriers, financial assistance, piracy and more specifically violation of intellectual property rights. This happens because of different trading rules, absence of reciprocity, etc. It is here where WTO provides a global platform to the signatory countries to meet and discuss their issues and to come down with generally accepted solutions for smoother transition to greater free trade regimes.<sup>7</sup> Thus WTO actively contributes for the development of bilateral agreements on free trade in goods, services and technology.

WTO is the only international organization dealing with the global rules of trade between nations. The World Trade Organisation came into existence with effect from 1-1-1995.<sup>8</sup> The WTO replaced General Agreement on Tariffs and Trade (GATT). Its main function is:

1. To look after the administration of agreements signed at the Uruguay Round.
2. To keep checks on the implementation of tariff cuts and reduction of non-tariff measures.
3. To examine foreign trade policies of the member nations, and to see that such policies are in tune with WTO's guidelines.
4. To lay down methods for arriving at a harmonious solution in case of trade conflicts.
5. To provide necessary consultancy to the member nations on the development in the World economy.
6. To provide a global platform where member nations continuously negotiate the exchange of trade concessions.

The resultant outcome is the assurance to the consumers and producers who know that they can enjoy greater choice of products and services. At the heart of the system are the

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<sup>4</sup> What is Globalization? available at <http://www.globalization101.org/what-is-globalization/> (accessed on September 12, 2012)

<sup>5</sup> Ibid

<sup>6</sup> Globalization: Opportunities and Challenges, available at <http://www.unescap.org/pdd/publications/regcoop/ch1.pdf> (accessed on September 10, 2012)

<sup>7</sup> What is connection between WTO and Globalization, available at <http://answers.yahoo.com/question/index?qid=20071231230312AAyIiVU>, (accessed September 2, 2012)

<sup>8</sup> In 1947, 23 countries including India signed the General Agreement on Tariffs and Trade (GATT). GATT was created to reduce the tariff barriers. GATT has been replaced by WTO in 1995. WTO is wider in scope. It is concerned with not only reducing or eliminating tariff barriers but also non-tariff barriers such as quotas. In April 2004, the membership of WTO was 147 countries including India.

WTO's agreements<sup>9</sup>, which are ground rules for international commerce and are signed by the trading nations.<sup>10</sup> Following are the main principles of the WTO: <sup>11</sup>

Non discrimination: It implies both foreign and national companies are treated the same. Thus all nations should be treated equally in terms of trade. Reciprocity: Nations should try to provide similar concessions for each other.

Transparency: Negotiations must be fair and open with rules equal for all.

Special and differential treatment: It provides that developing countries may require 'positive discrimination' because of historic unequal trade

#### **IV. Veracity is astringent and not much convincing**

Disputes in WTO are about broken promises.<sup>12</sup> Principally and on paper the above broad objectives sounds good. But when it boils down to reality, the fact becomes the nightmare for the developing nations. The stated aim of the WTO is to promote free trade and promote economic growth. However, the actions and methods of the WTO evoked strong antipathies. Among other things, the WTO is accused of widening the social gap between rich and poor it claims to be fixing. It is argued that the WTO has become a way to force politics into trade causing long-term problems.

WTO has received severe criticism from various third world countries. Some of such criticisms are:

1. The apparent compromises that the WTO has made to its various agreements. One of the examples is the system of tariff brokering (commission) that takes place through WTO itself who aims to reduce barriers to trade. The WTO rules allow a nation to protect certain industries if the removal of tariffs would have undesirable side effects, which include the loss of vital domestic industries. Food production is one of the most common, but steel production, auto production and many others can be added at the discretion of the nation.<sup>13</sup>
2. A tariff is a general tax levied upon all purchasers of a particular product and it can have negative side effects. The proceeds from such tax will go in government treasury. This raises revenue, but the negative aspect of such high price of foreign goods would also compel the domestic makers to raise their prices. As a result, a tariff may also work as a wealth transfer tax that uses public money to support a domestic industry that is producing an uncompetitive product.<sup>14</sup>
3. Another critic is about problems of implementation of the Uruguay Round. The fact is the Northern countries have not lived up to the spirit of their commitments in implementing their obligations agreed to in the various Agreements..<sup>15</sup>

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<sup>9</sup> Such agreements are, Agreement on agriculture, Agreement on Anti-Dumping, Agreement on Customs Valuation, and Agreement on Trader in Services, Agreement on Trader related aspects of Intellectual Property Rights etc.

<sup>10</sup> Essentially, they are contracts, guaranteeing member countries important trade rights. They also bind governments to keep their trade policies within agreed limits to everybody's benefit. The agreements are negotiated and signed by governments. But their purpose is to help producers of goods and services, exporters, and importers conduct their business. The goal is to improve the welfare of the peoples of the member countries.

<sup>11</sup> Shah Anup, WTO and Free Trade, available at, <http://www.globalissues.org/print/article/42>, (accessed September 6, 2012)

<sup>12</sup> Understanding the WTO, available at [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/disp1\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/disp1_e.htm), (accessed on September 10, 2012)

<sup>13</sup> The Dark Side of WTO, available at <http://www.investopedia.com/articles/economics/dark-side-of-the-wto.asp#axzz26B8ku5Ze>, (accessed on September 6, 2012)

<sup>14</sup> Ibid

<sup>15</sup> Criticism of the World Trade Organization [http://en.wikipedia.org/wiki/Criticism\\_of\\_the\\_World\\_Trade\\_Organization](http://en.wikipedia.org/wiki/Criticism_of_the_World_Trade_Organization), (accessed on September 1, 2012)

4. Yet another issue pertains to environment, which is constantly ignored. It is argued that in the absence of proper environmental regulation and resource management, increased trade might cause so much adverse damage that the gains from trade would be less than the environmental costs.
5. Introduction of TRIPs into the WTO framework is also disputed under the fear that such non-trade agendas might overwhelm the organization's function.
6. Critics of the WTO challenge that the WTO has not maintained the essential element of transparency. It is never clear which nations are in on the decision-making processes. In such circumstances the politicians can negotiate for regulations that would not be accepted in a democratic process in their own nations. This is often referred to as Policy Laundering.
7. Free market proponents attack the WTO on the grounds that it's an unnecessary entity. Rather than making complicated politicized agreements between nations on what they can and can't protect, free market thinking suggests that trade should be left to companies to work out on a deal-by-deal basis. They believe if the WTO were really designed to encourage trade, it would force member nations to drop all protective measures and allow true free trade, rather than facilitating tariff negotiations.

#### **V. Conclusion**

If globalization lead for and ensures 'free and fair' trade among countries, it is well and good, but the emphasis so far has been on 'free' rather than 'fair' trade. It is in this context that the rich and industrially advanced countries have a role to play. While requiring developing countries to dismantle barriers and join the mainstream of international trade, they have been raising significant tariff and non-tariff barriers on trade from developing countries. Thus, it is important that if the rich countries want a trading system that is truly fair, they should on their own lift the trade barriers and subsidies that prevent the products of developing countries from reaching their markets.

It must be appreciated that there are some grey sides of WTO. Many underdeveloped countries have disparaged the functioning of WTO as an unnecessary and expensive propaganda for international trade. Its functioning has been condemned on the ground that the WTO is a means for developed nations to engage in trade wars and to have forced entry in underdeveloped countries. Whether the WTO is in any way economically beneficial to the underdeveloped counties has always been a contentious issue, the fact remains that it is one organization at the global level that has provided free or less restricted trading in goods, services, technology, and capital among various countries. There are two facts that shall remain: First, Governments, with or without citizen support will likely continue to support the WTO, and Secondly, to attain globalization time is required.