

**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, globalization 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 159 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

**Introduction**

Since the nineties of the last century and with the end of the cold war, globalization 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 Organization (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>

The World Trade Organization (WTO) is among the most powerful, and one of

the most secretive international bodies on earth. It is rapidly assuming the role of global government, as 134 nation-states, including the U.S., have ceded to its vast authority and powers. The WTO represents the rules-based regime of the policy of economic globalization. The central operating principal of the WTO is that commercial interests should supersede all others. Any obstacles in the path of operations and expansion of global business enterprise must be subordinated. In practice these "obstacles" are usually policies or democratic processes that act on behalf of working people, labor rights, environmental protection, human rights, consumer rights, social justice, local culture, and national sovereignty.

### **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 The World Trade Organization (WTO) available at <http://www.ifg.org/wto.html>, last visited on 19/12/2013

<sup>1</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.

Globalization and Role of WTO in Promoting Free International Trade 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.

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>

### **Functions, Roles & Objectives 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 Organization 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

**Orchestra conductor:** International trade is governed by very precise rules developed by the WTO's members. Countries must apply these rules when trading ~~with one another~~. The WTO acts as the orchestra conductor, ensuring that rules are respected. The WTO was founded in 1995, but its origins date back to 1947 and the creation of the GATT. Since then, WTO members have adapted these rules to keep up with new developments. For example, services have developed considerably since the 1980s, and have now become one of the most important economic sectors. As a result, WTO members established rules governing international trade in services. Adapting or changing the principles of international trade means reaching consensus among WTO members through a round of negotiations. The latest round - the ninth since 1947 - was launched in 2001

**Tribunal:** One of the main roles of the WTO is to settle disputes between its members. The WTO plays the role of trade tribunal, where members may file complaints against other members who fail to abide by the principles of international trade. There are three stages to dispute settlement. To begin with, the disputing countries try to settle their differences by themselves. If that fails, the case is decided by a panel made up of three experts, which issues a ruling. That ruling may be appealed. Once a definitive ruling has been issued, the losing party must comply. If it does not, it is liable to sanctions. Since 1995, over 400

complaints have been filed by WTO members.

**Monitor:** The WTO regularly reviews the trade policies of its members. These reviews assess whether WTO members are abiding by WTO rules and measure the impact of their domestic policies on international trade. The purpose of these reviews is not so much to solve problems as to prevent them from occurring in the first place.

**Trainer:** The WTO provides training programmes for government officials from developing countries - for example, ministry staff or customs officials. The WTO currently spends about 35 million Swiss francs annually on these programmes. Africa is the main beneficiary, followed by Asia and Latin America. In 2011, approximately 26 per cent of training activities took place in Africa.

**Following are the main principles of the WTO:** <sup>12</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

**Most-favored-nation (MFN):** treating other people equally Under the WTO agreements, countries cannot normally discriminate between their trading partners. Grant someone a special favor (such as a lower customs duty rate for one of their products) and you have to do the same for all other WTO members.

**Objectives of WTO**<sup>13</sup>

Important objectives of WTO are mentioned below: To

- (i) implement the new world trade system as visualized in the Agreement;
- (ii) Promote World Trade in a manner that benefits every country;
- (iii) Ensure that developing countries secure a better balance in the sharing of the advantages resulting from the expansion of international trade corresponding to their developmental needs;
- (iv) Demolish all hurdles to an open world trading system and usher in international economic renaissance because the world trade is an effective instrument to foster economic growth;
- (v) Enhance competitiveness among all trading partners so as to benefit consumers and help in global integration;
- (vi) Increase the level of production and productivity with a view to ensuring level of employment in the world;

(vii) Expand and utilize world resources to the best;

(viii) Improve the level of living for the global population and speed up economic development of the member nations.

### **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>

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.

### **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.