

POLI 445

Politics of International Economic Relations

Session 4 – THE WORLD TRADE ORGANIZATION
AND INTERNATIONAL TRADE

Lecturer: Dr. Bossman E. Asare

Contact Information: bossasare@gmail.com/beasare@ug.edu.gh



UNIVERSITY OF GHANA

College of Education

School of Continuing and Distance Education

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Session Overview

In this session students will be introduced to the World Trade Organization.

Students will be able to understand how the WTO facilitates international trade through its various components.

We will also look at the challenges facing the WTO.

Session Outline

- **Topic One** – What is the WTO and its components
- **Topic Two-** New Directions and Challenges



Reading List

- **Thomas Oatley (2013)**, International Political Economy (fifth Edition): Interests and Institutions in the Global Economy, Pearson Longman.

Topic One

What is the WTO and its components

- The WTO is an intergovernmental organization set up by member countries to govern world trade. Its headquarters is in Geneva, Switzerland. According to Kegley (2009:279), the WTO is “a multilateral agency that monitors the implementation of trade agreements and settles disputes among trade partners.” The movement of goods and services across national borders and the outsourcing and off shoring of jobs in the world has been possible mainly, but not exclusively, due to the activities of the WTO. Outsourcing is when a business organization or a company moves part of its production process to another city or country.
- For example, a company producing Milo in Accra, Ghana may decide to produce the container (tin) which contains the Milo in Kumasi, Ghana or in Nigeria. In this way, those who produce their containers in Accra will be without work or be laid off, but the unemployed in Kumasi or Nigeria will get work to do. Off shoring is when the business organization moves the entire production to another country, say from Ghana to Nigeria or vice-versa. In our earlier example, with off shoring, the company manufacturing the Milo will move the entire production to Nigeria. Both outsourcing and off shoring are frowned upon and disliked by the labor force of almost all countries, including the rich countries in the world. Workers in the USA, for example, have rejected and demonstrated against government policies that support outsourcing and off shoring.

What is the WTO?

- An intergovernmental organization primarily means an organization whose members are countries/states and decision making is shaped by the member countries. Other examples of intergovernmental organizations are the World Bank, the International Monetary Fund (IMF), the United Nations (UN), the European Union (EU), the African Union (AU), the Economic Community of West African States, and etc. Intergovernmental organizations can either be regional or global organizations. Global intergovernmental organizations have members in all continents of the world. Examples are the WTO, the IMF, the UN, and the World Bank. Regional intergovernmental organizations have members in specific regions of the world. Examples are the AU, ECOWAS, and the EU. Not all countries can be members of ECOWAS, the EU, and the AU. Countries have to be in Africa before they can be members of the African Union and, for ECOWAS; they have to be in the West Africa sub region.
- As a global intergovernmental organization, the WTO has members in all continents of the world. Currently, it has 150 members, staff strength of 635, and a budget of about \$140 million (Oatley 2008). The WTO started in 1947 as the General Agreement on Tariffs and Trade (GATT). Compared to other intergovernmental organizations, the WTO is smaller since the UN, IMF, and the World Bank have budgets and workers that exceed the budget and staff of the WTO. For instance, the IMF, the UN, and the World Bank have country offices in many countries but the WTO does not have that. As the focus of global trade, The WTO provides a round-table for discussions on world trade, administers the trade agreements that member countries conclude, and provides a mechanism through which governments can resolve trade disputes arising among them (Oatley 2008).

Sample questions

- Distinguish between outsourcing and off shoring.

- Explain why you will support or oppose the statement that ‘the WTO is an important organization.’

- What is the difference between a regional intergovernmental organization and a global intergovernmental organization?

Components of the WTO

- The components or structures of the WTO are three-fold: principles and rules, intergovernmental bargaining arrangement and dispute settlement mechanism.
- **Principles and Rules:** These principles are market liberalism and nondiscrimination.
- **Market liberalism** contends that a liberal or open economy increases the living standard of all people in the world (Oatley 2008). This suggests that goods should be free to move from one country to another without any government-imposed restrictions, such as tariffs and nontariff barriers. Put in a different way, both rich and poor countries do better with trade among countries in the global system than without trade. Because the WTO promotes an open economic policy, countries in Africa are especially able to use sophisticated products that are not manufactured in many countries in Africa. Let us look at the computers we use in Ghana. How many computers are used in the various public and private universities offices in the country? What about the numerous government departments and the many private business organizations in the country?
- We can even talk about the sophisticated technological products used in our major hospitals and other district and private hospitals to diagnose and treat diseases. Without some of these technologies medical professionals will not be able to provide the services needed by patients. When you assess the principle of market liberalism critically, you will realize that both rich and poor countries are benefiting from international trade. If all Ghanaians will be frank with themselves, most of us wear dresses that were manufactured in other countries. What about the cars and vehicles on our streets? We are enjoying these sophisticated products (that as a country we have not made any plans to produce locally) because of the principle of market liberalism. Can you give examples of the products that are consumed **in large quantities** in Ghana but produced by other countries?

Components of the WTO (Cont'd)

- The second core principle is **nondiscrimination**. Nondiscrimination indicates that each member country of the WTO faces identical opportunities to trade with other WTO members (Oatley 2008). A quintessential example is that both Ghana and Mali should have the same opportunities to trade with the United Kingdom. Thus, if the UK government allows Ghana to export a particular product to her market, Mali should also have the same opportunity to export the same goods to the UK market. This principle has two specific forms. First is the Most Favored Nation (MFN) section, which forbids governments and countries to use trade policies to give special advantages to certain countries and not to others. Per our example above and the MFN, the UK government cannot give special privileges to Ghana and deny Mali those same privileges to her market. In essence, the UK cannot say she colonized Ghana so she wants to give Ghana special advantages over other countries to her market. Primarily, MFN requires WTO members to treat other members the same way they will treat their favorite trade partners. There are two main exceptions to the MFN requirements.
- The first is that when countries belong to a regional trade agreement (this is a trade agreement between countries in a particular region of the world), they are allowed to depart from the MFN. Taking ECOWAS as an example, some categories of goods can be exported to the Nigerian market from Ghana duty free, but those same goods from either Kenya or the UK to Nigeria will attract tariffs. The reason is that both Ghana and Nigeria are members of ECOWAS but Kenya and the UK are not members of the ECOWAS. This same exception applies to other regional trade agreements in the world, such as the North American Free Trade Agreement (NAFTA) for Mexico, the United States of America and Canada, and the European Union.

Components of the WTO (Cont'd)

- The second exception is the Generalized System of Preferences (GSP). This allows rich, advanced industrialized countries to impose lower tariffs on goods coming from the developing world than they would impose on the same goods coming from other advanced industrialized countries. To illustrate, with GSP, if Ghana exports textile products to the US market, the tariff under GSP will be 10% of the total cost of the textile products. However, the same textile products from the Netherlands to the US market will attract a tariff of 25% of the total cost. The reason is that Ghana is a developing country and the Netherlands is an advanced country.
- The second aspect of the nondiscrimination principle is national treatment. National treatment forbids countries from using taxes and other forms of regulations to give advantage to their domestic industries at the expense of foreign industries that compete with their domestic industries. This requirement is found in Article III of GATT, and it stresses that “the products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favorable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution or use” (Oatley 2008:24).
- This implies that countries should treat the products coming from another country the same way they will treat the same products from their countries. For instance, the government of Ghana, under national treatment, is required to have the same standards for the same products manufactured in both Ghana and Nigeria. This will ensure that once the products from Nigeria enter the market in Ghana, the products in Ghana will not have any competitive advantage over those from Nigeria. However, when you look at national treatment objectively, the question we can ask ourselves is how many countries would be willing to adopt policies that will ensure that foreign companies compete well with their domestic companies. We previously said something about protectionism. Under certain circumstances countries prefer to adopt policies that will make their local industries more competitive than foreign firms. When we talk about the challenges facing the **WTO** in section 5, you will understand why the sub principle of national treatment and other principles are not strictly adhered to by member countries.

Sample Questions

1. How do developing countries benefit from the two core principles of the WTO?

2. Discuss three problems with the nondiscrimination principle.

- A.

- B.

- C.

3. Explain two merits and two demerits of market liberalism in Ghana.

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Intergovernmental Bargaining

- Intergovernmental bargaining is the decision-making of the WTO. It focuses on negotiating agreements that directly liberalize trade and indirectly supply that goal (Oatley 2008). For trade to be liberalized in the international system, governments of WTO member countries must change policies that restrict the free movement of goods and services from one country to the other.
- Some of the policies used by governments to restrict the movement of goods and services across national borders (they are called trade tricks) are health and safety regulations (the product must meet certain health and safety standards), government purchasing practices, beggar-thy-neighbor policies (countries and governments attempt to promote trade surpluses by trade policies that cause their trade partners to suffer trade deficits), import quotas (this is where countries unilaterally specify the quantity of particular products that can be imported into their countries), export quotas (barriers to free trade agreed to by two trading states to protect their domestic producers), and several other policies (Oatley 2008:25; Kegley 2009:298-299). It must be emphasized that these trade tricks affect globalization negatively.

Intergovernmental Bargaining (cont'd)

- Oatley has summarized the intergovernmental bargaining/negotiations in the following way: Member countries do the negotiations in bargaining rounds; each round has a definite starting date and a target date for completion. At the start of each bargaining round, governments meet as the WTO Ministerial Conference (this is the highest level of WTO decision making and comprises the trade/commerce ministers or secretaries of member countries) for three or four days. After the end of the ministerial conference lower level national officials working at the WTO headquarters perform detailed negotiations of the topics contained in the agenda of the ministerial conference.
- These lower level officials take periodic stock to reach interim agreements. When the negotiations produce the sketches of a final agreement, there will be a final ministerial conference to finalize the round. The final agreement is then ratified by the member countries of the WTO and implemented in accordance with the time table agreed to by the member countries. So far there have been nine negotiating rounds, and the rules established by these negotiations provide the legal framework for international trade relations. As a result of this, all member countries are required to abide by certain common rules. This ensures that the rule of law practiced in countries is also applied to international trade relations by the WTO. The table on the next page shows the various negotiating rounds of the WTO.

Dispute Settlement Mechanism

- The dispute settlement mechanism ensures that member countries of the WTO abide by the rules they establish. As in all intergovernmental organizations, this mechanism is necessary because not all countries will comply with the rules they establish. There are times some governments refuse to comply with trade policies of the WTO, especially by resorting to the adoption of protectionist policies. In this way, the dispute settlement mechanism helps different governments resolve disputes arising as a result of trade, and it also authorizes punishment whenever there is noncompliance.
- The People's Republic of China, for example, recently reported the United States of America to the WTO over the latter's increase in the tariffs on tyres from the US. What the dispute settlement mechanism does in this situation is to investigate whether the US action is lawful under WTO rules or not. If this action is deemed to be unlawful, the US is supposed to be punished by the WTO. In settling disputes, this mechanism uses an independent quasi-judicial tribunal, which investigates the facts before reaching its conclusion as to whether a particular country is guilty or innocent. Countries and governments that are found to have broken WTO rules are required to change their offending policies or compensate the countries affected by their policies. The following news item describes the trade dispute between China and the US.

Topic two

New Directions and Challenges

- **New Directions**

- The WTO has extended its scope beyond tariffs/taxes in four main areas. These four areas are intellectual property, trade in services, trade-related investment measures, and standards. Let us discuss each of them in detail. First, member countries of the WTO have negotiated the Agreement on Trade-Related Aspects of Intellectual Property (TRIPs) to protect intellectual property (Ryan 1998; Sell 1998; Harrison 2004; cited in Oatley 2008). The World Intellectual Property Organization has defined intellectual property as “creations of the mind: inventions, literary, and artistic works, as well as symbols, names, images, and designs used in commerce (Oatley 2008:35).” Examples of intellectual property are American movies, computer software, the distinctive design of an iPod, etc. Intellectual Property is protected through patents, copyrights, and trademarks that give the inventor or creator the exclusive right to profit from his or her invention or artistic work (Oatley 2008:35).
- Member states decided to protect inventors after it became clear in the 1980s that developing countries did little to protect intellectual property created by foreign companies. As a result of this lack of protection, many inventions (such as Microsoft software, Adidas sneakers, Calvin Klein and Guess jeans, etc) were pirated or counterfeited in the developing world with impunity. In this situation inventors would lose billions of money because their inventions would be sold at reduced prices by people who did not put in any effort in the invention of the product. By adopting policies to avoid the pirating of intellectual property, the WTO has sent signals to all member countries that they must protect intellectual property. This will ensure that people will be encouraged to invent new things that will enhance the standard of living of people living everywhere in the globe.

New Directions (Cont'd)

- Second, WTO members have created rules that govern international trade in services. Services are economic activities that do not involve manufacturing, farming, or resource extraction (Oatley 2008:35). The following are some of the economic activities that constitute services; financial services such as banking and insurance, transportation services such as shipping and tourism, business services such as consulting and accounting, and telecommunications. In many advanced industrialized countries the service sector makes up almost 60% of economic activities and it also contributes about 22% to world trade. Some studies have also shown that since the 1980s, international trade in services has increased rapidly (Hoekman and Kostecki 1995; cited in Oatley). Nevertheless, the international community did not provide any rules guiding international trade in services until 1993 when WTO members concluded the Uruguay Round of negotiations (called the General Agreement on Trade in Services). This agreement removed a small number of these barriers and created a framework for negotiations targeted at additional liberalization (Hoekman and Kostecki 1995).
- Oatley notes that liberalizing trade in services over and over again requires considerable changes to national policies. This is because the major impediment to trade in services has to do with national policies that prevent and prohibit foreign companies in the service sector from operating in the local market. For instance, some of these national regulations prevent telecommunications and insurance companies operating in the US from operating in countries such as Ghana, Nigeria, and Togo. Generally, national regulations tend to make certain that foreign owned service firms cannot operate in other countries. According to Oatley, some of these negotiations have been ongoing in telecommunications, maritime transport, and financial services since 1995.

New Directions (Cont'd)

- Thirdly, governments of the WTO member countries have negotiated rules known as Trade-Related Investment Measures (TRIMs), which govern the activities of multinational corporations (MNCs). TRIMs ensure that governments' ability to regulate certain aspects of the activities of MNCs is restricted. Prior to the adoption of TRIMs, governments would pass laws that required MNCs to buy a certain percentage of their inputs from local producers or to export a certain percentage of their production. This suggests that the WTO has constrained the actions of national governments in their attempts to use domestic laws to control the activities of MNCs and promote economic development.
- Finally, the WTO member governments have negotiated rules that prohibit the use of standards to control the domestic markets. To ensure that countries do not use certain standards requirements to give advantage to their domestic producers, the WTO has adopted the Sanitary and Phytosanitary Measures (SPM) (it focuses on food safety and animal and plant health). The intergovernmental organization recognizes and accepts that countries should regulate products that pose potential and real dangers to consumers, but at the same time, it prohibits the use of certain health and safety standards to regulate the products coming from other countries. So the SPM guarantees that there is a balance between allowing national governments to protect against legitimate health concerns and preventing them from using health and safety regulations to give advantage to local producers. The question we can ask ourselves is does the WTO have the personnel, the resources, the authority to ensure that national governments abide by these rules and regulations. In the next section we shall discuss the challenges facing the WTO, and we will be able to examine some of these issues in detail.

Sample Question

- Describe the four policy areas that have been the concern of the WTO in recent times.

- A.-----

- B.-----

- C.-----

- D.-----

Challenges of WTO

- The first challenge I want to talk about is the growing difficulty for WTO member states to reach an agreement. As we stated in the beginning of the unit, the WTO has about 150 members and all these countries are frequently, if not always, expected to be on the same page when it comes to trade liberalization in the world. There are many reasons that explain why there is difficulty in reaching agreements in the WTO. We will talk about two of them here. First, the 150 countries involved in WTO activities have led to diversity of interests in the WTO. Currently, it embraces advanced industrialized countries, middle-income developing countries, and extremely poor developing countries. Because of these deep differences in the membership, the various divisions of countries have different objectives that they want to achieve with trade liberalization. Let us look at how the various countries react to the protection of intellectual property (Oatley 2008). Many developing countries do not invent new things or technologies and, as a result, have little interest in protecting intellectual property. On the other hand, advanced industrialized countries engage in a lot of technological inventions, resulting in those countries supporting measures to protect intellectual property in all forms. Thus, given these differences among the member countries, the WTO always has to make every effort to get all on the countries on the same page.
- Secondly, the problem with this diversity of interests represented in the WTO has led to interest groups outside the organization also influencing its activities. Since the last decade or so several groups outside the WTO have organized to oppose some of the policies of the WTO which they consider unpleasant to the global economy. For instance, environmental groups have in the past condemned WTO policies which they believed would lead to the destruction of the environment. Similarly, public health groups have also been critical of the WTO because at times some of the trade policies promoted make it difficult for governments to obtain essential medicines to treat people during times of public health emergencies (Oatley 2008).

Challenges of WTO (Cont'd)

- The second main challenge facing the WTO is regional trade agreements. This is fundamentally the biggest challenge facing the WTO. According to Oatley, a regional trade agreement is basically a trade agreement between two or more countries that are more often than not located in the same region of the world. Regional trade agreements can be in two forms-free trade area and customs union. In a free trade area, governments that constitute the regional trade agreement remove tariffs on other members' goods, but each member maintains autonomous tariffs on goods entering their market from countries that are not members of the regional trade agreement. For example, NAFTA (member countries are Canada, Mexico, and the United States of America) is a free trade area so goods from any member country to another member country, say from Canada to Mexico, attract no tariffs. However, if a country is not a member of NAFTA and she exports goods to Canada, the goods will attract tariffs and these tariffs will probably be different from what will be charged by the Mexican government.

Challenges of WTO

- Governments of a customs union remove all tariffs on trade between members and impose common tariffs on goods entering the union from nonmembers. The EU is a typical example of a customs union. Goods from any EU member country to another EU member country attract no tariffs. Also all EU members impose the same tariffs on goods entering the EU from nonmember countries. Regional trade agreements pose a serious threat to the WTO because they are discriminatory. These regional trade agreements allow countries that are members to benefit from their membership while countries that are nonmembers must pay high tariffs to access the markets of countries that belong to a regional trade agreement. This is a direct opposite of the nondiscrimination principle of the WTO. Recall that when we discussed the principle of nondiscrimination in the WTO, we said one exception to the most favored nation (MFN) clause is regional trade agreements. Thus, although the WTO allows regional trade agreements, the proliferation of regional trade agreements have meant that some countries would have some difficulty in trying to access certain markets. In this situation, countries in the developing world especially will have difficulty accessing markets of advanced industrialized countries that belong to a regional trade agreement.

Challenges of WTO (Cont'd)

- The final challenge relates to the pressure interest groups put on the WTO such as demanding the adoption of policies that will control the environment and pushing for developing countries to have access to certain essential goods at lower prices.



Conclusion

- We have looked at the WTO in terms what it is, the components, the new directions and the challenges. I expect by now you can easily relate to the relevance of the WTO in the global economy.

Additional Readings

- **Thomas Oatley (2013)**, International Political Economy (fifth Edition): Interests and Institutions in the Global Economy, Pearson Longman.
- Bossman E. Asare, 2016. International Politics: The Beginner's Guide- Updated and Expanded, Digibooks, Ghana.
- Charles W. Kegley Jr. and Shannon L. Blanton, 2010. World Politics: Trend and Transformation, Wadsworth: Cengage Learning.