

What role does the wto play in international business? essay sample

[Economics](#), [Trade](#)



What role does the WTO play in international business? Argue the case that the WTO is either helpful or a hindrance to international trade, giving particular examples to support your case.

1. INTRODUCTION

International trade has been increasingly frequent since industrialisation. Today globalisation becomes well-known among people. As economies have become more open, countries become more dependent on one another. However, rarely is free trade truly free trade due to country interventions which aim to promote industrialisation or national interests, or protect employment or consumer (Morrison 2006). In an interdependent world the actions of one country has consequences for others. Hence The World Trade Organisation (WTO) has grown in importance because globalisation expands and countries become inter-dependent. WTO is the international body responsible for oversight of trade between nations.

The author will first check the role that the WTO plays in international business. This is followed by “ argue the case that the WTO is helpful rather than a hindrance to international trade”, supported by particular examples. These two issues will then be covered in this essay.

Information collected for essay is from various existing sources (second data), e. g. Internet, related textbooks (especially books talking about international business and similar topics), Journal articles, newspaper, and so forth.

Limitations of this essay include: First, as this is the first time for the author to systematically research WTO, he may not provide a very professional discussion for the topic typically due to time restriction; second, the author will argue that the WTO is helpful rather than a hindrance to international trade, which may not be supported by many others as WTO does have encountered some criticism that may be unfavourable to the author's point of view.

2. THE ROLE THAT THE WTO PLAYS IN INTERNATIONAL BUSINESS

2. 1 THE ORIGIN OF WTO

The WTO was formally established in January 1995 by the GATT which was instituted in 1947 with members of over 110 countries as of the end of 1994, Uruguay round of negotiations (WTO, 2008). WTO was established because GATT member states recognised that increasing world trade necessitated a stronger institutional framework with more legal standing (Hoekman and Kostecki, 1995). As of 23 July 2008, the WTO has 153 member states with headquarters in Geneva, Switzerland (WTO, 2008). The organizational structure of WTO is attached in Appendix 1.

2. 2 ROLES AND FUNCTIONS OF WTO

WTO's primary role/objective is to ensure that trade flows freely between nations based on the GATT principles of open trade that includes trade without discrimination, gradual transition to free trade through negotiation, predictability through transparency and binding agreements, promotion of

fair competition and encouraging development and economic reform (Daniels, 2000). In other words, WTO acts as a common institutional framework and associated legal instruments to conduct trade relations among member nations (WTO, 2009). This can be further divided into five functions, including:

- Administering WTO trade agreements.

WTO administers WTO trade agreements. Important agreements include GATT 1994, Agreement on Agriculture, Agreement on Rules of Origin, Agreement on Anti-Dumping, and Agreement on Safeguards (refer to the detail in Appendix 2).

- Providing a forum for trade negotiations.

This aims to remove trade barriers through negotiations. Non-WTO members can be members through negotiation during which they have to agree to make their national legislation in conformity with the WTO's multilateral agreements rules, and promise to reduce tariffs and modify their regulations (See the process detailed in Appendix 3). In addition, WTO provides a negotiation forum for continuous negotiations as to the further liberalization of trade and the improvement of existing rules; review all or some of the provisions of specific Agreements; decisions to add new subjects to the WTO work programme; and possible launching of a new round of trade negotiations on a wider subject areas. (WTO, 2009)

- Handling trade disputes.

Settlement of trade disputes is an important role of WTO, which is one of WTO's original intentions (WTO, 2009). Unfair trade practices between nations may be brought to a WTO panel (normally consists of three persons proposed by the WTO Secretariat) to seek for a resolution. All stages of deliberations are limited by time, and the process binds the WTO's rulings (Daniels, 2000). If the offending nation fails to comply with the judgement decided by WTO panel, its trading partners (the offended nations) have the right to compensation; if this penalty is ineffective, then the offended nations have the right to impose countervailing sanctions on the offending nation (WTO, 2009). A good example is "the tariff duty US imposed on EU products in response to the EU's reluctance to abolish its banana import restrictions" (Hanrahan 2001). This indicates member nations' confidence in effectiveness of the WTO dispute-resolution process.

- Monitoring national trade policies through the Trade Policy Review Mechanism (TRPM).

WTO also plays a role in the periodic review of the member nations' trade policies, including two parts: First, to monitor whether or not and to what extent member nations have been following the disciplines and the commitments. By implementing such periodical reviews, WTO acts as a watchdog to ensure that member nations comply with its rules, and therefore prevents trade friction. However, the review mechanism is neither intended to serve as a basis for enforcing obligations nor settle trade disputes. Second, these reviews provide greater transparency and

understanding of the trade policies and practices of member nations. (WTO, 2009)

WTO also plays a role in WTO-related consultations. The mechanism provides an opportunity for consultations between governments and the private sector (industries and businesses). The private sector can require WTO to help to solve any problems confronted in their target export markets due to the measures taken by governments of importing nations. In addition, WTO Secretariat (See its organizational chart in Appendix 4) also provides national legislation and rules in the foreign trade sector and valuable information on products which can be useful to enterprises exporting or considering exporting specific products. (WTO, 2009)

- Technical assistance and training for developing countries.

According to Article 88 of WTO, WTO provides trade-related technical assistance/activities for least-developed countries (e. g. Angola, Bangladesh, Mali, etc.). According to article 111, WTO also provide market access-related technical assistance to developing (e. g. China, India, etc.) and least developed countries based on the integrated data base and the consolidated tariff schedules database. (WTO, 2009)

- Summary

Based on the above information, it can be seen that WTO plays a very important role (to ensure that trade flows freely between nations) with five key functions in the trade and negotiation system for all member nations and

private sector (industries and businesses) involved in international business to include imports and exports. In addition, WTO particularly provides trade-related technical assistance/activities for least-developed countries and market access-related technical assistance to developing and least developed countries to promote their international business.

3. WTO IS HELPFUL TO INTERNATIONAL TRADE

In this part, the author tries to justify that WTO is helpful rather than a hindrance to international trade.

- It is clear that all the time WTO has been pursuing free trade for its member nations. Debate as to free trade has been continued among various economists and other theorists. Economic liberalists believe that free international trade brings benefits to all member nations because countries export goods based on their comparative advantage, and import goods with lower expenditure from other countries for which those countries have specialist skills (Krugman 2004). By doing so, they are all able to maximize benefits through international trade. However, the comparative advantage theory can sometimes be unpractical in real world though it still acts as the basis of international trade. For example, if South Korea focused on its comparative advantage of rice and silk production in the 1950s, it would not prosper in today's industrial markets such as the automotive industry and the mobile industry.

In fact, free trade can drive innovation rather than just exchanging something based on comparative advantage (Mann 1996). The McKinsey

Global Institute's research indicated that a country's sectors facing foreign competition through free trade were highly productive, whereas sectors without facing such competition were less productive (McKinsey Global Institute 2002). For example, productivity in Japan's food manufacturing sector is very low (the productivity is only a third of that of US) because these sectors are protected against free trade (McKinsey Global Institute 2000). In addition, free trade forces domestic companies to improve their product/service quality due to high competitive pressure from foreign competitors. More specially, domestic enterprises have to reshape their strategies to improve their operations and better compete with foreign competitors because of the cheaper but quality product/service imported into the domestic market.

In addition, the WTO does face the issues of labour standards (e. g. use of child labour), low wage in some countries and less environmental protection (Hill 2000). Countries (e. g. China, India) with these factors may be in a favourable position in attracting foreign investment and international trade. However, economic liberalists argue that low wage and environmental standards brings only small advantage for those countries in international trade; the huge technological gap between developed and developing countries would compensate developing countries through cheap labour and lower environmental standards; and increased trade will also increase wealth of developing countries, and therefore increase their workers' wage and improve other standards (Hill 2000). For example, the export of South Korea's textiles and apparel products dropped to 19% in 1993, significantly

reduced compared with the figure (40%) in 1980; today, South Korea focuses their exports on automotive and electronic products, and therefore increases their workers' average wages and a cleaner environment is also desired and affordable (Lukas, 2000).

Through the above analysis, it can be seen that free trade advocated by WTO is generally helpful in international trade for member nations. Free trade helps improve the standard of living for member nations that are either developed or developing (include least-developed countries), and helps further develop developing countries' economy and other aspects such as environment and labours. Developed countries provides foreign investment and foreign direct investment (FDI) to developing member nations to develop their economy, and therefore improve the latter's income levels and other aspects, while provide relatively cheaper import for the former. The advantages of free trade are apparent in countries such as Taiwan and South Korea who have become industrialized economies through free international trade (Rajagopal 2007). China is another good example which has seen its further economic growth and improved standard of living after joining in WTO to do free trade with other member nations (Rajagopal 2007).

- The WTO deals with trade agreements and negotiations between member nations in order to facilitate higher level of free trade in international business. Although the trade agreements provide the agreed-upon terms of trade activity for member nations, there are examples where one member may have concerns its trading partner does not comply with the established agreement. The WTO promotes international trade by not only establishing

the trade agreements but also resolving trade disputes when they arise. If the member nations do not comply with the terms of the trade agreements, their actions will typically impact and potentially impede further trade and other relations with the trading partners. Offended member nations can file a dispute with the WTO. (WTO 2009)

A good example has occurred between US and China. The US believed that China had been maintaining a tax system to block imports of auto parts from US (Crustinger, 2007). China's actions did not comply with WTO trade agreements. The WTO then examined the complaint submitted by US on allegations that China had been maintaining an illegal tax system to block imports of auto parts from US. The result showed China's such action discriminated against foreign automakers and runs counter to WTO trade agreements. In addition, China's action was also hindering automakers from using foreign auto parts for the cars assembled in China. Apparently China's action had resulted in unfair trade activity and affected trade exports to China from other member nations. Thereby the WTO panel backed the US claims. However, China also had the right to appeal the decision made by the WTO panel. This example shows that WTO is helpful in international trade by establishing the trade agreements and resolving trade disputes.

- Although the WTO promotes the ideal of a level playing field in trade, developing countries challenge the WTO on protectionism because they said that GATT barely touched barriers to developed countries' markets in textiles and agricultural products, which leads to inequities (Morrison 2006). If this is true, WTO is a hindrance to international trade for developing countries

because it may mainly protect the benefits of developed economies. Yes, WTO rulings do benefit the main trading nations/groupings (e. g. US, EU, Japan) to some extent. Take US for an example. US has been focusing on using the WTO as a tool to negotiate with other member nations for the best possible outcomes, and is always the winner in WTO dispute resolution (Honey and Barry, 2000). For example, Egypt has to stop discriminatory textile tariffs against America, China failed to revoke anti-dumping duties on America kraft linerboard, Mexico was unable to implement antidumping duties on American rice, and so forth (Workman 2007).

However, the truth is the WTO is helpful in international trade not only for developed countries, but also for developing countries. WTO has made particular efforts for developing countries. The WTO agreements include numerous provisions favourable for developing countries in the belief that developing countries must export more to develop their economies (Choi, Lee and Kim 1999). Provisions have been made by WTO in order to require developed countries to treat developing countries more favourably than other member nations, especially in the areas of agriculture, textiles, services, and technologies (Martin 2004).

Study indicates that developing countries have consistently outperformed developed countries according to export growth over the past few years- developing countries enjoy an average annual growth of around 10%, compared to 5% for those of developed countries (Moore 2007). Facing the current global economic downturn, developing countries are continuing to grow and gain stronger trade growth compared with the developed

economies, albeit at a slower rate (Hamdani 2009). These factors mean that WTO is very helpful in international trade as it also significantly promotes the trade and benefits of developing countries. China is a good example. After joining in WTO in 2002, China's export continues to grow (see Figure 3. 1).

FIGURE 3. 1: CHINA'S EXPORT GROWTH, 2003-2007

(Source: CEIC, World Bank and staff calculation, 2008)

WTO's help in international trade for developing countries also can be seen through its trade-related and market access-related technical assistance for developing and least-developed countries as mentioned previously. Regular training sessions as to trade policy are often held by the WTO which organizes around 400 technical cooperation activities annually, including seminars and workshops in various countries and courses, in order to help the developing countries to establish the essential institutions and train their officials. Through this, developing countries will be more capable to operate successfully in international trade. (WTO 2009) For example, developing countries such as Brazil, China, India, Kazakhstan, Malaysia, Indonesia, have significantly improved their international trade capability through technical assistance of WTO, which can be seen through their continually increased trade and export growth (JFTC 2004).

So WTO, to some extent, not only promotes international trade for developed economies, but also has successfully protected the interests of developing countries, and enhanced their involvement in the international market, and therefore the WTO is helpful rather than a hindrance to international trade.

•WTO aims to promote free trade and trade liberalisation. An alternative to seeking trade liberalisation through WTO is for countries to forming trade agreements within the regional grouping. Major regional groupings include EU (Customs union and political union), NAFTA (Free Trade Area), MERCOSUR (Common Market), ASEAN (Free Trade Area), and so on (Morrison 2006). For trade agreements within the regional grouping, WTO recognises that this is another way of trade liberalisation and there does not show a hindrance to such international trade. However, regional trade groupings must be notified to the WTO (Morrison 2006). Although this cannot directly justify that WTO is helpful in international trade, at least it indicates that WTO is not a hindrance to international trade, but rather it welcomes alternative methods of trade liberalisation.

4. CONCLUSION

This essay reveals that WTO plays a very important role (to ensure that trade flows freely between nations) with five key functions in the trade and negotiation system for all member nations and private sector (industries and businesses) involved in international business to include imports and exports. In addition, WTO particularly provides trade-related technical assistance/activities for least-developed countries and market access-related technical assistance to developing and least developed countries to promote their international business.

The author has also justified that WTO is helpful rather than a hindrance to international trade. First, WTO's primary focus of free trade is generally

helpful in international trade for member nations as it helps improve the standard of living for member nations that are either developed or developing (include least-developed countries), and helps further develop developing countries' economy and other aspects such as environment and labours. Second, WTO is helpful in international trade by establishing the trade agreements and resolving trade disputes. Third, the WTO not only promotes international trade for developed economies, but also has successfully protected the interests of developing countries, and enhanced their involvement in the international market. WTO's help in international trade for developing countries also can be seen through its trade-related and market access-related technical assistance for developing and least-developed countries. Forth, WTO is not a hindrance to international trade, but rather it welcomes alternative methods of trade liberalisation (e. g. trade agreements within the regional grouping).

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APPENDIX 1: ORGANIZATIONAL STRUCTURE OF WTO

(Source: http://www.wto.org/english/thewto_e/whatis_e/tif_e/org2_e.htm)

APPENDIX 2: ASPECTS OF WTO AGREEMENTS

(Source: Adapted from WTO, 2009, _Marrakesh Agreement Establishing the World Trade Organization_)

APPENDIX 3: WTO ACCESSION FLOW CHART

(Source: Adapted from WTO, 2009)

APPENDIX 4: ORGANIZATIONAL CHART OF WTO SECRETARIAT

(Source: Adapted from WTO, 2009, The Secretariat)