

MPUP 5301: Globalization, Social Problem and Policy

Lecture 5: Free Trade or Fair Trade: Impacts of WTO

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GLOBALIZATION AND TRADE

Table 1
Globalization waves in the 19th and 20th century

(Percentage change unless indicated otherwise)

World	1850-1913	1950-2007	1950-73	1974-2007
Population growth	0.8 ^a	1.7	1.9	1.6
GDP growth (real)	2.1 ^a	3.8	5.1	2.9
Per capita	1.3 ^a	2.0	3.1	1.2
Trade growth (real)	3.8	6.2	8.2	5.0
Migration (net) Million				
US, Canada, Australia, NZ (cumulative)	17.9 ^a	50.1	12.7	37.4
US, Canada, Australia, NZ (annual)	0.42 ^a	0.90	0.55	1.17
Industrial countries (less Japan) (cumulative)	64.3
Global FDI outward stock, year			1982	2006
FDI as % of GDP (world)	5.2	25.3

a Refers to period 1870-1913.

Source: Maddison (2001), Lewis (1981), UNCTAD (2007), WTO (2007a).

Trade expansion after WWII

- International trade after WWII entered a long period of record expansion with world merchandise exports rising by more than 8 per cent per annum in real terms over the 1950-73 period.
- Trade growth slowed thereafter under the impact of two oil price shocks, a burst of inflation caused by monetary expansion and inadequate macroeconomic adjustment policies.



Fast Expansion

- In the 1990s, trade expanded again more rapidly, partly driven by innovations in the information technology (IT) sector. Despite the small contraction of trade caused by the dotcom crisis in 2001, the average expansion of world merchandise exports continued to be high – averaging 6 per cent for the 2000-07 period.
- For the entire 1950-2007 period, trade expanded on average by 6.2 per cent, which is much stronger than in the first wave of globalization from 1850 to 1913.



US & Japan

- While the United States remained Japan's largest export market throughout that period, Japanese export shipments grew more rapidly to western Europe and the Asian newly industrialized economies (NIEs).
- From the early 1960s onwards, the six NIEs followed an outward oriented trade policy and succeeded in sharply increasing their merchandise exports. In the two decades following 1963 the share of the Asian NIEs rose from 2.4 per cent to 9.7 per cent of world merchandise exports. These economies initially excelled in exporting textiles but diversified later into exports of consumer electronics and IT products.



1990s

- In the 1990s, Japan's share in world exports started to shrink significantly owing to the competitive pressure exerted by the NIEs and China.
- The stimulus provided by the creation of the North American Free Trade Agreement (NAFTA) in 1994 was not sufficient to reverse the downward trend in the share of Canada and the United States in global trade.



Decline of developed countries' trade

- The reduced share of the industrial countries can be attributed first to the rise of China, the recovery of the Commonwealth of Independent States (CIS) and in more recent years to the boom in commodity prices which boosted the shares of Africa, the Middle East and Central/South America, regions which export mostly minerals and other primary products.



Rise of China

- Increased competition from China in the world trade of manufactured goods was concentrated initially in textiles trade and other labour-intensive goods, such as footwear and toys, but expanded quickly into consumer electronics and IT goods.
- More recently, China's biggest gains in market share were in iron and steel products. China more than tripled its share in world exports between 1990 and 2007 and is likely to become the number one merchandise exporter in 2008.



HISTORY OF WTO: FROM GATT TO WTO



GATT

- The World Trade Organization (WTO) began life on 1 January 1995, but its trading system is half a century older.
- Since 1948, the General Agreement on Tariffs and Trade (GATT) had provided the rules for the system.
- It did not take long for the General Agreement to give birth to an unofficial, *de facto* international organization, also known informally as GATT. Over the years GATT evolved through several rounds of negotiations.



Death of ITO

- GATT was established after World War II
- International Trade Organization was successfully negotiated. The ITO was to be a United Nations specialized agency and would address not only trade barriers but other issues indirectly related to trade, including employment, investment, restrictive business practices, and commodity agreements.
- But the ITO treaty was not approved by the U.S. and a few other signatories and never went into effect.



Treaty Regime not an institution

- In the absence of an international organization for trade, the GATT would over the years "transform itself" into a *de facto* international organization.
- Despite attempts in the mid 1950s and 1960s to create some form of institutional mechanism for international trade, the GATT continued to operate for almost half a century as a *semi-institutionalized multilateral treaty regime on a provisional basis*.



7 rounds of GATT

- Seven rounds of negotiations occurred under GATT.
- The first real GATT trade rounds concentrated on further reducing tariffs. Then, the Kennedy Round in the mid-sixties brought about a GATT anti-dumping Agreement and a section on development.
- The Tokyo Round during the seventies was the first major attempt to tackle trade barriers that do not take the form of tariffs, and to improve the system, adopting a series of agreements on non-tariff barriers



Codes of GATT

- The Tokyo round achieve a series of agreements on non-tariff barriers, which in some cases interpreted existing GATT rules, and in others broke entirely new ground.
- Because these plurilateral agreements were not accepted by the full GATT membership, they were often informally called "codes". Several of these codes were amended in the Uruguay Round, and turned into multilateral commitments accepted by all WTO members.



Formation of WTO

- Only four remained plurilateral (those on government procurement, bovine meat, civil aircraft and dairy products), but in 1997 WTO members agreed to terminate the bovine meat and dairy agreements, leaving only two.



Formation of WTO

- The last round — the 1986-94 Uruguay Round — led to the WTO's creation.
- The negotiations did not end there. Some continued after the end of the Uruguay Round.
- In February 1997 agreement was reached on telecommunications services, with 69 governments agreeing to wide-ranging liberalization measures that went beyond those agreed in the Uruguay Round.



IT & Finance Service

- In 1997, 40 governments successfully concluded negotiations for tariff-free trade in information technology products, and 70 members concluded a financial services deal covering more than 95% of trade in banking, insurance, securities and financial information.



Agriculture and Services

- In 2000, new talks started on agriculture and services. These have now been incorporated into a broader agenda launched at the fourth WTO Ministerial Conference in Doha in 2001.
- The Doha Development Agenda (DDA), adds negotiations and other work on non-agricultural tariffs, trade and environment, WTO rules such as anti-dumping and subsidies, investment, competition policy, trade facilitation, transparency in government procurement, intellectual property, and a range of issues raised by developing countries as difficulties they face in implementing the present WTO agreements.



Doha Development Agenda

- The organization is currently endeavoring to persist with a trade negotiation called the Doha Development Agenda (or Doha Round), which was launched in 2001 to enhance equitable participation of poorer countries which represent a majority of the world's population.



Uncertain Future

- However, the negotiation has been dogged by "disagreement between exporters of agricultural bulk commodities and countries with large numbers of subsistence farmers on the precise terms of a 'special safeguard measure' to protect farmers from surges in imports.
- At this time, the future of the Doha Round is uncertain."



WTO : Why is it BAD for you ?

- http://www.youtube.com/watch?v=BcX2UIJ1yR4&feature=bf_next&list=PL4D801A0D32B0223A&lf=results_main&index=2



Tasks of WTO

- Administering trade agreements
- Acting as a forum for trade negotiations
- Settling trade disputes
- Reviewing national trade policies
- Assisting developing countries in trade policy issues, through technical assistance and training programmes
- Cooperating with other international organizations





Self understanding of WTO

- The WTO is a place where member governments go, to try to sort out the trade problems they face with each other.
- The first step is to talk. The WTO was born out of negotiations, and everything the WTO does is the result of negotiations.

Structure of WTO

- The WTO has nearly 150 members, accounting for over 97% of world trade. Around 30 others are negotiating membership.
- Decisions are made by the entire membership. This is typically by consensus. A majority vote is also possible but it has never been used in the WTO, and was extremely rare under the WTO's predecessor, GATT.
- The WTO's agreements have been ratified in all members' parliaments.



Decision-making body

- The WTO's top level decision-making body is the **Ministerial Conference** which meets at least once every two years.
- Below this is the **General Council** (normally ambassadors and heads of delegation in Geneva, but sometimes officials sent from members' capitals) which meets several times a year in the Geneva headquarters.
- The General Council also meets as the Trade Policy Review Body and the Dispute Settlement Body.



Working committees

- At the next level, the Goods Council, Services Council and Intellectual Property (TRIPS) Council report to the General Council.
- Numerous **specialized committees, working groups and working parties** deal with the individual agreements and other areas such as the environment, development, membership applications and regional trade agreements.





IMPACTS OF WTO ON CHINA

Praise and Criticism

- By joining the WTO, China has demonstrated her commitment towards further economic reform and engaging global economy. However, political, economic and social environments become even more complex since then, and both praise and criticism have emerged from different interest groups not only within China but also globally.



Impacts on Social Development

- The current agreements within the WTO have further consolidated the developed countries' already vested monopolies in technology, knowledge, and capital, and it is virtually impossible for developing countries to break through the existing system of global division of labor.
- In reality, it is much more likely that developing countries will become confined to an arena of competition in which they will be fighting among themselves for shares in the labor-intensive sector of export-processing industries.



Threat of bankruptcy in peasant economies

- The primary source of China's labor force is from the countryside. The peasants have been forced off the land in the face of the threat of bankruptcy in peasant economies.
- First, the world's agricultural trade gradually became "liberalized" under the pressure of agricultural agreements made within the WTO, which accelerated the pace of industrialization in international agriculture.



large-scale agriculture

- Thus, the development of large-scale agriculture in the already developed countries and in the newly emergent “agricultural powers” increased the difficulties and bankruptcy of the peasantries in the developing world.
- China, in order to be prepared for membership, the government was restructuring its agricultural policy, which has seriously affected the livelihood of our peasants.



Response of the Chinese Government

- the adjustments made in the state's grain-requisition-and-purchasing policy have resulted in eliminating the purchase of "spring-harvest" grain from the state's requisition, bringing about a reduction in the peasants' incomes



Reduce tariff

- In agriculture, the WTO agreements stipulate that tariffs for most agricultural products must be reduced from 31 percent to 14 percent within four years.
- For example, the tariff for importing beef and beef products will go from 45 percent to 12 percent, and the tariff for the importing beer will go from 70 percent to total elimination.



End of restrictions on imports

- These tariff reductions and exemptions will inevitably deal a severe blow to the breeding of meat cattle and to food-processing industries in China.
- Even more critical is the fact that China's restrictions on the importing of major agricultural products will be broken up and replaced by a tariff quota system.



Gain in US

- According to an analysis by the United States' Department of Agriculture, the United States will benefit from this change in terms of the exportation of corn (maize), wheat, rice, soybean oil, soybean animal-feed products, and cotton, to the tune of an average U.S.\$1.7 billion per year.



Corn and Wheat

- China will go from current exports of corn products worth U.S.\$426 million to imports of corn and corn products worth U.S.\$71 million. In other words, Chinese peasants will experience a net loss of U.S.\$497 million in the corn market.
- At the same time, imports of wheat will increase from U.S.\$243 million to U.S.\$727 million, which means that the Chinese peasant will suffer an average annual loss of U.S.\$484 million in the wheat market.



Small farmer unable to stay

- The small farmers in northwest China and in the region south of the Yangzi River (Jiangnan) who are engaged in the planting of winter wheat and those in the northeast who are engaged in spring-wheat cultivation will simply be unable to stay in the competition.



Elimination of peasants' means of living

- the per capita income of the peasants in these regions is RMB 2,000 per annum, then what the opening up of the corn (maize) and wheat markets will mean is that four million peasants will be totally robbed of their means of livelihood.
- If we take the bigger picture into consideration, where China's peasants as a whole will lose a total of U.S.\$1.7 billion in the market for major agricultural products, then we are talking about the elimination of seven million peasants' means of living.



Other competition

- The impact will gradually spread out in various layers. As a minor fraction of these major agricultural product sectors are opened up, tens of millions of peasants will be harmed.
- Competition will come in other importation sectors, such as meat products, eggs, and other processed foodstuffs, and we can expect that the entire broad sector of the peasantry, which now relies heavily on food and sideline production to survive, will be plunged into serious difficulty



Against "Liberalization"

- As with the major opposition against total "liberalization" of agricultural trade in the WTO, we cannot purely employ the perspective of "economic effectiveness and economic benefit" to assess the value of the peasantry.
- The peasantry has many functions in society, both economic and noneconomic. Furthermore, the reduction in the production of such crops as wheat, corn, and rice is not simply a matter of reduction in production.



Affect Survival of Peasant

- The reduction of agricultural production will affect the survival of the peasantry in such areas as animal feeds and green fuel supply and usage.
- These will threaten the very survival of the small farmer system in many regions, forcing even larger numbers of peasants to leave the countryside and go elsewhere to find a way to survive.





Impact on workers

- China's joining the WTO will greatly increase the importation of low-tariff consumer goods. This will have a tremendous impact on our pre-existing market and employment in state-owned industries, as well as in enterprises previously owned by rural townships and villages, and in private enterprises. We believe that China's joining them will first of all have a serious impact on China's existing industrial workers, causing a new round of massive unemployment.



Competition within developing countries

- in the six years since the founding of the WTO, many developing countries have consistently complained that the developed countries have not earnestly lived up to their pledges to open up their own markets.
- China's labor force in the labor-intensive export-processing industries is right now facing tremendously powerful competition from the labor forces of other developing countries. The stalemate in WTO negotiations between China and Mexico, for instance, clearly reflects the competitive predicament involving two countries that are equally dependent on export-oriented industrialization.



High value-added

- In the current configuration of great capital, technology-and-knowledge monopolization, and market control, the high value-added sectors of the commodity chain, such as research, design, management, and marketing, are all being operated by transnational corporations through employing professionals and management in developed countries.



race to the bottom

- The lower value-added processes in the chain are being run through the international division of labor by international outsourcing and subcontracting to subcontractors and factory owners in developing countries, in a milieu of intense competition.
- It is precisely in such a confined system that China's laborers are competing with labor forces in other developing countries. As far as the majority of the labor force in every developing country is concerned, what they are facing may very well be a "race to the bottom."





IMPACTS ON EMPLOYMENT RELATIONS

Social Protection or not

- One of the critical areas of debate has been in the area of employment relations: issues such as the implementation of international labour standards, the role of trade unions, working conditions, wage-price factors in relation to cost of production and export competition in global market, social protection and social inequality, "efficiency" vs "fairness and justice", power of multinational corporations (MNCs), global division of labour vs Chinese labour diversity, "industrial democracy" vs "power control and corruption" and so on



China join the Club

- China is no longer an isolated nation and every move she takes comes as a response towards either external pressures or internal demands. We need to understand the current external environments that China is facing, in particular in the context of WTO accession.



Regulations & Conventions

- WTO accession leads China to a situation where it is inevitable that it will be monitored by international governing bodies (such as by the WTO and ILO) and other countries' government, on trade regulations and labour standards and according to relevant international conventions and regulations. Before joining the WTO, China made efforts to participate in international conventions such as "the International Convention of Economic, Social and Cultural Rights" and "the International Convention of Civil Rights and Political Rights"



ILO Conventions

- By the end of May 2003, China had ratified 23 ILO conventions, including three of the seven relating to fundamental rights (No. 100 on discrimination, and No. 138 and No. 182 on child labour) (ILO web site, 2003; Lin, 2002).
- However, the conventions on freedom of association and forced labour have not been ratified yet.



Building up pressures

- WTO accession builds up the international pressures on China to implement and follow international conventions. Labour issues are no longer in the domestic terrain, but are now linked with international trade and international political relations.
- An increasing voice for establishing a committee to examine the issues between trade and labour standards within the WTO comes from Western trade unions, consumer groups, NGOs, and other countries' governments and international bodies.



Core Labour Standards

- freedom of association and recognition of the rights of collective bargaining;
- abolition of all kinds of forced labour;
- abolishment of child labour; and
- abolition of employment discrimination



Accelerates the conflict of interests

- WTO accession accelerates the conflict of interests among different groups due to further labour segmentation, accompanied by the growing diversity of ownership, new distribution patterns and restructuring of industries.



Labour market development

- The first problem is about labour-market development and regulation. The Chinese labour-market is still in a “nascent” stage, where regulation is insufficient to stipulate demand for and supply of labour in detail, as well as a lack of transparent information.
- a combination of new employment relations system introduced by MNCs, co-exists with a 19th century type of master-servant employment relations in small domestic private firms, alongside half-way reformed SOEs.



Regional disparity

- Regional disparity in the area of employment opportunity, income and engagement with the global economy.
- WTO accession brings more foreign direct investment into China, but predominately into the coastal regions and big cities. Whilst the central government has a clear policy on the development of the western regions, so far it has attracted only limited foreign investment in these areas.



Gain in Coastal Area

- more employment opportunities, higher incomes and economic prosperity appearing in the coastal regions and big cities that are closely engaged in the global economy and less in the middle and western regions.
- This regional disparity is likely to lead to more political tensions within the Chinese domestic arena.



Impacts on Poverty

- The liberalization targets under the Doha Development Agenda (DDA) have to quite ambitious if the round is to have a measurable impact on
- Some of the poorest developing countries, however, have gained relatively little from increased manufactures trade. Market access for their most competitive manufactured export remains highly restricted (apparel), as it does for their key source of employment and exports, farming, and the problem with agricultural exports is exacerbated by the massive government subsidies provided to OECD farmers.
- world markets and hence poverty.



Impact on agriculture

- Turning to poverty within the poorest countries, developed-country agricultural policies become even more central.
- A majority of the poor are concentrated in rural areas, where agriculture is usually the main source of economic activity (World Bank, 2004), and in the poorest developing countries, large shares of households (including most of the very poorest) depend on self-employment in agriculture for virtually all of their income (Hertel et al., 2004b).



Doha Development Agenda

- The Doha Development Agenda (DDA) negotiations, sponsored by the World Trade Organization, experienced a blow in Cancun, Mexico, precisely over the question of rich country agricultural support and its potential impacts on poverty in developing countries.



Linkage between trade and poverty

- The Doha negotiations are now emphasizing the need to better understand the linkages between trade policies – particularly in rich countries – and poverty in the developing world.
- Moreover, poverty reduction is now widely accepted as a central focus for development efforts and has become the main mission of the World Bank and other development institutions.



Computable General Equilibrium (CGE) analysis

- *ex ante* analysis of the economic consequences of comprehensive trade agreements – be they multilateral or bilateral in nature
- respecting the fundamental economy-wide consistency requirements such as balance of payments equilibrium and labor and capital market constraints that are so important in determining the consequences of comprehensive trade reforms



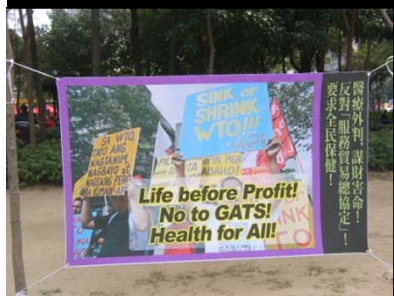
near-term poverty impacts

- The near-term poverty impacts to be mixed; some countries experience small poverty rises and others more substantial poverty declines.
- On balance, poverty is reduced under this DDA, and this reduction is more pronounced in the longer run.



Deeper cuts in developing country tariffs

- Allowing minimal tariff cuts for just a small percentage of special and sensitive products virtually eliminates the global poverty reduction due to the DDA.
- Deeper cuts in developing country tariffs would make the DDA more poverty friendly.



stimulating economic growth

- In order to generate significant poverty reductions in the near term, complementary domestic reforms are required to enable households to take advantage of new market opportunities made available through the DDA.
- Sustained long term poverty reductions depend on stimulating economic growth. Here, the impact of the DDA (and trade policy more generally) on productivity is critical. In order to fully realize their growth potential, trade reforms need to be far reaching, addressing barriers to services trade and investment in addition to merchandise tariffs.





- Key determinants of the national poverty impacts include: the incomplete transmission of world prices to rural households, barriers to the mobility of workers between sectors of the economy, as well as the incidence of national tax instruments used to replace lost tariff revenue.



The End