

Diminishing Relevance of WTO: Structural or Functional?

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Due to the global integration of domestic markets, the gradual process of economies becoming inter-linked and inter-dependent, the rising weight of influence of emerging economies and the arising conflict of interests, WTO has been under the scanner; its role, its impact and even its relevance has come to be debated across nations.

Set up in 1995 after a series of Uruguay Round negotiations (1986-94), the organization which was initially thought to be a triumph of international law over anarchy in the field of trade affairs, has with time, arrived at a position where it holds its relevance in its inclusion as headlines like "Doha talks failed again". Is it now about the ideology on the basis of which it was formed? Or because of the ineffective implementation of guidelines derived from that very ideology? Is it a structural fault rooted in the basic aim or functional fault in the working of the organization?

On the ideological basis, WTO defines its main function 'to ensure that trade flows as smoothly, predictably and freely as possible'¹. Broadly, it is based on the theory that the economy will achieve efficiency in the abolishment of the impediments imposed on free trade.

The efficiency of free-trade model might be a temptation to believe that it is the best mechanism of achieving efficiency. But, not all seem to have succumbed to this

temptation. There have been criticisms questioning the above stated principle. While the left sees the WTO as a near perfect example of clique of stronger nations forcing agreements over less developed nations, the right wing attack the WTO on the grounds that it's an unnecessary entity. Crudely, 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. Critics of free trade are mostly the NGOs. "Enormously rich charities have now turned to agitating about trade issues with much energy but little understanding. These and others are now very big businesses, and like corporations they are under pressure to diversify into new areas of public policy in search of growth, regardless of expertise, as they pursue fundraising opportunities. But they are more dangerous when they speak from incompetence, since they wear halos that the corporations do not. They argue that free trade is not sufficient for growth; we also need other supportive policies. By and large, yes. But then again, it does not follow that freeing trade is no better than not freeing it".²

Proponents of protectionism claim that with the state's intervention, the end of achieving fairness is solved. For example, restricting imports can seem an effective way of supporting the local industries (based on the infant industry argument). I feel that this argument misses to take an overall view in consideration. Actually, if by restricting imports say, of agricultural commodities, we are protecting the farmers in our own country. It seems fair enough; but now, will it be fair for society as a whole? Consumers will have to pay more for expensive food, which will put pressure on wages in all sectors owing to wage-price spiral. Not only will their purchasing power

drop but also the variety of goods will shrink drastically that would have been higher in the absence of any restriction. As a result, the bias will creep in against other sectors in the economy and the purpose of achieving fairness will itself be defeated. When exposed to foreign competition, domestic industries get an incentive to innovate and perform. It might not seem that appealing in the short-run but in the long run the competitiveness will eventually lead to development of industries within the country. Otherwise, "the result is that the infant does not learn and grows up wearing protectionist diapers into premature senility"³.

It is also feared that imports might lead to increased pressure on 'infant industries' unable to compete, thus leading to laying off workers and thus, job losses in the domestic country. But, a study⁴ of correlation between volume of imports and unemployment rate of 23 countries suggests that imports and the unemployment rate might have been linked from 1970 to 1990, imports are no longer linked to job losses. Many other factors are tied to sustainable job creation. Thus, it can be well argued that it is only the fear, not strong empirical evidence that resists one from accepting the benefits of a free trade. Especially, for the market phobic proponents who prefer to be at an obtuse angle vis-à-vis the positive effects of *lassiez-faire* economy, more exposition is required so that the pro-market principles are interpreted in the true sense and not just to label it as "unfair". And thus overall, I find it better to call the 'ideological criticisms' as 'misunderstandings' about WTO.

On the ideological level, everything might seem like a sweet, simple story interrupted by frivolous fear-driven arguments. But in fact, hue and cry has well been in place regarding the improper implementation of

trade guidelines by bias against developing countries. It is often argued that developed countries argue for abolishment of impediments on trade like tariffs in developing countries, without abolishing their own. Definitely, such strong protectionist forces have been at play. In response to the 2009 crisis, U.S. included protectionist provisions. France has also been appealing against imports and outsourcing as "economic patriotism". As a result, the functioning of the organization has faced severe criticisms. At the same time, the critique that it has not been able to deliver a fair process has been countered well by Narlikar "This was a valid criticism of the WTO ten years ago, It is an outdated and irresponsible critique to launch against the organization today. "

The effort in the direction of achieving the desirable state of no bias might have been helpful, limited development has been made in this direction, preventing me from calling it an achievement. So far, a free trade regime has only been a lip service by the developed countries and has not been achieved in spirit.

Another point as a criticism to WTO's functioning is that the time taken in negotiations and forming consensus is excessively large. What also needs to be noticed is that it is because of the rise of the voice of the weaker nations that the negotiations are not agreed upon, or 'forced to agree upon'. No doubt, delaying can never be a solution. However, in the long-run, the greater representation of developing countries, not only on papers but in being is a good sign for world development.

An often-heard accusation is that WTO system treats trade as the priority, at the expense of environmental and humanitarian objectives. This is untrue.

Though it is not an aid agency or an NGO but a TRADE organization, it has worked towards benefiting the world through its developmental work in developing countries. For instance, in the last week of November 2012, trade diplomats from 13 Asian economies participated in a workshop in New Delhi to discuss best practices for dispute settlement⁶. In addition to the efforts by the trade organization, similar efforts are required from the non-trade institutions of society also. George Soros clearly explains where the fault lies: "The trouble is not really with the WTO but with the lack of similarly powerful and effective institutions devoted to other social goals."⁷

As seen in the past decade, the ambition of WTO of having a free trade regime remains a fantasy. Though it fails on the implementation of the guidelines of achieving efficiency as well as equity, it deserves applause for the sound ideological basis. Hence, the suggestion that it should be dismantled altogether should be dismissed and efforts should be taken in the direction of the effective functioning and implementation.

References:

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Indo-American Economic Relations & Impact of Obama's Second Term

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The India-US strategic partnership is a broad-based one and has matured over the years, with a bipartisan support for the relationship. During his first term, President Obama declared the U.S.-India relationship "a defining partnership of the 21st century". Now, it is up to him to continue working toward this vision by reigniting the key foundational element, U.S.-India trade and commercial ties. As the world's second-most populous country and on track to become the world's third-largest economy, India will be an important ballast to the U.S. "rebalancing" strategy, and bilateral economic relations will yield substantial growth opportunities for both nations.

With Barack Obama re-elected as the president of US, India needs to watch his stand on FDI, immigration, outsourcing and overall relations. While corporate India and public at large are happy with Obama winning the second term, will the president match up to India's expectations?

The Indian outsourcing industry is still growing fast. Revenues for India's information technology and outsourcing industries are expected to cross \$100 billion this financial year, up almost 15 percent from a year ago. The industry gets more