# 1. Multilateral and Regional Trading Arrangements and Globalisation

## Introduction

The current multilateral trading system (MTS) is the most coherent it has ever been. It is rooted in rules written over 50 years ago under the General Agreement on Tariffs and Trade (GATT 1947). However, it is more comprehensive and more rigorous than its progenitor. Since 1986 it has been under extensive renovation, culminating in a new construction that extends trade agreements to services, intellectual property and investment and a new governance architecture. Overseen by the World Trade Organization (WTO), it is legalistic with binding rules underpinned by a powerful dispute settlement process.

Broadly speaking, the MTS refers to the activities of trading entities at the global level. There is a fundamental recognition that trading activities create winners and losers, and that each entity will seek ways to maximise gains and offset losses. Sometimes these activities may result in disputes between trading partners, leading to confrontation and conflict. In previous times, such conflicts were settled through the processes of diplomacy, emissary and wars. Since the 1940s, however, there has been an attempt to construct a systemic and orderly process for international trade. This has included setting up a framework for negotiating trade rules based on the exchange of concessions around market access among a wide cross-section of countries. Critical to this has been a tendency at the multilateral level to promote fewer and fewer restrictions on the cross-border flow of goods and services. This 'trade liberalisation' (also increasingly referred to as 'trade intensification') is grounded in the ideology of free trade (see box 1.1). Its aim is to reduce the so-called three pillars of trade protection: (1) market access; (2) export support; and (3) domestic support.

The rules of engagement and governance of the MTS are

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set by the nation states, which play dual roles as actors in and facilitators of the system. Other actors in the MTS are importers, exporters, investors, workers (paid and unpaid, in the formal and informal sectors) and consumers. Although these actors are often portrayed as classless and genderless agents, they have distinct class and gender attributes that impact on their access to capital, credit, technology and other critical resources necessary for successful involvement in international trade. The MTS is ostensibly about the operation of and the interaction among national markets at the global level, but its rules are implemented nationally. It thus has an important influence on social and economic activities and outcomes at the local level, and on individual men and women, households, families and small, micro, medium-sized and large businesses.

### *Box 1.1* Contesting Ideologies: Free Trade, Protectionism and Fair Trade

**In trade policy-setting, different interest groups support two diametrically opposed ideologies: free trade or protectionism. A third faction favours the middle ground of fair trade.**

***Free trade,*** **which emerged in the 1800s, argued in favour of minimal or zero trade restrictions. The major proponents of this view, Adam Smith and David Ricardo, argued that international trade would bring mutual gains for all if two conditions were in place:**

1. **each country specialised in producing and selling the goods that it could produce more efficiently relative to another country (the law of comparative advantage), a sort of international division of labour;**
2. **there was a free and unregulated flow of goods among and between countries.**

**Over time, the free trade view has gained ascendancy.**

**Box 1.1** (continued)

*Protectionism*, the conventional wisdom (mercantilism) of the 1700s, argued in favour of protecting the domestic market via tariffs and quotas. Today, protectionism is in retreat but there are at least two strands of 'new' protectionism:

1. The *neo-mercantilists* represent a business-academic alliance that advocates a kind of sectoral protectionism or strategic trade policy in which countries identify and protect those industries that are vital to their international competitiveness (e.g. the textile industry in the US). This has led to the proliferation of non-tariff barriers, in particular voluntary export restraint agreements, and the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement.
2. *Internationalist-populist* protectionism also seeks to protect national interests, but those of artisans, family farmers and small entrepreneurs rather than large capital. It advocates a sort of global localisation, i.e. each country should promote its own agriculture and industrial development based as much as possible on local resources. International trade should complement, not be the focal point, of this strategy and be the means to prosperity for all.

*Fair trade* rejects the absolutism of both free trade and protectionism in favour of a middle position. This view promotes and encourages trade but is open to imposing restrictions on imports, especially in the areas of agriculture and infant industry. Today's variant also emphasises more equitable and just trading relationships and processes that provide for more favourable terms of trade between developing and developed countries. Proponents support and develop programmes and approaches that will deliver better prices to local producers in specific product areas.

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## The Contemporary Multilateral Trading System (MTS)

The World Trade Organization Agreements (WTOA) were the final outcomes of the Uruguay Round of GATT Negotiations (1986–1994). The Marrakech Declaration (1994) established the World Trade Organization (WTO) to oversee and implement the set of new trade agreements as well as to enforce the dispute settlement process regarding members' rights and obligations (Appendix 1 outlines the institutional and governance framework of the WTO).

The Uruguay Round Agreement has three main components:

- the updated multilateral trade agreements (GATT 1994);
- the General Agreement on Trade in Services (GATS);
- the Trade-Related Aspects of Intellectual Property Rights (TRIPS).

GATS and TRIPS are very important because they extended multilateral trade agreements (MTAs) into areas never before considered, and thus also altered the legal structure of the agreement and commitments. While GATS extended the MTAs into services (and in a limited way to investment), the TRIPS agreement and some provisions within GATS extended it into the areas of domestic regulatory standards as opposed to the traditional realm of foreign policy.

The formal WTOA are comprised of these extensions and modifications, plus a Trade Policy Review Mechanism (TPRM). In addition, there is a set of plurilateral agreements in four sectors (civil aircraft, government procurement, dairy products and bovine meat). These are applicable only to members who take on the obligations. The Uruguay Round also created an expanded and greatly empowered dispute settlement mechanism to legitimate and make binding these extensions on all members.

GATT 1994 is quite extensive and includes understandings in six areas:

- other duties and charges;

- state trading enterprises (STEs);
- balance of payment provisions;
- custom union and free trade areas;
- waivers of obligations and modifications;
- tariff schedules (and manner of implementating these schedules).

Other agreements in the areas of goods cover:

agriculture (AOA);

sanitary and phytosanitary (SPS) measures;

textiles and clothing (ATC);

technical barriers to trade (TBT);

trade-related investment measures (TRIMs);

anti-dumping;

customs valuations;

pre-shipment inspection;

rules of origin;

import licensing;

subsidies;

safeguards.

Market access commitments in financial services, basic telecommunications and maritime transport are under GATS, while information technology is under GATT 1994.

It has been nine years since the WTO came into force and began its oversight of the implementation of the Uruguay Round Agreements. Four ministerial meetings have been held (Singapore 1996, Geneva 1998, Seattle 1999 and Doha 2001). During that time, it has been increasingly clear that there are stark differences between the WTO and the GATT (see box 1.2). The implications of these differences for development and social objectives are slowly being realised.

### *Box 1.2* Differences between the WTO and the GATT

Some of the important differences between the World Trade Organization (WTO) and the General Agreement on Tariffs and Trade (GATT) include:

- The WTO is a permanent negotiation forum as opposed to GATT's process of periodic rounds of negotiation.
- WTO negotiations have so far used the concept of a 'single undertaking' which obligates members to implement all but a few provisions; countries cannot pick and chose which agreements they will implement.
- The provisions are legally binding.
- The rules and dispute settlement judgments are enforceable by trade sanctions.
- Some provisions have significant implications and restrictions on governments' ability to employ domestic regulations even within their own economies.
- There is more visible and pronounced participation by transnational corporations (TNCs) (e.g. in drafting the text of the TRIPS agreement and GATS).
- The Dispute Settlement Bodies (DSBs) seem to function as 'quasi-permanent' rule-making bodies outside the General or Ministerial Councils.
- All countries have the same rights and obligations regardless of their level of development.
- There is an emphasis on market access over developmental objectives.
- Special and differential treatment (S&DT) for developing countries has been weakened and will potentially be eliminated. It is now primarily confined to special time frames and technical assistance for implementing the provisions of the agreement.

## Bilateral and Regional Trading Arrangements

The MTS is facilitated by a network of bilateral, regional and quasi-regional arrangements on aid, development and trade co-operation assistance. These include the Lomé Convention (now the Cotonou Agreement) between the European Union and African, Caribbean and Pacific states (EU-ACP), the African Growth Opportunity Agreement and the Caribbean Basin Initiative (now the Caribbean Basin Trade Partnership Act-CBTPA). They also include an increasingly complex array of preferential trade agreements, ranging from limited ones on free trade such as the North American Free Trade Agreement (NAFTA) between the US, Canada and Mexico, to the more integrated economic unit of the EU.

For the most part, these arrangements are modelled after the prototypes laid down by the North. In many instances, especially those within the Free Trade Area of the Americas (FTAA) negotiations, they are more restrictive and encompassing than those existing at the multilateral level. Thus these regional arrangements not only complement but also sometimes drive the global trade liberalisation process.

The major developed countries in their various formations at the regional level, as well as the G-7, the 'Quadrilaterals' (QUAD) of the Canada, the EU, Japan, and the US, and the Organisation for Economic Cooperation and Development (OECD), are the main agenda setters. The developing countries individually and in their coalitions – as the G-77, the G-24, etc., supported by the United Nations Conference on Trade and Development (UNCTAD) – form another layering of texture since they play the dual roles of the governed as well as participants in rule-making.

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## The MTS and Globalisation

The development of the trade regime – its particular orientation, the rules that are set and the process of governance and enforcement – is critically and inextricably intertwined with a broader system of global governance and international economic policy-making. It is consistent with, and indeed is a key facilitator and promoter of, the process of globalisation or global integration. The WTO works in the context of a globalisation framework that includes the International Monetary Fund (IMF) and the World Bank. These are complemented by a network of regional banks which have a development focus but which are inextricably tied to the trade liberalisation agenda.

Globalisation is a multifaceted phenomenon and has political and social as well as economic dimensions. In simple terms, it marks the increasing interdependence of economies through the integration of production processes. Its political aspects include the spread of a neo-liberal paradigm that gives primacy to the market and creates an enabling environment for it, for example:

- reducing the power and scope of the state to regulate market activities;
- commercialisation and privatisation (and, in later stages, deregulation);
- the promotion of Western-style democracy world-wide.

Social aspects include the spread of American values throughout the world and the ability of people to connect through the Internet, chat rooms, satellite conferences, etc. and engage in various forms of real time communication.

The system of global governance, whether in finance, trade or investment, has been evolving over time. Economic globalisation, as a historical process, is marked by different phases of integration of national economies. Each phase is distinguished, in most cases, by:

- the nature of the expansion of the major powers;
- the dominant economic arrangement;
- the nature of the competitive process (driven by the dynamics of technical change);
- the nature of economic policy shifts;
- the political and institutional arrangements and rule-making.

Together these reflect the features of, driving force behind and systemic governance and enforcement mechanisms of the globalisation phenomenon. Thus the character and features of


*Children make packaging for Nestlé products in New Delhi, India*

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globalisation may differ during different historical periods. Associated with this character shift will be the creation of a particular formal or informal trading system.

## Features and characteristics of contemporary globalisation

Typically, globalisation as a historically continuous process includes a number of mechanisms and processes:

- A predominant power oversees the process. The US assumed that role from Britain. The US would seem to act in concert with G-7 but has the primary military power (albeit at times it tries to act as part of a multinational force, such as in Kosovo and Afghanistan).

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- There are agreements that foster the orderly exchange of production input and output, e.g. the multilateral trading system from GATT to the WTOA.
- Rules to promote the free flow of capital, e.g. the OECD investment guidelines, TRIMs and the abortive attempt to establish a Multilateral Agreement on Investment (MAI).
- There is a segmented labour market with an international division of labour based on unequal exchange between the global North and the global South. Traditionally, Northern countries specialised in manufacturing and exporting high value-added goods using expensive labour while the Southern countries specialised in producing and exporting natural resources and primary commodities using cheap labour. The breakdown of this strict segmentation is proving to be a serious problem in trade negotiations. The North, as a group, is interested in rules that protect their emerging areas of competitive advantage (high technology, biotechnology and services). This is being resisted by those developing countries (such as Brazil, India, the Asian tigers, etc.) with significant interests/stakes in these areas.
- There is a gender division of labour based on patriarchal ideology. This systematically confines women to the private (domestic) sphere and, when necessary, incorporates them into the labour force at cheap wages for exploitation of their 'special skills'. The latter is particularly true for the many developing countries that are wedded to the low-wage growth strategy that relies strongly on female labour in commercial agriculture, manufacturing and low-end services.

## The MTS, Economic Development and Social Outcomes

The implementation of trade liberalisation increasingly requires the creation of new national institutional frameworks as well as the re-writing of domestic legislation (see, for example, the TRIPS agreement). These costs impose another layer of burden on developing countries, which are operating with greatly constrained budgets and human resources. In addition,

**Box 1.3 Linkages between the MTS, Trade Liberalisation and Globalisation**

1. Globalisation is the integration of economies into a more borderless world.
2. The 'bricks and mortar' of globalisation is the movement of goods, services and investment into and out of countries.
3. This movement is facilitated by the reduction and elimination of border measures.
4. The MTS, geared to trade liberalisation, provides the negotiation spaces to bring about this reduction/elimination.
5. The MTS promotes wider and deeper integration by:
   - decreasing tariffs;
   - decreasing non-tariff barriers;
   - pushing for behind the border measures and supportive policies such as competition policy, harmonisation of product standards and protection of intellectual property rights.

*While trade reform implemented at the national level in order to satisfy WTO obligations may increase trade in some areas (for some countries), it may decrease trade in other sectors of the same economy . . . This . . . has serious implications for economic development priorities and objectives as well as poverty eradication and gender equality targets and outcomes.*

while trade reform implemented at the national level in order to satisfy WTO obligations may increase trade in some areas (for some countries), it may decrease trade in other sectors of the same economy. It sometimes introduces intense foreign competition that leads to loss of domestic market share for some economic actors. Overall development and social objectives may be sacrificed for market access agreements that either do not materialise or do not yield the desired results. This often complex and contradictory aspect of trade policy changes has serious implications for economic development priorities and objectives as well as poverty eradication and gender equality targets and outcomes.

Theoretically, by reducing artificial obstacles to the entry and exit of goods and services, trade liberalisation could create a more competitive environment including price competition. This leads to rising export shares abroad and so expands employment and business activity in the domestic economy. This then brings about: (a) rapid economic growth; (b) a favourable change in the demand for and wages of workers in the production of export-oriented goods and services; and (c) the availability of a wide assortment of consumer goods at relatively low prices.

However, empirical evidence shows that there is no automatic link between trade liberalisation and growth. There are at least two stumbling blocks to be reckoned with:

1. Trade liberalisation has two sides: (i) the elimination of restrictions on imports; and (ii) increased exports. Unfortunately, import liberalisation seems to be the dominant side in many developing countries. While a country can control how fast it liberalises its imports, it cannot determine how fast its exports will grow. Thus trade liberalisation may simply result in more imports that increase the trade deficit and put pressure on the balance of payments, leading to worsening external debt that further constrains growth.

2. Growth is a function of at least three factors: (i) price of existing imports, which is constrained by the fact of declining terms of trade; (ii) the available infrastructure and the human and business capacity to exploit new export opportunities; and (iii) market access. Market access is usually constrained by high tariffs and non-tariff barriers in the North on precisely the goods the South would like to export (e.g. agricultural products and textiles).

Thus unbridled trade liberalisation is not wise. Other factors must be considered, including its timing, sequencing and scope; strengthening local enterprises and farming; and building human capital, technology and export capacity. Ultimately, countries must develop and retain the ability to make strategic choices in terms of finance and investment.

There is a continuing impasse in trade negotiation around the issues of implementation and special and differential treatment (S&DT) for developing countries. This shows the difficulty of ensuring that trade liberalisation automatically promotes economic development in poor and middle-income developing countries. The Doha Development Agenda (proclaimed by the Doha Ministerial 2001) would seem to set the MTS on the path to resolving this dilemma. The critical test, however, will be how developmental questions around intellectual property rights (IPRs), investment and competition policy are resolved by the time of the Cancun Ministerial (2003).

## Governance of the MTS

### Transparency and participation

A well functioning international trading system is in the interest of all countries. However, the agenda of this new trade regime is increasingly encroaching on social objectives and priorities. This is a bone of contention in the current debate on the governance of the trading system and its role in the ongoing global integration process. Many members of the WTO, policy-makers, scholars and activists are raising the issues of equity, rights, transparency and sustainable development as critical values and objectives on which the trade system should be based. For developing countries in particular, equity is about the imbalance in rights and obligations in WTO agreements as well as in access to resources and control of decision-making processes and mechanisms. The 'right' that they support unreservedly is the right to development, while transparency means changing the opaque and inherent systemic bias (that works in favour of the more wealthy countries) in the decision-making process of the WTO.

For many members of civil society knocking at the door of the WTO, equity is about the elimination of poverty and better income distribution. It is also about gender balance in decision-making, in access to and control of economic resources, and in shouldering the burden of adjustment to economic shocks and dislocations due to trade reform designed to conform to WTO trade agreements. They are concerned about human rights: civil, cultural, economic, political and social. For them, transparency and participation mean accountability and democratic participation of all governments as well as civil society in the formation and implementation of trade rules.

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*Protestors dressed as turtles outside the 1999 WTO Ministerial Conference in Seattle*

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## Key questions about governance

Governance in the context of the MTS revolves around at least five broad issues of agenda setting, rule-making, recognising and remedying structural and other imbalances, enforcement and accountability. The following questions need to be asked:

**Agenda setting:** Who sets the substantive context, inputs (policy briefs, research, consultations, position papers) and contours of negotiations? What (and whose) are the predominant values, goals and objectives being upheld? Are (and how are) the participation, substantive and advocacy positions of different groups within countries as well as between countries at different levels of development factored into and included in negotiating parameters and frameworks?

**Rule-making:** What is the basis for it? What are the formal and informal processes of negotiations and participation in the process? What are the procedures for ensuring fairness, democracy and accountability?

**Recognising and remedying structural and other imbalances:** What is the nature and extent of structural and other imbalances in the system, as it evolves at the national, regional and global levels? What mechanisms exist at each level to assess these? How does the system respond to and correct identified imbalances?

**Enforcement:** What are the enforcement mechanisms and processes for weighing claims and counter-claims, arbitrating conflict and enforcing judgments? What are the procedures for ensuring fairness, democracy and transparency?

**Accountability:** What systemic processes are available to promote careful and proactive gender sensitivity in the design of trade rules? What processes are available for monitoring and assessing the negative effects related to the implementation of trade rules on the day-to-day lives of children, men and women?

### *Box 1.4* Distinctive Trends Influencing the Governance of International Trade

**There are at least eight distinctive trends that give rise to and determine the specific changes in the nature and mechanisms of the global governance of international trade:**

**1 The internationalisation of production (global restructuring).**

**2. Rapid technological change in information, micro-, bio- and telecommunications technologies.**

**3. Trade liberalisation accompanied by attempts to remove all restrictions on foreign direct investment (FDI).**

**4. The rise and extreme mobility of financial capital as a global player and its resulting strong influence on national policies.**

**5. The increasing power of transnational corporations (TNCs).**

**6. The restructuring and de-limiting of the economic and social policy reach of the nation state.**

**7. The formation of regional trade and economic blocks across many groups of countries.**

**8. The increasing feminisation of the global labour market.**

These aspects of governance of the MTS are critically dependent on the institutional framework that makes, implements and oversees trade rules and practices. This framework includes the WTO, national trade decision-making machineries, regional trade agreements and mechanisms, plurilateral agreements such as the Cotonou Agreement, regional development banks and international financial institutions (IFIs) such as the World Bank and the IMF. It has adapted over time to meet the needs and requirements of the global integration process and the accompanying values and ideological shifts (see box 1.4).