GLOBALISATION

(Unit-1)

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Globalisation Meaning

Globalisation is the process of international integration arising from the interchange of worldviews, products, ideas, and other aspects of culture. Put in simple terms, Globalization refers to processes that promote world-wide exchanges of national and cultural resources. Advances in transportation and telecommunications infrastructure, including the rise of the Internet, are major factors in globalization, generating further interdependence of economic, and cultural activities.

The term globalization has been in increasing use since the mid-1980s and especially since the mid-1990s. In 2000, the International Monetary Fund (IMF) identified four basic aspects of globalization: trade and transactions, capital and investment movements, migration and movement of people and the dissemination of knowledge. Further, environmental challenges such as climate change, cross-boundary water and air pollution, and over-fishing of the ocean are linked with globalization. Globalizing processes affect and are affected by business and work organization, economics, socio-cultural resources, and the natural environment.

Defines of Globalisation

"The geographic dispersion of industrial and service activities, for example research and development, sourcing of inputs, production and distribution, and the cross-border networking of companies, for example through joint ventures and the sharing of assets"

The Different Facets of Globalization and their Indicators

Globalization is manifested in four interrelated developments:

1. The increase in the international exchange of goods and services, and despite all the restrictions therein, the movement of human resources;
2. The internalization of production and real investments;
3. The increased integration of financial markets;
4. The relative high degree of policy convergence among countries.

The statistical evidence on these developments is truly impressive. In the trade area, the ratio of international trade to the GDP of practically all countries has more than doubled over the last two decades. Trade has substantially outpaced the growth of the GDP in all but very few years over the past twenty-five years. A major new phenomenon is the size of services in total trade, in particular financial services.

Dimensions of Globalization

Globalization encompasses the following:

1. Doing, or planning to expand, business globally.
2. Giving up the distinction between domestic market and foreign market and developing a globaloutlook on business.
3. Locating the production and other physical facilities on a consideration of the global dynamics, irrespective of nationalconsiderations.
4. Basing product development and product planning on the global market considerations.
5. Global sourcing of factors of production, i.e., raw materials, components, machinery, technology, finance, etc., are obtained from the best source anywhere in the world.
6. Global orientation of organizational structure and management culture.

IMPLICATIONS OF GLOBALIZATION IN INDIA

Globalization is essentially an economic phenomenon which has strong implications. To understand the effect of globalization on Indian economy, society, culture, religion and psyche, it is essential for us to know how and when economic reforms were carried out.

IMF (International Monetary Fund) has prescribed a set of rules for the carrying out of economic reforms. When the Chandra Sekhar's government was defeated at the hands of Congress, Indian economy was undergoing through a chaotic situation.

Fiscal deficit soared up to new heights, which earned nothing except high rate of inflation. Due to the populist form of government spending in the 1980s, supported by huge borrowings without sufficient return, India's internal and external debt touched the sky.

Short term commercial borrowings from abroad led to a difficult situation for the government. India virtually came to the brink of default. Under this situation, the Government borrowed a huge sum of conditional loan' from IMF. Thus India became obliged to follow IMF prescribed 'structural reforms'.

(i) Monetary Policies

- Positive real interestrates
- Increase in reserverate
- More vigorous open marketoperations
- Credit controls

***(ii)* Realignment of the Exchange Rate to a Near Market Determined Rate.**

***(iii)* Reduction of Budgetary Deficits**

- Increased revenue mobilization efforts
- Review of public investment priorities and identification of a core programme of investment.

***(iv)* Real Wage Restraint**

- Removal of formal indexation arrangements

The Long Term 'Structural Reforms' prescribed by IMF include

***(i)* Promotion of Private Sector (Domestic-and Foreign)**

- Definitive political commitment
- Rapid improvement in infrastructure
- Improvement in regulatory regimes
- Facilitation of investment approval procedures

***(ii)* Commercialization of Public Enterprises-Improvement in Operational Efficiency**

- Privatization programmes

***(iii)* Financial Sectors Reforms**

- Movement to market determined rates capital market development, including promotion of stock exchanges

***(iv)* Liberalization of Trade Regime**

Removal of import and exchange control and progress towards lower and less- dispersed band of tariffs.

***(v)* Price-Flexibility**

***(vi)* Tax-Reforms**

- Reduction of distortion effects on resource allocation
- Increased elasticity of tax-system

(vii) **Administrative Reforms**

- Reduction in size of public service
- Safety net well targeted programmes of transfers to vulnerable groups.
- Training, credit and employment programmes for vulnerable group. Impact of Globalization on Indian Economy

Due to globalization, the export sector of the Indian economy received a big boost. The growth performance of the exports improved during 1993-1996.

The proponents of globalization in India have argued that economic integration will improve the locative efficiency of resources, reduce the capital output ratio, and increase the labour productivity, help to develop the export spheres and e*port culture, increase the inflow of the capital and updated technology into

the country, increase the degree of competition in the domestic economy, reduce the relative prices of industrial and manufactured goods, improve terms of trade in agriculture and in general give a boost to the average growth of the economy in the years to come. To some extent this has proved true.

The Problem and Challenges of Globalization

- If globalization is a non-stoppable train, as, any argue, it seems to be a rather selective one in admitting passengers abroad.
- Economics possessive of skilled and educated manpower and endowed with well-developed production and marketing capacities can get on board to reap significant benefits if they have developed financial systems and assess to technology.
- It is a system where the benefits accrue only to the capable and prepared. Those who do not have the products and services to sell or the means to market them will assuredly be left in the station.
- Finally, the asymmetric distribution of benefits across countries is breeding theories about disguised and new forms of economic domination under globalization.
- Even though such views are often not empirically demonstrated, nonetheless, they are voiced by important segments in openness societies, which have become permanent and non-discrimination opponents of WTO and globalization.

Goals of international finance

- Ensure that the international financial system contributes towards poverty eradication, environmental sustainability, an equitable distribution of wealth and the full realization of human rights.
- End the unsustainable policies and practices of the international financial institutions.
- Contribute to the realization of an alternative agenda for environmentally and socially sustainable development than the Washington Consensus.

Scope of International Finance

Three conceptually distinct but interrelated parts are identifiable in international finance:

1. ***International Financial Economics:*** It is concerned with causes and effects of financial flows among nations -application of macroeconomic theory and policy to the global economy.
2. ***International Financial Management:*** It is concerned with how individual economic units, especially MNCs, cope with the complex financial environment of international business. Focuses on issues most relevant for making sound business decision in a global economy
3. ***International Financial Markets:*** It is concerned with international financial/ investment instruments, foreign exchange markets, international banking, international securities markets, financial derivatives, etc

International Monetary System

International monetary system is a set of internationally agreed rules, conventions and supporting institutions that facilitate international trade, cross border investment and generally the reallocation of capital between nation states.

The international monetary system consists of

(i) Exchange rate arrangements;

(ii) Capital flows; and

(iii) A collection of institutions, rules, and conventions that govern its operation.

Domestic monetary policy frameworks dovetail, and are essential to, the global system. A well-functioning system promotes economic growth and prosperity through the efficient allocation of resources, increased specialization in production based on comparative advantage, and the diversification of risk. It also encourages macroeconomic and financial stability by adjusting real exchange rates to shifts in trade and capital flows.

- To be effective, the international monetary system must deliver both sufficient nominal stability in exchange rates and domestic prices, and timely adjustment to shocks and structural changes. Attaining this balance can be very difficult.

- Changes in the geographic distribution of economic and political power, the global integration of goods and asset markets, wars, and inconsistent monetary and fiscal policies all have the potential to undermine a monetary system.
- Past systems could not incent systemic countries to adjust policies in a timely manner. The question is whether the current shock of integrating one-third of humanity into the global economy – positive as it is – will overwhelm the adjustment mechanisms of the current system.

- History shows that systems dominated by fixed or pegged exchange rates seldom cope well with major structural shocks. This failure is the result of two pervasive problems: an asymmetric adjustment process and the downward rigidity of nominal prices and wages.

- In the short run, it is generally much less costly, economically as well as politically, for countries with a balance of payments surplus to run persistent surpluses and accumulate reserves than it is for deficit countries to sustain deficits.
- This is because the only limit on reserve accumulation is its ultimate impact on domestic prices. Depending on the openness of the financial system and the degree of sterilization, this can be delayed for a very long time.
- In contrast, deficit countries must either deflate or run-down reserves. Flexible exchange rates prevent many of these problems by providing less costly and more symmetric adjustment.

- Relative wages and prices can adjust quickly to shocks through nominal exchange rate movements in order to restore external balance. When the exchange rate floats

and there is a liquid foreign exchange market, reserve holdings are seldom required. Most fundamentally, floating exchange rates overcome the seemingly innate tendency of countries to delay adjustment.

Bimetallism

Bimetallism is a monetary standard in which the value of the monetary unit is defined as equivalent to certain quantities of two metals, typically gold and silver, creating a fixed rate of exchange between them.

“In economics, bimetallism is a monetary standard in which the value of the monetary unit is defined as equivalent both to a certain quantity of gold and to a certain quantity of silver; such a system establishes a fixed rate of exchange between the two metals”. The defining characteristics of bimetallismare

- Both gold and silver money are legal tender in unlimited amounts.
- The government will convert both gold and silver into legal tender coins at a fixed rate for individuals in unlimited quantities. This is called free coinage because the quantity is unlimited, even if a fee is charged.

Gold Standard

The gold standard is a monetary system where a country's currency or paper money has a value directly linked to gold. With the gold standard, countries agreed to convert paper money into a fixed amount of gold. That fixed price is used to determine the value of the currency.

The Gold Standard

In today's national economies and the current international monetary system, fiat currencies are the norm. With no backing other than the full faith and credit of the governments that issue them, the evolution of today's money began with the introduction and acceptance of paper money in the seventeenth century in the form of receipts for deposits of gold in the Bank of Amsterdam. The growing role of the state and its ability to tax and impose tariffs to provide metallic backing made it possible to instill confidence in issues of bank notes convertible into gold and silver and paper currencies spread across Europe as a more convenient vehicle for payments than coins. Bank notes thus became the standard currency for transactions within national economies in the eighteenth and nineteenth centuries.

The Gold Exchange Standard

- When adopting the gold standard, many European nations changed the name of their currency from Daler (Sweden and Denmark) or Gulden (Austria-Hungary) to Crown, since the former names were traditionally associated with silver coins and the latter with gold coins.
- It is probable that the success of the gold standard also depended on a parallel development that emerged out of the mechanisms the industrializing countries used to 'manage' the gold standard—the development of the gold exchange standard. This monetary system differs from the gold standard in that international reserves consist of both gold and convertible currencies so that the system can function with less gold.

- Another difference is that, because those convertible currencies tend to be invested in interest-bearing financial assets, the gold exchange standard includes a mechanism that allows for growth in world reserves independent of increases in gold production. The use of a mixture of foreign exchange assets and gold as components of reserve holdings was not just a post-World War I phenomenon.

- The mechanisms for settlement of foreign exchange holdings evolved throughout Europe with the development of financial markets and central banks. A government (treasury or central bank) bought and sold foreign exchange in transactions with its own private sector, becoming the creditor by drawing down or building up its own holdings of foreign exchange.

- This permitted the development of a larger role for the public sector in controlling international payments as these transactions replaced the earlier and less efficient transfers of gold reserves to net out holdings of bills of exchange between private banks in different countries.

Thus, the addition of convertible currency assets as components of international reserves constituted a significant revision of the rules of the game in international payments that persisted until the collapse of Bretton woods in 1971.

Bretton Woods: the Dollar Exchange Rate Regime

The "Revived Bretton Woods system" identified in 2003

International monetary systems over two centuries[16]			
Date	System	Reserve assets	Leaders
1803–1873	Bimetallism	Gold, silver	France, UK
1873–1914	Gold standard	Gold, pound	UK
1914–1924	Anchored dollar standard	Gold, dollar	US, UK, France
1924–1933	Gold standard	Gold, dollar, pound	US, UK, France
1933–1971	Anchored dollar standard	Gold, dollar	US, G-10
1971–1973	Dollar standard	Dollar	US
1973–1985	Flexible exchange rates	Dollar, mark, pound	US, Germany, Japan
1985–1999	Managed exchange rates	Dollar, mark, yen	US, G7, IMF
1999-	Dollar, euro	Dollar, euro, yen	US, Eurozone, IMF

Floating Exchange-Rate Regime

An exchange-rate regime is the way an authority manages its currency in relation to other currencies and the foreign exchange market. It is closely related to monetary policy and the two are generally dependent on many of the same factors.The basic types are a floating exchange rate, where the market dictates movements in the exchange rate; a pegged float, where a central bank keeps the rate from deviating too far from a target band or value; and a fixed exchange rate, which ties the currency to another currency, mostly more widespread currencies such as the U.S. dollar or the euro or a basket of currencies.

Types of Exchange Rate Regime

- **Float**

  Floating rates are the most common exchange rate regime today. For example, the dollar, euro, yen, and British pound all are floating currencies. However, since central banks frequently intervene to avoid excessive appreciation or depreciation, these regimes are often called managed float or a dirty float.

- **Pegged Float**

  Pegged floating currencies are pegged to some band or value, either fixed or periodically adjusted. Pegged floatsare:

- **Crawling Bands**

  The rate is allowed to fluctuate in a band around a central value, which is adjusted periodically. This is done at a preannounced rate or in a controlled way following economic indicators.

- **Crawling Pegs**

  The rate itself is fixed, and adjusted as above.

- **Pegged with Horizontal Bands**

  The rate is allowed to fluctuate in a fixed band (bigger than 1%) around a central rate.

- **Fixed**

  Fixed rates are those that have direct convertibility towards another currency. Incase of a separate currency, also known as a currency board arrangement, the domestic currency is backed one to one by foreign reserves. A pegged currency with very small bands (< 1%) and countries that have adopted another country's currency and abandoned its own also fall under this category.

Dollarization occurs when the inhabitants of a country use foreign currency in parallel to or instead of the domestic currency. The term is not only applied to usage of

the United States dollar, but generally to the use of any foreign currency as the national currency. Zimbabwe is an example of dollarization since the collapse of the Zimbabwean dollar.

European Monetary System

European Monetary System (EMS) was an arrangement established in 1979 under the Jenkins European Commission where most nations of the European Economic Community (EEC) linked their currencies to prevent large fluctuations relative to one another.

The basic elements of the arrangement were:

- The ECU: With this arrangement, member currencies agreed to keep their FX rates within an agreed band which the narrow band of +/- 2.25% and a wide band of +/- 6%.
- An Exchange Rate Mechanism(ERM)
- An extension of European credit facilities.
- The European Monetary Cooperation Fund: created in October 1972 and allocates ECUs to members' central banks in exchange for gold and US dollar deposits.

Although no currency was designated as an anchor, the Deutsche Mark and German Bundesbank soon emerged as the centre of the EMS. Because of its relative strength, and the low-inflation policies of the bank, all other currencies were forced to follow its lead if they wanted to stay inside the system. Eventually, this situation led to dissatisfaction in most countries, and was one of the primary forces behind the drive to a monetary union (ultimately the euro).

Periodic adjustments raised the values of strong currencies and lowered those of weaker ones, but after 1986 changes in national interest rates were used to keep the currencies within a narrow range. In the early 1990s the European Monetary System was strained by the differing economic policies and conditions of its members, especially the newly reunified Germany, and Britain (which had initially declined to join and only did so in 1990) permanently withdrew from the system in September 1992.

The Outstanding Issues in the International Monetary and Financial Systems

The outstanding issues in the international monetary and financial systems can be listed under the following headings:

- The governance and regulation of the capital and monetary flows:
- The management of financial crisis and the foundation of the bank of Last Resort.
- The Foreign Exchange System
- The Reform of the IMF

The Governance and Regulation of Financial Flows

- The articles of agreements of the IMF contained disparate references to financial flows in articles IV and VI. As indicated above, Article IV made the free exchange of finance among member states a fundamental objective of the IMF. Article VI provides permissibility of capital controls as long as they do not impede or restrict payments made from the current account transactions (the balance of trade and unilateral transfers). It also disallows the use of the resources of the fund to support large capital outflows.

- The concern with the growth of financial instability impelled the G7 (the group of seven major industrial countries) in February 1999 to establish the "Financial Stability Forum" with the aim of promoting international financial stability through improved exchange of information, cooperation with respect to financial supervision and surveillance, and streamlining standards and norms in the various participant countries. Naturally, this work cannot be confirmed to financial flows and the financial institutions, as it has direct implications with respect to macroeconomic policies, the various standards of the financial system and its judicial framework.
- In each of the various areas, a key standard was established with a lead institution responsible for developing the necessary codes, rules, norms and standards. Consequently, the BIS has over the last decade been the forum in which officials from the participating countries and international organizations, without the presence of private sector agents, have concluded numerous agreements aiming at establishing cooperative modalities for collecting systematically information on capital and monetary flows and disseminating them to members and public.

- The forum has reached numerous agreements on codes of behavior such as the code of "Good Practices on Transparency in Monetary and Financial Policies", and the same for transparency in fiscal policy. It reached agreements on financial regulation and supervision such as "The Core Principles of Effective Banking Supervision" and those of security and insurance.

- It also agreed on regulation standards for insolvency, for corporate governance, for auditing and accounting and principles to deal with money laundering. It also agreed to rules and procedures for the treatment of important financial concepts such as risk and exposure as well as setting up modalities of cooperation among officials of member states. An important part of what was achieved is the collection of data and the establishment of a shared database.

- Unfortunately, the private sector was not involved directly in devising the new rules and principles and not asked to share any responsibilities. Furthermore, no modalities were agreed for securing its continuous involvement in financial governance, let alone setting up a non-voluntary code of investors' behavior.

- All of this work, with all its due importance, amounted in effect to organizing in the source countries the supervision of their institutions and setting up financial regulations and behavior standards for their institutions. Naturally, global financial governance involves conduct in crises, obligations on the source authorities as well as the recipient country authorities and above all, setting up proper models of conduct and codes of standards for private investors. But this was not to be, as the private sector participation remained strictly voluntary.

- As noted earlier, the increased globalization of the world economy and the evolved integration of financial markets have resulted in enormous increase in cross border financial flows, with a concomitant increase in financial instability and frequent eruptions of financial and currency crisis. No doubt, the purpose of the new codes and standards can increase financial stability and prevent, or at least, forewarn of impending crises.

- Another variant more concerned with system issues and policies, developed proposals to establish a super agency over all the relevant international organizations to be responsible for the whole system: its policies, regulations, supervision, and crisis management.

- All these proposals share the aim of establishing a global authority with a global perspective and enforceable authority to deal with the application of regulations, codes of behavior, and methods of controls and rules of functioning on radically different basis than the piece meal, patchy approach

of the present institutions. It is argued that the globalization of the world economy now calls for such an approach.

- Another problem concerns the treatment of private sector. Since the private investors and speculators in the source countries are responsible for the bulk of the financial flows, the voluntary character of the application of the established rules and codes to them stands in stark contrast to the summons to obey with consequent sanctions addressed to the recipient and their private concerns.

- A code of behavior for investors would be an enormous development. However, there are several objections to such a binding code. The first argue that it is exceedingly difficult to enforce it. The second is an efficiency argument about the distortion of allocation of international investment funds in case of insolvency controls.

- The third concerns the deterrence to capital movements it might bring about, in particular, inflows to the poorer countries. The fourth is the desirability of avoiding bureaucratic decision – making and conflict of jurisdictions in case of crisis. The counter arguments are familiar from the work of the BIS and the literature on capital controls and the Tobin tax.

Briefly, it is argued that feasibility is an open empirical question; that the efficiency argument assumes that a code – free system is optimal and is already in place and that the fear of bureaucratic conflicts is exaggerated. On balance, a universal code applied by all an impartial international authority, such as the IMF, should be feasible.

International Monitory Fund

The International Monetary Fund (IMF) is an organization of 188 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. With its near-global membership of 188 countries, the IMF is uniquely placed to help member governments take advantage of the opportunities—and manage the challenges—posed by globalization and economic development more generally. The IMF tracks global economic trends and performance, alerts its member countries when it sees problems on the horizon, provides a forum for policy dialogue, and passes on know-how to governments on how to tackle economic difficulties.

The IMF provides policy advice and financing to members in economic difficulties and also works with developing nations to help them achieve macroeconomic stability and reduce poverty.

Marked by massive movements of capital and abrupt shifts in comparative advantage, globalization affects countries' policy choices in many areas, including labor, trade, and tax policies. Helping a country, benefit from globalization while avoiding potential downsides is an important task for the IMF. The global economic crisis has highlighted just how interconnected countries have become in today's world economy.

Key IMF Activities

The IMF supports its membership by providing

- Policy advice to governments and central banks based on analysis of economic trends and cross-country experiences;
- Research, statistics, forecasts, and analysis based on tracking of global, regional, and individual economies and markets;
- Loans to help countries overcome economic difficulties;
- Concessional loans to help fight poverty in developing countries; and
- Technical assistance and training to help countries improve the management of their economies.

Original Aims

The IMF was founded more than 60 years ago toward the end of World War II (see History). The founders aimed to build a framework for economic cooperation that would avoid a repetition of the disastrous economic policies that had contributed to the Great Depression of the 1930s and the global conflict that followed. Since then the world has changed dramatically, bringing extensive prosperity and lifting millions out of poverty, especially in Asia. In many ways the IMF's main purpose—to provide the global public good of financial stability—is the same today as it was when the organization was established.

More specifically, the IMF continues to:

- Provide a forum for cooperation on international monetary problems
- Facilitate the growth of international trade, thus promoting job creation,

economic growth, and poverty reduction;

- Promote exchange rate stability and an open system of international payments; and
- Lend countries foreign exchange when needed, on a temporary basis and under adequate safeguards, to help them address balance of payments problems.

An Adapting IMF

The IMF has evolved along with the global economy throughout its 65-year history, allowing the organization to retain its central role within the international financial architecture

As the world economy struggles to restore growth and jobs after the worst crisis since the Great Depression, the IMF has emerged as a very different institution. During the crisis, it mobilized on many fronts to support its member countries. It increased its lending, used its cross-country experience to advice on policy solutions, supported global policy coordination, and reformed the way it makes decisions.

The result is an institution that is more in tune with the needs of its 188 member countries.

- Stepping up crisis lending. The IMF responded quickly to the global economic crisis, with lending commitments reaching a record level of more than US$250 billion in 2010. This figure includes a sharp increase in concessional lending (that's to say, subsidized lending at rates below those being charged by the market) to the world's poorest nations.

- Greater lending flexibility. The IMF has overhauled its lending framework to make it better suited to countries' individual needs. It is also working with other regional institutions to create a broader financial safety net, which could help prevent new crises.

- Providing analysis and advice. The IMF's monitoring, forecasts, and policy advice, informed by a global perspective and by experience from previous crises, have been in high demand and have been used by the G-20.
- Drawing lessons from the crisis. The IMF is contributing to the ongoing effort to draw lessons from the crisis for policy, regulation, and reform of the global financial architecture.

- Historic reform of governance. The IMF's member countries also agreed to a significant increase in the voice of dynamic emerging and developing economies in the decision making of the institution, while preserving the voice of the low-income members.

The IMF's main goal is to ensure the stability of the international monetary and financial system. It helps resolve crises, and works with its member countries to promote growth and alleviate poverty. It has three main tools at its disposal to carry out its mandate: surveillance, technical assistance and training, and lending. These functions are underpinned by the IMF's research and statistics.

The Governance of the IMF

The IMF is accountable to the governments of its member countries. The fund Governance has been a contentious issue between the developing and developed countries since the mid of 1950's. The familiar argument of the former is that the quota system is not fair as a key for decision – making and access to resources. The response of the latter is that it is only normal and fair that each country share in the decision making be commensurate with its contribution to the fund resources.

IMF Members' Quotas and Voting Power, and IMF Board of Governors

The Board of Governors, the highest decision-making body of the IMF, consists of one governor and one alternate governor for each member country. The governor is appointed by the member country and is usually the minister of finance or the governor of the central bank. All powers of the IMF are vested in the Board of Governors. The Board of Governors may delegate to the Executive Board all except certain reserved powers. The Board of Governors normally meets once a year.

Timeline for Implementing the Reform

The Board of Governors, the IMF's highest decision-making body, must ratify the new agreement by an 85 percent majority before it comes into effect.

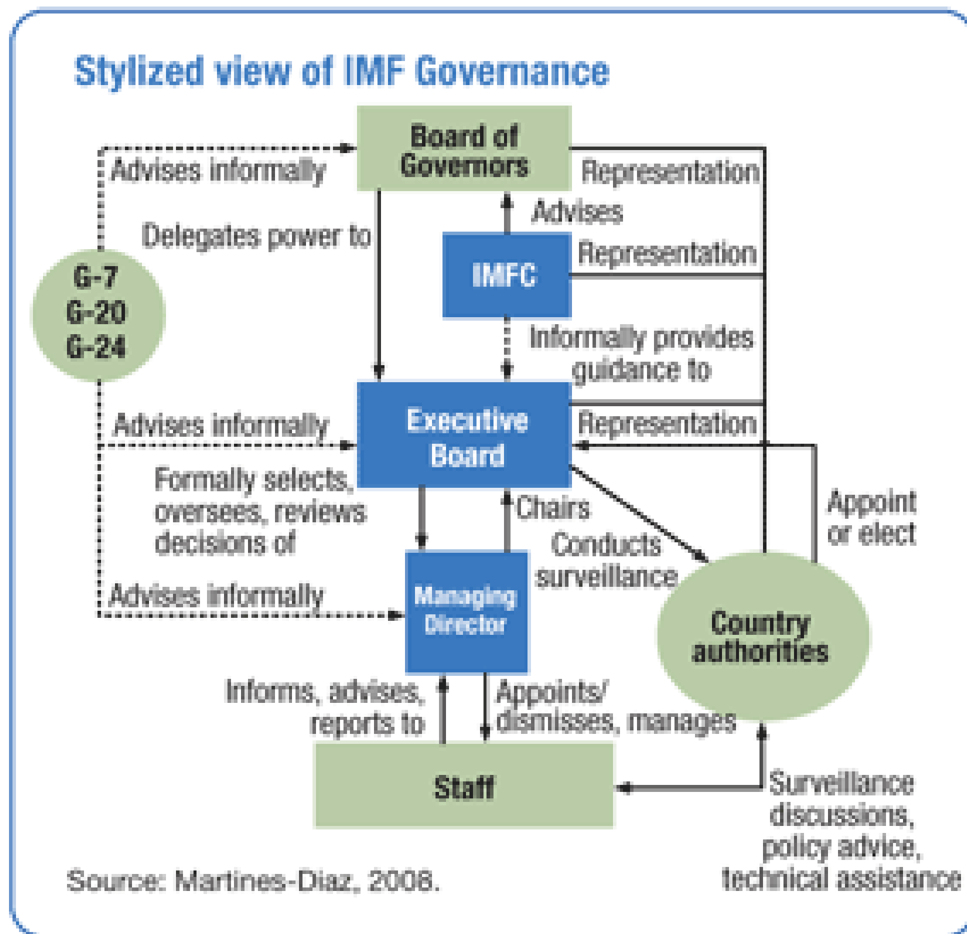
Accountability

The IMF is accountable to its 188 member governments, and is also scrutinized by multiple stakeholders, from political leaders and officials to, the media, civil society, academia, and its own internal watchdog. The IMF, in turn, encourages its own members to be as open as possible about their economic policies

to encourage their accountability and transparency.

Country Representation

Unlike the General Assembly of the United Nations, where each country has one vote, decision making at the IMF was designed to reflect the position of each member country in the global economy. Each IMF member country is assigned a quota that determines its financial commitment to the IMF, as well as its voting power



World Trade Organization (WTO)

The **World Trade Organization (WTO)** establishes rules of trade among its member nations. To this end, the WTO also handles trade disputes, monitors trade policies, provides technical assistance for developing countries and cooperates with other international trade organizations.

The WTO was created on January 1, 1995, and is headquartered in Geneva, Switzerland. The WTO replaced the General Agreement on Tariffs and Trade (GATT), which was created in 1948. GATT primarily regulated the trade of goods; the WTO regulates the trade of services and intellectual property as well. GATT still exists as the WTO's umbrella treaty for trade in goods.

Functions of WTO

- Administering WTO trade agreements
- Forum for trade negotiations
- Handling trade disputes
- Monitoring national trade policies
- Technical assistance and training for developing countries
- Cooperation with other international organizations

✓ The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, nego- tiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.

✓ The WTO was born out of negotiations, and everything the WTO does is the result of negotiations. The bulk of the WTO's current work comes from the 1986–94 negotiations called the Uruguay Round and earlier negotiations under the General Agreement on Tariffs and Trade (GATT). The WTO is currently the host to new negotiations, under the 'Doha Development Agenda' launched in 2001.

✓ Where countries have faced trade barriers and wanted them lowered, the negotia- tions have helped to open markets for trade. But the WTO is not just about opening mar- kets, and in some circumstances its rules support maintaining trade barriers — for example, to protect consumers or prevent the spread of disease.

✓ At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations. These documents provide the legal ground rules for international commerce. They are essentially contracts, binding governments to keep their trade policies within agreed limits. Although negotiated and signed by governments, the goal is to help producers of goods and services, exporters, and importers conduct their business, while al- lowing governments to meet social and

environmental objectives.

✓ The system's overriding purpose is to help trade flow as freely as possible — so long as there are no undesirable side effects — because this is important for economic develop- ment and well-being. That partly means removing obstacles. It also means ensuring that individuals, companies and governments know what the trade rules are around the world, and giving them the confidence that there will be no sudden changes of policy. In other words, the rules have to be 'transparent' and predictable.

Trade relations often involve conflicting interests. Agreements, including those painstakingly negotiated in the WTO system, often need interpreting. The most harmoni- ous way to settle these differences is through some neutral procedure based on an agreed legal foundation. That is the purpose behind the dispute settlement process written into the WTO agreements.

Principles of the Trading System

The WTO agreements are lengthy and complex because they are legal texts cover- ing a wide range of activities. They deal with: agriculture, textiles and clothing, banking, telecommunications, government purchases, industrial standards and product safety, food sanitation regulations, intellectual property, and much more. But a number of simple,
fundamental principles run throughout all of these documents.

These principles are the foundation of the multilateral trading system:

➢ **Most-Favored-Nation (MFN)**

Treating other people equally Under the WTO agreements, countries cannot normally dis- criminate between their trading partners. Grant someone a special favour (such as a lower customs duty rate for one of their products) and you have to do the same for all other WTO members. This principle is known as most-favored-nation (MFN) treatment (see box). It is so important that it is the first article of the General Agreement on Tariffs and Trade (GATT), which governs trade in goods. MFN is also a priority in the General Agreement on Trade in Services (GATS) (Article 2) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) (Article 4), although in each agreement the principle is handled slightly differently. Together, those three agreements cover all three main areas of trade handled by the WTO.

- **National Treatment**

Treating foreigners and locals equally Imported and locally-produced goods should be treated equally — at least after the foreign goods have entered the market. The same should apply to foreign and domestic services, and to foreign and local trademarks, copy- rights and patents. This principle of "national treatment" (giving others the same treatment as one's own nationals) is also found in all the three main WTO agreements (Article 3 of GATT, Article 17 of GATS and Article 3 of TRIPS), although once again the principle is handled slightly differently in each of these. National treatment only applies once a product, service or item of intellectual property has entered the market.

- **Freer Trade: Gradually, Through Negotiation**

Lowering trade barriers is one of the most obvious means of encouraging trade. The barriers concerned include customs duties (or tariffs) and measures such as import bans or quotas that restrict quantities selectively. From time to time other issues such as red tape and exchange rate policies have also been discussed.

- **Predictability: Through Binding and Transparency**

Sometimes, promising not to raise a trade barrier can be as important as lowering one, because the promise gives businesses a clearer view of their future opportunities. With stability and predictability, investment is encouraged, jobs are created and consumers can fully enjoy the benefits of competition — choice and lower prices.

- **Promoting Fair Competition**

The WTO is sometimes described as a "free trade" institution, but that is not entirely accurate. The system does allow tariffs and, in limited circumstances, other forms of protection. More accurately, it is a system of rules dedicated to open, fair and undistorted competition.

Encouraging Development and Economic Reform

The WTO system contributes to development. On the other hand, developing countries need flexibility in the time they take to implement the system's agreements. And the agreements themselves inherit the earlier provisions of GATT that allow for special assistance and trade concessions for developing countries.

Over three quarters of WTO members are developing countries and countries in transition to market economies. During the seven and a half years of the Uruguay Round, over 60 of these countries implemented trade liberalization programmes autonomously. At the same time, developing countries and transition economies were much more active and influential in the Uruguay Round negotiations than in any previous round, and they are even more so in the current Doha Development Agenda.

At the end of the Uruguay Round, developing countries were prepared to take on most of the obligations that are required of developed countries. But, the agreements did give them transition periods to adjust to the more unfamiliar and, perhaps, difficult WTO provisions — particularly so for the poorest, "least-developed" countries.

Activities of WTO

WTO's main activities are:

- Negotiating the reduction or elimination of obstacles to trade (import tariffs, other barriers to trade) and agreeing on rules governing the conduct of international trade (e.g. antidumping, subsidies, product standards, etc.).
- Administering and monitoring the application of the WTO's agreed rules for trade in goods, trade in services, and trade-related intellectual property rights.
- Monitoring and reviewing the trade policies of our members, as well as ensuring transparency of regional and bilateral trade agreements.
- Settling disputes among our members regarding the interpretation and application of the agreements.
- Building capacity of developing country government officials in international trade matters.
- Assisting the process of accession of some 30 countries who are not yet members of the organization.
- Conducting economic research and collecting and disseminating trade data in support of the WTO's other main activities.
- Explaining to and educating the public about the WTO, its mission and its activities.

Structure of WTO

The WTO is run by its member governments. All major decisions are made by the membership as a whole, either by ministers (who meet at least once every two years) or by their ambassadors or delegates (who meet regularly in Geneva). Decisions are normally taken by consensus. In this respect, the WTO is different from some other international organizations such as the World Bank and International Monetary Fund. In the WTO, power is not delegated to a board of directors or the organization's head.