

## Development of Globalization Process and the WTO Activity

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Nowadays it is commonly supposed that the globalization is a process of expanding the interrelation and interaction among various countries and nations, removal of numerous barriers between the nations and cultures that is in a great measure facilitated by the use of state-of-the-art information technologies. Changes in the information space with the introduction of the Internet network created the new opportunities for joint solution of the major world concerns, for example, environmental problems. Globalization is a process of intensification of economic, financial, political, military, cultural, and ideological relationships and dependencies between communities, which results in the uniformization of the world in all areas and the emergence of social ties in the supra-national scale. The important elements of globalization are the integration processes taking place in the international trade and cross-border investment activity. The integration is contributed by the advances in engineering and technologies, enabling one to reduce the costs of transportation, communications, and computerization to such extent that it becomes economically feasible for any economic entity to place the particular stages of the production process in different countries. The growth of the interconnectedness of the economies is promoted by liberalization of trade and capital markets. Though not seamlessly, the governing structures go increasingly on lowering of the protectionist barriers protecting the national economy from foreign competition. The national borders do no longer form a “sealed container” for production processes. On the contrary, the production processes are fragmented and relocated globally. Influential international organizations - the World Bank, IMF, and WTO - play a very important role in facilitating free movement of goods, services, capital and labor, resulting in substantially weakening of the protectionist tendencies.

It is known that the globalization contributed greatly to the accelerated development of the economy of the East Asian countries and territories such as China, Hong Kong, Taiwan, South Korea, the ASEAN states. However, save for East and South-East Asia and some parts of Latin America, the regions with a significant



prevalence of developing countries remained poorly integrated into the global economy. The benefits of the globalization are often less important than the losses from increased competition.

Therefore, the governments in developing countries prefer to focus on the use of temporary measures to protect the new industries of the national economy until the latter get proper competitiveness and “immunity” in the environment of a close competition on the part of foreign companies. Protectionist policies enable the local producers to maintain the production at low level of its profitability and it may become one of the reasons for stagnation of the economy of these countries.

Niche specialization within the international division of labor, which makes this or that country dependent on exports of one or more products, can also lead to an increased risk because of the potential dramatic deterioration of the situation in the world markets. It would be easier to counteract the adverse conditions of trade in case of some diversification of production and exportation. In the process of searching for a suitable place in the international division of labor the maximum effect is achieved, taking into account the existing comparative advantages.

When developing a trade policy it is not infrequent that the “concentrated interest of a few wins dispersed interests of the majority.” Thus, the manufacturers and exporters are very often able to exert greater influence on its formation than the consumers. The WTO, based in its operations on achievement of consensus among all participants, used the interest of exporters in the liberalization to overcome the resistance of local manufacturers, who are anxious of competition from foreign companies. As for consumers, they benefited largely from the implementation of the appropriate reforms.

Many economists point out that consumers and other groups, although not distinguished with the concentrated interests, however, exert an influence on the trade policies and should probably play a more active role in the optimization of a new agenda in the trade as a passive attitude may turn for them at the last in certain losses, particularly lower level of well-being. Evidence of the growth of their influence is the concrete actions taken by the governments of some developing countries, such as the imposition of duties on export of agricultural products, increase of fuel subsidies, tightening of the anti-inflation policy. The next natural focus of governments’ activity should be even greater account for the interests of the voters who are interested in the stability and improving of living.

The significant contradictions among the traditional and new centers of power in global trade, in particular regarding the rates of its liberalization, are a big challenge against the background of unsatisfactory progress of the current round of multilateral negotiations within the framework of the WTO. The differences between the interests of these states, it would seem, should reduce the chances of future cooperation within the WTO, but in reality, thanks to a balanced agenda of the negotiations, common interests are shaped and additional opportunities are opened for trade-offs and compromises between the leaders of the world trade, and the countries with a growing economy, which

actively reconquer their position therein. All of the major oil consumers, whether they are traditional “players” in the global economy (the U.S.A. and EU) or not being such, but lately have nominated to the forward positions (China and India), share their interest in an open energy market without artificial restrictive barriers in the field of the relevant supplies. In the area of the foreign currency and exchange rate policy the countries with the large emerging market economies, such as Brazil or South Korea, share their interest in ensuring that China and the Middle East countries are increasingly governed by the requirements of the market, and they do not contribute a distorting element. Similarly, the countries - importers of capital and the countries with the state wealth funds are counting on the presence of favorable conditions for cross-border movement of capital in a stable and transparent investment environment.

The questions about what countries should participate in the negotiations, which formats and “platforms” are most appropriate for their conduct are becoming increasingly important. It is hardly necessary to use the model of the Uruguay Round of the negotiations in the WTO, where all countries – members discuss the problematics included in the agenda and are required to adhere to the taken decisions. When the major difficulties in the Doha Round occur, the development of the rules which the promiscuous mass of the states would have equally to observe is very challenging. The selected topics such as investing by the state wealth funds can be discussed more effectively in a relatively small circle of participating countries directly involved in the operations. In some cases it would be reasonable to implement the positive results of the agreements concluded in the restricted attendance of the participating countries, progressively to other states-members of the WTO. Accordingly, the processes of globalization would receive in such way an additional impetus.

Currently, the WTO is the only official forum for the most part of the negotiations on trade issues. In such circumstances, the WTO is the most suitable “platform” to discuss the majority of trade and related issues, including sensitive issues such as trade barriers in the agricultural sector, but far from all the major issues in the field of international economy.

To work out the subjects such as the policy in the field of formation of foreign exchange rates or the principles of state wealth funds activity, a prospective approach is the establishment of cooperation between the WTO and IMF. In the discussions of environmental and climate problems WTO would be content with a helper function, e.g. in the course of summits having the corresponding profile. That is, the progress on the path of globalization can be carried out under different scenarios.

Recently, the multilateral trade negotiations under the Doha Round have become one of the most serious attempts to implement multilateral cooperation, approaching in its scope even to the category of worldwide ones. In such circumstances, an exaggeration of the negative trends during the specified round is quite real. Some analysts believe that the Doha Round draws the attention from more important issues, such as sequences of significant deviation of the exchange rate from the level of the fundamental balance



for trade or activation of the environmental movements. However, the Doha Round negotiations are very pragmatic, aimed at further reducing of the restrictions and trade development through broad multilateral cooperation with consideration of changing configuration of global trade.

Over the past decade, there have occurred the major changes in the list of leading exporters and importers. A significant increase in the share of developing countries in the world merchandise exports is noted: from 34% in 1980 to 47% (i.e., almost up to half) in 2011. The corresponding figure for developed countries fell from 66 to 53%. If in 1980 the important role of the states - petroleum exporting countries drew the attention in a group of “developing countries”, then in 2011 the developing countries in Asia played a significant role. China’s share in the world exports in 1980 amounted to 1% only (10th place among the developing countries). In 2011, the corresponding figure was 11 % (1st place in the world, if not take into account the EU as a whole, and take into account only individual states - members of the European Union). The share of the EU decreased from 37 to 30 %, the U.S.A. - from 11 to 8 %, Japan – from 6 to 5%.

The transformation of the global economy towards a marked increase in the significance of the BRICS and N-11 groups (Next-11 includes 11 countries that form the next “wave” of developing countries after the BRICS, which are characterized by accelerated rates of development, but playing a lesser role than the BRICS in the world) occurs more rapidly than originally anticipated. China has replaced Japan as the second largest national economy in the world. As for size of GDP, Brazil has come close to Italy. By 2020, the BRICS countries will provide 50% of the increase in global GDP.

According to the experts of PricewaterhouseCoopers, which is an international network of the companies providing the services in the areas of consulting and auditing, China in the coming years will push the United States aside from the 1st place, and its GDP at PPP in 2030 will exceed GDP of the U.S.A. by one third, and in 2050 – by more than 40%. India will firmly settle for the third position, being well ahead of Brazil, which in 2050 will be on the 4th place. Mexico and Indonesia will be able to enter the leading “top ten” (taking the 7th and 8th places, respectively) by this time, and Nigeria and Vietnam - the “top twenty”. Russia will overtake Germany in 2030 (in the calculations taking into account PPP), and will be the European leader in terms of GDP. However, globally, it will have to move in 2050 from the 5th place to 6th place due to the active promotion of fast growing Brazil up in the final list. Malaysia will remain outside the “twenty”, having a relatively small population, but at the same time having the undoubted potential to strengthen its position.<sup>1</sup>

The weight of individual countries in the global economy and trade as a whole affects their status as negotiators in the WTO. The influence of the developing countries in this regard is noticeably increasing. Among the three main subjects that will be discussed at

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<sup>1</sup> PWC: Forecast for the World Economy Development till 2050 // [http://finance.bel.biz/articles/pwc\\_prognoz\\_razvitiya\\_mirovoj\\_ekonomiki\\_do\\_2050\\_goda/](http://finance.bel.biz/articles/pwc_prognoz_razvitiya_mirovoj_ekonomiki_do_2050_goda/)

the WTO Ministerial Conference in Bali, at least two substantially affect the interests of the developing countries. 28 Cancun offers (being a part of 88 initiatives to improve special and differential treatment for developing countries as provided for in the various WTO agreements) should be subject to adjustment to meet the today's requirements.<sup>2</sup> Establishment of a monitoring mechanism to monitor, in particular, compliance with the conditions of provision of the special and differential treatment is planned. It is taken into account the fact that not all of the least developed countries approve the course to ensure duty-free and quota-free access to foreign markets due to fear of damage from the dismantling of existing initiatives to ensure preferential treatment.

In negotiating group on trade of agricultural products it was declared about attainment of progress with regard to the proposals set forward by the developing countries included in the "Group-33" and characterized by prevalence of the agricultural sector such as farming households with small landholdings in the area. The requirements of simplification of the rules in subsidizing of food purchases to help the population or to form the government reserves have got a positive response.

At the same time, it is recognized to be reasonable to prevent any significant distorting effect on the relevant goods markets. A more complete account of the interests of developing countries has a positive impact on the process of globalization.

The negotiations regarding simplification of the procedures in the international trade appeared to be the most fruitful on the eve of the Bali meeting. They began in 2004 as part of the Doha Round (this subject was included in the WTO agenda at the WTO Ministerial conference in Singapore). The WTO members have focused their attention on articles of GATT-1994 about freedom of transit, fees and formalities of customs clearance and the application of trade rules. The focus was made on reducing the cost of trade transactions, increase in efficiency of international transportation and logistics operations, minimization of bureaucratic obstacles. The implementation of the appropriate reforms should contribute to revenue growth and expansion of cross-border trade. According to the World Bank estimates, the economic benefits of conducting such reforms in the developing countries should draw up to \$70 per 1 dollar invested. According to the statistics given by the former WTO Director General, Pascal Lamy, the reduction of paper-laden process by halves will produce the effect on the global economy of \$1 trillion. In the final phase of the Doha Round the recommendations or even a separate agreement on these problematics are likely to be adopted.

This year, the negotiations on the problems of facilitation of international trade were quite difficult. The contradictions on the matters of level of flexibility of control, technical assistance, creating real opportunities for developing countries (including those belonging to the category of least developed countries) regarding the implementation of a future agreement were observed. Many of them show extreme caution in order to

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<sup>2</sup> The Last "Gas Station" to the WTO Ministerial Conference in Bali // <http://trade.ecoaccord.org/bridges/0413/2.html>



avoid making a commitment, the practical implementation of which is associated with the certain difficulties. At the same time, some of the developed countries, particularly the United States, said about the need for clear commitments that can by no means be ignored; only in this case an agreement, according to U.S. officials, would have the real power. In view of this position, the proposal for a flexible approach, which this summer became the objects of scrutiny, were put forward.

According to experts in the field of international trade, in the course of its liberalization the importance of the elimination of non-tariff barriers and convergence of trade regulatory systems in the countries - participants of the WTO will dramatically increase in the years to come. The relevance of this activity has increased markedly during the period of slow growth in cross-border trade and increase in concern about the increasing protectionism during the recent crisis. Since the mid 1990's the number of technical barriers to trade significantly increased.

Non-tariff measures do not always have a negative impact on trade; however, the level of actual restrictions in a number of cases is higher than is the case with the introduction of tariff barriers. There are also problems with the assessment of the degree of protectionism, while it is much easier to determine the extent of tariff protection in most cases. Non-tariff measures have often a "dual purpose": on the one hand, they are designed to protect public welfare, on the other hand - to create optimal conditions for the functioning of various sectors and industries of the national economy. To reduce the negative impact of non-tariff measures on trade an appropriate convergence of national systems of technical regulations and sanitary and phytosanitary measures, and control systems of the services sector is reasonable. This approach will enhance the globalization of the international trade. The initiatives supported by the OECD, UNCTAD and WTO, to promote the formation of the value added chains of incremental act in the same direction.

As analysts of the Peterson Institute for International Economics note, in today's world, there are factors that encourage the countries to support the process of global integration. Reduction of expenses for transportation and in the area of communications enables the growing part of business entities to focus on the establishment of international production chains, or to connect to them. The enterprises in many developing countries act as suppliers of semi-finished products and components in the cross-border production chains, although in most cases they still set aside relatively low-lying areas in the vertical hierarchy. China can move up on it, Mexico is the source of raw materials for American corporations and so it is assigned mainly with the supporting regional role. Business entities in Thailand and other Southeast Asian countries are integrated mainly in Japanese vertical value chains. The Republic of Korea and Taiwan, acting as the major foreign investors in relation to the countries of Southeast Asia and China, including within the framework of the local increase in the value chains. India plays an important role in international chains, oriented on service supply.

Large regional “players”, according to analysts of the Peterson Institute, are Brazil and Russia, which, despite the considerable size of economies, occupy mainly the peripheral places in the international production (mainly industrial) chains. At the same time, both countries strengthen their position as foreign investors in their respective regions operating in “binding” to the regional value chains, formed under their auspices. The successful development of China (came, in particular, through its transformation into a major exporter) demonstrates, according to analysts, what results the countries deeply integrated into international production chains achieve. In addition, the PRC example shows that the use of the potential of these structures does not always mean commitment to neoliberal economic model.

Considering the situation in Africa, the economists of the Peterson Institute see the integration into the existing value chains, into the formed TNCs, to be the best strategy for this macroregion. In their view, it is reasonable within these chains to build up the capacities for implementation of the certain functions based on existing comparative advantages, while focusing on strengthening the competitive position. Such a strategy should be a part of a more general policy of diversification of the economy and overcoming of excessive dependence on commodity exports. The relocation of some parts of these chains from China due to the rising cost of labor in this country helps fulfill these tasks. A number of developing countries, particularly Vietnam, Cambodia, and Mexico have already benefited from this trend. If African countries located south of the Sahara, would be sufficiently attractive for TNCs, an increase in the inflow of foreign investments can be expected. However, not all states - potential recipients are distinguished by the presence of large deposits of minerals, suitable institutional environment, direct access to the sea, proximity to promising markets. Export-oriented investments - it is their inflow was a major factor in the booming of Chinese economy - will go to those African countries that have cheap labor (the ability to perform the operation of medium complexity at the assembly plants), modern infrastructure and a reliable logistics base. The results of implementation of the new investments will be felt not only directly in the locality where it is supposed to build the new facilities or expand (upgrade) the existing ones. The chances of developing of regional integration will increase.

It is rather difficult to estimate the real growth of cross-border value chains using the existing statistics. A task to make significant changes in the methodology of formation of statistics of international trade is assigned to the WTO and other international economic organizations.

Some influential experts in the field of international trade, in particular, the Permanent Representative of South Africa to the WTO, Ambassador F. Ismail, act as opponents of the Peterson Institute economists. He disagreed with the notion that the growth of trade volumes is inevitably accompanied by positive trends in the development field. About 10 years ago, UNCTAD warned that participation in international production chains may be accompanied by “the growth of trade, but the drop in income”. According to the South



African representative, an integrated approach in the formulation of macroeconomic, trade and industrial policies aimed at improving the return on investment and ensure economic diversification is required.

F. Ismail points out that the signs of inequality typical for old times remain unchanged in the multilateral trading system. Thus, there is some discrimination of the least developed countries. In developed countries, subsidies and high import tariffs on agricultural products still distort the normal course of trade. The African countries included in the group “Cotton-4” show concern about the lack of progress in the negotiations on subsidies to cotton farmers in the United States. There are many other factors, the balanced interests of different countries and groups of countries in the globalization of international trade.

Taking all the aforesaid into consideration, one must say that the modern challenges of globalization and the accompanying regionalization of the world economy set the WTO very difficult tasks, including those related to its present and future role in the regulation of international trade and other areas of international economic cooperation. The new leadership in the person of the new WTO Director General, A. Azevedo, does not deny that the multilateral trading system is in a very difficult situation today, and it takes a breakthrough to restore confidence and positive dynamics of its development. In this regard, the success of the Ministerial Conference in Bali in December 2013 and the yield on the specific agreements in the sphere of trade should be a key factor in reviving the Doha Round of trade negotiations. We stand in solidarity with the position of R. Azevedo that transparent, universal “multilateral trading system remains the best defense against protectionism and decisive factor for growth, reconstruction and development” in the global economy<sup>3</sup>.

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<sup>3</sup> Statement by Roberto Azevedo, Director-General, inaugural speech to the WTO General Council. 9 September 2013 (<http://www.wto.org>).

