The Role of WTO (World Trade Organization) in the Promotion of the International Trade and Formation of the New Economic and Business Environment in the World

Natalia BERUASHVILI*
Nika CHITADZE**

Abstract
The paper explores the basic principles of International Trade and role of the International Organization – WTO (World Trade Organization) in the establishment of the new trade regime in the World, promotion of the international business and international trade among the different companies, role of the transnational corporations in this field, main aspects of Foreign Direct Investment (FDI), economic and commercial role of the companies from the Global South and importance of WTO for the commercial and trade activities of Georgia.

Keywords: commerce, GATT, Georgia, investments, trade, WTO

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Introduction

International trade is one of the oldest and most developed form of the international economic relations.

The subjects of the international trade are:
- Material products;
- Services;
- Intellectual property.

During the process of globalization, the important structural changes in the international trade have been held. The speed of the international trade prevails over the speed of the production. In the world economy, the sphere of service is increasing at a comparatively higher rate. In the beginning of the XXI century, 30% of the world export was coming on its share (Jolia, 2008, p.121).

The rapid development of the international trade together with the other factors is strongly depended on the functioning of such global international institution, as World Trade Organization (WTO).

At the same time, there are several approaches related to the role of WTO, together with World Bank and International Monetary Fund (IMF) in the modern international economic and business relations. For example, the supporters of the liberalism theory consider, that the introduction of the new international economic regime after World War 2, based on the Breton-Woods system and General Agreement on Tariffs and Trade (GATT), when the latest was transferred to the World Trade Organization (in 1995), have established the convenient base for the international cooperation in the field of business and trade among of the different states and nations in the world.

From the other side, the critics of the liberal theory, for example supporters of the dependence and neo-Marxism concepts criticize the activity of WTO by assuring the international society, that economically developed countries have become richer and the economy of the developing countries have been more deteriorated.

Research question: Based on the positive and negative attitude toward the activity of WTO in scientific, political and business circles and in order to analyze the role of this organization in the formation of the new world economic order and trade system, one has to study the following question: How WTO affected economic and business processes at the global level and in case of Georgia, taking into account international trade, direct investments, functioning of the transnational corporation etc.?

Accordingly, one of the main purposes of the research is to study main principles of international trade, economic and business relations and the role of WTO, main functions of this organization and relations between WTO and Georgia.

*Ph.D. Student, Faculty of Social Sciences, International Black Sea University, Tbilisi, Georgia. Email: nberuashvili@g4g.ge
**Associate Professor, Faculty of Social Sciences, International Black Sea University, Tbilisi, Georgia. Email: n.chitadze@ibsu.edu.ge
Main Principles of International Trade

International trade is a system of international commodity-monetary relations that is based on the foreign trade of all countries and different business entities of the world. International trade arose in the process of the origin of the world market in the XVI-XVIII centuries. Its development is one of the important factors in the formation of the world economy and international business in the contemporary period. A term “international trade” for the first time was used in the XII century by Italian scientists, economist Antonio Margaretti, the author of the economic treatise “The Governance by the People’s Masses in the Northern Italy” (Ribalkin, 2008, p.12).

One can consider the following advantages of countries’ and companies’ participation in the international trade:

• The intensification of reproductive process in the national business and economies is the consequence of the strengthening the specialization, creation of the opportunity for origin and development of mass production, increase in the degree of the overloading of equipment, increase in the effectiveness in the introduction of the new technologies;
• an increase in the export deliveries entails a boost in employment;
• international competition causes the need of improving enterprises;
• export gain services, the source of the accumulation of capital, directed toward the industrial development.

The Theories of the International Trade and Business

The development of the world trade is based on the benefit from countries’ participation in it. The theory of international trade defines the basis of the gain from the foreign trade, or how directions of the foreign trade flows are determined. International trade serves as a tool, by means of which countries, developing theirspecialization, can increase the productivity of the existing resources and thus, increase the volume of the produced goods and services and ultimately, increase the level of the welfare of population.

International trade was always an area of interest for many well-known economists. Basic theories of international trade and business included:


At the same time, it is important to highlight several theories in the field of political science and international relations, which recognize the role of business and international trade as a key factor of the relations among the states in the contemporary period. In this regard, we should mention complex interdependence theory presented by two Ameri-
together with the above-mentioned organizations, creation of International Trade Organization (ITO) was assumed. International conference on trade and employment in Havana was held in 1946, which had to establish the material-legal framework for the international agreement on reduction of tariffs and propose to the interested countries and companies the regulation of this organization, assuming coordinating role in the area of simplification in foreign trade and reduction of customs barriers for the transportation of goods from the country to country. The GATT was signed in October 1947, which was initially developed only as the part of cross-border agreement within the framework of the new international trade organization. This agreement, considered as temporary, came into force on January 1, 1948 (World Trade Organization, 1994).

The congress of the United States of America (USA), however, unexpectedly refused ratification of regulations of ITO, despite the fact that USA was the main motive power of organization of ITO and GATT. Therefore, GATT as initially interim agreement, continued to act without any organizational structure. During the subsequent years, GATT although with the reduced mandate in comparison from the planned version, proved to be the sufficiently effective system, within the framework of which, average customs tariffs were reduced from 45% up to the moment of the signing of the agreement in the middle of the 40s till to the 4% in the middle of 90s (Lebedeva, 2007, p. 259). For the purpose of reduction of the direct customs duties, so-called non-tariff limitations to the import goods, within the framework of GATT have been cancelled. The regularly conducted rounds of talks between the participating countries, the so-called Uruguay round of talks, which lasted since 1986 until 1994, was considered as the most successful. As a result of the long negotiations in Marrakesh, in 1994, the agreement about the creation of the WTO, which came into force on January 1, 1995, was signed. Founders of WTO reached an agreement, according to which the cooperation will be developed not only in the field of the trade of goods (which was the object of GATT since 1948), but by the taking into consideration the increasing role of the service sector in the post-industrial society (on the share of which in the beginning of the 21-st Century about 20% of the World Trade was coming), member states signed the General Agreement on the Trade in Services (GATS) (GATS, 2017). Participating countries reached an agreement about the fact that within the framework of this organization not only trading of goods (that was the object of GATT already since 1948) would be regulated, but also, taking into account increasing the role of services in the post-industrial society with their growing portion in the world trade (to the beginning of XXI century — about 20%), general agreement about the trade in services (GATS) that regulates this sphere of foreign trade was accepted (World Trade Organization, 2017). Within the framework of the Marrakesh agreement, the agreement on the commercial aspects of intellectual property rights, which regulates commercial questions of rights to the results of intellectual activity and which is being an integral part of the legal foundation of WTO was also adopted. Thus, after almost 50 years of unsuccessful attempts and existence of the temporary regime of GATT, since January 1, 1995, WTO started to implement its functions.

In the fall of 2001, in the capital of Qatar, Doha a round of talks began in the framework of WTO about further liberalization of the world trade. The following questions were included in the agenda: liberalization of the world trade in agriculture production, reduction the tariffs and cancellation of subsidies, financial services and protection of intellectual property. However, negotiations were held, in many respects because of the problem of the access to the non-agricultural markets. Developed countries wanted to obtain more access to the industrial sector of the developing countries, the latter, in their turn, fear, that this can lead to the worsening of business environment and reduction in the rates of the economic growth (World Trade Organization, 2017).

Functions of the WTO

The WTO (Fr. Organisation mondiale du commerce (OMC), Spanish: Organización Mundial del Comercio) — an international organization, which was founded on January 1, 1995 with the purpose of the liberalization of international trade and regulation of the commercial-economic-political relations of the member states.

The WTO is responsible for the development and introduction of the new trade agreements. It also monitors observation by the members of the organization of all agreements, signed by the majority of the countries of the world and ratified by their parliaments. The WTO builds its activity on the basis of the solutions, accepted in 1986-1994 in the framework of the Uruguay round and earlier agreements in the framework of GATT. The considerations of the problems and decision-making of the global issues of liberalization and prospects for further development of the world trade and commerce pass within the framework of multilateral trade negotiations (rounds). At the present time, 9 rounds of such negotiations, including Uruguay and Doha round of talks had been carried out. The headquarters of the WTO is located in Geneva, Switzerland.

Approximately 600 staff members are employed at the organization. On April 26, 2015 the WTO consisted of 162 countries (World Trade Organization, 2015).

In the framework of the WTO, several decisions have been adopted in five fields: 1. Industrial Standards, taking into consideration the same attitude toward the native and imported products; 2. State purchases, considering non-discriminatory treatment of applications of foreign companies; 3. Subsidies and compensation fees, which consider using subsidies as a policy instrument; 4. Licenses promoting simplification of the license procedures by the state; 5. Customs valuation that fixes using unified methodology among of the states (Karumidze, 2004, p. 166-167).

International Trade and Commerce Promoted by WTO

As a result of signing GATT agreement and other economic processes, from the second-half of the XX century, when the international exchange according to Pevro acquires "ex-
plosive nature”, the world trade was significantly increased. The WTO assumed that during the recent decades the volume of world trade grew considerably rapidly, than the whole world production. Thus, for the years of 1950-2000, the world trade grew for 20, and the production for 6 times (Avdokushin, 2006). In 1999, the total volume of export composed 26.4% of the world production in comparison to 8% in 1950. In the period of 1950-1998, the world export grew for 16 times (Avdokushin, 2006). According to the estimation of Western specialists, the period between 1950 and 1970 can be described as “the Golden Age” in the development of international trade. In the 70’s, world export was reduced to 5%, having been even more than reduced in the 80’s (Avdokushin, 2006). At the end of the 80’s, it demonstrated noticeable reanimation. From the second half of the XX century, the non-equality in the trade relations has become the real fact. In the 90’s, Western Europe — was the main center of the international trade and its export almost for 4 times exceeded the exports of the USA. Towards the end of the 80’s, Japan began to be among the leaders by the facts of the competitive ability. In the same period, the new formal group of the states, “new industrial countries” of Asia has been established. To the list of those states were included Singapore, Hong Kong, Taiwan, and Malaysia. However, to the middle of the 90’s, USA again took the leading positions in the world on the competitive ability. Before the crisis of 2007-2008, on the average, world trade grew by 6%. Export of the goods and services according to the data of the WTO, was 16 trillion dollars in 2007. The share of the group of goods comprises 80%, and services to 20% of the total volume of the global trade. The annual turnover of the trade in the goods and raw material by 2012 was about $20 trillion (UN Conference, 2013). According to the report of UNCTAD (2013), the growth rates in world trade of goods and services after their rapid restoration in 2010 again reduced to 5% in 2011 and to less than 2% in 2012 (NEWSru.com, 2013).

In the present stage, international trade plays important role in the economic development of the countries, regions, entire world community:

- Foreign trade became the powerful factor of the economic growth and promotion the business activities;
- The dependence of the countries from the international commodity exchange considerably increased;
- Basic factors, which influence on the increase in international trade:
  - The development of international division of labor and the internationalization of the production.

The Activity of the Transnational Corporations (TNC) after the Foundation of WTO

One of the most important role in the field of international trade and business play transnational corporations.

Transnational corporations entirely provide about 50% of the world industrial production. On TNC is coming more than 70% of the world trade, moreover 40% of this trade occurs inside the TNC, i.e., they occur not on the market prices, but on the so-called transfer prices, which are formed not under the pressure of the market, but under the long-run policy of the maternal corporation. Very large TNC have a budget, which exceeds the budget of some countries. From the 100 greatest economies in the world, 52 are transnational corporations, rest — state. They have an effect in the regions, since they have extensive financial resources, relations with the community, political lobby (Pototskaya, 2006).

Transnational corporations play important role in the globalization process. TNC have very influential role in the world scientific-research and experimental-construction developments. On the share of TNC 80% of the registered patents are coming. In this case, on the portion of TNC 80% of construction’s operations funding are coming (Pototskaya, 2006).

TNC — these are not only producing companies, for example, Siemens, but telecommunication companies, insurance companies, audit companies, investment and pension funds.

As it is known, TNC is the organization, which manages production subdivisions in several countries. On the basis of other sources, the determination of transnational company sounds as follows: the company, whose international business is essential. But also the company, on foreign assets which is coming about 25-30% of their total volume of capital and which has branches in two and more countries (Mikhailushkin & Shimko, 2005, p. 24).

The country of basing — country, in which is located the headquarters of TNC.

The host countries —countries, in which is placed the property of TNC.

Major Problems in the Field of International Trade and Business

Together with the positive role of the international trade in the world, it is necessary to point out about such negative aspects, which seriously prevent the creation of the convenient business environment on the global level. Particularly:

- **Poverty** - Taking into consideration the fact, that in the beginning of the XXI century, nearly half of the world’s population’s income is less than $2 per day. Some 860 million people are illiterate, over 100 million children, had no access to school, over 1 billion lacked access to safe water, and some 2.4 million people-more than a third of the world’s population — lacked access to proper sanitation (UN, 2004, p. 144). All above-mentioned problems create the necessity to resolve first of all social problems by the international community and to provide more involvement of the people in the different business activities before the increasing democratic political culture among of the poorest part of the world population (Chitadze, 2016, p. 37).

- **North-South Gap** - Today, about 80% of the world population live in the developing world (global South) however, they produce only 40% of the world GDP (Mukhaev, 2009, p. 596). At the same time, taking into account, that world...
population each year is increasing for 80-85 million people, and about 90% of growth is coming on the countries from the global south, it can be assumed that each year the percentage of the population in the democratic states from global North is gradually decreasing (Neidze, 2004, pp. 233-234; Chitadze, 2016, p.37).

This factor can have influence on the increasing the possibilities of illegal migration from the global south to the global north, increasing the level of unemployment etc. Furthermore, in the countries of the global south, where the level of reproduction is high, in the age the structure prevails young population. But, at the same time, the existence of a “young bulge” – a large proportion of young adults in the population – increases the risk of state failure through war because large pools of underemployed youths are easily mobilized into different illegal (including) military action. Those factors can significantly influence on the business environment in the different regions of the world (Chitadze, 2016, p. 37).

The Role of WTO in the Resolving Global Problems Related to Global South and Attempts of the Organization for the Creation the Normal Business Environment

The developing states and commercial structures in those countries have long pleaded for “trade, not aid” for the strengthening their position on international level; position, turning to the New Industrial Countries and the Global East experience to support the position, that access the Global North’s markets is critical for the global South’s further socio-economic development. This approach for greater trade by the agency of reducing the barriers brought an appropriate result: the number of free trade agreements between Global South and Global North countries increased to 186 (WTO 2009), from only 23 in 1990 (Kegley & Blanton, 2010-2011, p. 128). Indeed, many countries and companies of the Global South gained the success from a “virtuous cycle” (Blanton and Blanton, 2008), where in trade promotes the improvement of the conditions on internal market that in turn facilitate trade and business. In an effort to shore up the global economy and commerce and assist Global South, during the economic downturn, during the G-20 summit in London 2009, global leaders agreed on the releasing 1,1 trillion USD in additional loans and guarantees to bail out troubled countries and finance trade (Kegley & Blanton, 2010-2011, p.128).

As a result of the increasing the agreements between the countries of the Global South and Global North, the Global South’s share in global exports in manufactured products has increased from 10 percent in 1980 to 30 percent in 2009 (Kegley & Blanton, 2010-2011, p. 449).

The Role of WTO in the Resolving Global Problems Related to Global South and Attempts of the Organization for the Creation the Normal Business Environment

Role of FDI and TNC for the Global South Countries

As a result of the efforts of the different International Institutions, such as World Bank Group, International Monetary Fund and WTO, more convenient base for the business development on the global level has been established. In this regard it is necessary to mention the increasing number of Transnational Corporations and volume of the foreign investments, including the countries from the Global South. In this regard the following issues should be pointed out:

By the TNC, within the period 1985-1995, 8 million job places were established, among them 5 million in the developing countries (www.Grandars.ru, 2013).

At the same time, volume of FDI on the global level since 1970 significantly increased one-hundred-fold by 2000 to 1,4 trillion, and maximal data - over 1,9 trillion was in 2007. The direction of FDI flows is changing during the different stages of the World economy, but a trend is clear, countries from the global East and Global South are plenipotentiary participants in this enormous transnational investment policy. Developing countries from the different regions of the world are now averaging each year over 5,3 billion in foreign direct investments, or about 25% of total FDI outflows. And the global South countries are also more important recipients of the investments from abroad: “From an initial level of $98 billion in 1995, net inflows of FDI to developing countries have increased to over $526 billion in 2007” (Kegley & Blanton, 2010-2011, p. 451).

The Role of the Global South Countries and Companies in the International Trade and Commerce

At the same time, it is important to mention that the merchandise trade between developing economies has increased from 41% to 52% of their global trade within 2005-2015 (World Trade Organization, 2016).

During the XII United Nations Conference on Trade and Development (UNCTAD) in 2008, in the Accra agreement was noted, that the strengthening of the role of the developing countries and countries with the transitional economy in the international economic and business relations is the important feature of the globalization of the last years. This approach creates an opportunity for the expanding the spectrum of multilateral cooperation and assistance to the integration of the entire numerous group of the developing countries in the long-term perspective and it can contribute to the balanced world economic growth and development.

According to the estimation of the experts of the United Nations, about 89 developing countries in the recent two decades increased their foreign trade quota. The reduction in the trade barriers contributed to these processes to a considerable degree, also, the reduction of prices of transport and communication, the fragmentation of the process of production and connected with it transfer of the significant volume of operations outside of the concrete countries.

According to the classification of the IMF, having been represented in the framework of the perspectives of the world economy and business environment development in 2012, the group of the countries with the forming market and the developing countries includes 151 states, which are not included the category of the countries with the de-
veloped economy. The countries of the central and Eastern Europe, CIS (Commonwealth of the Independent States), the developing countries of Asia (27), Latin America and Caribbean (32), the Near East and North Africa (20) and the states of Africa to the south of the Sahara (45) (IMF, 2012) are included in this list. On the share of the limited number of the states is coming the richest part of natural and human resources. At this stage, in the foreign trade of those states, the portion of the intermediate production reaches 50-60%, and imported component in the export goods increased from 20% into the 1970, to 40% at present (WTO, 2013). It is gradually increasing the number of those economically developing states, where it is fixed the growth of the share of the final product in the export structure (it has increased almost for the three times: with 10% in 1980 to 28% at present). About third of world export of middle- and of high-tech goods, computer technologies etc. is coming to the companies of this group of the countries (International Trade, 2017).

If in 1980, share of the developing countries in the world-export composed 25% (600 billion dollars), then by 2008 it reached 38-40% and in 2012 it increased to 44% of the world commodity turnover (International Trade, 2017).

The developing countries of Asia demonstrate the especially impressive results. In the period from 1980 to 2012, they increased their share in the world export from 13 to 35.8% (Studme.org, 2017). Thus, if into XX c. the countries with the developed market economy (USA, countries of the European Union, Japan) were considered "the locomotive" of the international trade and business, then at present from their positions they have been replaced by the most important developing states (China, Brazil, India and others). For example, in 2012, China gained the first place in the world by the volume of commodity turnover – 3.87 trillion dollars, surpassing USA (3.82 trillion dollars) (Studme.org, 2017). The role of India, Brazil, republic of Korea, Malaysia and other developing countries has been rapidly grown. The developing countries became not only the largest market for the sale of production from the developed countries, but they also became the chief exporters of the final products, including of high-tech production.

WTO and Georgia

It was very important, that on July 28 of 1999, at the WTO, the multilateral meeting was held, when the bilateral and multilateral negotiations and working over the protocol for the joining to the organization were finished. In the same year, October 6, at the General Assembly of WTO, the decision about joining of Georgia to the WTO was adopted (Karumidze, 2004, p. 167-168).

This factor played important role in the field of business and foreign-economic policy of the country. Georgia became the participant of the international rules in business. Georgian production gained the opportunity to be exported on the market of the developed countries by the preferential regimes. WTO membership became an important base for the protection of the production signs. Many countries granted for Georgia GSP (General System of Preferences) regimes, which gives the Georgian exporters and businessman in general to be protected from the unfair competition.

Foreign-Trade Relations of Georgia

As it was already mentioned the main purpose of the World Trade organization is the creation of the unified world market for the entrepreneurs of all countries in the world under the conditions of the free and fair competition. Accordingly, Georgia as a state, and Georgian companies, that are oriented on the export-import operations, gained the opportunity, by the successful implementation of the foreign – trade relations to be one plenipotentiary part of this market.

Foreign trade of the country represents one of the leading issues, which should promote the country’s deeper integration in the world economy.

Trade Volume of Georgia within 2007-2014 Years Period

As a result of the WTO membership, more and more Georgian companies managed to be presented on the international market, which significantly promoted the volume of the international trade of the country. For example, the gradual increase of the volume of the trade on the example of the years: 2007-2014 can be noticed.

For example, if in 2007, the volume of the trade of Georgia was 6 Billion 444 Million USD, in 2008 it became 7 Billion 797 Million USD, in 2009 5 Billion 634 Million USD (because of the world economic crisis), in 2010 6 Billion 935 Million USD, in 2011 9 Billion 254 Million USD, in 2010 10 Billion 424 Million USD, in 2013 10 Billion 934 Million USD and in 2014 11 Billion 457 Million USD (Foreign Trade, 2016).

At the same time, in 2007, for the first time in the foreign-trade history of Georgia, Georgian companies exported the products in the different countries of the world, volume of which prevailed 1 Billion 232 Million USD in 2007. In 2014, the volume of the Georgian export already was 2 Billion 861 Million USD (Foreign Trade, 2016).

Conclusion

Based on the above-mentioned positions, it should be finally determined, that the task of the WTO is proclaimed not achieving any goals or results, but establishment of the general principles of international trade. According to the declaration, the activity of the WTO as GATT before it, rests on the basic principles, among which should be mentioned:

- Equal rights. All members of the WTO are obligated to allow to all other members and their companies the most favored nation policy in the trade. This principle means that the preferences, given to one of the members of the WTO is automatically extended also on all remaining members of the organization in any case.
• Reciprocity. All concessions in determining the double-sided commercial limitations must be mutual.

• Transparency. The members of the WTO must completely publish their commercial rules and have institutes, which correspond to the assignment of information to the other members of the WTO.

• Creation of the acting obligations. Obligations at the commercial tariffs of the countries are regulated in essence by the organs of the WTO, but not by interrelations between the countries. But in the case of worsening the conditions of trade into any country in the concrete sector, the pinched side can require compensation in other sectors.

• Protective mechanisms. In certain cases, government has right to introduce commercial limitations. The agreement of the WTO makes possible for terms to take measures not only for the environmental protection, but also for the support of public health, animal health and plants.

There are three types of the activity in this direction:

- The articles, which make it possible to use commercial measures for the achievement of uneconomical purposes;
- The articles, directed toward the guarantee of “fair competition”. Terms must not use nature-conservation measures as the means of masking the protectionist policy;
- Positions, which allow the interference in the trade for the economic reasons. Exceptions from the principle of liberal trade are also the developing and least developed countries (which have privilege regime in the WTO), regional Free Trade Zones and customs unions.

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