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# World trade organization pseudo-paradigm as a necessity for change: A qualitative study

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Paradigm, the major motive engine of globalization in the present century in its modern sense has been the development of communications and the blast of information. Through a historical etymology we realize that the main generator of globalization process has been the scientific and cultural movement of renaissance and enlightenment times and in the present paper using the qualitative study approach, a historical-analytical investigation, through literature review method along with a survey of experts and specialists by using Focus Group Discussion (FGD) tool, we have tried to track the formation process of the World Trade Organization (WTO) as an economic pseudo-paradigm in the heart of universal paradigm of globalization. Based on this analysis, WTO is the natural and inevitable product of the universal globalization consequently, the industrial revolution and the advent of machine time which have laid the ground for the development of communication and information technologies. Finally, mentioned process provided appropriate context for globalization paradigm initiation. The heavily competitive atmosphere which under the shadow of universal globalization paradigm ruled social, political and economic realms of the world has been a reason for world wars and structural alterations which, in economics field, have necessitated the emergence of such international organizations as WTO. The economic, social and political changes of a period from 1920s until 1990s, which in turn are made due to the globalization paradigm, in general have laid grounds for the emergence of the World Trade Organization. Thus, as far as the globalization paradigm continues its existence, so does WTO as a natural obligation and consequence for the management of market economy system. The former GAT and WTO during their lifetime have had important influences on the development of trade and the process of resources distribution among countries of the world and simultaneously in order to realize its developmental goals in economics and people's life quality have been effective to an acceptable extent. In any case, private entities and organizations as well as governments and nations (especially underdeveloped and developing countries) must recognize the dominance of the new situations even for the sake of their own existence and survival and organize their internal solution whether in terms of legislation and law or of economic and strategies in such way as to take advantage of the new situations as an opportunity. In case of non-intelligent non-strategic treatment, these situations may turn into a devastating threat which brings eventual mortality to the productive and commercial infrastructures of countries and organizations.

**Key words:** Globalization, World Trade Organization (WTO), paradigm, pseudo-paradigm, commercial liberation.

## INTRODUCTION

The World Trade Organization (WTO) formerly GAT, emergent phenomenon of the present decade, is born of interaction and contrast among factors and phenomena

each of which on their part have had a role in the formation of this international organization.

According to many experts, most emergent phenomena

are born out of the heart of new paradigms. In his high-selling book "Paradigms", Jules Parker notes "paradigm is a set of rules which specify a limit and show you how to behave within this limit in order to be successful. Paradigm provides a pattern for how to solve problems" (Flemming, 1994). Paradigm is the realization of a layer of existence reality, each paradigm opens to us a limit of the universe and its rules and determines our presumptions, beliefs and perceptions of matters. While unknown, paradigms are the true rulers of the world. With the advent of any paradigm, new rules emerge and past rules abolished. Every time these changes begin a new era for presumptions, perceptions and effective ways of life and take man a step further in the infinity of evolution (Ghaffarian, 2001).

With a deep look at the present time changes one can certainly judge that "globalization" is the most universal ruling paradigm in man's life which has predominated all the fields of life including cultural, social, economic and political. The globalization paradigm has made ruler special economic and commercial conditions which in the context of these new conditions, the World Trade Organization pseudo-paradigm as a natural and necessary product of this context of situation has been born.

The former GAT and the current world trade organization system, has had significantly deep effects upon world economy and trade. The number of WTO member reaches up to 153 now of which only 4 members are not recognized as countries and considered separate freight zones. Apart from the 4 freight zones (including Hong Kong, Macao in China, Taiwan and the European Union), of the total number of 193 of countries of the world (the UN member countries as well as Vatican) 149 countries (three forth of the countries of the world) are full members of the World Trade Organization and only 44 countries are not full members of this organization. This is while the members of this organization hold 95% and non-member countries only less than 5% of the world trades share (Moradpoor, 2006). With this account, WTO plays an essential role in the field of trade and economic relationships at international level as the most influential entity.

It has been tried in this research to find the roots the formation of WTO in the historical context and to demonstrate its influential role in international economy and trade. If the policy-making executives and nations of some of the underdeveloped or developing countries, with an understanding of the effectiveness concept and diameter of paradigms and pseudo-paradigms, recognize the status of WTO as a pseudo paradigm and accept its true nature as a major player in regulating the global economic and trade system, they will necessarily design

and organize their country internal solutions in such way as to pass the path for joining and coordinating to this organization and to join the global economy club. Although a lack of understanding of the emergence and rule of paradigms early in their generation only leads to loosing opportunities and thereby falling back in near future, ignoring or no accepting them or their natural born paradigms brings about devastating crisis.

## **METHODOLOGY**

This study is qualitative in nature. The data collection method is library study and the tools interview, documents and literature review and professional survey by Focus Group Study (FGD) are used. The collection and analysis of information method are so that the researcher has gathered and analyzed the required information from library resources by comprehensively observing and studying the content materials in the research subject. In order to validate the content and the richness of information gathered and the analysis done, all the materials were professionally judged and evaluated by a group of experts and authorities of the subject in a semi-structured FGD method their collective verdict on the content and analysis aspects were taken into account.

## **REVIEW STUDIES RESULTS**

### **Presenting the concept of Globalization**

According to Malcolm Waters' view, globalization is a process where the geographical constraints ruling on socio-cultural relations vanish and people increasingly become aware of the elimination of these constraints. From another view globalization is defined as the process of increasing temporal and special compression by which people of the world more or less and subconsciously merge with the global community (Ahmadian, 2001; Amitava and Rao, 2000).

In other research claimed that it is logically possible to consider four states for globalization and associate each with one of scientists of sociology. The first logical state is that essentially there is no such thing as globalization and these are still the states and national entities which are the major players in international field. In the second state, globalization is not something new and has existed since early times and will continue to exist. The fourth group of sociologists highly stresses the commercial interactions in very early times, the Middle Ages and today and hold that this state of global capitalism system is different from the past in terms of degree rather than kind. The third state, which Jameson believes himself associated to, considers a postmodern perception of the globalization concept and takes the communicative aspect of globalization as its focal point (Jameson, 1998).

Other study noted to globalization as a change of revolutionary type which either focuses the timeless and universal traits of human being and human servicing in social, political and economy fields or is the result of structural and impersonal changes (Jameson, 1998).

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The sociologic perception, which sees modernity as the core of globalization, holds that what is globalized is modernity. Off course, others analyze globalization in terms of the decline of modernity and the beginning of postmodern era. The Marxist memento believes that it is the "capitalism system" which has been globalized. Liberalist intellectuals, in analyzing the globalization phenomenon, view competition as central and believe that the economy and market have been globalized (Ahmadian, 2001).

### **Generation and rule of globalization paradigm**

A Look at the different definitions of globalization reveals that globalization has had two objective consequence and function:

1. Decreasing and removing temporal and geographical distance.
2. Coordinating and at times conformity of principles; rules and behaviors governing the global cultural, social, economic and political realms.

By considering these two important consequences, we can claim that the birth and beginning of the globalization paradigm rule, dates back to industrialization era and the emergence of machine in human's life, in the first half of 18th century, since globalization, whatever it is, has shown its effects through eliminating the previous concepts of time and space and in fact by bringing people and national communications closer together. Thus, the major pre-motive of globalization has been essential change and development taken occurred in communications and information.

The development of communications and the information blast which are engines of globalization have been in turn the product of machine era and industrial revolution, because without technologic development speeding up international and geographical communications among societies and nations would not definitely be possible. By a deeper historical etymology regarding the origins of the universal globalization paradigm we will find that industrial revolution in its turn is the born of the thought movement of renaissance and enlightenment era when the human's intellectual and philosophical foundations were set free from cramped mythological and religious patterns of the catholic church and sailed to realism and reasoning providing the grounds for scientific and industrial revolution and technologic innovations.

Anyway, two important communicative events emerged in the light of technological developments: first the increase in the transportation rate of people by vehicles and second the advent of virtual communication space by phone, internet and so forth. On the other hand, without the development of information and media technologies,

information would not be exchanged among individuals and societies and virtual communication would not develop and as a result culture, science, knowledge and wisdom would have no way of becoming public. Therefore, the advent of industrial era is the major reason for the emergence of communication era and information blast and the consequence of this era has been the rule of universal globalization paradigm in its new sense.

### **The Generation of pseudo-paradigm of WTO**

There is no doubt that the economic grounds for globalization, due to significantly deep influences they have exerted upon other fields of human life (namely cultural, social and political) have gained more attention and with the raid of globalization wave, nations and states have come to consider devising new systems for managing the new global economy atmosphere –the outcome of globalization process. On this basis, since early 19th century, activities in the form of different sessions, negotiations and conferences have taken place and through step-by-step accords, the grounds have been laid for the formation of international trade and economic organization namely International Monetary Foundation (IMF), World Bank and World Trade Organization (WTO). If we consider globalization as a dominant paradigm influential on all the other aspects today man' life, the World Trade Organization is a man-made pseudo-paradigm which is the essential and natural born of globalization paradigm.

Pseudo-paradigms differ from paradigms in that they are compulsory born of situations created by paradigms. Through the rule of new paradigms and the come of new situations, man is forced to manage and handle the new cultural, economic or political situations by creating modern management systems and solutions.

### **Historical Changes Effecting WTO formation**

The World War I, confronted Europe with huge economic problems such as payments imbalance, inflation, high devaluation of currency, distractions in business exchanges and expanded unemployment and made European governments as well as The U.S. make severe protective policies to protect home industries and seek to take retaliate measures against their business partners. After the World War I, the first international conference in 1927 was held in Geneva under the supervision of Nations Society in order to negotiate issues related to production and commerce. In this conference the representatives of nearly 50 countries attended. The goal of great states was to alleviate, through political co-existence, making liberal policies and collateral economic cooperation, the conflicts and disagreements that had led to World War I.

At the time this conference was held, that is, 10 years after the World War I, despite mending ruins and increasing industrial production and expanding commercial exchanges in Europe, the exertion of protective policies by some states and the existence various restrictions on business exchanges, had made barriers on the way of commercial growth. Thus, the decisions made at the Geneva conference pivoted around these hinges:

- i. Removing commercial barriers.
- ii. Regulating states protective policies and orientation economic liberalism.
- iii. Observing the "Most-favored Nation" commitment.

Unfortunately none of these decisions came true due to a lack of commitment to the passed issues and not long after the hit of the great 1929 crisis, turned all hopes to despair.

The U.S. economy during 1920s witnessed a remarkable position, but the agriculture sector of this country faced unfavorable situations during this period. Thus the Congress called for more increase on agricultural products taxes in order to support home agriculture and protect it against foreign competition. However, to gain support of all representatives, Congressmen on the side of agriculture sector had to agree also with the increase of taxes on many industrial products. In fact, the tariffs which were only to increase to protect the agriculture sector, included about 800 agricultural and industrial items under the article of Smooth-Hawley so that the average value of freight tariffs raised from 38.5% between years 1922 - 1929 were raised up to well over 52.8% between 1930 - 1933 (Edwards, 1997; Flemming, 1994).

Following this measure by the U.S., the U.K., the second greatest world exporter after the United States, by issuing taxes on imports law in 1932 put an end to the about-one-century free trade. The coincidence of these measures with the great world crisis of early 1930s dramatically affected world trade so that the U.S. exports value in dropped sharply from \$5.4 billion per year in 1929 to \$1.6 per year in 1932 (Edwards, 1997; Flemming, 1994) and the bulk of world trade of goods produced in this year declined to 40% ( Tussie, 1987).

After the victory of the U.S. Democratic Party in 1932 presidential elections and the pressures by Secretary of Foreign Affairs, Cordell Hull and his advocates in Congress a further trade law "Reciprocal Trade Agreement Act- RTAA" was passed in 1934. According to this act, the President was entitled for three years with the right to contract trade agreements with other countries in order to gradually decrease freight taxes down to 50%. By 1947 the U.S. managed to sign bilateral trade agreements with 29 countries around the world based on the Complete State of Most-favored Nation (which was predicted in the aforementioned Act) which as

a result the average value of freight taxes reduced from 48% to 25% during this period.

It is obvious, considering the determining role of the U.S. in world trade, this tax reduction by this country had important effects on tax reductions and posing negotiation frameworks in this regard. Regarding the devastating outcomes of the World War II, industrial Western countries decided to take steps, even before the War ended, in order to establish a financial, monetary and commercial system to meet the post-war needs. One of the objectives of the Atlantic Charter (1941) and the Lend-Lease Agreement (February 1942) was to establish a global trade system based on the non-discrimination and free goods and services exchange principle.

In 1944 (before the end of war), to the invitation by the U.S. president at the time, Roosevelt, a conference was held in Breton Woods with the attendance of 44 countries representatives and in its course the agreement for establishing "International Monetary Fund" and "the International Development and Mending Bank" was signed.

In the course of these activities, after the war ended, the need for establishing an international trade organization for regulating the free trades and removing restrictions and privileges and reducing freight rights was felt and movements gradually started toward this (Ghaffarian, 2001).

Following these changes, in December 1945 the U.S. government proposed a conference consisting of countries representatives to discuss and investigate issues related to the prohibition of quantitative restrictions, reduction of freight rights and in general establishment of an International Trade Organization (ITO). The U.K. government in return of receiving a 3750 million-dollar loan from the U.S., made commitments to firstly, resurrect the possibility of Sterling exchange from January 15, 1947, secondly to take measures for alleviating discrimination in its foreign trades and thirdly cooperate in establishing such international organization.

The U.S. proposed conference was held in London from October 18 to November 26 1946. However because of participant countries oppositions, ended without reaching any results. A while later, in the UN Economic and Social Council (ECOSOC) the idea of holding conference on international trade came up and a committee consisting the representatives of U.S., Canada, England, French and Benelux countries (Belgium, Netherlands and Luxemburg) was made responsible to prepare the conference. From April 10 to 22, 1947, the preliminary committee started its job for preparing the draft of the Charter of World Trade and during this time bilateral talks were being hold between the committee member countries and other countries which had joined until then including Brazil, Bremen (former Myanmar), Sri Lanka, Pakistan and Zimbabwe.

Finally, the Havana Conference with attendance of the representatives of 56 countries was held from November

1947 to March 24 of 1948. At this conference many countries including developing countries opposed to the Charter of the World Trade Organization and after discussions and idea exchange, many other proposals were amended to the Charter. One of the parts of the World Trade Charter is an agreement consisting of 24 articles which was signed in October 30, 1947 among 23 countries which were major industrial and developed countries. This was the General Agreement on Tariffs and Trade (GATT).

The Havana Charter was a comprehensive treaty which included, in addition to business trades, issues such as economic development, full employment, state-run business and cartels activities. One of the other demands of this charter was the establishment of an international organization to regulate the international trade. Only two countries, Australia and Libya of the 53 countries which signed the charter could pass it through their parliaments, because developing countries saw it in favor of industrial countries and on the other hand the developed world saw it in favor of the third world. Even the U.S. which was one of the innovators of world trade charter, failed to pass it through the congress and the president of the time, Harry Thurman took back the proposal from the congress. Although the foundation of world trade organization did not come true, GATT, an agreement in chapter four of the Havana charter lingered on as a memory (Edwards, 1997; Bbladwin, 1988; Ghaffarian, 2001; Romain, 1998).

### **GATT periodic negotiations**

The main part of GATT activities (by contracting parties) has been trade talks in order to reduce and consolidate the freight tariffs and eliminate other trade barriers on the way of international trades. In a period from 1947 to 1994, eight rounds of talks as well as annual meetings have been held among the member countries which are detailed in what follows. (Table 1 and 2)

Concluding the above mentioned in the present study, the historical process of WTO formation can be demonstrated as in Figure 1.

### **Conclusion**

Given the definition of paradigms we presented, it should be deeply understood that when paradigms dominate, they impose their constraints and create new situations. Liberation of trade and the free economic flow are situations born by globalization economic paradigm and the WTO is a pseudo- paradigm which is born to manage the free trade system in the context of globalization. As long as the globalization paradigm continues to exist, its pseudo paradigms will also rule. The technological evidences, especially in the field of communications indicate that globalization paradigm runs its roots deeper

every day. Therefore, the free trade flow will expand its shadow wider over trade and market and consequently the WTO will play its part as one of the major players in international system.

Statistical indicators show deep effects of the former GATT and WTO on free trade. Between 1923 and 1938 the average world production bulk was 1.5% annually and world trade during the same period had less than 1% growth. However in the era of free trade success, period from 1948 to 1973 the average growth rate of world production has been 5% and that of world trade has been 7% which, in fact, during this 25-year period of GATT activity, world trade has increased about 6 times greater (Flemming, 1994; Ahmadi, 2000; Ahmadian, 2001; Johm, 1983; Taylor, 2000; Moradpoor, 2006).

During its operation, GATT in addition to regulating and setting a set of trade rules which have been accepted by member countries, has succeeded through holding eight rounds of trade talks among member countries to realize one of its goals –expansion and development of free trade as much as possible- as well as removing tariff and partly tariff barriers and other barriers which directly or indirectly lead to the distortion of world trade. So that through eight rounds of periodic talks by GATT, the average value of tariffs on industrial products have been decreased from 40% to 3.9% (Amitava and Rao, 2000; Barry, 1999; Chirsta, 1992; Tussie, 1987; Jameson, 1998). Many research evidences suggest the while WTO is a young organization it has been able to reach breakthroughs towards its goals. Taylor (Taylor, 2000) has investigated the effects of trade liberation on economic development and revenue distribution in 9 developing countries. His findings show that in the best case, the liberation has lead to a moderate improvement in economic growth and distributed justice while in the worst, in spite of a pace in capital income flow; these policies have been accompanied by deterioration in distribution and slower growth.

In the field of national management of countries, WTO has been able to exert significant effects through expanding the space for free trade. Sebastian Edwards (Edwards, 1997) in a study of inter-country regression assesses the average relationship of 10-year productivity of the all factors involved to Trade Openness variable, based on new and comparable data from 93 countries. His findings indicate a positive and significant correlation between trade openness and the productivity growth rate of all the factors.

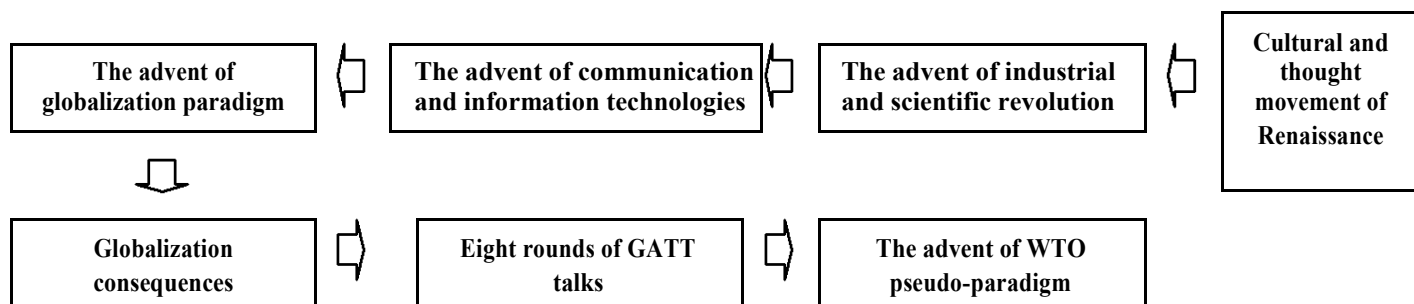
The signs indicate that this organization through exerting global management in trade field has managed to be a cause for a reasonable economic growth of the countries so that doen (Romain, 1998) in a study on trade openness effects on economic growth, using the average of combined 5-year data from 57 countries from 1970 to 1989 in a real-time equation system, concluded that the openness of trade has a strong and positive effect on economic growth and it can be the most important

**Table 1.** GATT Periodic Talks.

Results and outcomes of Talks	The number of participant countries	Time of Conference	Period Name	Row
GATT foundation – tariffs reduction	23	1947	Geneva	1
Tariffs reduction	33	1949	Ance(France)	2
Tariffs reduction	34	1951	Tarkey (England)	3
Tariffs reduction	-	1956	Geneva	4
Tariffs reduction	45	1960-1961	Geneva (Dilin)	5
Tariffs reduction	48	1964-1967	Geneva (Kennedy)	6
Tariffs reduction to the average value of 35% - non-tariff barriers – freight assessments- subsidiaries and protective measures – anti dumping – Standards	99	1973-1979	Tokyo	7
Expansion of GATT coverage – agricultural agreement – services trades – intellectual ownership – foundation of World Trade Organization	106	1986-1994	Uruguay	8

**Table 2.** Freight Tariff reductions in the framework of GATT periodic Talks.

The reduction in all tariffs value	average in all	The average value of tariffs reduction	Percentage of imports subject to tariff reductions	GATT Periodic Talks
32.2		44	63.9	Before GATT establishment 1932-1947).
21.1		35	53.6	The first round of talks in Geneva (1947).
1.9		35.1	5.6	The second round, Ansey (1949).
3		26	11.7	The third round Tarkey (1951).
3.5		15.6	16	The fourth round Geneva (1956).
2.4		12	20	The fifth round, Dillen Geneva (1960-61).
36		45.5	79.2	The sixth round Kennedy Geneva (1964-67).
29.6		33	-	The seventh round Tokyo (1973-1979).
-		38	9	The eighth round Uruguay (1986-1994).



**Figure 1.** The historical process of WTO formation.

channel of influence, physical investment (with 60% of all the influence) and the transition of advanced technology and the improvement of macro-systems is another influential channel. Proving this by other studies using the data from 74 countries during a period from 1970 to 1989 in order to investigate the interactive effects of trade namely trade openness that is, the proportion of total imports and exports to GDP. The results of this study

suggest that the opener the economy the more the economic growth. In addition the foreign direct investments (FDI) and membership in a trade union especially when the members' income levels are different is one of the other factors in reaching higher growth value (Edwards, 1997).

In this respect, a few studies such as such as an investigation by Dutt show a lack of effect or undesirable

effects of trade liberation in certain parts of the world. Amitava and Rao deals with the social effects and consequences of economic reforms in India which started in 1991 under the title of "liberation and globalization and analyzes the effects of liberation on economic growth, employment, poverty, income inequality and people's quality of life. According to findings in this paper, globalization has not contributed to reduce poverty and inequality in India (Amitava and Rao, 2000).

The above and tens of other studies suggest the deep and multilateral effects and still positive if market economy flow and trade liberation on material and spiritual life of human societies. Pondering on management macro structures and cultural, social and political infrastructures of countries which may be affected with some harms reveal that the top management and policy makers in these countries either have not noticed in time the signs of paradigmatic changes in trade and economy or ultimately might have lacked the capabilities to manage the changing into undesirable situation. Off course, another alternative can be pointed to that perhaps the ruling state-oriented and totalitarian systems in some of these countries have seen free trade and market economy opposing their rule.

In any case, private entities and organizations as well as governments and nations (especially underdeveloped and developing countries) must recognize the dominance of the new situations even for the sake of their own existence and survival and organize their internal solution whether in terms of legislation and law or of economic and strategies in such way as to take advantage of the new situations as an opportunity. In case of non-intelligent non- strategic treatment, these situations may turn into a devastating threat which brings eventual mortality to the productive and commercial infrastructures of countries and organizations.

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