

Conflict Potentiality of the Contemporary Trade Regime

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1.0 Introduction:

On January 1 1995, a new international economic organization became a reality. It was an organization that resulted from the lengthy, extensive and complex Uruguay Round of trade negotiations in the context of the General Agreement on Tariffs and Trade (GATT). The Uruguay Round Agreement of the GATT/WTO has been described as the most important event in recent economic history. In addition the World Trade Organization or WTO is described as the central international economic institution. Nations are now more engaged with the detailed processes of the WTO, namely its rules, interpretations and observations as well as dispute settlement procedures.

It is interesting to open this discussion on GATT/WTO under the theme of interrelationship between the Contemporary Trade Regime and Conflict Potentiality by quoting a phrase of John H Jackson's study: "Dispute settlement and the WTO - emerging problems in The Jurisprudence of GATT and the WTO, Insights on treaty law and economic relations"^a. Jackson states in the opening remarks in his book, while discussing the origin of the WTO regime: "but the WTO Agreement, including all of its elaborated annexes, is probably fully understood, by no nation, which has accepted it including some of the richest and most powerful trading nations that are the members". This statement of Jackson provides a preamble as well as a good reason to start this analysis.

1.1 The analysis:

1.2 Hypothesis:

The economic and social implications of the contemporary trade regime under the GATT/WTO will lead individuals, groups, classes and states towards social unrest and international political conflicts.

2.0 The Argument in favor of the Hypothesis:

It is presumed that the uniform implementation of a free trade regime will generate relative deprivation among the individuals, and the security syndrome among different classes and groups of the developing world. Also, in general, emerging trading nations in the present regime of conditions will opt towards collective action to gain absolute gains.

^a John H. Jackson,. Cambridge University Press

The competition that is created in such circumstances will finally lead emerging nations into covert or overt conflicts with other fellow members of the club.

To understand this tendency it is important to understand the disparity between the developed world or the global North and the developing world (global South) on manufacturing production.

The world league table of manufacturing production -1994	
Country	Percentage of World Total
United States	26.9
Japan	21.0
Germany	11.6
France	4.5
United Kingdom	4.1
South Korea	2.7
Brazil	2.6
China	2.3
Italy	2.2
Canada	1.7
Argentina	1.5
Spain	1.4
Taiwan	1.2
Australia	1.1
Switzerland	1.0
Total	85.8
Source: UNIDO (1996) from Peter Dikken -Global Sheet	

Table1.0

Table 1.0 depicts clearly the disparity of world production among nations. The table shows that out of 195 nations only 15 nations account for 85.8 percent of manufacturing production. The rest accounts only for 14.8 percent of manufacturing production. The other obvious inference that can be made out of these statistics is that all these fifteen account for a substantial portion of world export trade. Therefore, these are the countries that take absolute gains from world trade. It can be argued that the much-canvassed equal playing field of a free trade regime under the WTO regime is meant only for them under the name of world free trade. The total result of this tendency is creating a monopoly over international trade among these few nations. The international trade regime is developed and functions for the sake of these few nations. Although on the face of it this tendency (demand for free trade as a public good) poses as an innocent and natural outcome of international political economic relations, empirical evidence

stands in favor of the former statement. For example, the rules, principles and norms under the regime never allows the rest of the world to enter into the realm of competitive economic production or to minimize the existing production and trading disparity between powerful trading nations and the rest. The goods manufactured in these fifteen countries are flooded to the rest of the markets. Messages coming from these countries are that markets should be kept open by the rest of the world to sell these products. This is the underlying reality of the present day free trade regime. The question that looms over here is how to explain this phenomenon under the International Political Economy (IPE). Often various IPE theories speak about how absolute or relative gains are achieved by the states within the international system of anarchy. These theories also seek to explain how international structures are developed to avert this kind of anarchic situation. Accordingly, international institutions are meant to provide opportunities for the states to cooperate in achieving their respective strategic objectives. Although international institutions are established to encourage cooperation among the states and undermine the prevailing international anarchist tendencies, it is a well-known fact that the developing world in the present world context of international relations is neither able to cooperate nor capable of accomplishing its strategic goals based on relative gains. The free trade regime is one of the classic examples to explain this scenario.

In these circumstances the realist, liberal or institutional theories based on configuration of capabilities or preference or information and institutions to achieve its strategic objectives have become hollow theories to the countries of the developing world. It is an obvious factor that the contemporary structure of international economic relations is molded in a way as to help the interests of a particular state/or group of states. It is not created for the whole world as the international relation/law theorists proclaim. To sustain this pattern of relations, the powerful nations have developed special economic regimes to govern and manage world economic relations in their favor.

Although regimes are meant to foster long term contracts among the international actors who seek to structure their relationships in a stable and mutually beneficial way, the present day economic regimes and their highly institutionalized rule-orientated processes are formulated and implemented in favor of the economic interests of one set of nations. As a result, the stable and mutually beneficial nature of these economic regimes is transformed into hegemonic tendencies in favor of a particular group of

states. Although currently the impact of this hegemonic tendency is felt only upon countries of the present developing world, in the near future this effect of this will also expand to other emerging trading nations or regions who want to optimize their relative gains based on their national or regional interests.

To substantiate this argument the Liberal theory of international relations is used in this paper as a point of departure to analyze the situation. The assumptions and variants of the liberal theory of international relations are used to explain these double standards of present day international relations. Its three assumptions and three variants are used to describe perfectly how social actors of powerful states determine the international political economy on the one hand. And on the other, these same assumptions and variants are used to display how the present day economic regimes suppress the domestic interests of the developing world to achieve even its basic desires based on public goods. To base this approach, the agenda of the WTO is taken to discuss the notion of Free Trade and its application to the present day Free Trade Norms:

In order to understand the application of this hegemonic power relationship through the current free trade regime concept, the institutional structure of the GATT/WTO regime are elaborated and analyzed. Therefore, to achieve that purpose, notions are discussed to understand the agenda behind this economic regime. The formation and implementation of the WTO regime is then analyzed to corroborate the agenda perceived by this article. This is done in a way as to portray how this international regime manipulates its rules, principles and norms in favor of big trading nations, undermining interests of the developing world.

Finally, it is argued in this paper that these aberrations from the international public goods (equality based international cooperation in international relations) help to undermine self-determination of the countries and thereby situations may lead to social unrest and conflict. Especially when these countries cannot manage their macro economic policies according to the demands and aspirations of the domestic factors, such domestic developing economies will lead to stagnation. When this inability affects the social factor management in societies it will lead to a vertical disintegration between governors and the governed. This stagnation and vertical disintegration will act as trigger factors in societies where either class cleavages or urban versus rural cleavages prevail

due to trade liberalization. This tendency might be intensified when such societies are of a multi-ethnic nature. The conflict potentiality of emerging trading nations are very high in the prevailing situation due to high costs they have to meet to get membership of the prestigious trading club to enjoy its benefits. By using theories of relative deprivation, the security syndrome and collective action, the above-mentioned scenarios are discussed as a conclusion.

2.1 The agenda of the WTO:

2.2 Notion of Free Trade and its application to present day free trade

Norms:

The concept of free trade goes back to the history of 19th century. The rationale of free trade rests on the notion of comparative advantage, which was formulated in the 19th century by the British economist David Ricardo. Ricardo argued that different countries with different technologies, customs and resources would have different costs to produce the same product. Therefore, if each country produces goods for which it has comparatively lower costs and trade with others then all parties benefit from such economic practice. Although it is said and proclaimed that the present day concept of free trade derives from this classical free trade definition, this paper argues that there is a qualitative and quantitative difference between the former and the present one.

When Ricardo propounded this theory he based it on an assumption that basic economic factor endowments such as capital and labor would be immobile and under those circumstances only a particular country will get a comparative advantage. Actually Ricardo meant this advantage under the natural circumstances only where the technology and capital were territorial bound. But under the new 'free trade' situation this comparative advantage has been transformed into absolute advantage for certain countries. This has happened due to their ability to transfer capital from one country to another (trans-nationalization of Capital), as well as, the possession of information and technology irrespective of time and space in the given situation. Although it is said that under the present day Globalization process this information, technology and capital has reached every corner of the world, empirical evidence is contrary to this assertion. The so-called concept of Foreign Direct Investments (FDI) that talks about transferring of technology and capital to the developing countries has become a hoax. Although this FDI concept has not been of much value to the developing world, it has helped the fellow

members of the powerful trading club to entrench their existing position in world production and trade. This has been done in two ways. One way is investing in capital-intensive projects under the FDI concept in fellow developed countries and thereby entrenching the technological and capital endowment gap between the developed and developing countries. Thereby averting any opportunity for the future contenders to enter into international trade. The other is extracting part of the natural comparative advantage of the developing world (due to abundant factors of production) by infusing marginal capital and technology to them. Although this has been shown as an infusion of capital, technology and information to the hard pressed developing economies, in real terms the advantage of this FDI has been taken only by wealthy and large trading countries and their corporate interests. The following data will show how much Foreign Direct Investment facilitates the developed nations and developing nations.

Inward Foreign Direct Investment as a share of Gross Domestic Product, 1994

Source: Based on data in UNCTAD, World Investment Report:

Developed Country	Share of GDP (%)	Developing Countries	Share of GDP (%)
Belgium-Luxembourg	31.7	Singapore	72.8
Netherlands	27.7	Malaysia	46.2
Spain	25.0	Indonesia	26.5
Greece	23.5	Hong Kong	20.5
UK	20.9	Chile	19.2
Canada	19.2	China	17.9
Denmark	12.6	Mexico	14.4
France	10.7	Thailand	10.1
Ireland	10.3	Philippines	8.3
Sweden	9.7	Argentina	8.1
USA	7.5	Brazil	8.0
Germany	6.8	Taiwan	6.6
Portugal	6.6	Pakistan	6.0
Finland	5.9	South Korea	3.3
Italy	5.9	India	0.9
Japan	0.4	Bangladesh	0.7
Total/out of	8.6	Total/out of	12.5

Table-II

It is interesting to note that 64.8 percent of these Foreign Direct Investments in 1994 have come from five nations, that is US, UK, Japan, Germany and France. Interestingly these are the countries that lead in world manufacturing production. (See the Table-I)

The cumulative result of this tendency in international relations is creating an international hierarchy according to wealth and power. This nature of international relations has in theory undermined the equal status of sovereign nations. In international relations these sovereign nations either compete with each other or cooperate in the absence of a world order. Nevertheless, in the present situation even self-help in an anarchic situation is no more a valid theory for the non-members of the trading club. Under these circumstances aggregations of strategic interests have to be understood in two different situations. One is among developed nations and the other is between developed and developing nations. Between developing and developed countries, international relations always make absolute gains in favor of the developed country/ies. That is because they are the entities in the present global context that have capital, information and technology and are thereby holders of power. These countries always have leverage over others to dictate terms in their own favor. For example, this tendency is clearly shown in FDI promotion policies of the developing countries. These policies often have brought pressure on wages, environmental laws and working conditions of the people. The other is in the trading of raw materials between developed and developing countries.

Therefore, the aberration from the classical norm of comparative advantage has created unequal and undue advantage for the big trading nations in international trade. Interestingly these dealings always happen under the name of 'free trade' that gives the impression of natural dealing under the conditions of supply and demand. Nevertheless, with the entirety of these one-sided features, still the GATT/WTO agreements constitute the international trade regime under international law, which governs the international trade interests of the world nations.

3.0 Theoretical argument

3.1 What is meant by a regime?

In world politics the lack of authoritative governmental institutions is characterized by pervasive uncertainty. Within this setting, a major function of international regimes is to facilitate the making of mutually beneficial agreements among governments. In such a situation a structural condition of anarchy does not lead to a complete "war of all against all".

Therefore, international regimes can be interpreted, in part, as devices to facilitate the making of substantive agreements in world politics, particularly among states. Regimes facilitate agreements by providing rules, norms, principles, and procedures that help actors to overcome barriers to agreement identified by economic theories of market failures^b.

One of the main arguments for a regime creation is demand for public good in a particular situation. The demand for public good gives rise to international regimes, because the formation of regimes will ameliorate problems of transaction costs and information imperfections that hinder effective decentralized responses to problems of providing public good. This basic assumption under the circumstances discussed above, poses several questions, which are pertinent to the continuation of this analysis. Do the rules, principles and norms enumerated under the GATT/WTO constitute public good for all nations of the world? Do these arrangements facilitate to sustain better cooperative and mutually advantageous situations compared to the earlier self-help situation in international relations?

3.2 Nature of the interests of the economic powers:

When one analyses present day governance, it is no longer valid to draw parallels with Abraham Lincoln's famous utterance in Gettysburg, on governance. According to Lincoln the government is constituted "of the people, by the people, for the people". Nevertheless corporate interests now govern most of the western democracies. What they now actually have is a government 'of the rich, by the rich and for the rich'. This observation becomes a reality when one studies the wealth distribution pattern of a particular society and its connection to governance in the United States of America. Gary W. Harding in his Article "We the People"¹ succinctly describes this connection. According to the Harding, over this century, "the richest 1% of United States have held an average of 28.5 of the total wealth with a high of 36% and not less than 21% .The richest 1% group also includes the President, nearly every member of the Congress and the Senate."

^b Robert O. Keohane. "The demand for international regimes" Theory and structure in International Political Economy.

¹ <http://members.aol.com/trjcom/private.html>

Against this background it is important to analyze the theoretical background of the interests in governance in order to understand the dynamics of the GATT/WTO regime. Alt & Giligan in their article² states 'if the decision making institutions are completely insulated from majoritarian pressure, all one has to do is convince a bureaucrat in a centrally planned economy or small group of legislatures, whose interest in maintaining office requires pleasing a relatively small sector specific, geographically differentiated constituency. In cases such as these, support from a large segment of population is not necessary for a policy to be enacted'.

This is the exact nature of the social groups that are wielding their influence over rulers of the powerful trading nations of the world. The US statistics provide ample examples of this condition. They do not have a coherent policy based on philosophy. What they want is to introduce policies to fulfill their avarice for wealth. This tendency is also analyzed by Alt & Gilan⁴: "A capital rich country in which capital is highly concentrated in few hands should adopt trade restrictions". Although from the face of the statement it shows some contradiction against the argument developed in this article, the rationale behind this behavior exactly supports the argument of this article. Rich countries are always in favor of protectionism while pressing for others to stick on to the free trade principles. The present day protectionist tendency among these powerful trading nations cannot be seen in a naked and overt way but it is happening in subtle and covert ways. Actually, this what we now see as the challenges of 21st century free trade"⁵. The non-tariff barriers, the economic regionalism and strategic trade and industrial policies are the precursors of 21st century trade protectionism. Much will come in the near future when competition among the fellow members of the club intensifies over foreign markets. In respect of trade with the developing world, while protecting their economic interests through various mechanisms and theories, the GATT/WTO free trade regime is and will be used to ensure their undisturbed access to their raw material sources and consumer markets for products and services.

² In Friden & Lake pp327-342

⁴ *ibid*, p337

⁵ Gilpin (2000) pp88-113 or Gilpin (2001) pp.196-233

3.3 The Liberal theory of International relations:

The scenario discussed above can be perfectly construed under the three fundamental assumptions of liberal International theory and its three variants^{5a}.

Assumption one is based on the primacy of societal actors in state preference making. The situation in the developed world as mentioned above provides the picture of how those countries make their state preferences. It is very clear that fundamental actors in the big trading nations, including the United States, are making their decisions according to the corporate interests and the interests of the richest people. It is their preferences that state authorities define as the state preferences and act purposively in world politics. Second assumption - When these state preferences form convergent interests such as trade with the developing world in importing raw material and exporting finished goods, they create regimes such as the GATT/WTO free trade regime. When the strategic interests are divergent they resort to regionalism as well as strategic trade to achieve absolute gains.

Third assumption - The public goods of these rich states are based on social preferences. Institutions and socio-economic regulations are created in order to maintain these collective goods. In powerful trading nations, consumerism and growth are considered as public goods of their respective societies. Therefore, conflict or the cooperation in international relations of the developed world is decided by the degree that consumerism and growth of the particular country is fulfilled. This is exactly what ideational liberalism talked about. The principles of commercial and republican liberalism also help to understand present day the international political system of the developed world. The incentives are often created to ensure trans-border economic transactions in order to facilitate its growth and consumerism. Finally as Republican liberalism points out, the institutions set up under the local as well as international jurisdictions such as regulatory bodies within the local jurisdictions and WTO regime under the international regime, help to aggregate those demands made by domestic interests as well as the interest groups. Therefore, we can finally construe the GATT/WTO free trade regime as

^{5a} Moravcsik.1997."Taking Preferences Seriously: A Liberal Theory of International Politics." In Charles Lipson and Benjamin J. Cohen (Edt)(1999). Theory and Structure in International Economy. An International Organization Reader. The MIT press, Cambridge, Massachusetts and London England.

a production of the corporate interests and the interests of the rich of the developed world.

3.4 The perceptions of the free trade concept:

a. The perception of Global North:

The concept of free trade can be construed in two different ways. For the rich countries in the Global North 'development' has been identified as further economic Globalization and unrestricted growth of trade. As mentioned above, this has become the main slogan of the newly found world order. This world order lays emphasis on free trade and open markets, and works on the premise that goods and services should only be produced on the basis of the comparative advantage of world consumption.

Considering the asymmetrical production and trade capabilities of the world, this strategy infers the world must produce its goods for rich consumers and undertake investments not for people orientated development but for commercial interests and growth of consumerism in the North. Thereby, they must provide goods and services to the rich in the North at the 'internationally competent prices' not at just and fair prices that respect workers rights, ensure just wages and defend people's livelihoods.

This unfairness has to be understood in the face of enormous inequalities of production factors, capital, technology, and information between the Global North and South.

b. The perception of the Global South:

The countries of the Global South have identified this as a policy that is orchestrated by the Global North to perpetuate dependency of the Global South on the North. According to this perception, under free trade the most important decisions on development strategies, decisions about prices, investment patterns, individuals, firms and institutions make governments follow micro (is it macro? – Ed) economic policies external to the country.

The dependent economies become integrated into the larger trading system and plays to the demands of the world economy, especially those of the developed economies. It is interesting to define this tendency under the liberal theory of international relations. The state preferences have no place whatsoever under these conditions. Configuration of

state preferences is always alien to this kind of situation and therefore there is no policy interdependence available for the countries of the developing world in their international dealings. This pattern of relations underlines the three assumptions and its three variants of the liberal theory of international relations. It is a very clear fact that there is nowhere that the social actor can play a role in domestic politics of the particular state. In relation to international dealings, state preferences are decided not on representation but on an externally imposed policy regime. State behavior is not dependent on the configuration of interdependent state behavior but on what is provided by the existing regime. The nature of this scenario is glaringly distinct when one compares the choices available under the free trade regime for the developed countries and developing countries. E.g. Issue linkage by EU countries over the agricultural policy (discussed further down). Therefore, this kind of tendency shows that the developed countries of the world constitute the center and the developing countries constitute the periphery. The development of the periphery is dependent on the center and the center exploits the periphery under the name of development. So, development and under-development are two sides of the same coin, one responsible to the other. The process that creates this dual outcome is prevailing in the international economic system where 'free trade' is holding a major stake. This regime has created a host of economic and social norms to justify as well as underpin its economic system. As mentioned above, public goods of the developing world are not shaped by the compatibility of national preferences. Incentives have been introduced to make rules and norms to ensure trans-border economic transactions, which are always happening inwards (in one direction) due to the factor availability. The domestic institutions are created not to transform the demands of the social interest groups into state policy, but to channel the international regime norms into the society. This is the picture that can be obtained through defining the situation by means of the liberal theory of international relations.

The Developing world has nothing to do when it comes to social or economic policy making under the current conditions. Taking a stand on public good that will serve its people gain in international dealings or serving the common good of humanity have become ideals that are beyond the comprehension of these countries. As a result they have become mere spectators in international relations and suppliers and renters of land and labor for Foreign Direct Investments. Following are the conditions that show the

perpetual disparity between these two development blocs as a result of the manifestation of the present day free trade regime.

1. Gross National Product (GNP) as a flawed measure of human well-being:

The GNP is poor measure of human welfare and a poor guide for prudent economic development and environmental management.

2 Importance of relative incomes:

The unwarranted side effects of growth, increases income disparity between the Global North and South. Gains from growth accrue more to the North than to the South. Hence, relative income is more influential than absolute income.

3. Deferential utility of needs and wants.

Utility gain from increase of income is much less in the North than in the South, because the North has already reached a high utility level. On the other hand, the South is using those incomes for basic human needs with high marginal utilities. Therefore, it is better to reduce consumerism in the North and transfer those resources to the South for poverty alleviation.

4. Misplaced technological optimism:

It is extremely difficult to catch up with development in technological gains achieved by the North despite any technological improvements, even over the next forty years.

5. Subsidized resource prizing:

Under valuation of raw material from the South to the North means the South is subsidizing the North through both government subsidies and cost due to environmental externalizes.

6. Inequitable trading systems.

The trading system always favors the North at the expense of the South. Northern growth is based on subsidies they gain on resource exports from the South. Individual countries must take the world prices as given. Demand for the southern exports has low elasticity of demand in world markets. So the prices fall when all countries attempt to reach their production targets. This results in declining export revenue, adversely affecting imports of these poor countries.

7. Dysfunction of imbalance in trade:

Free trade has been over estimated and it has undermined getting a genuine prize for goods. In such a context tariffs imposed to internalize cost should not be labeled as protectionism. In fact environmental costs, which are not added to the cost, should be considered as a subsidy similar to dumping. But WTO never addresses its mind to these aspects.

8.The insecurity of inequality:

Increasing northern incomes at the cost of southern sustainability will lead to global insecurity. It will result in increase in environmental refugees fleeing human made disasters, poisoned water, air, oil, and soil, soil erosion and desertification⁶.

Therefore under these circumstances no sensible mind can perceive the modern concept of free trade as a uniform development strategy that can be implemented in equal playing field conditions. The vast disparities manifested by the rules, principles and norms under the GATT/WTO free trade regime between developed and the developing worlds prove very clearly that for the developing world this regime does not constitute a public good. Even conceptually it is shown that the concept of international free trade is not much more than an eclectic enumeration of the many factors that determine comparative advantage and trade flows. Therefore, the concept provides an opportunity to the powerful trading countries to manipulate it according to their own advantages.

3.5 Conventional Free Trade Theory as an eclectic enumeration:

Since its development in the early 1930s by Eli Hecksher and Bertil Ohlin (H-O model), the factor endowments or factor proportions model has been accepted as the standard explanation of international trade.

This theory is based on the assumption of consistent returns to scale, universal availability of production technologies, and determination of a country's comparative advantage and trade pattern by its factor endowments⁷.

⁶ Robert Goodland and Herman E. Daly and Salah El Serarfy (eds) 1992, Published in from Population and lifestyle in Ten Reasons why Northern economic growth is not a solution to Southern poverty, "A survey of Ecological economics", The global Development and Environment Institute, Tufts University, Island Press

⁷ Gilpin 2001.pp206

The challenge now faced by this H-O model is that its inability to incorporate newly recognized factors such as human capital (skilled labor), learning by doing, technological innovation and economies of scale. Also its inability to explain modern day trade and economic approaches such as the rise of Intra-industry Trade, integration of International Trade and Foreign Investment, Competitive advantage, strategic trade and industrial policies has made the free trade concept more vulnerable as a theory. All these have led to the belief that the theory of international trade is not much more than an eclectic enumeration of the many factors that determine comparative advantage and trade flows. Findings of the Leontief Paradox⁸, which directly contradicted the Stolper-Samuelson theorem initially, opened the way to see this contradiction.

4.0 The Corroboration:

4.1 The formation and implementation of WTO Regime:

A discussion about the social and economic implications of the GATT/WTO regime has to be started with the nature of its formation and implementation of the regime. The comparison of the rules of the old GATT with those of WTO reveals much about the intentions of the people who created the system. The new rules show that they clearly favor the largest, most developed, and most powerful nations.

The WTO has 132 members with another 31 in the process of accession. Of the 132 members, 98 are developing countries, including 27 nations categorized as the least developed countries (LDCs). Although developing countries make up three-fourths of WTO membership and by their vote can in theory influence the agenda and outcome of trade negotiations, they have never used this or cannot use this to their advantage. Most developing country economies are in one way or another dependent on the big trading powers. For an example, the LDCs represent 20% of the world population, but they generate a mere 0.03% of the trade flows.

Therefore, they are heavily dependent on the developed trading economies for their day-to-day survival. Any obstruction to a consensus at the WTO might threaten the overall well-being and security of dissenting developing countries.

It is interesting to understand how this kind of background converges with the WTO negotiation mechanism. The negotiation mechanism affects developing countries in

various forms. Firstly, unlike the old rules of GATT, the WTO requires that all members should agree to be bound by all the Uruguay Round accords. In contrast the old GATT rules did not require this all or nothing standard. From a trade perspective, although this rule seems a good idea because it eliminates free rider-countries, those who do not accept certain provisions cannot benefit due to compliance by other countries. From the point of view of disparity among the membership on various grounds, the rule forces many countries, usually small ones, to accept trade in areas that might be undesirable to them.

Secondly, in negotiations of trade rounds, the negotiations are based on the principle of reciprocity or trade-off's. That is, one country gives a concession in an area such as lowering tariffs for a certain product, in return for another country acceding to a certain agreement. This type of bartering or distributive bargaining benefits the large and diversified economies because they can get more by giving more. For the most part, negotiations and trade-offs take place among the developed countries and some richer or larger developing countries.

Thirdly, developing countries have fewer human and technical resources. Many cannot cope with the 40-50 meetings held in Geneva each week. Hence they often enter negotiations less prepared than their counterparts from developed countries.

4.2 The implementation of the WTO regime:

The implementation of the WTO regime is based on interpretation and enforcement of normative principles of the WTO. The enforcement is done through the Dispute Settlement Body (DSB). The normative principles are enshrined in the GATT Article I, II, and XI. The exceptions to these principles are mentioned in the Article XX, XXI, The Agreement on the Application of Sanitary and Phytosanitary Measures (SPS) and The Agreement on Technical Barriers to the Trade (TBT).

The GATT Article II describes the rationale behind Article I, III. It states: The Most Favored Nation (MFN) status enshrined in Article I and the National Treatment Principle enshrined in the Article III are non-discriminatory mandates that are essential for the full implementation of the schedules of concessions-lowered tariffs. These are considered binding obligations of all contracting parties.

The actual rationale behind these three articles is that of removing the domestic decision making power in respect of trade issues from the domestic jurisdictions of countries. It is interesting to mention at this juncture that these non-discriminative provisions are designed to ensure equality of treatment of like products originating or destined for the territories of all other contracting parties. Nevertheless, two thirds of these contracting parties consist of developing or least developed countries whose products, although subject to equal competition, are produced under adverse conditions. Nevertheless, they are considered as like products with those of their developed world counterparts. This kind of discriminatory situation is much aggravated when developed nations deploy strategic trade policies as well as regionalism to maximize their gains from international trade.

These in-built disparities as well as policy outcome-wise disparities are always overlooked when it comes to the implementation of the MFN norms. For example, on market access, GATT/WTO rules ask the developing countries to meet the same standards as the industrialized countries. This reciprocity was a prominent feature in tariff negotiations and the elimination of quantitative restrictions to defend the balance of payments.⁹ When the developing and transitional economic countries agreed at the Uruguay round to reduce their tariffs by 8% on 29% of their imports, industrial and other high income countries agreed to reduce their tariffs by an average 3.2% on 30% of their imports, for an average reduction of 1% across all tariff lines.

All these examples amply provide a good picture about the disadvantageous situation faced by the developing countries under the name of free trade.

4.3 The Enforcement: the Dispute Settlement Body under WTO:

One of the most dramatic changes made to the global trading system by the Uruguay round negotiations of the GATT was the establishment of a new free standing world commerce agency, the WTO, with a powerful, binding dispute resolution system under the Dispute Settlement Understanding (DSU). The automatically binding nature of DSB (or DSU – Ed) rulings, unless there is unanimous consensus by all WTO members to reject the new interpretation, has paved the way for stringent implementation of the WTO regime. It replaced the consensus based GATT dispute resolution system. This kind of rigidity combined with strict interpretation rules and restrictions on panel and appellate

boards to use their discretion, has undermined the opportunity of a need-based progressive development of a free trade regime. The rationale behind this rigidity is to establish an equal playing field for free trading. However, in doing so it has not only shown its inability but also its scant respect to deal with other areas that are affected by free trade such as health, safety of environment, social priorities and human rights. As mentioned above, the intention of the WTO regime was clear and is enunciated in the Shrimp case when WTO judges wrote, “In our opinion, members are free to set their own environmental objectives. However, they are bound to implement these objectives in such a way that is consistent with their WTO objectives”. So this ruling confirms the observations made above on equal playing fields.

4.4 Mechanism that ensures this tendency:

The formulators of the new WTO regime have taken every possible step to ensure that the outcome of DSU would be a pro-free trade decision.

The application of pro-trade substantive rules as well as the “trade uber alles” perspective together ensures this objective.

According to Article 3.2 recommendations and rulings of the DSB (or DSU? –Ed), cannot add to or diminish the rights and obligations provided in covered agreements⁹. Article 7 specifies that the terms of references for a panel shall be “to examine in the light of the relevant provisions in the covered agreements cited by the parties to the dispute.” Also Article 6.2 of the DSU requires that request for the consideration of covered agreements should simultaneously identify the legal basis for the request. The legal basis would be specific provisions of a particular agreement. The other mechanism that ensures this rigidity is the burden of proof standards that are applied by the WTO panel and Appellate body. This requires a complaining member to raise only a presumption. The defending member then faces a higher burden in order to eliminate the likelihood of an erroneous judgment.

The application of precedent rulings also expects a high burden of proof from the party who seeks to oppose a previous ruling. Although the previous rulings have no binding

⁹ last sentence of the article 3.2

power over the panels and appellate body decisions, the burden of proving the non-relevancy of previous ruling is shifted to the party who seeks contrary interpretation. The outcome of all this rigidity is the construction of an easy case for the complainant. Evidence shows that most of cases lodged before DSB (? Ed) are ruled in favor of the complainants. This tendency has been further entrenched in DSB (? Ed) by inducing the members to take a pro-trade attitude, whatever the circumstances of the case. The WTO text lists qualifications for dispute settlement among members that ensure they will represent only a “trade uber alles” perspective. This is achieved by selecting members primarily from trade related areas including members from country trade delegations or experienced lawyers who participated past trade disputes.

Thus countries that can afford to launch WTO challenges generally win and the trend towards plaintiffs winning has resulted in mere threats of challenges causing targeted countries to change their laws. To date, WTO tribunals almost always sided with a challenging country and ruled against the targeted country. A preliminary analysis of the WTO Dispute Panel results as at May 2000 found that in only four out of 33 completed WTO cases did the respondents get the decision in their favor.

Nevertheless, the interesting feature of the DSU is that with all this stringent implementation mechanism, the contracting parties who are powerful enough to deal with the pressure exerted by the WTO still tend to disobey the DSB (? – Ed) rulings. To understand how this is happening, it is imperative to understand how the DSU implementation mechanism works. The DSU promotes the binding nature of its rulings through various means:

1. Issue Linkages
2. Reputation
3. Normative pressure

Nevertheless, the seriousness of the applicability has been never been an issue for big trading powers. Only developing nations have taken the WTO regime seriously because of it's various arm-twisting and pressurizing tactics. For the developed world this reputation or normative pressure is always a taken for granted proposition. The best example provided on this behavior is by the Common Agricultural Policy of the European Union. 50 out of 57 complaints against the European Union were dealt with

as agricultural issues. Interestingly in most of the instances, the EU has defied the orders of the DSU by non-compliance¹⁰. Instead they induced the WTO to resolve these agricultural trade issues through issue linkages where no other developing country can afford to do so. The gravity of this manipulation has to be ascertained from the amount the EU spends on agricultural subsidies. Farmers of the EU countries still get \$280 billion annually as subsidies but this has never been an issue at WTO. This example alone shows that the implementation strategies of DSU have never worked with the powerful trading countries. Nevertheless, these mechanisms are used very much to tame the developing nations in order to propagate so called 'free trade'. This asymmetrical power relationship as well as its unfavorable outcome has been prominent even under the DSU dispute disposal system. By its very nature it has been formulated only for the big trading partners. As mentioned earlier, the jurisprudence of the WTO DSU has created a favorable disposition in favor of the complainant. Considering the amount of financial resources as well as expertise required to maintain a complaint, together with built in biases in favor of the party who makes the complaint, it works directly in favor of the big trading powers and a small number of developing countries that have such resources and expertise. The following two charts support this observation.

.Chart-I¹¹

Countries who made complaints: between 1997-2001⁶

Year	EU	US	O.I.C.	Total % of EC + US + O.I.Cs	LA	Asian	Africa	Eastern Euro.	Total cases
1997	16	16	8	88.8	5	-	-	-	45
1998	15	9	8	77.9	3	4		2	
1999	7	9	7	74	4	2		1	31
2000	4	12	3	63	8	3		1	30
2001	1	1	4	22.9	17	4		2	26

¹⁰ Christina Davis (2001) Clashing Institutions: The WTO and EU Agricultural Trade Policy, Department of Government, Harvard University
<http://pro.harvard.edu/papers/017/017006DavisChris.pdf>

¹¹ Source: made out from the data of the Dispute Chronologically: http://www.wto.org/english/tratop_/dispu_status_e.html

O.I.C. - Other Industrialized countries (. Canada, Japan, S. Korea, New Zealand, Australia, Switzerland)

The percentages of the complaints made by all major trading blocks each year roughly amount to 60-90 per cent. Only year 2001 shows a decrease in complaints made by the big trading powers. Perhaps this may be due to attainments of their trading goals. The truth of this thesis will have to be ascertained in coming years. Anyhow, out of these complaints the US and EU always represent more than 10 percent every year. The most striking feature is the lack of complaints by the Countries from the Africa. The only case filed from the African continent is a complaint made by South Africa in 1999. The developing countries that have come forward to complain against violations are mainly from Latin America. Even out of these countries the bulk of the complaints were made by Brazil and Argentina.

In 1998 out of 3 cases filed by Latin American Countries, Argentina filed one case and Brazil 2 cases. In 1999 out 4 cases, Mexico filed one case and other countries filed rest. In 2000 out of 8 cases Argentina and Brazil had filed 2 cases each. In the year 2001 out of 17 cases Argentina has filed one-case and Brazil 8 cases. (Please check your statistics – Ed).

The statistics show that the US has brought more complaints than any other country in the last six years, and were also co-claimants in 15 of the 33 cases. Interestingly, the US lost only two of three unusual cases where the plaintiff lost on the merits of the Kodak case and EU computer case. In aggregate the statistics support the notions described above.

Chart-II¹²

Complaints made against at DSB in 1997to 2001

Year	EC	US	O.I.C.	Total% EC+US+O.I.C	L.Amer.Coun.	Asian Coun.	African Coun.	East.Eur. Coun.	Total cases
1997	9	9	10	62.2	7	10			45
1998	14	7	8	70.5%	6	4		2	41
1999	4	11	4	59%	9	1	1	1	31
2000	3	9		39%	13	4		1	30
2001	5	8		49.9		11		2	26
Total Compl.	35	44	22		35	30	1	6	173

EC. - Countries of European Community (all single complaints also categorized under this.

O.I.C. -Other Industrialized countries (. Canada, Japan, S. Korea, New Zealand, Australia, Switzerland)

4. 5 The social impact of the GATT/WTO regime:

The powerful trading nations often used the DSU complaint procedure as an arm-twisting strategy to win their demands. On the other hand, the pro-trade rules and stringent procedure that is created in favor of the complainant has constantly undermined the legitimate concerns of domestic societies. The developing countries are not in a position either to afford to bring cases or to meet the costs of a defense.

The Thai Cigarette case^{12a} supplies a very good example to this kind of behavior. Under the 1966 Tobacco Act, Thailand prohibited the importation of cigarettes and other tobacco preparations, but authorized the sale of domestic cigarettes; moreover,

¹² Source: made out from the data of the Dispute
Chronologically: http://www.wto.org/english/tratop_/dispu_status_e.html

^{12a} ¹² A case brought by the US against Thailand under GATT. The panel report was adopted in 7th November 1990

http://www.wto.org/english/tratop_e/envir_e/edis03_e.htm

cigarettes were subject to an excise tax, a business tax and a municipal tax. The US complained that the import restrictions were inconsistent with GATT Article XI: 2. The panel found that the ban was inconsistent with Article XI: 1

In the same manner Guatemala was intimidated into changing an infant health law, designed to restrict misleading labels and promote breastfeeding over artificial milk substitutes, after the US government threatened to bring a complaint on behalf of Gerber, Inc¹³.

Also, the US had threatened to take South Korea to the WTO in 1995, saying it had too stringent regulations on fruit inspections and too short a shelf life for meat products. Rather than spend money to fight the challenge, South Korea capitulated, reducing inspection time from twenty-five days and upping the shelf life for meat products from thirty to ninety days¹⁴.

All these issues are proof of the fact that implementation of the GATT/WTO regime is not concerned about domestic aspirations but only the unimpeded implementation of the free trade regime. On the other hand, with all sorts of built in asymmetrical resource relationships in trade and procedural advantages for the complainant, the lesser affluent nations are placed at the receiving end under the GATT/ WTO regime. So, in short the state of affairs in the free trade regime is meant only to benefit the big economies and their corporate interests and not the interests of the developing countries.

Nevertheless the most striking feature in this scenario is that these developing countries are not only dis-empowered by the free trade regime but also ensured of being marginalized forever. The crisis of democracy and public goods at the domestic level as a result of the state's inability to look after the aspirations of the interest groups has become a major problem in this type of scenario.

5.0 Conflict creation:

5.1 The stagnation:

¹³ *ibid.*

¹⁴ *ibid*

The uniform implementation of the WTO regime across the world is not a practical proposition. Instead such an approach will bring many societies into stagnation, anarchy and conflict. Hitherto, we discussed all the negative impacts of free trade over developing societies. The diverse nature of the world in relation to 'growth', development, and factors of production will not allow market forces to behave in a uniform manner. Instead the impacts of trade liberalization will affect different societies in different ways. When it comes to the developing world, trade liberalization will have a negative impact over the progressive development of society. Therefore, the market approach will not be an appropriate development model for the developing world. Because from the first instance, in such societies there is a dearth of informed, rational, risk averse organized consumers to optimize the market forces. Therefore, trade liberalization will not have a positive environment to flourish. This happens due to widespread poverty. On the other hand trade liberalization in such societies will not help to overcome this backwardness and push the societies towards the goal of ultimate prosperity. This is because the prevailing production factor situation will not allow these people to improve their reach to information and technology in order to empower themselves and maximize their benefits from the liberalized market economy. In such a situation the creation of so-called equal playing field concept under the free trade regime will have no positive impact on their well being. The most serious aspect in this development model is its complete moratorium over even thinking of alternative strategies to overcome from their current plight.

For example, the regime under most favored nation (MFN) concept does not allow any discrimination over imported products and local production by way of tariffs. Thereby, the regime precludes any attempt by local producers to protect them from foreign goods produced in the developed world. Thereby, it is able to completely shut out self-determination of the local polity. This leads to a natural death of local production, giving them no alternative option to that. Against this background no developing country can even imagine of competing with the products of powerful trading nations. As a result the developing countries have become mere trading economies that are totally dependent on foreign imports. This tendency helps to perpetuate the historical disparity between countries of the Global North and the developing countries in the Global South. On the one hand this represents a suppression of the self-determination of local aspirations. On the other, the local production economy under the name of export-oriented production is

gradually subjugated into a total trading economy. This trading economy, almost totally based on imports, creates multifaceted social and economic problems.

The first outcome of this tendency is the formation of a vicious circle of dependency on foreign debt. Low level of exports and high level of imports creates a deficit in balance payment in foreign trade. This deficit in the balance of payment account is a common outcome in most of the developing world. The deficit in balance of payment creates a vicious circle based on depreciation of currency, and inflation. The popular theory that depreciation of currency helps to increase gains in exports will not do much in this kind of situation, because the exports of most of these countries represent a very small percentage of its GDP. (Vide the LCD. Generated trading percentages). Also, a larger percentage of essential items of day-to-day life are also imported by these countries. Therefore, depreciation of currency will have the impact of increasing of the cost of living. Inflation, which is the immediate effect of the local currency depreciation, will suppress the level of savings and will have an adverse impact on investment. This creates a situation of continuous dependency on foreign debt. The cumulative outcome will be economic as well as social stagnation. Apart from this the inability of the state to protect indigenous social demands will cause major distortions in the political cohesion of a country.

5.2 Vertical disintegration:

As discussed above, stagnation is not the only negative consequence of a free trade regime. Its effect on social factors also makes it unsuitable in domestic societies. Nevertheless the difference between economic factors and social factors in this kind of context is that social factors adversely affect the popularity of rulers right across the society compared to the economic factors. In respect of economics factors, in the main, it creates friction only between certain groups of factor owners and the rulers. Although the domestic governments are not responsible for these negative social outcomes, the common masses tend to construe those impacts as failures of their governors. To understand this process it is pertinent to mention social factors that trigger instability. The suppression of the social factors under the free trade regime can be manifested in several ways at the level of domestic society. These include:

1.Restriction of democratic rights and natural aspirations of the citizens of the countries, by not heeding their demands to restrict imports to defend livelihoods and prevent impoverishment of people in certain circumstances.

2.Restriction of the rights of people that regulate trade and commerce to defend natural resources and prevent ecological destruction.

3.Decisions and tendencies that undermine the food sovereignty, water sovereignty, and sovereignty of Bio-diversity, the reclaiming of water and Biodiversity as a common good and food as basic need.

4.Rules, principles and norms that take away the domestic government's right to regulate investment in ecological matters and social justice.

5.Removal of the policies related to public good and welfare from governance under the guise of the minimal state.

5.3 The application of the Wolfgang Stopler and Paul Samuelson theorem into the developing world's socio-economic conditions:

The international economic forces such as the free trade regime can exert a profound effect on domestic politics of the developing world. This effect starts from creating class or group cleavages between different classes or groups. To understand the negative impacts of the free trade regime on groups or classes we have to rely on the Stopler-Samuelson theorem.

Wolfgang Stopler and Paul Samuelson in their theory explain how gains or losses from protection or free trade in a particular situation create cleavages. The theorem showed that, liberalization of trade harms owners of society in which, that society is poorly endowed, as well as producers who use that scarcity factor intensively. Conversely liberalization of trade benefits those factors that the given society holds in abundance. This means in a society rich in labor but poor in capital, liberalization of trade benefits labor and harms capital.

How does this theorem apply to the developing world? It affects the societies in the developing world politically in two different ways. Firstly, trade liberalization doesn't allow

these societies to emancipate themselves from the existing stagnation. Because trade liberalization harms capital-intensive production, that is the only available option to overcome stagnation, it is common knowledge that to gain from liberalized trading, countries need to invest in capital production. Nevertheless, for the developing world this is not possible. Therefore, this tendency further helps to accumulate and perpetuate the economic stagnation of the developing world.

Secondly, since most of the developing countries are considered as backward economies, they are either abundant in land and labor and in general scarce in capital. When the Stolper-Samuelson theorem is applied to these conditions of the societies, it implies that increasing exposure to trade must result an urban- rural cleavage in the societies where land is abundant and class cleavage in labor abundant societies¹⁵.

In such a situation when stagnation combines with vertical disintegration it works as a potential trigger for unrest and conflict.

5.4 Relative deprivation, security syndrome and collective action:

As we discussed above, the potential for either class cleavage or urban-rural cleavage combined with stagnation and vertical disintegration due to trade liberalization will create disequilibrium in the society. The vertical disintegration due to the impact of the free trade regime on social factors will finally create frustration among dominant social groups, as well as, ordinary citizens with regard to the state. This frustration of the people in combination with other factors may transform into anger and thereby into conflict. This occurs when structural violence causes relative deprivation¹⁶. Ted Gurr in his exposition on “why men rebel”¹⁷ explains how frustration brews into an aggression. It is thus summarized by the editor: (1) collective political violence is a form of aggression; (2) aggression results from anger, (the vertical disintegration) which is produced by frustration (in this case, as a result of stagnation and tension between different classes); (3) the fundamental cause of feeling frustration is an imbalance between what one gets

¹⁵ Figure 1. Four main types of factor endowments, Figure 2. Predicted effects of expanding exposure to trade." Commerce and Coalitions: How Trade affects Domestic political Alignments. Ronald Rogawasky in Friden A. Jeffrey & Lake David A. (200)(edits)"International political Economy. Thomson. Wadsworth

¹⁶ pp304. Burgess Heidi. Burgess Guy M. (1997) Encyclopedia of Conflict Resolution. ABC-CLIO

¹⁷ Eckstein, Harry. Theoretical Approaches of explaining collective political violence in Gurr Ted Robert (edt)(1980). "Handbook of Political Conflict Theory and Research". The Free Press. A Division of Macmillan Publishing Co., Inc. New York.

and what one considers one's due. In Gurr's language, "discrepancy between men's value expectations and their value capabilities." However, frustration is a dormant disposition until aroused by special extrinsic forces strong enough to overcome the tendency towards passive acquiescence, which is the normal disposition of the human being. Aggression is not yet rebellion. To become a conflict it must be politicized if it is to appear as collective violence. For politicizing this needs: (1) "normative justifications" for political violence. (2) "Utilitarian justifications", which are chiefly tactical considerations (3) Coercion balance between the existing regime and the dissidents (4) environmental conditions that facilitate the strife. If this framework is applied to the above thesis, it becomes quite clear how the economic and social impact of the free trade regime generates social unrest and finally political conflicts. Nevertheless, this part of conflict transformation is happening entirely within the parameters of local conditions.

Security Syndrome:

In multicultural societies the impact of trade liberalization will construe as discrimination by the ethnically partial state against another ethnic group. Thereby such an ethnic group will perceive a security syndrome¹⁹ against the other group of the society and ultimately lead into a conflict. This kind of behavior implicitly suggests that where institutions of central authority (based on plurality) do not exist or where the institutions of central authority gives preferential treatment to one group, or where societal anarchy prevails, groups tend to seek security above all other goals. Their quest for security leads them to take measures that render other groups insecure, and those groups in turn take measures that threaten others. Thus a vicious cycle of escalating threats takes hold in the absence of a central authority or impartial central authority that could reduce those threats. When the nation state loses its self-determination over macro-economic management due to trade liberalization, the economically suppressed people will tend to see the state as inactive, non-effective or even non-existent or providing preferential treatment to one ethnic group. This is another facet of vertical disintegration that was discussed above. As usual this tendency starts with relative deprivation but with a communal color and extends up to the conflict as mentioned above.

¹⁹ Crawford Beverly. "The causes of cultural conflict: an institutional approach" - in Crawford Beverly & Lipschurtz Ronnie D (Edts)(1998) University of California at Berkeley.pp13

Collective Action:

In the international relations establishment of the world, the dominant trading nations act as a club through the WTO regime and their advantageous position over technology, information as well as capital will give them the upper hand in trade competition. This advantageous situation will be further entrenched when as a single country or as organized regions they employ strategic trade and industrial policies. This kind of upper hand position will further hinder the opportunity of the others within the club, as well as those outside it, to gain even relative advantages in international trade. This phenomenon in international relations will especially lead the emerging trading nations into competition in order to gain their due position in world trading. The competition that is generated may lead into a conflict when some of the members decide to intensify their nature of competition after cost benefit analysis in a given situation.

This tendency can explain very succinctly the theory of collective action. In explaining this theory Charles Tilly¹⁸ begins his disposition on collective action with the simple conception of polity. Polity has members, who have formal access to the political decision making process, and challengers, who do not. All are contenders for power-with members, of course, enjoying privileges. Members use their resources in a game of continuous jockeying to enhance their power; challengers try, as a condition above all else, to get into the game. To be allowed to play, there are entrance fees. The higher the fees, the greater the pressure needed to become members; and at some point of cost efficiency, violence occurs among contenders. This is exactly what is happening at the moment but in a very low profile. Nevertheless, chances of expanding this competition in the near future keep increasing because markets to sell their products keep shrinking day by day. When the American, European and Asian markets are saturated, the only remaining market will be Africa. So old as well as new members of powerful trading club will compete with each other to gain a substantial portion of market in this continent. Sometimes this competition will extend to inter country war.

5.5 Concluding remarks:

Ironically, the potentialities discussed under the collective action theory draw parallels with some of the Marxist-Leninist theories. Lenin explaining colonial imperialism argued that capitalism had escaped its three laws of motion through overseas imperialism.

¹⁸ ibid pp147

Thereby Lenin added a fourth law to the original three Marxist laws of capitalism. That is, as capitalist economies mature, as capital accumulates, and as profit rates fall, the capitalist economies are compelled to seize colonies and create dependencies to serve as markets, investment outlets, and a source of food and raw materials²⁰. Taking into account what is now happening in the international political economic arena we are faced with several questions when we analyze what is happening today with what Lenin propounded under imperial capitalism. That is, will the world's big trading powers rely on aggressive overseas market expansionism to escape from the fall in the rate of profits? Will those aggressive expansionist strategies transform into the nature of conflict? Therefore, the question that looms is whether present day international political economic situation will take us to that type of situation or not. Are the present day theories enough to comprehend these scenarios or, will the "discarded theories" of Marxism once again be help us to comprehend the intricacies of future international political economies?

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