

The Principle of Trade Liberalization and Its Realization

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Abstract

AS one of five trade principles in WTO, trade liberalization, like rules of WTO, is binding on all members states. In the gradual process of freer trade, it's necessary for member states to abide by agreements, make tariff concessions, and remove trade barriers within the framework of WTO. This paper aims to explain the general theory of the WTO liberalization principle and propose solutions to the factors that hinder the realization of trade liberalization at the domestic and international level.

Keywords

Principle of trade liberalization; tariff concessions; non-tariff trade barriers.

1. Overview of the Principle of Trade Liberalization

1.1. General Theory of the Principle of Trade Liberalization

When it comes to WTO, we will refer to the predecessor, General Agreement on Tariffs and Trade (hereinafter referred to as GATT). The principles and rules of WTO were originated from GATT or affected by the GATT. Trade liberalization, at present, is not just a reflection of economic globalization, but also a booster of economic globalization.

From the perspective of international economy and trade, trade can often meet the needs of both countries, benefit all parties, spur the professional production of each country in accordance with their comparative advantages and promote the exchange of characteristic industries. Thus, the theory of free trade was established. Subsequently, David Ricardo, Bertil Gotthard Ohlin, and other economists and scholars continued to improve and perfect the theory of free trade. The developed theory provides a theoretical basis for trade liberalization.

From the process of trade liberalization, trade liberalization refers to the measures taken by certain capitalist countries after World War II to relax and cancel quantities or quotas, and reduce or eliminate tariff barriers to promote freer trade. These measures are mainly shown in the reduction of tariffs on industrial products, which are commodities with comparative advantages of capitalist countries, and the liberalization of imports and tariffs. What's more, from the perspective of legislation and policy, trade liberalization means government, in external trade, government gradually reduces its administrative intervention and relaxes its trade restrictions regarding to the international flow of commodities, services, trade-related investment, and intellectual property rights and so on to obtain the rational allocation of resources and the best economic benefits through domestic legislation, bilateral or multilateral agreements. It implies that governments, in the trend of globalization of world economy and trade, promote the free flow of trade between countries to optimize the allocation of resources, through negotiations between states, international or regional agreements, internal legislation.

Like other principles and rules of WTO, trade liberalization is binding on various kinds of trade among all member countries. It not just in the process of realization of the objectives of WTO, which are expanding of the production and trade of in goods and services, reduction of tariffs and other trade barriers through mutually beneficial arrangements, and elimination of discriminatory treatment in international trade, but in the way of development of trade and

establishment of multilateral trading system plays an significant role. The principle of trade liberalization means that member states weaken tariff barriers, restrict non-tariff barriers, eliminate discrimination and trade protectionism among member countries to improve the market access level and realize rational allocation of global resources by means of reduction in tariffs except the quantity restriction. The agreements of WTO refer to the requirements for member states to realize trade liberalization step by step in stages. Thus, the systems closely related to the realization of trade liberalization include tariff concessions and quantitative restrictions.

1.2. The Concrete Embodiment of the Principle of Trade Liberalization

The principle of trade liberalization embodied in the field of trade in goods at first and then extended to the fields of trade in services and intellectual property rights.[1]In accordance with WTO regulations, member states are required to make tariff concessions so as to achieve complete freedom in the trading system and realize the increasingly integration and unification of the world market. Tariff concession is an important issue in previous rounds of negotiations, although countries are allowed to determine the time, degree, and scale of opening up based on the development of their own economy. In general, the trend of trade liberalization is mainly reflected in the following aspects. First, the principle of trade liberalization, as one of the basic principles among WTO principles, has been gradually expanded under the impetus of the international multilateral trading system and the cooperation of other principles. Second, member states have promoted the liberalization of trade and services by making market access commitments according to their own conditions upon their accessions to WTO. Third, trade protectionism and trade barriers have lowered, and the trend of trade liberalization and internationalization have gradually strengthened.last but not least, the principles of trade liberalization provide a basis for developing countries to participate in the liberalization of trade in services and promote fair trade to a certain extent.

2. Obstacles to the Realization of the Principles of Trade Liberalization

The realization of free trade, on the one hand, is to reduce tariffs through negotiations, on the other hand, to restrict trade barriers.[2] In terms of tariff concession, high tariffs or no tariff concession are usually imposed on advantageous foreign industries to protect domestic enterprises or industries. Furthermore, in the case of tariff concession table, they are inherently unstable. The one reason lies the multilateral trade negotiations,which make countries to make frequent changes in tax rates for the same commodity concessions. The other reason is that when new commitments come, previous lower tax rates may not be withdrawn, which may also lead to the uncertainty of tariff concession and the rate ceiling and even cause trade friction in practice. In addition to this, there are also cases of evasion of tariff reduction schedules. After making the tariff reduction commitments, countries will evade the tariff concessions by subdividing the classification of the products so that they can not apply the capped tax on tariff reductions.[3]

In addition to tariff concessions, non-tariff trade barriers are the main obstacle to trade liberalization at present. Compared with tariff barriers, non-tariff trade barriers tend to be more complex, diverse, flexible, targeted, covert, and discriminatory. Moreover, they are easier to operate and restrict direct import restrictions for countries.[4]. The problems encountered by importers in the customs valuation of a product can be as serious as the actual tax rate imposed.[5]Non-tariff trade barriers can be classified into different categories, and different non-tariff trade barriers may have different characteristics and influences. Based on the combination of the UNCTAD classification and scholars' research, in terms of the ways of impact, non-tariff trade barriers can be divided into direct non-tariff barriers, like a quota, and indirect non-tariff barriers.[6] And in terms of the mechanism of action, it can be divided into price-

based type, quantity-limited type, financial instrument type, monopoly operation type and procurement type and technical specifications type.[7]

Whether non-tariff measures constitute barriers can be determined mainly by examining the purpose and strength of measures, that is, whether measures are to restrict trade or to protect national interests.[8] In contrast, it is easier to check whether a measure is beyond the limits of its legitimate purpose. But in practice, it is not easy to identify the barriers. Exceptionally, in terms of specific non-tariff barriers, technical barriers to trade, anti-dumping, countervailing and safeguards are continuously strengthened in the trade sector, except for permits and quotas. What's more, new measures aimed at restricting free trade are emerging.

At present, tariff protection measures are widely used in China, and the investigation system of foreign trade barriers is imperfect. As a major trading country, the government should not just follow the relevant principles, systems, and agreements in the WTO trade system, but establish China's non-tariff barrier system and improve the trade barrier investigation system and improve China's technical barriers to protect the legitimate interests of Chinese enterprises and maintain the legitimacy of international trade. Meanwhile, it is necessary to strengthen coordination among governments, trade associations, Chambers of commerce, research institutes and enterprises, and apply the WTO trade remedy system rightly.

Chinese companies must raise awareness of comprehending the regulations, systems, and standards of importing countries, improve the quality of products, and comply with relevant trade regulations and policies of importing countries.

3. The Realization of the Principle of Trade Liberalization

3.1. Practice at the Domestic Level

The realization of trade liberalization should remove all barriers in international trade at first, which need to be achieved through measures including laws, principles, regulations and policies of international organizations and member states. At present, the obstacles of trade liberalization mainly are trade protectionism, high tariffs and barriers of trade to prevent the entry of other countries' advantageous industries. These trade barriers include measures involving quantitative restrictions, import bans and quotas, as well as administrative procedures and exchange rate policies between countries due to political reasons or trade frictions.[9]

In most cases, unilateral trade protectionism is mainly the non-compliance measures taken by developed countries to reduce their trade deficits. Specifically, it includes raising tariffs on trade imports, instituting anti-dumping lawsuits, and abusing national security exceptions to exclude foreign products. In response to the above trade protectionist measures, enterprises should optimize the structure of export commodities and utilise the dispute settlement mechanism in good faith. For the investigation and prosecution initiated by some developed countries, enterprises should not be afraid of prosecution and had better actively seek the help and support of the government. At the same time, governments should strengthen the communication between foreign governments on trade frictions.

Exceptionally, the government should perfect the relevant enterprises' innovation policies, laws and regulations on intellectual property protection, improve the innovation ability of enterprises, and strengthen the protection of intellectual property rights of products. In the protection of patent rights, not only the protection of patent applicants' interests and strictly crack down on piracy should be paid attention to in domestic, but also actively applying for patents abroad to reduce or avoid international intellectual property disputes.[10] Huawei Sun, Zhongdong Wu: Sino-US Trade Frictions and Countermeasures Based on Game Theory, Journal of Shandong University of Technology(Social Sciences), vol. 35 (2019) No.3, p.17-18.

Since China joined the WTO, the tariff level of our country has been lowered continuously. China has reduced import tariffs for 1585 items since November 1 of 2018, and the total tariff rate has dropped from 9.8% to 7.5%. At the opening of the China International Import Expo, General Secretary Xi Jinping pointed out that China will further reduce tariff levels and improve the level of customs clearance.[11] Reduction of tariffs to a certain extent promotes the expansion of free trade and the increase of imports, and have an impact on national industries at the same time. But generally speaking, it is inevitable for the government to comply with the WTO principle and gradually reduce the tariff rate, and there is no doubt that the benefits greatly outweigh the losses. At first, reducing trade barriers is an inevitable requirement for China's accession to the WTO and its operation in accordance with WTO principles and international norms. Secondly, from the perspective of China's trade product structure, China's export products are mostly primary products, involving products with abundant resources and labor-intensive and other comparative advantages. Although China is also advocating the transformation from "Made in China" to "Wisdom in China", it is by no means equal to or even better than other developed countries in the short term. At present, China's exports of technical products are relatively small. Therefore, trade liberalization promotes the allocation of resources between China and other member states, stimulates the transformation and upgrading of national industries, and benefits consumers. Moreover, high level of trade barriers is often one of the means by which domestic governments conduct trade protection, and it's often accompanied by the administrative control of the internal governments, and this is not in line with WTO rules. In the long run, it will lead to the distortions in the domestic market price, and it will cut off the link with the international market and lose the competitiveness of domestic products, which is not conducive to the development of the domestic market and would restrict the innovation of domestic industries.

Meanwhile, we should be cautious about the reduction of trade barriers. China has continuously lowered tariff levels, relaxed market access, and gradually improved an open and transparent foreign-related legal system to ensure a fair and free business environment. However, developed countries are usually the dominant players in international trade, and developing countries are more vulnerable than developed countries when they benefit from international system. Therefore, as a developing country, it is necessary for China to protect its infant industries in a limited and conditional way, and make rational use of the principle of preferential treatment for developing countries in WTO and other exceptional principles. To be specific, relevant trade laws and regulations should be perfected to ensure that all industries have laws to abide by and trade transparency should be increased. Regional and bilateral trade negotiations should be strengthened to facilitate market access, trade barriers should be lowered and cooperation among countries should also be enhanced. Additionally, signing a free trade agreement can reduce the probability of trade frictions to a greater extent. This paper suggests that the government should accelerate the construction of free trade zones with key trading partners and resume the negotiation of bilateral investment agreements with developed countries such as the United States and Europe as soon as possible, so as to reduce trade frictions and bypass the difficulties of multilateral agreements in the WTO.

3.2. Practice at the International Level

At the moment, unilateralism and protectionism are becoming more and more serious, and multilateralism and the free trade system are affected by it. Attempts by some countries to block the start of the appellate body's selection process have left the appellate body at risk of paralysis by the end of 2019. Thus, WTO faces the urgency for reform. [12]

Member states of WTO should distinguish whether trade measures taken by some countries externalize and politicize domestic economic problems. By identifying the causes of trade wars, countries constantly reach the consensus of the international community and promote the perfection of WTO rules and regulations.

In view of the exceptional measures of national security, it is necessary for WTO to strengthen the discipline of notification of the imposition of import tariffs on the grounds of national security, and to carry out multilateral deliberations on the measures. At the same time, it is also necessary to provide more quick and effective relief rights for the affected members so as to ensure the balance of their rights and obligations under WTO.[13]

The threat to the realization of trade liberalization at the international level mainly comes from the marginalization caused by the shortcomings of the WTO's own rules and the weakening of its authority and the global trade wars. As far as the WTO itself is concerned, although its purpose is to ensure the smooth and free flow of trade, it is criticized for its passive implementation of agreements by developed countries, which makes it difficult for developing countries to benefit from relevant agreements. At the same time, it also points out that the WTO system, rules and even procedures are undemocratic and opaque. Rules, system, and even procedures of WTO are also criticized for its lack of democracy and transparency. In addition, the new multilateral or bilateral economic and trade arrangements outside the WTO framework have aggravated the marginalization of the WTO, especially the TTP and TTIP agreements. Exceptionally, the unilateral trade protectionism that the United States has implemented in recent years has also created new trade frictions and has caused countries to reestablish trade barriers for protection or political reasons.

Under the WTO framework, it is difficult to sign multilateral agreements. Accordingly, countries and countries in different regions have taken the lead in establishing free trade zones, signing free trade agreements, and removing market access restrictions on most service sectors to promote trade liberalization. In response to the WTO's rules, countries should actively participate in the formulation and revision of regulations, inject new ideas into WTO rules and procedures according to actual developments of trade, and invoke the internal rules of the WTO to resolve trade disputes arising under the WTO framework.

4. Conclusion

The realization of trade liberalization is a gradual process, and it requires countries to make tariff reductions gradually under the WTO framework according to the situation of the countries, eliminate trade barriers and improve the level of market access. As for the trade wars initiated by any countries and the marginalization faced by WTO, member states of WTO should adhere to the WTO rules as a guide to urge states to abide by WTO rules and invoke the WTO trade remedy mechanism to safeguard their legitimate rights. At the same time, both developed countries and developing countries, as members of the WTO, should participate in the reform process of WTO rules and procedures, so as to realize the democracy of the WTO and maintain its authority.

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