

Role of WTO in Regional Trade



GATT

The General Agreement on Tariffs and Trade (GATT) was formed in 1947 with a treaty signed by 23 countries, and signed into international law on January 1, 1948. GATT remained one of the focal features of international trade agreements until it was replaced by the creation of the World Trade Organization (WTO) on January 1, 1995. By this time, 125 nations were signatories to its agreements, which covered about 90% of global trade.

The aim behind GATT was to form rules to end or restrict the most costly and undesirable features of the pre-war protectionist period, namely quantitative trade barriers such as trade controls and quotas. The agreement also provided a system to arbitrate commercial disputes between nations, and the framework enabled a 20 number of multilateral negotiations for the reduction of tariff barriers. GATT was regarded as a significant success in the post-war years.

GATT: Objectives

The General Agreement on Tariff and Trade was a **multilateral treaty** that laid down **rules for conducting international trade**. The preamble to the GATT can be linked to its objectives.

- ☐ To raise the standard of living of the people
- ☐ To ensure full employment and a large and steadily growing volume of real income and effective demand
- ☐ To tap the use of the resources of the world fully
- ☐ To expand overall production capacity and international trade.

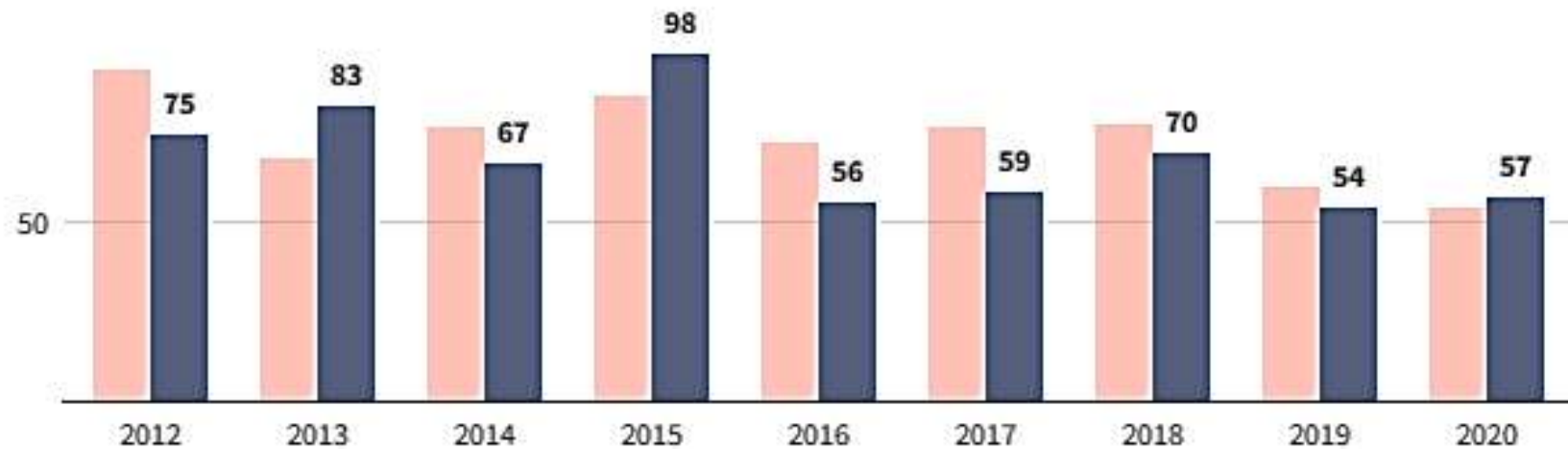
GATT Rounds

Name of the Round or Location	Dates	Value of Trade Involved <i>(roughly)</i>	No. of Countries Participating	Notable Outcomes
Geneva	1947	\$10 billion	23	45,000 tariff cuts -- average 35 percent cut
Annecy (France)	1949	n/a	13	tariff reductions
Torquay (England)	1950-51	n/a	38	tariff reductions
Geneva	1956	\$2.5 billion	26	tariff reductions
Dillon Round	1960-61	\$4.9 billion	26	tariff reductions
Kennedy Round	1962-67	\$40 billion	62	35 percent average cut on industrial goods; commitments on use of anti-dumping laws
Tokyo Round	1973-79	\$155 billion	102	34 percent average cut on industrial goods; commitments on non-tariff measures
Uruguay Round	1986-93	\$3.7 trillion	123	services trade and intellectual property included; "built-in agenda" on agriculture, WTO institution created

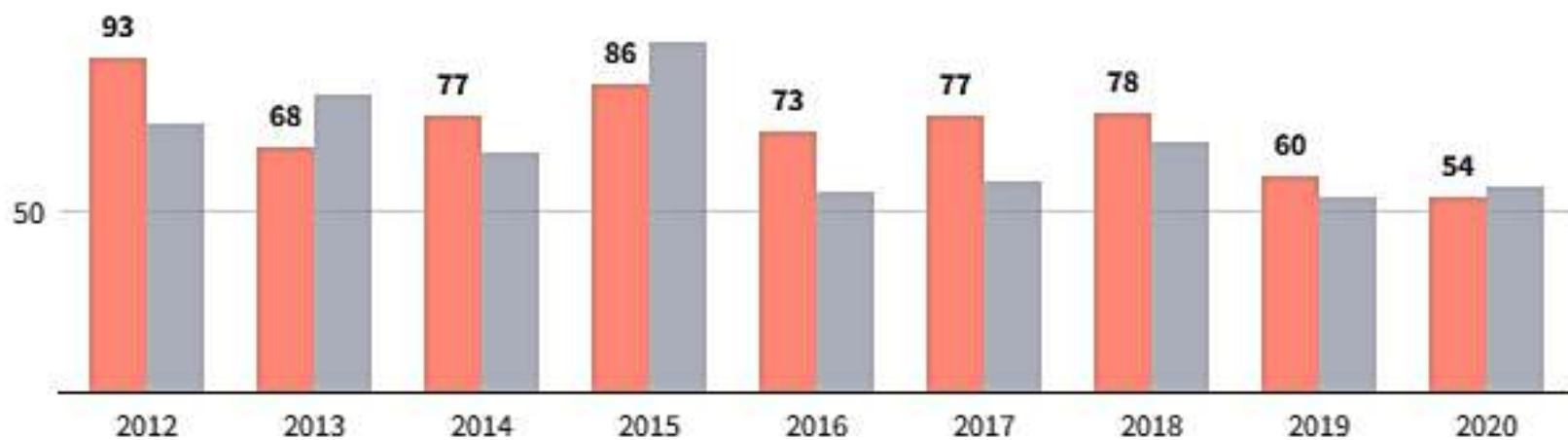


Trade Measures Introduced By Countries

Trade Restrictive Trade Facilitating



Trade Restrictive Trade Facilitating



World Trade Organization

The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations.

The WTO provides a forum for negotiating agreements aimed at reducing obstacles to international trade and ensuring a level playing field for all, thus contributing to economic growth and development.

The WTO also provides a legal and institutional framework for the implementation and monitoring of these agreements, as well as for settling disputes arising from their interpretation and application.

History of WTO

- With the end of World War II, plans were laid to create a third institution, 'The **International Trade Organisation (ITO)**', to handle the trade side of international economic cooperation, joining the two "Bretton Woods" institutions, the World Bank and the International Monetary Fund.
- The aim was to create the ITO at a UN Conference on Trade and Employment in Havana, Cuba in 1947.
- Meanwhile, 23 countries began talks to reduce and bind customs tariffs. This first round of negotiations resulted in a **package of trade rules and several tariff concessions**. These came into effect by 30 June 1948 through a "Protocol of Provisional Application". And so the new General Agreement on Tariffs and Trade was born, with 23 founding member.

History of WTO

- From 1948 to 1994, the **General Agreement on Tariffs and Trade (GATT)** provided the rules for much of world trade. However, it was a provisional agreement and **organization**.
- The **Havana conference** began soon after GATT was signed. The **ITO Charter** was finally agreed, but was never ratified due to opposition from US Congress.
- As the GATT was provisional with a limited field of action, member countries were convinced that a new effort to **reinforce and extend the multilateral system** should be attempted. That effort resulted in the **Uruguay Round, the Marrakesh Declaration, and the creation of the WTO**.

History of WTO

➤ Uruguay Rounds (1986-1994):

- The seeds of the Uruguay Round were sown in 1982 at a ministerial meeting of GATT members in Geneva.
- It is the **biggest negotiating mandate on trade ever agreed**. It extended into several new areas, such as **services and intellectual property**, and reformed trade in the sensitive sectors of **agriculture and textiles**.
- The Final Act concluding the Uruguay Round and officially establishing the WTO regime was signed **15 April 1994, during the ministerial meeting at Marrakesh, Morocco**, and hence is known as the **Marrakesh Agreement**.

- The **WTO replaced GATT** as an international organization, but the General Agreement still exists as the **WTO's umbrella treaty for trade in goods**.

Objectives of WTO

The WTO agreements are lengthy and complex because they are legal texts covering a wide range of activities. But a number of simple, fundamental principles run throughout all of these documents. These principles are the foundation of the multilateral trading system.

- A country should not discriminate between its trading partners and it should not discriminate between its own and foreign products, services or nationals.
- Lowering trade barriers is one of the most obvious ways of encouraging trade; these barriers include customs duties (or tariffs) and measure such as import bans or quotas, anti dumping duty that restrict quantities selectively.
- Foreign companies, investors and governments should be confident that trade barriers should not be raised arbitrarily. With stability and predictability, investment is encouraged, jobs are created and consumers can fully enjoy the benefits of competition — choice and lower prices.

Functions of WTO

- The WTO is run by its member governments.
- All major decisions are made by the membership as a whole, either by ministers (who usually meet at least once every two years) or by their ambassadors or delegates (who meet regularly in Geneva).
- While the WTO is driven by its member states, it could not function without its Secretariat to coordinate the activities.
- The Secretariat employs over 600 staff and its experts — lawyers, economists, statisticians and communications experts — assist WTO members on a daily basis to ensure, among other things, that negotiations progress smoothly, and that the rules of international trade are correctly applied and enforced.

Functions of WTO

1. Trade negotiations:

- The WTO agreements cover goods, services and intellectual property.
- They spell out the principles of liberalization, and the permitted exceptions.
- They include individual countries' commitments to lower customs tariffs and other trade barriers, and to keep open services markets.
- They set procedures for settling disputes.
- These agreements are not static; they are renegotiated from time to time and new agreements can be added to the package.

Functions of WTO

2. Implementation and monitoring:

- WTO agreements require governments to make their **trade policies transparent** by **notifying the WTO** about laws in force and measures adopted.
- Various **WTO councils and committees** seek to ensure that these requirements are **being followed** and that WTO agreements are **being properly implemented**.
- All WTO members must undergo **periodic scrutiny** of their **trade policies and practices**, each review containing reports by the country concerned and the WTO Secretariat.

Functions of WTO

3. Dispute settlement:

- The WTO's procedure for resolving trade quarrels under the Dispute Settlement Understanding is vital for enforcing the rules and therefore for ensuring that trade flows smoothly.
- Countries bring disputes to the WTO if they think their rights under the agreements are being infringed.
- Judgements by specially appointed independent experts are based on interpretations of the agreements and individual countries' commitments.

4. Outreach:

- The WTO maintains regular dialogue with non-governmental organizations, parliamentarians, other international organizations, the media and the general public on various aspects of the WTO and the ongoing Doha negotiations, with the aim of enhancing cooperation and increasing awareness of WTO activities.

Functions of WTO

5. Building trade capacity:

- WTO agreements contain special provision for developing countries, including longer time periods to implement agreements and commitments, measures to increase their trading opportunities, and support to help them build their trade capacity, to handle disputes and to implement technical standards.
- The WTO organizes hundreds of technical cooperation missions to developing countries annually.
- It also holds numerous courses each year in Geneva for government officials.
- Aid for Trade aims to help developing countries develop the skills and infrastructure needed to expand their trade.

Organizational Structure of WTO

- Topmost decision making body.

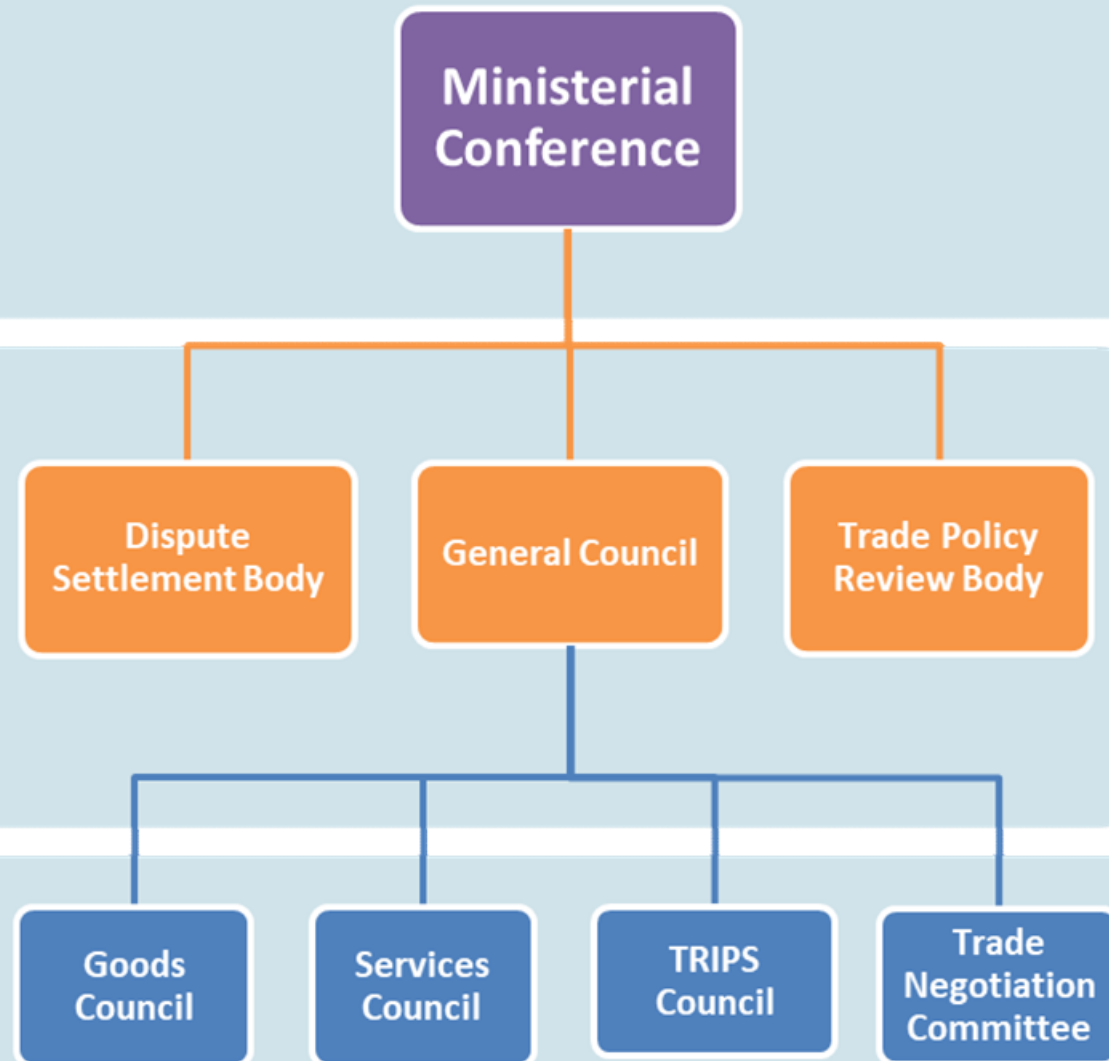
- Usually meets every 2 years .

- Consists of all WTO Members, represented by Heads/Ministers.

- Meets regularly to carry out the WTO's functions.

- Under different rules, it meets as the Dispute Settlement Body/Trade Policy Review Body .

- Consists of Representatives from all member countries, usually Governors or Ambassadors



Organizational Structure of WTO

The basic structure of the WTO includes the following bodies:

The **Ministerial Conference**, which is composed of **international trade ministers** from all member countries. This is the **governing body** of the WTO, responsible for **setting the strategic direction** of the organization and making all **final decisions on agreements** under its wings.

The **General Council** composed of **senior representatives (usually ambassador level)** of all members. It is responsible for **overseeing the day-to-day business and management** of the WTO, and is based at the **WTO headquarters in Geneva**. In practice, this is the **key decision-making arm** of the WTO for most issues. Several of the bodies described below report directly to the General Council.

The **Secretariat** and **Director General** of the WTO resides in Geneva, in the old home of GATT. The Secretariat now numbers just under 550 people, and undertakes the **administrative functions** of running all aspects of the organization.

Organizational Structure of WTO

The **Trade Policy Review Body** is also composed of all the WTO members, and oversees the Trade Policy Review Mechanism, a product of the Uruguay Round. It periodically **reviews the trade policies and practices** of all member states.

The **Dispute Settlement Body** is also composed of all the WTO members. It oversees the **implementation and effectiveness of the dispute resolution process** for all WTO agreements, and the implementation of the decisions on WTO disputes

The **General Council** are composed of all members. They provide a mechanism **to oversee the details of the general and specific agreements on trade in goods** (such as those on textiles and agriculture) and **trade in services**.

Organizational Structure of WTO

Council for Trade in Goods:

- Forum for discussing issues and decisions which may ultimately require the attention of the General Council and for putting issues in a broader context of the rules and disciplines that apply to **trade in goods**.
- There are **12 committees under the jurisdiction of the Goods Council** each with a specific task. All members of the WTO participate in the committees.
- The body has its own chairman and only 10 members.

Council for Trade in Services:

- Responsible for **overseeing the functioning of the General Agreement on Trade in Services (GATS)**

Council for Trade-Related Aspects of Intellectual Property Rights

- Monitors implementation of the **TRIPS Agreement**, provides a forum in which WTO Members can **consult on intellectual property matters**, and carries out the specific responsibilities assigned to the Council in the TRIPS Agreement.

Organizational Structure of WTO

Trade Negotiations Committee:

- The Trade Negotiations Committee (TNC) is the committee that deals with the **current trade talks** round. The chair is WTO's director-general. Presently, the committee was tasked with the Doha Development Round.

Decisions are taken through consensus but voting on matters is also possible.

WTO: Major Agreements

Over the past 60 years, the WTO and its predecessor organization the GATT have helped to create a strong and prosperous international trading system, thereby contributing to unprecedented global economic growth.

The WTO agreements cover goods, services and intellectual property. They spell out the principles of liberalization, and the permitted exceptions. The current body of trade agreements comprising the WTO consists of 16 different multilateral agreements (to which all WTO members are parties) and two different agreements (to which only some WTO members are parties).

Besides GATT, some of the major agreements are:

WTO: Major Agreements

➤ General Agreement on Trade in Services (GATS):

- The GATS covers a wide range of **service industries such as financial services, transport and shipping, communications, construction, and distribution.**
- The **definition of services trade** under the GATS is four-pronged, depending on the territorial presence of the supplier and the consumer at the time of the transaction:
 - **Mode 1 (Cross border supply):** to cover services flows from the territory of one Member into that of another Member.
 - **Mode 2 (Consumption abroad):** situations where a service consumer moves into another Member's territory to obtain a service. Eg: Tourism
 - **Mode 3 (Commercial presence):** a service supplier of one Member establishes a territorial presence, including through ownership or lease of premises, in another Member's territory to provide a service. Eg: A Hotel chain
 - **Mode 4 (Presence of natural person):** Consists of persons (Eg: Health professionals) of one Member entering the territory of another Member to supply a service.

WTO: Major Agreements

➤ Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS):

- The most comprehensive **multilateral agreement on intellectual property**
- The Agreement sets out the **minimum standards of protection** to be provided by each Member and certain general principles applicable to all **IPR enforcement procedures**.
- The **TRIPS Agreement** is based on the main conventions of the **World Intellectual Property Organization (WIPO)**. Most of the provisions of these conventions are incorporated into the TRIPS.
- The areas of intellectual property that it covers are:
 - **Copyright and related rights** (i.e. the rights of performers, producers of sound recordings and broadcasting organizations)
 - **Trademarks including service marks**
 - **Industrial designs**
 - **Patents** including the protection of new varieties of plants
 - **Layout-designs of integrated circuits**
 - **Undisclosed information including trade secrets and test data.**

WTO: Major Agreements

➤ Agreement on Trade-Related Investment Measures (TRIMs):

- They are the rules that are applicable to the **domestic regulations a country applies to foreign investors**, often as part of an industrial policy.
- **Investment measures** are those steps used traditionally against foreign investment by host countries, such as domestic content requirement and domestic sales requirements. According to the TRIMs provision, **countries should not adopt the investment measures which restrict and distort trade**.

WTO: Major Agreements

➤ Agreement on the Application of Sanitary and Phytosanitary Measures (SPS):

- It concerns the application of **food safety** and **animal and plant health regulations**.
- It allows countries to set their own standards, but the **regulations must be based on science**. They should be applied only to the extent necessary to protect human, animal or plant life or health.
- They should not **arbitrarily or unjustifiably discriminate** between countries **where identical or similar conditions prevail**.
- Member countries are **encouraged to use international standards, guidelines and recommendations** where they exist.
- The agreement still **allows countries to use different standards and different methods of inspecting products**. They can also **set higher standards based on appropriate assessment of risks** so long as the approach is consistent, not arbitrary.

WTO: Major Agreements

➤ Agreement on Agriculture (AoA):

- The agreement focuses on **elimination of the so-called 'trade distorting' agricultural subsidies**.
- The Agreement on Agriculture has three pillars
 - **Domestic Support:** It includes the **classification of agricultural subsidies** into 'boxes' depending on their effects on production and trade
 - **Market Access:** Market access refers to the reduction of tariff and replacement of non-tariff barriers with tariff barriers.
 - **Export subsidies:** The Agriculture Agreement **prohibits export subsidies on agricultural products** unless the subsidies are specified in a member's lists of commitments.

Objectives of WTO

- Discouraging 'unfair' practices, such as export subsidies and dumping products at below cost to gain market share; the issues are complex, and the rules try to establish what is fair or unfair, and how governments can respond, in particular by charging additional import duties calculated to compensate for damage caused by unfair trade.
- The WTO's agreements permit members to take measures to protect not only the environment but also public health, animal health and plant health. However, these measures must be applied in the same way to both national and foreign businesses. In other words, members must not use environmental protection measures as a means of disguising protectionist policies.

Advantages of WTO

1. **To ensure rule based global trade:** The world today is more interconnected than ever. Hence, there is a need for proper legislations and dispute resolution mechanisms at the global level to ensure smooth trade. WTO is a good platform to reduce barriers and solve trade disputes peacefully and rationally. Its existence has prevented trade wars till now and made international trade smoother.

2. **Common platform for all nations:** The WTO offers a common platform for all countries, be it developed, developing, Small Island Developing States or least developed, to address their demands and concerns and settle disputes amicably. This is vital to ensure peaceful trade and commerce across the world and avoid instances of neo-colonialism and exploitations.

3. **To boost global economic growth:** The world has only started to recover from the 2008 economic slowdown. At this point, an organisation as inclusive as the WTO is essential to encourage trade between nations and thereby boost global the economy.

Advantages of WTO

4. To ensure equitable development: The WTO offers special treatment to the developing countries and least developed countries, in the form of longer time frameworks, softer tariff cuts, procedural advantages in disputes and technical assistance from the WTO. The peace clause in the Doha rounds is an example in this regard. This treatment is vital for these Countries to develop their internal markets and join the global trade environment with ease.

5. To promote sustainable development: The WTO's agreements permit members to take measures to protect not only the environment but also public health, animal health and plant health. In a climate uncertain future, these provisions can play a critical role in the promotion of sustainable global trade.

Challenges of WTO

1. **Does not reflect the changing global order:** The WTO is often perceived as a forum **more favorable to the developed world**. This is evident from the **domination of USA and European Union in the Doha trade negotiations**. However, developing countries like China and India are major stakeholders in modern day trade and commerce, which has not been fully reflected in the WTO.

2. **Delays in reaching agreements:** Since the establishment of the WTO, only a **few multilateral trade negotiations have been concluded**. As the decisions in WTO are taken unanimously, **long years are spend on reaching a general consensus**. For instance, the Doha rounds have been going on for over 16 years, yet it has not been finalized.

3. **Rise of BTAs and trade blocs:** The **explosion of Bilateral Trade Agreements**, (usually referred to as the 'spaghetti bowl of trade agreements'), **outside the ambit of the WTO** and **trade blocs like BRICS, ASIAN, G8** etc are making trade relations stronger. These BTAs and trade blocs are reducing the importance of WTO.

Challenges of WTO

4. **Weak Dispute Resolution mechanism:** The **WTO dispute settlement process is going through a crisis**. In the recent past, several WTO rulings have gone against the US. These have led the US officials to claim that the US is being victimised and the WTO rules are violating its national sovereignty. As retaliation to its perceived victimisation, the **US is blocking appointment of members in the WTO Appellate Body** since the past few years. Due to lack of new appointments, at the end of 2019 the body will be left with only 1 member, thus rendering it dysfunctional.

5. **Skepticism towards multi-lateralism:** **Right wing governments, such as those in USA and Brazil, have openly denounced the WTO** and are pushing ahead with protectionist measures. They have **violated WTO rules by raising tariffs**, which has triggered a global trade war. If major trading countries continue to undermine the role of WTO, it may become a serious setback for an organisation which is struggling to remain relevant in a changed global trade scenario.

6. **Several unresolved issues:** So far members have **not been able to reach a consensus on vital issues like agricultural subsidies, food security, banning subsidies for illegal fishing, intellectual property rights, and trade in services** among others.

India and WTO

India has been a member of the WTO since its inception in 1995. India is one of the prominent members of WTO and is largely seen as leader of developing and under-developed world. However, on several aspects, India has outstanding concerns.

Agriculture:

- India (along with a few other developing countries) has and continues to have objections on issues like agriculture especially subsidies in the context of food security etc. and trade facilitation.
- Also, Countries like India and China have opposed the huge **production related price distorting subsidies** given by the developed countries like the US and the EU to their farmers.
- In the case of fisheries also, India do not wish to **eliminate fisheries subsidies on 'illegal fishing'** because of the livelihood of large number of fishermen is involved.

India and WTO

Investment/Trade Facilitation:

- India has its own model investment code which does not allow multinational companies to take the government to international courts before it has sought recourse through the domestic dispute settlement bodies for a period of at least five years. This is because, in the past, the Government of India has been taken to international arbitration courts on multiple occasions.

Freeing e-commerce:

- India has objected to freeing of e-commerce as it feels that the country's digital penetration is not yet adequate. India also feels that Micro, Small and Medium Enterprises (MSMEs) will not be able to compete with countries with deeper internet penetration who can gain better access to international markets.

Reforms in WTO:

- India has maintained that it is committed to work along with other countries to reform the WTO) in order to ensure that it continues to be an engine for global trade. India recently co-sponsored a proposal with the European Union and other members on reform of the dispute settlement mechanism.

WTO – Way Forward

- Despite all its weaknesses, the WTO has been a major factor in pushing global trade forward. It has helped in reducing trade barriers and creating a mechanism for peacefully resolving disputes. Hence **its survival is essential for a better global trade environment**.
- If the WTO as an institution and all the principles that it stands for is to survive and move ahead, there is **no scope for rigidity on the part of any country or group of countries**. Negotiations, even if cumbersome, painstaking and incremental, would be the only solution.
- Changing the WTO will take time. But clear strategic direction for change is needed to help alleviate some of the tensions between the world's two largest economies, the US & China, and help the WTO address areas in which there are obvious inadequacies.
- Immediate priority in **WTO reforms** should be to resolve the ongoing impasse in the Appellate Body to address the unilateral measures as these pose serious existential challenges for the organization.

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