



# World Trade Organization: An Introduction

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## Abstract:

*This paper seeks to provide an overall idea about the World Trade Organization so as to equip the reader with basic knowledge of its history, structure, various agreements, etc. WTO is an international organization preceded by GATT. It works through multilateral agreements between member nations and determines the rules of trade. It has made tremendous changes in trading in goods and services, standards, protecting intellectual property, etc. This paper elaborates on these and many other aspects.*

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**Key words:** Doha, GATT, Ministerial Conference, WTO.

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## 1. Introduction

WTO is the only global international organization dealing with rules of trade between nations. It works through agreements which are negotiated & signed by member nations & ratified in their parliaments – World Trade Organization.

### 1.1 History

In 1929, Great depression held. After that, US passed Smoot Hawley Tariff Act in 1930 to protect domestic industries and reduce imports through an enormous wall of tariff barriers. Other countries followed the suite & raised their tariffs too like France and Italy. This was known as Beggar Thy Neighbour policy which simply means “to make the neighbour worse off”. This drastically reduced the world trade & slid the world further into Great Depression.

World War 2 (1939-45) deteriorated the situation. There was a need to decrease tariff barriers but no one was ready to do it unilaterally. This led to the creation of GATT in 1947 under the US leadership

### 1.2 General Agreement on Tariffs and Trade (GATT)

As the name suggests, it was only an agreement, not an institution. Its function was to reduce tariff barriers and quotas. Its total span was 1947 to 1994 during which a total of 8 rounds of negotiations occurred.

The eighth round – also known as the Uruguay Round – was the most difficult and the longest one. It lasted for around 8 yrs from 1986-1994. Till then, GATT focussed mainly on goods. But due to changing scenario of world trade, many new points were introduced in Uruguay round, like services, intellectual property, agricultural subsidies and dispute settlement. The round was concluded with the formation of WTO. The Final Act concluding Uruguay Round & officially establishing WTO was

signed on 15 April 1994, during ministerial meeting at Marrakesh, Morocco & hence known as the Marrakesh Agreement

## 2. Basics about WTO

It was established on 1 January 1995 and is headquartered at Geneva, Switzerland. Its current Director-General is Roberto Azevedo (2013-till now).

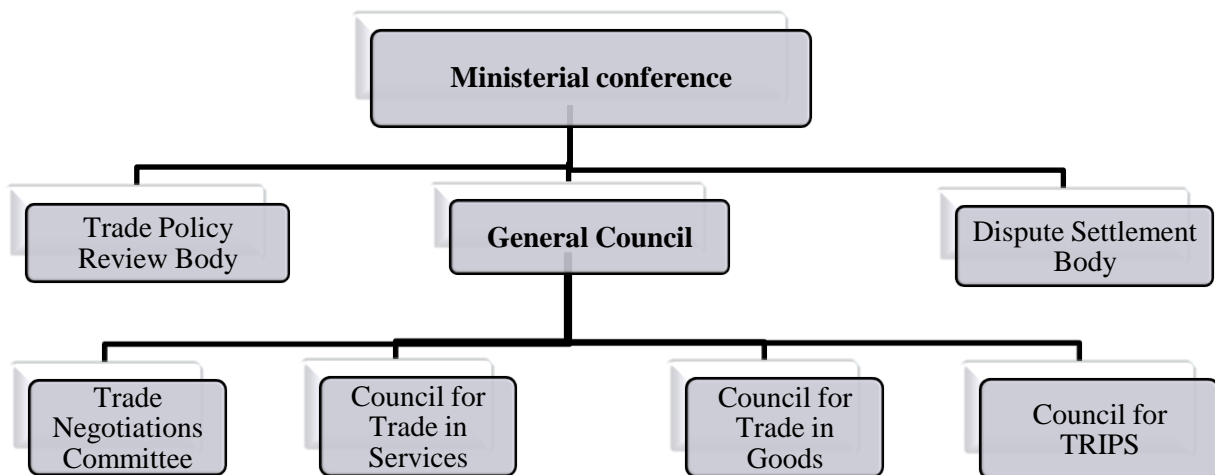
### 4.1 Membership

India was one of its founder members. Its current membership is 160 with the latest member being “Yemen” which joined on 26 June 2014. (Yemen is an Arab country in Western Asia.) The process of becoming a WTO member is unique to each applicant country & the terms of accession are dependent upon the country's stage of eco development & current trade regime.

### 4.2 Functions

- a) Ensure that trade flows as smoothly as possible.
- b) Oversee the implementation of multilateral trade agreements.
- c) Provide a forum for trade negotiations
- d) Provides a framework for settling disputes.

## 3. Structure



**Fig. 1 Structure of WTO**

Top most decision-making body in WTO is the Ministerial Conference, which usually meets every 2 years. All decisions are taken by member governments, usually by consensus. There are 3 main bodies in it:

### 5.1 Trade Policy Review Body

It reviews trade policies of member countries to ensure adherence to WTO rules.

### 5.2 Dispute Settlement Body

It settles disputes b/w member nations. All WTO members have agreed that, if they believe fellow-members are violating any trade rules, they will use the multilateral system of settling disputes instead of taking action unilaterally.

### 5.3 General Council

It has 3 subsidiary bodies and one committee:

- a) Council for Trade in Goods: It has 11 committees under it like committees on agriculture, SPS measures, TBT measure, trade related investment measures, etc.
- b) Council for Trade in Services: It oversees the functioning of the GATS.
- c) Council for TRIPS: It sees the functioning of TRIPS agreement.
- d) Trade Negotiations Committee (TNC): It was set up by Doha Declaration. It deals with the current trade negotiations/talks round. The chairperson is WTO's director-general.

## 6. Ministerial Conferences

### 6.1 A total of 9 conferences have held till now

- a) Singapore, 9-13 December 1996
- b) Geneva, 18-20 May 1998
- c) Seattle, November 30 – December 3, 1999
- d) Doha, 9-13 November 2001
- e) Cancún, 10-14 September 2003
- f) Hong Kong, 13-18 December 2005
- g) Geneva, 30 November - 2 December 2009
- h) Geneva, 15-17 December 2011
- i) Bali, 3-6 December 2013

The first one was held in Singapore in 1996 and the latest one was in Bali, Indonesia in 2013. The most popular one was the fourth conference held in Doha, Qatar in November 2001 where the Doha Development Round was launched. The conference also approved the joining of China, which became its 143<sup>rd</sup> member.

### 6.2 Doha Round

It was launched in 2001. The work programme lists 21 subjects, in which the original deadline of 1 Jan'05 was missed & the org is still attempting to complete negotiations on it. The conflict is between developed nations led by the EU, USA and Japan and developing countries led mainly by Brazil, India, China, South Africa and South Korea. Developed nations want free trade on industrial goods and services but retention of protectionism on farm subsidies to domestic agricultural sector. On the other hand, developing countries want complete liberalization and fair trade on agricultural products.

Agriculture has become the main agenda for both developing and developed countries. Three other issues have been important. The first, now resolved through TRIPS in 2003, pertained to compulsory licensing of medicines and patent protection. A second deals with a review of provisions giving special and differential treatment to developing countries; a third addresses problems that developing countries are having in implementing current trade obligations.

## 7. Trading Principles

WTO has five trading principles on which all agreements are based:

### 7.1 Non-discrimination

It has two major components: the MFN i.e. the most favoured nation rule, and the national treatment policy. MFN rule means that if a country extends a special favour i.e. MFN status to any trading partner then it has to extend the same benefit to all other partners as well. National treatment means that imported and domestically produced goods should be treated equally, at least after the foreign goods have entered the market.

### 7.2 Free Trade

It includes lowering tariff barriers and progressive liberalization in trade. Progressive liberalization means liberating the economy in a phased manner rather than sudden because sudden changes can adversely affect the economy.

### **7.3 Fair Trade**

It means countries cannot engage in unfair trade practices and if it does so then importing country has a right to impose additional trade barriers (like anti dumping duties and countervailing duties)

### **7.4 Predictable**

It means that there should not be any sudden changes in trade policies, otherwise there will be uncertainties & disputes. Trade barriers should not be raised arbitrarily & moreover if a country promises to lower trade barriers then it must bind its commitment & should not withdraw it.

### **7.5 More beneficial for LDCs**

It means that policies should be favourable to Least Developed Countries (LDCs) and they should be given more time for any adjustment or implementation. For every agreement or condition of WTO, there is a distinction between developed, developing and least developed countries. Ex. Cut tariffs in 2 years, 5 years and 10 years for developed, developing and LDCs.

## **8. Agreements**

The WTO oversees about 60 different agreements, which all member countries must adhere to. Some of the important agreements are:

### **8.1 Agreement on Agriculture**

The objective of this agreement is to reform trade in agriculture sector & make policies more market oriented. It has three central pillars:

a) Market access: Agricultural markets were not easily accessible especially developed country markets. So, countries were required to allow & increase access to their markets overtime. But there are lot of implementation issues and free market access is not there due to indirect barriers

b) Domestic support: Any policy supporting domestic prices & subsidizing prod is domestic support. This leads to overproduction which increases dumping practices & thus distorts world trade. According to the agriculture agreement, any domestic support which has a direct affect on production and leads to distortion of trade in agriculture should not be allowed. So, subsidies were categorized in 3 parts:

- Amber box subsidies: Direct payments made to farmers, which leads to overproduction and trade distortion. So, not allowed.
- Blue box subsidies: Govt gives assistance to farmers but asks them to limit the production. So, allowed.
- Green box subsidies: Have minimal impact on trade like subsidies for clean environment products, disease control, technological improvements, improved seeds, etc.

c) Export subsidies: Domestic subsidies also lead to a problem of “where to sell”. So, govt again needs to give export subsidies to sell overproduced goods in world market. Such subsidies have to be cut both in terms of the total amount of money spent on export subsidies and the quantities of exports that receive subsidies.

### **8. 2 GATS i.e. General Agreement on Trade in Services**

On account of socio, economic and political implications, services have been subjected to various national restrictions so this agreement was made to liberalize trade in services. It covers all internationally traded services like banking, insurance, transportation, communication, etc.

There are four modes of trading services; Consumption abroad (tourism), Commercial presence (setting up subs in another country like banks), Movement/presence of personnel (professionals, consultants) (temporary for some time or permanent i.e. residential) and Cross border supply (telecommunication like long distance phone calls to US).

### **8.3 Agreement on TRIPS i.e. Trade-Related Aspects of Intellectual Property Rights**

Intellectual Property is any design, art work, innovation etc, where intrinsic and extrinsic value is not same. Eg. A CD may cost Rs10 but software in it may sell for thousands or lacs. Intellectual property rights are legal rights to the creator of intellect so as to protect it from others and negotiate payment in return for others using them. Due to increased intellectual property, it is important to protect them, especially in sectors like IT industry, Pharma industry, etc. Without such an agreement it is feared that producers in a country might market imitations of patented innovations pioneered in a different country.

So this agreement on TRIPS sets minimum level of protection for intellectual property and brings them under common international rules. It seeks to ensure a balance between the interest of innovator on one hand and users on the other.

But changing patent laws in developing countries, after TRIPS, leads to higher prices up to about 200-300% for patented medicines, including for important diseases such as HIV/AIDS/ Cancer. However, policy instruments available under TRIPS such as compulsory licenses or government use, parallel imports and price controls could attenuate such adverse effects on the affordable access to medicines considered essential. (Watal, 2000)

### **8.4 Agreement on the Application of SPS i.e. Sanitary and Phyto Sanitary Measures**

SPS measures cover anything which we consider detrimental to the health and safety of human, animals or plants. But these are subjective especially when there is a lot of difference between nations like developed and developing countries. Developed countries have high standards which developing countries may not have. So, it becomes difficult to distinguish whether they are used as safety measures or trade barriers.

According to this agreement, such regulations must be scientific and reasonable. They should be applied only to the extent necessary to protect human, animal or plant life or health. They should not discriminate between nations where similar conditions prevail. And lastly, international standards or guidelines should be adopted, where they exist.

### **8.5 Agreement on TBT i.e. Technical Barriers to Trade**

TBT measures cover technical standards of products like packaging, labelling, certification, testing procedures, etc. But sometimes these act as barriers.

According to this agreement, these should be scientific and reasonable. Such measures should not create unnecessary obstacles to trade. They should not give domestically produced goods an unfair advantage. International standards or guidelines should be used, where they exist.

### **8.6 Agreement on Textile and Clothing i.e. ATC (1995-2005)**

Before WTO, Clothing and textile sector was governed by MFA (Multi Fibre Agreements), lots of quotas were there. In ATC, it was decided to remove all the quotas in this sector within 10 years. Ultimately, in 2005, this sector became free. China was immensely benefitted with this.

### **8.7 BALI Agreement**

It was signed in the latest 9th Ministerial Conference in 2013 and is also known as the Bali Package. It is the first agreement of WTO which is approved by all its members.

It forms a small part of the Doha Development Round as it includes provisions for lowering import tariffs and agricultural subsidies, to make it easier for developing countries to trade with developed nations. Developed countries would abolish hard import quotas on agricultural products from the developing world and would only be allowed to charge tariffs on agricultural imports exceeding specific limits. It also targets to reform bureaucratic rules and formalities, to facilitate trade.

### **8.8 GATT**

An updated GATT through Uruguay negotiations still exists as a treaty for trade in goods.

### **8.9 Agreement on Customs Valuation**

It prescribes methods of customs valuation that Members are to follow. Chiefly, it adopts the "transaction value" approach.

Almost all the agreements like Agriculture agreement, TRIPS, SPS, TBT, TRIMS, were negotiated during the Uruguay Round of the GATT and were entered into force with the establishment of the WTO at the end of 1994.

## **9. Conclusion**

WTO has been working immensely and greatly towards not only determining the trade rules amongst member nations but also to provide a level off playing field to developing as well as least developed nations. It achieved great success in revolutionizing the cotton and textile sector, pharmaceuticals, various services and trade related intellectual property rights.

Proper protection and standards regarding intellectual properties ensure increased research and development and provides better incentives to developer. This also reduces the imitation and pirating practices as all member nations are required to introduce the provisions in their respective laws and thus countries.

But there is another side of the story as well, even after providing relaxed norms for developing and least developed countries, a complete level playing field is not yet achieved. Trade in industrial and sophisticated goods is an edge point for developed nations and a free trade in these areas is not of immense help to developing and least developed countries. They still lack the equal gains from agreements to free trade in these areas.

On the other hand, agricultural sector, which is not only commerce or trade in developing and least developed countries, but a source of livelihood, is yet to get an unrestricted access status. Doha round which was started in 2001, deals with this topic and is still not concluded because of the rigid behaviour of developed countries, especially US, European union, etc

Developing and least developed countries allow free access to goods from developed countries but developed countries still retain subsidies and quotas in those sectors which can be very advantageous to developing and least developed countries. So, this act likes a double edged sword for them.

Also, there are a lot of issues from India regarding the claim of many developed countries for patented rights over the things which are embedded long lack in our cultures like, yoga, neem, turmeric and many more.

The disputes regarding these and many other are still pending in WTO. The results from the study of Reynolds (2009) suggest that complaints brought by smaller, less developed countries are less likely to be resolved. It has troubling implications for the fairness of the WTO dispute settlement system.

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