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Paper 12: BUSINESS ENVIRONMENT Module: 34 World Trade Organisation



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World Trade Organisation (WTO)

Items	Description of Module
Subject Name	Management
Paper Name	Business Environment
Module Title	World Trade Organisation
Module Id	Module No. 34
Pre- Requisites	Basic knowledge of WTO
Objectives	To study the WTO and WTO Agreement
Keywords	WTO, Principles, Ministerial Conference

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1. Learning Outcome
2. Objectives
3. Introduction
4. Understanding of World Trade Organisation
5. Understanding WTO agreement, Scope and Principle, structure and ministerial conference.
6. Summary

Learning Outcome:

After completing this module the students will be able to:

- Understand the meaning and history of WTO.
- Understand the function and objective of World Trade Organisation.
- Understand the principle of WTO.
- Understand the WTO Agreement.
- Understand the Ministerial conference of WTO .

OBJECTIVES

1. To explain the meaning of WTO.
2. To explain the objective and function of foreign trade.
3. To state the principle of WTO.
4. To discuss the some WTO agreement.
5. To explain the structure of WTO.
6. To discuss the Ministerial conference of WTO

Introduction

The General Agreements on Tariffs and Trade, known as the GATT, It is 1/3 of the Bretton Woods system that was created after second World War to guarantee a stable trade and economic world environment. The International Monetary Fund (IMF) and World Bank are the other 2 bodies of the Bretton Woods system. While often referred to as international organization, the General Agreements on Tariffs and Trade had a "de facto" role as an international organization before the creation of the World Trade Organization (WTO). The WTO World Trade Organization was established on January 1, 1995 by the Final Act of the Uruguay Round of negotiations. The World Trade Organization (WTO) is one of the international organizations dealing with the rules of trade between nations. WTO agreements negotiated and signed by the world's trading nations and ratified in their parliaments. The main goal of WTO is to help producers of goods and services, exporters, and importers who conduct their business.

Born in 1995, but not so young

The WTO (World Trade Organization) began life on January 1995, but its trading system is more than half a century older. Since 1948, (GATT) had provided the rules for the system. The last and largest GATT round, was the Uruguay Round which lasted from 1986 to 1994 and led to the WTO's (World Trade organization) creation. Whereas GATT had mainly deal with trade in goods, and now cover the trade in services, and in traded inventions, creations and designs.

Objectives of WTO

- 1) Promote Trade flows by encouraging nations to adopt predictable trade and non discriminatory policies.
- 2) Establish procedures for settlement of trade dispute among member.
- 3) Taking positive steps to ensure that secure a better share of growth in world trade.
- 4) Raising standard of living and income expanding production and full employment, and optimum utilization of world resource.
- 5) Introduce sustainable development- a concept which envisages the environment and development can go together.
- 6) Elimination of all forms of protectionism

- 7) The maximum possible level of transparency
- 8) Progressive liberalisation of international trade in services
- 9) Progressive liberalisation and elimination tariff and non tariff barriers to trade in goods

Scope of WTO

GATT was concerned with the promotion of trade in goods. Trade in services was not given a lot emphasis. While in WTO (World Trade Organisation) Trade in services has also been promoted.

It consist following main areas

Trade in Goods

Trade Related Investment Measures (TRIMs)

Trade Related intellectual Property Rights (TRIPs)

General Agreement on Trade in Services (GATS)

Function of WTO

- 1) It oversees the administration, implementation, and operation of the covered agreements.
- 2) It provides an opportunity for negotiations and for settlement of disputes.
- 3) The WTO provides the frame work for the implementation, administration and operation of the multilateral Trade Agreements.
- 4) The WTO shall provide the forum for negotiations among its members concerning their multilateral trade relations in matters dealt with under the Agreement.
- 5) The WTO shall administer the Understanding on Rules regulation and Procedures Governing the Settlement of Disputes.
- 6) The WTO shall administer the Trade Policy Review Mechanism.
- 7) To act as a forum for the negotiation of further trade liberalization.
- 8) To cooperate with the IMF (International Monetary Fund) and WB (World Bank)

9) To resolve the trade-related disputes.

Principles of the trading system

The World Trade Organization agreements are long-lasting and complex because they are legal texts covering a broad range of activities. They deal with banking, telecommunications, government purchases, agriculture, textiles and clothing, industrial standards and product safety, food sanitation regulations, intellectual property, and much more. But a number of simple, basic principles run throughout all of these documents. These principles are the base of the multilateral trading system.

Trade without discrimination

1. Most-favoured-nation (MFN): Under the WTO (World Trade Organisation) agreements, countries cannot normally differentiate between their trading partners. Grant someone a special favour (such as a lower customs duty rate for one of their products).

This principle is known as most-favoured-nation (MFN) treatment. Hence, It is very important that it is the first article of the General Agreement on Tariffs and Trade (GATT), which governs trade in goods. It is also a priority in the General Agreement on Trade in Services and the Agreement on Trade-Related Aspects of Intellectual Property Rights, although in each agreement the principle is handled differently. Together, those three agreements cover all 3 main areas of trade handled by the WTO (World Trade Organisation).

2. National treatment: Treating foreigners and locals equally- Under the WTO (World Trade Organisation) agreements, Imported and domestically - produced goods should be treated equally — at least after the overseas goods have entered the market. The same should apply to foreign and domestic services, copyrights and patents, foreign and local trademarks. This principle of “national treatment” is also found in all the three main WTO agreements (GATT, GATS and TRIPS), although once again the principle is handled slightly differently in each of these.

National treatment only applies one time a product, service or item of intellectual property has entered the market. Therefore, charging customs duty on an import is not a violation of national treatment even if domestically-produced products are not charged an equivalent tax.

3 Freer trade: gradually, through negotiation

Eliminating trade barriers is one of the most obvious means of encouraging trade. The barriers concerned include customs duties and measures such as import bans that restrict quantities selectively. From time to time various other issues such as red tape and exchange rate policies have also been discussed.

Since GATT's creation in 1947-48 there have been 8 rounds of trade negotiations. A 9th round, under the Doha Development Agenda, is now underway. At first these focused on lowering tariffs (customs duties) on imported goods.

But by the 1980s, the negotiations had extended to cover non-tariff barriers on goods, and to the new areas such as services and intellectual property.

4 Predictability: through binding and transparency

Sometimes, promising not to elevate a trade barrier can be as important as lowering one, because the promise gives businesses a clearer view of their future opportunities. With stability investment is encouraged, jobs are formed and consumers can fully enjoy the benefits of competition — choice and lower prices. This trading system is an attempt by governments to make the business environment stable and predictable. In the WTO (World Trade Organisation), when Nation agree to open their markets for goods or services, they “bind” their commitments. For goods, these bindings amount to ceilings on customs tariff rates. Sometimes Nation tax imports at rates that are lower than the bound rates.

5 Promoting fair competition

The WTO(World Trade Organisation) is described as a “free trade” institution, but that is not entirely correct. The system does allow tariffs and, in limited situation, other forms of protection. More accurately, it is a system of rules devoted to open, fair and undistorted competition.

The rules on non-discrimination — MFN (Most Favoured Nation) and national treatment — are designed to secure fair conditions of trade. The issues are complex, and the rules endeavour 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.

Many of the other WTO agreements aim to carry fair competition: in agriculture, intellectual property, services, for example. And so on.

6 Encouraging development and economic reform

This system contributes to development. On the other hand, developing countries need flexibility in the time they take to execute the system's agreements. And the agreements themselves succeed to the earlier provisions of GATT that allow for special assistance and trade concessions for developing countries.

During the 7 and a half years of the Uruguay Round, over 60 of these countries implemented trade liberalization programmes freely. At the same time, developing countries and transition economies were much more active and influential in the Uruguay Round negotiations than in any preceding round, and they are even more so in the current Doha Development Agenda.

WORLD TRADE ORGANISATION - SOME AGREEMENT

General Agreement on Tariffs and Trade 1994 (GATT 1994)

The General Agreement consists of: (i) the provisions of GATT 1947 (including those amended by the terms of legal instruments that have taken effect before the Overview of the WTO (ii) legal instruments, such as protocols and certifications relating to tariff concessions, protocols of accession, etc., that have taken effect under the GATT 1947 before the entry into force of the WTO (World Trade Organisation)

Agreement on Agriculture

The Agreement on Agriculture includes specific and binding commitments made by WTO Member governments in the three areas of domestic support, export subsidization and market access, for strengthening GATT disciplines and improving agricultural trade.

Trade in Textiles and Clothing

The main objective of this agreement is to secure the clothing and textiles sector. In this sector Multi Fiber Agreement (MFA) was prevalent from last few years. Multi Fiber Agreement (MFA) was preventing underdeveloped countries to export textiles in developed nations. Multi Fiber Agreement (MFA) restrictions in force on 31st Dec 1994 would be carried over into the final act and maintained until such time as the restrictions are split or the product integrated into World Trade Organisation (WTO).

TRIPS (Trade Related Intellectual Property Rights)

This agreement is related to intellectual Property Rights. These rights can be with regards to trade mark, copyright and patent etc. TRIPs recognises that extensively varying standards in the protection and enforcement of intellectual property rights and the lack of multilateral disciplines dealing with international trade in counterfeit goods have been a rising source of tension in international economic relations. Under TRIPs life of patents has been fixed as follows-

- a) General Patent-20 years
- b) Copy Rights- 50 Year
- c) Trade Marks- 7 year
- d) Industrial Designs 10 year
- e) Medicines- 10 year

The Intellectual Property Rights which are patented can be used by the manufacturers/ consumers by making disbursement of royalty to patent holder.

TRIMs (Trade Related Investment Measures)

Multinational organisation is aware of the many restrictions on their investment in overseas countries. Trade Related Investment Measures are investment related measures proposed by World Trade organisation to ensure free flow of investment all over the world. Trade Related Investment Measures agreement will help the underdeveloped nation by providing necessary capital in the form of foreign investments (FIs). This agreement will also help to solve their balance of payment problem. The agreement does not set broad rules and regulations for investors in a member country. It simply prohibits law, rule and regulations that condition a country`s right to import foreign goods on the volume of goods exported.

The main features of TRIMs are-

- 1) To offer fair treatment and all other facilities and all other facilities to overseas investors as all available to their domestic investors.
- 2) To eliminate restrictions on repatriation of interest, dividend and royalty of multinational companies.
- 3) To allow 100 per cent foreign equity participation in some cases.
- 4) Remove all restrictions on every area of foreign investment.

In simple, the TRIMs open the opportunity to foreign investors to invest anywhere in the world in any economic activity.

GATS (General Agreement on Trade in Services)

GATS is the first set of multilateral agreement covering international trade in services. It provides free flow of services among the member country. The agreement covers trade in all type of services like insurance, tourism, hotel, banking, shipping, telecommunication, IT enable services, media services etc. GATS operates at four modes-

Mode 1 -Cross border trade

Mode 2-Consumption abroad

Mode 3-Commercial presence

Mode 4 – Temporary movement of natural persons.

Dispute settlement

For settlement of disputes relating to trade world trade organisation has set up dispute settlement body. Director General of WTO will act as mediator for the settlement of dispute. The complainant Nation can also ask Dispute Settlement Body to set up a panel for dispute settlement. The panel will be constituted by Dispute Settlement Body whose decision will be unconditionally acceptable to both parties. This panel will have to give its report within sixty to ninety days. Then DSB will take final decision within 30 days.

Agreement on export subsidies

World Trade Organisation (WTO) agreements prohibit export subsidies to promote free and fair competition in the international trade.

Anti dumping Measures

GATT permits members to apply anti dumping measures. More detailed rules governing the application of such measures which take the form of either duties or undertakings on pricing by exporter were negotiated during the tokeyo round and the same was revised in the Uruguay Round.

Reviewing trade policies of member countries-

The TPRM provides for a Trade Policies review body to frequently examine the economic and trade policies of member nation. It examine the trade policies in every two year for the four major traders, every four years for the next 16 leading traders and every 6 years for the remaining traders although longer intervals may be prescribed for least developed nations. It has helped member countries to access their economic and trade policies.

Organisational structure

The General Council has the following subsidiary bodies which oversee committees in different areas:

Council for Trade in Goods

There are eleven committees under the jurisdiction of the Goods Council each with a specific job. All members of the WTO (World Trade Organisation) join the committees. The body has its own chairman and 10 members. The body also has several groups relating to textiles and clothing.

Council for Trade-Related Aspects of Intellectual Property Rights

Information on intellectual property in the WTO (World Trade Organisation), news and official records of the performance of the TRIPS Council, and details of the WTO's work with other international organizations in the field.

Council for Trade in Services

The Council for Trade in Services operates under the control of the General Council and is responsible for overseeing the functioning of the General Agreement on Trade in Services. It is open to all WTO (World Trade Organisation) members, and can create subsidiary bodies as required.

Trade Negotiations Committee

The Trade Negotiations Committee is the committee that deals with the current trade talks round. As of June 2012 this committee was tasked with the Doha Development Round. The Service Council has 3 subsidiary bodies: domestic regulations, financial services, GATS rules and specific commitments. The council has several different committees, and working parties working groups. There are committees on the following: Trade and Environment; Trade and Development, Regional Trade Agreements, Balance of Payments Restrictions, Finance and Administration and

Budget. . There are working groups on the following: Trade, Trade and technology transfer, debt and finance.

Ministerial Conference

The highest decision-making body of the WTO (World Trade Organization) is the Ministerial Conference, which generally meets every 2 years. It brings together all members of the WTO.

- In 1996, the inaugural ministerial conference was held in Singapore. Disagreements between mostly developed and developing economies emerged during this conference over 4 issues which were initiated by this conference, which led to them being collectively referred to as the Singapore issues.
- In 1998 the 2nd ministerial conference was held in Geneva in Switzerland.
- In 1999 the 3rd conference in Seattle, Washington ended in failure, with massive demonstrations and police and National Guard crowd-control efforts drawing worldwide attention.
- In 2001 the 4th ministerial conference was held in Doha. The Doha Development Round was launched at the conference. The conference also approved the joining of China, which became the 143rd member to join.
- In 2003 the 5th ministerial conference was held in Mexico, Cancún, aiming at forging agreement on the Doha round. An association of 22 southern states, the G20 developing nations, resisted demands from the North for agreements on the so-called Singapore issues and called for an end to agricultural subsidies within the EU and the US.
- In 2005, the 6th WTO (World Trade Organisation) ministerial conference was held in 13 to 18 December 2005 in Hong Kong. It was considered very important if the 4-year-old Doha Development Round negotiations were to move forward adequately to conclude the round in 2006. In this meeting, by the end of 2013, Nation agreed to phase out all their agricultural export subsidies, and terminate any cotton export subsidies.
- On 26 May 2009, the WTO General Council, agreed to hold a 7th WTO(World Trade Organisation) ministerial conference session in Geneva from 30 November to 3rd December 2009.

Arguments in Favour of WTO

- 1) Increase in Foreign Trade
- 2) Increase in Agricultural Exports
- 3) Increase in inflow of foreign investment
- 4) Improvement in services
- 5) Benefits for clothing and textile industry
- 6) Inflow of better technology and better quality product
- 7) Benefits of Multilateral Trade System
- 8) Promotion to research because of patents
- 9) Benefits of using quality seeds and new varieties of plants
- 10) Restricts Dumping

Arguments against WTO

- 1) Loss to Domestic Industries
- 2) Increase litigation cost
- 3) Loss to regional groupings
- 4) Disadvantages to service sector
- 5) Increase in Unemployment

Summary

WTO is an international Trade Organisation having set of rule regulations and principles, mutually designed and agreed up on to promote international trade in general and reduction of tariff barriers and removal of import restrictions in particular. In short, WTO is a new globally recognised trade organisation with the new name succeeding GATT on renewed agreement and having new vision and powerful enforcement power to promote international Trade. WTO agreement will help India in promoting its foreign trade of goods as well as of services. Inflow of foreign technology, foreign investment improved seeds will benefit our economy in escalating the rate of economic development. Moreover, all agreements can not be in favour of one country as these are formulated in view the interest of all member nations. So India should try to make greatest advantages of WTO agreements.