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TABLE OF CONTENTS

1. Learning Outcomes
2. Introduction
3. Multilateral trading system from GATT to WTO
 - 3.1. General agreement on Tariff and Trade (GATT)
 - 3.2. GATT to WTO
4. Basic Principles of WTO
 - 4.1. Non-Discrimination Principles
 - 4.1.1. Most Favored Nation treatment
 - 4.1.2. No Special treatment
 - 4.2. Freer Trade

- 4.3. Promoting fair competition
- 4.4. Predictability through binding and transparency
- 4.5. Encouraging social development and economic reforms
- 5. Structure and Working of WTO
 - 5.1. Structure of WTO
 - 5.2. Functioning of WTO
- 6. Different rounds of negotiation in WTO
- 7. Summary

1. Learning Outcomes

After studying this module, you shall be able to

- Trace the progress of multilateral trading system from GATT to WTO.
- Understand the trading principles of WTO.
- Know the structure and working of WTO.
- Know about different rounds of negotiation in WTO.

2. Introduction

Introduction: World Trade Organization (WTO)

The World Trade Organization (WTO) is the only global international organization engaged with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and substantiated in their parliaments. The motive is to assist producers of goods and services, exporters, and importers organize their business. WTO ensures trade liberalization among member nations.

3. Multilateral trading system from GATT to WTO

3.1 The General Agreements on Tariffs and Trade (GATT)

GATT the predecessor of WTO was formed after the Second World War. During the great depression of 1930s, countries adopted protectionist approach and imposed trade restriction to safeguard their economies. In 1945, talks began to reduce trade tariffs and by the end of Second World War the momentum of trade liberalization geared up. And a group of 23 countries at Geneva negotiated on tariff related trade rules and GATT was born on 30th October, 1947. After the Second World War, US and its allies formed three bodies under the Bretton System, namely, international monetary fund, World bank and GATT. While GATT was referred as International Trade organization (ITO) and it had the basic goal as governance of international trade and trade liberalization.

3.1.1 Principles adopted by GATT

The basic concept that underlie the GATT rules were non-discriminatory:

1. Most-favored-nation (MFN): All members of GATT should comply with the idea of 'most favored nation' to all imports and export. This implies a country, say X cannot promote or restrict imports from country B if it does not do so for country C.
2. National treatment: All members must treat each other equally and no member should discrimination among other the members of GATT in the conduct of international trade. Moreover, in the domestic market foreign goods and services should not be treated 'less favorably' than the local produce.

3.2 GATT to WTO

Eight rounds of negotiation took place among the participating members of GATT since its formation till 1994. The major focus of the first six rounds was on tariff reduction and the seventh round dealt with the removal of non-tariff barriers. The eighth round (URUGUAY ROUND) was a transition round and led to the emergence of World Trade Organization (WTO). Although GATT was just a provisional arrangement among the participating members but WTO was established as a formal international organization with effect from January 1, 1995. Under the umbrella of WTO not only rules and provisions relating to trade in goods are dealt with but it even caters to rules relating to trade in services, foreign investment, intellectual property rights, etc. WTO works as a forum for trade liberalization and trade dispute settlement among member nations. WTO has its head office in Geneva, Switzerland. Currently, 159 countries are members of WTO. We can briefly summarize its role of WTO as follows:

1. Providing framework and facilitating the implementation, administration of multilateral trade agreements. (All agreements of multilateral trade agreement form WTO therefore multilateral trade agreements are the heart of WTO)
2. WTO acts as a forum for negotiation of multilateral trade agreement among the member nations.
3. It administers the procedure for resolving trade disputes.
4. In order to support global economic policy making, WTO acts in cooperation with International Monetary Fund (IMF), International Bank for Reconstruction and Development (World Bank) and its affiliated agencies.

4. Basic trading principles of WTO

WTO has a framework of policies binding to all member nations. The trading principles aim to encourage free movement of goods and services among member nations. The basic idea of the WTO (according to the WTO) are as follows:

- 1.1 **Non-Discrimination Principle (Trade without Discrimination):** Countries under WTO are not entitled to discriminate between their global trading partners. Non-discrimination covers two major elements, the most-favored-nation (MFN) and the national treatment principle.

Both principles ensure that trading is conducted without discrimination. Both the principles are part of WTO rules on goods, services, and intellectual property rights but with different limitations and scope.

4.1.1 Most-favored nation treatment: All members of WTO are granted the status of Most-Favored-Nation (MFN). This implies that none of the member nation shall not differentiate that link trading partners. All members of WTO must be considered the same. MFN implies each time a member nation lowers the trade barriers to other member; it needs to stretch the benefits to all trading partners. MFN is a fundamental standard of WTO but has certain exceptions like granting greater market access to developing economies, setting of a free trade agreement which covers only specific goods and members can have discrimination against other goods, etc.

4.1.2 No National Special Treatment: Locals and foreigners are to be treated equally. National treatment implies imported products to be considered at par with domestic products. It takes care that none of the member nation can levy higher domestic tariff on imported -like and competitive products. A -like product is one which has similar properties, nature, quality; end-use; similar consumers taste and preference.

MFN ensures equal treatment for products offered among WTO members.¹ MFN looks more towards at the border non-discrimination treatment whereas national treatment ensures equal consideration between imported and domestic goods. It is more towards inside border non-discrimination.²

4.2 Freer Trade:

The WTO has removed some trade barriers to popularize trade liberalization. The major aspects covered to promote free trade among member nations are lowering trade barriers; reduction (or even removal) in tariff rates and custom duties; lowering of quotas that restrict specific quantities; and also removal of import bans. Trading partners are needed to be more concerned about issues relating to exchange rate policies, red tapes, etc. The idea is to open markets through progressive liberalization and materializes trading plans more efficiently among the trading partners.

4.3 Promoting Fair Competition:

WTO trading principles are meant to promote competition in the global market and facilitate fair and undisturbed market competition. WTO has allowed reduction in the tariff but member nations have right to levy countervailing duties³ on imports that have been subsidized and antidumping duties on imports that have been dumped⁴.

4.4 Predictability through Binding and transparency:

WTO members are required to bind their commitments to trading partners. This binding leads to ceiling of tariff and promise not to rise (alter) trade barriers. This gives market a clear picture of

¹ Covered under Article I of GATT, Article II of GATS, Article IV of TRIPS.

² Covered under Article III of GATT, Article XVII of GATS, Article III of TRIPS.

³ Countervailing duties (CVD) are meant to level the playing field between domestic producers of a product and foreign producers of the same product who can afford to sell it at a lower price because of the subsidy they receive from their government.

⁴ Dumped goods are those which are sold below price that are charged in the home market.

future opportunities which encourages investment, trade, jobs and brings more stability, transparency and predictability.

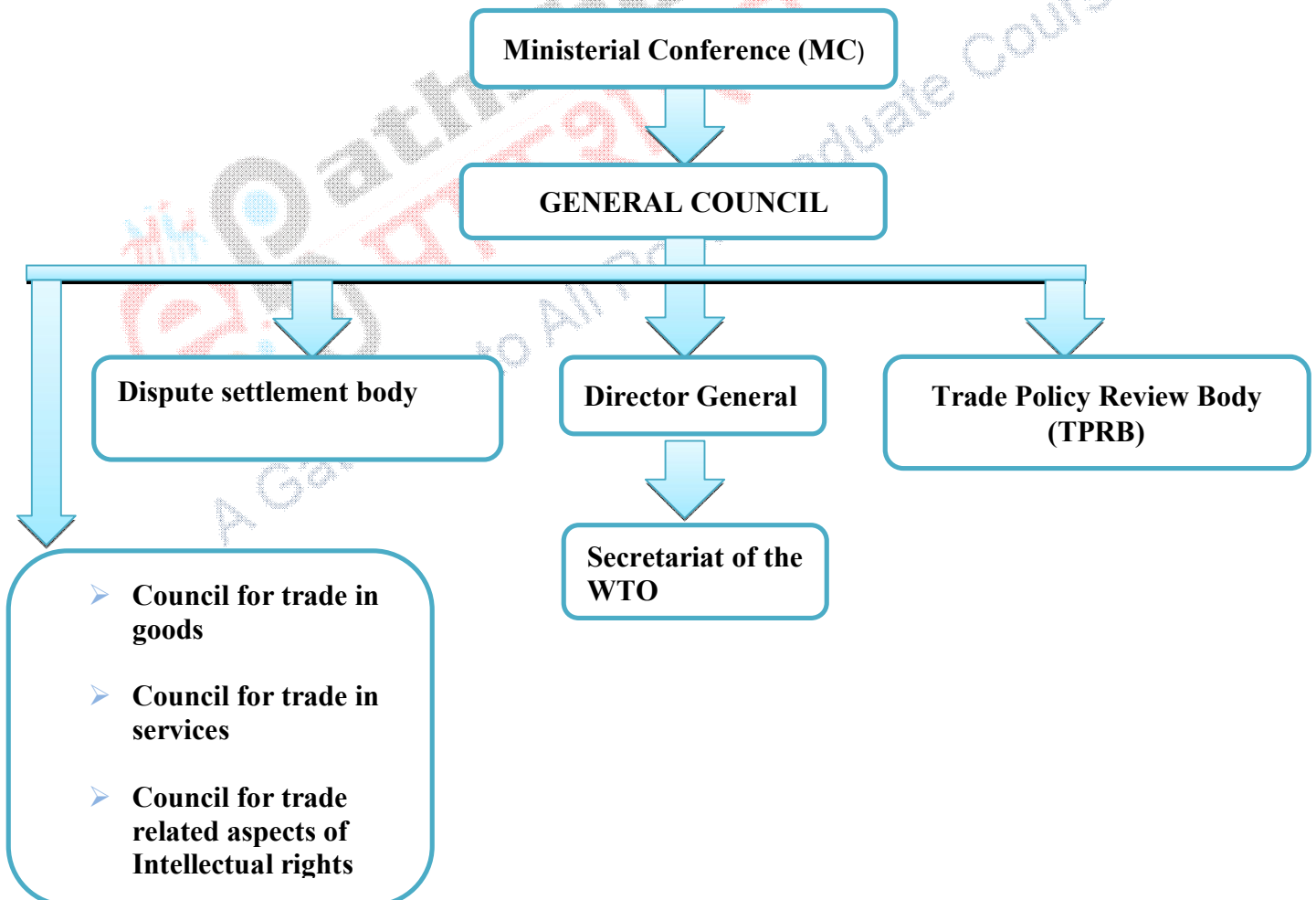
(Promising not to increase tariffs is called binding a tariff and binding leads to greater certainty for businesses which in turn leads to predictability)

4.5 Encouraging Social Development and Economic Reforms:

WTO principles are structured in a manner that supports economic reforms and social development. Not less than $\frac{3}{4}$ of WTO members are developing countries therefore WTO constantly comes up with reform measures that support and uplift them like special assistance and flexibility in time to implement WTO agreement, increasing bindings on developed countries and many more. The aim is to bring developing nations at par with the global trading market.

5. Structure and working of WTO

5.1 Structure of WTO



Ministerial Conference (MC)

At the top of the WTO structure is Ministerial conference (MC). It comprises of international trade ministers from all member countries. This governing body of WTO frames all strategic directions and takes all vital decisions on multilateral trade agreements. Decisions are generally taken by consensus but sometimes even voting may be done. Members of MC are required to meet at least once in two years.

General Council (GC)

General Council has senior representatives (generally ambassador level) from all member nations. Its job is to have a glance into day-to-day working and management of WTO. On the behalf of MC, General council is the decision making body. Large number of councils and committees report directly to GC.

Director General and Secretariat of WTO

The secretariat is headed by the Director General (DG) by MC for a period of four years. It has no decision making power but secretariat provides administrative services and advise.

Trade Dispute Settlement Body (DSB)

WTO resolves all quarrels among member nations under Dispute Settlement Body. DSB ensures smooth functioning of multilateral trade agreements; and enforcement of rules and principles of WTO.

Trade Policy Review Body

The body has all members of WTO and looks into the trade policy review mechanism. It regularly reviews the trade policies and practices of WTO members. It enhances transparency for better understanding of individual trade policies of each member nation.

Council for Trade in Goods, Trade in Services and Trade related aspects of intellectual rights

These three councils work under General Council. They are subsidiary bodies carrying specific responsibilities.

- Council for trade in goods looks into the implementation operation of GATT.
- Council for trade in services looks into the implementation operation of GATS.
- Council for trade related aspects of intellectual rights looks into the implementation operation of TRIPS.

Moreover, various committees have been established by WTO for operational work and even some committees are formed by WTO agreements itself.

5.2 Function of WTO

The establishment of the WTO is probably the most vital outcome of the Uruguay Round negotiations. Its structure, functions, etc. are regulated by the Marrakesh Agreement. The WTO has the role as explained below:

- Administering the WTO trade agreements
- Forum for trade negotiations
- Controlling trade disputes
- Supervision of national trade policies
- Providing technical reinforcement and training for developing countries
- Supporting other international organizations to achieve global economic growth⁵.

6. Rounds of negotiation in WTO

GATT had eight rounds of trade negotiations. The first six rounds were tariff reduction. It was the seventh round which took the issue of non-tariff barriers. The eighth round, popularly known as Uruguay Round, was a transition phase leading to the birth of World Trade Organization (WTO). The trade negotiation rounds of GATT are tabulated in Table 1.

Round	Name	Tenure	Achievements
FIRST	Geneva	April to October 1947	Signing of GATT, completed 123 negotiations, establishing 20 schedule containing the tariff reductions, 45,000 tariff concessions affecting \$10 billion of trade.
SECOND	Annecy	April to August 1949	Countries exchanged some 5,000 tariff concessions and accession of 10 more countries.
THIRD	Torquay	September 1950 to April 1951	Countries exchanged some 8,700 tariff concessions, cutting the

⁵ www.unescap.org

			1948 tariff levels by 25%, accession of 4 more countries.
FOURTH	Geneva II	January to May 1956	\$2.5 billion in tariff reductions
FIFTH	Dillon	September 1960 to July 1962	Tariff concessions worth \$4.9 billion of world trade
SIXTH	Kennedy	May 1964 to June 1967	Tariff concessions worth \$40 billion of world trade
SEVENTH	Tokyo	September 1973 to November 1979	Transitional phase covering non- tariff matters along with the tariff matters. Tariff reductions worth more than \$300 billion dollars achieved. Agreements on number of non-tariff issues like as subsidy, dumping, government procurement, technical barriers to trade, custom valuation, import licensing, civil aircraft, dairy and bovine meat.
EIGHTH	Uruguay	September 1986 to April 1994	The round led to the creation of WTO. The members of GATT signed the Marrakesh Agreement establishing the WTO in Marrakesh, Morocco at the conclusion of Uruguay Round on 15 th April, 1994. The agreement defines the scope, functions and structure of WTO

WTO, the successor of GATT, has Ministerial Conference as the highest ólevel decision-making body. As per Marrakesh Agreement Ministerial Conference meets to make vital decision on trade liberalization at least once in two years. Details of ministerial conferences held since the establishment of WTO are stated in Table 2.

Table2. Ministerial Conferences held under WTO			
Round	Name	Tenure	Achievements
FIRST	Singapore	9-13 December 1996	Giving a better shape to structure and working of GATT. Appreciating the success of GATT. Four major issues emerged including the disagreement between developed and developing nations known as "Singapore issues"
SECOND	Geneva	18-20 May 1998	
THIRD	Seattle	30 November- 3 December 1999	The conference ended in a failure, massive demonstration, and police intervention to control.
FOURTH	Doha	9-14 November 2001	The Doha development round was launched with a fundamental objective to enhance the trade performance of developing countries. Number of members reached 143.
FIFTH	Cancun	10-14 September 2003	Aim at forging agreement on Doha round. The talks broke down without progress.

SIXTH	Hong Kong	13-18 December 2005	. It was considered vital for the need to move Doha Development Agenda forward sufficiently. In this meeting, countries agreed to phase out all their agricultural export subsidies by the end of 2013. Terminate any cotton export subsidies by the end of 2006. Further concessions to developing countries were introduced.
SEVENTH	Geneva	30 November-2 December 2009	Issue covered was "The WTO, the Multilateral Trading System and the Current Global Economic Environment".
EIGHTH	Geneva	15-17 December 2011	Membership agreement where made for Russia, Samoa, and Montenegro
Ninth	Bali	3-6 December 2013	159 members of World Trade Organization agreed to the Bali Package which eases barriers to international trade

2. Summary

- GATT, the predecessor of WTO was formed after the Second World War. GATT adopted a non-discriminatory approach towards trade liberalization and covered most favored nation (MFN) principle and national special treatment.
- WTO was established as a formal international organization with effect from January 1, 1995. WTO works as a forum for trade liberalization and trade dispute settlement among member nations.
- WTO has a framework of policies binding to all member nations. The trading principles of WTO aim to encourage free movement of goods and services among member nations.
- WTO members are working towards non-discrimination; free and fair trade; predictability; and encouraging social development and economic reforms.
- Under GATT eight rounds of trade negotiations were covered. The eighth round, popularly known as Uruguay Round, was an important one leading to the formation of World Trade Organization (WTO).
- The structure of WTO has ministerial conference at the top which meets at least once in two year for framing all strategic directions and considering all vital decisions on multilateral trade agreements.
- Nine rounds of ministerial conference have been held. Most of these have been very controversial. Even the Doha Development Round has failed to bring about consensus amongst developed & developing nations. The main debate
- is over agricultural trade & trade subsidies.