

## UNIT - 3: TRADE NEGOTIATIONS

### LEARNING OUTCOMES

**At the end of this Unit, you will be able to:**

- ◆ Distinguish between different types of regional trade agreements
- ◆ Outline the course of the history of trade negotiations
- ◆ Describe the structure and guiding principles of the WTO
- ◆ Give an overview of the WTO agreements
- ◆ List out the major concerns in respect of functioning of the WTO

### UNIT OVERVIEW



### 3.1 INTRODUCTION

The recent years have seen intense bilateral and multilateral negotiations among different nations in the international arena. India, for example, has already become part of 19 such concluded agreements and is currently negotiating more than two dozens of such proposals. Major events in the year 2020, such as Britain's exit from the European Union, the new free

trade agreement [which is a successor of the North American Free Trade Agreement (NAFTA)] concluded between Canada, Mexico, and United States, namely United States–Mexico–Canada Agreement (USMCA) and many other unpredictable developments in the trade front due to trade war between the US and China and the global pandemic, make trade negotiations a highly relevant area of study.

National governments are not the sole stakeholders in a trade negotiation. Many interest groups, lobbying groups, pressure groups and Non-Governmental Organizations (NGO) exert their influence on the process. As anyone can guess, the positions taken by each of the negotiating parties would represent their underlying agenda of interests. For example, in trade negotiations, when one of the parties seems to be bargaining for market access through reduction in tariffs, the other (s) may be clamouring on the issue of possible grant of protection to domestic industries.

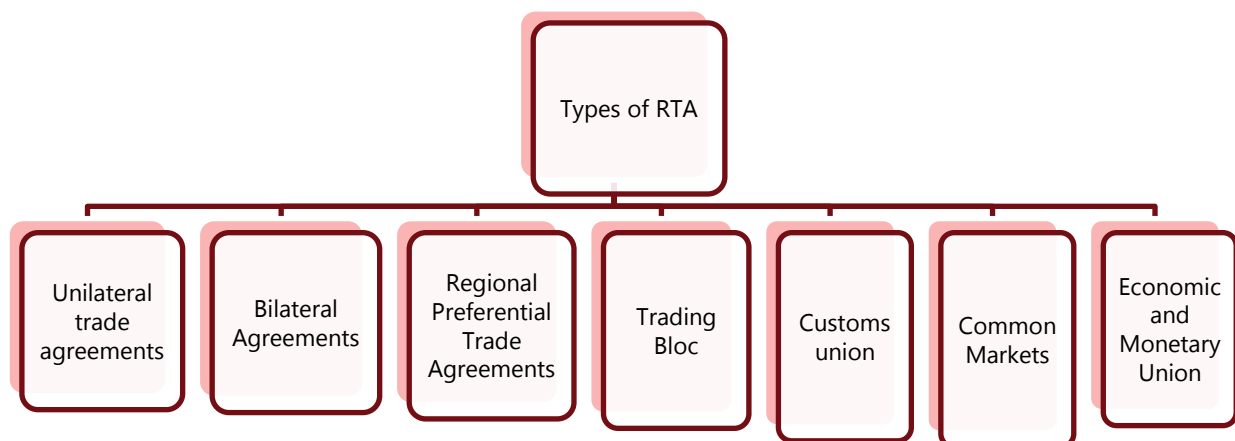
Before we go into the discussion on multilateral trade negotiations and the related institutions, it is relevant to understand the nature of regional as well as free trade agreements which evolve through negotiations.



### 3.2 TAXONOMY OF REGIONAL TRADE AGREEMENTS (RTAS)

Regional Trade Agreements (RTAs) are defined as groupings of countries (not necessarily belonging to the same geographical region), which are formed with the objective of reducing barriers to trade between member countries. In other words, a regional trade agreement (RTA) is a treaty between two or more governments that define the rules of trade for all signatories. As of 1 February 2021, 339 RTAs were in force.

Trade negotiations result in different types of agreements which are shown in the chart below-



1. **Unilateral trade agreements** under which an importing country offers trade incentives in order to encourage the exporting country, to engage in international economic activities that will improve the exporting country's economy. E.g. Generalized System of Preferences.
2. **Bilateral Agreements** are agreements that set rules of trade between two countries, two blocs or a bloc and a country. These may be limited to certain goods and services or certain types of market entry barriers. E.g. EU-South Africa Free Trade Agreement; ASEAN-India Free Trade Area.
3. **Regional Preferential Trade Agreements** among a group of countries reduce trade barriers on a reciprocal and preferential basis for only the members of the group. E.g. Global System of Trade Preferences among Developing Countries (GSTP)
4. **Trading Bloc** has a group of countries that have a free trade agreement between themselves and may apply a common external tariff to other countries. Example: Arab League (AL), European Free Trade Association (EFTA)
5. **Free-trade area** is a group of countries that eliminate all tariff and quota barriers on trade with the objective of increasing exchange of goods with each other. The trade among the member states flows tariff free, but the member states maintain their own distinct external tariff with respect to imports from the rest of the world. In other words, the members retain independence in determining their tariffs with non-members. Example: The ASEAN-India Free Trade Area (AIFTA) is a free trade area among the ten member states of the Association of Southeast Asian Nations (ASEAN) and India. it came into force on 1 August 2005
6. **A customs union** is a group of countries that eliminate all tariffs on trade among themselves but maintain a common external tariff on trade with countries outside the union (thus, technically violating MFN). The common external tariff which distinguishes a customs union from a free trade area implies that, generally, the same tariff is charged wherever a member imports goods from outside the customs union. The EU is a Customs Union; its 27 member countries form a single territory for customs purposes. Other examples are Gulf Cooperation Council (GCC), Southern Common Market (MERCOSUR).
7. **Common Market:** A Common Market deepens a customs union by providing for the free flow of output and of factors of production (labour, capital and other productive resources) by reducing or eliminating internal tariffs on goods and by creating a common set of external tariffs. The member countries attempt to harmonize some institutional arrangements and commercial and financial laws and regulations among themselves. There are also common barriers against non-members (e.g., EU, ASEAN)

8. **Economic and Monetary Union:** For a common market, the free transit of goods and services through the borders increases the need for foreign exchange operations and results in higher financial and administrative expenses of firms operating within the region. The next stage in the integration sequence is formation of some form of monetary union. In an Economic and Monetary Union, the members share a common currency. Adoption of common currency also makes it necessary to have a strong convergence in macroeconomic policies. For example, the European Union countries implement and adopt a single currency.

There has been significant growth in international trade since the end of the Second World War, mostly due to the multilateral trade system which is both a political process and a set of political institutions. It is a political process because it is based on negotiations and bargaining among sovereign governments based on which they arrive at rules governing trade between or among themselves. The political institutions that facilitate trade negotiations, and support international trade cooperation by providing the rules of the game have been the former General Agreements on Tariffs and Trade (GATT) and the World Trade Organization (WTO).



### 3.3 THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

The General Agreement on Tariffs and Trade (GATT) covers international trade in goods. The workings of the GATT agreement are the responsibility of the Council for Trade in Goods (Goods Council) which is made up of representatives from all WTO member countries. The Goods Council has 10 committees dealing with specific subjects (such as agriculture, market access, subsidies, anti-dumping measures, and so on). Again, these committees consist of all member countries.

Also reporting to the Goods Council are a working party on state trading enterprises, and the Information Technology Agreement (ITA) Committee.

The GATT lost its relevance by the 1980s because

- it was obsolete to the fast-evolving contemporary complex world trade scenario characterized by emerging globalisation
- international investments had expanded substantially
- intellectual property rights and trade in services were not covered by GATT
- world merchandise trade increased by leaps and bounds and was beyond its scope.
- the ambiguities in the multilateral system could be heavily exploited
- efforts at liberalizing agricultural trade were not successful

- there were inadequacies in institutional structure and dispute settlement system
- it was not a treaty and therefore terms of GATT were binding only insofar as they are not incoherent with a nation's domestic rules.



### **3.4 THE URUGUAY ROUND AND THE ESTABLISHMENT OF WTO**

The need for a formal international organization which is more powerful and comprehensive was felt by many countries by late 1980s. Having settled the most ambitious negotiating agenda that covered virtually every outstanding trade policy issue, the Uruguay Round brought about the biggest reform of the world's trading system. Members established 15 groups to work on limiting restrictions in the areas of tariffs, non-tariff barriers, tropical products, natural resource products, textiles and clothing, agriculture, safeguards against sudden 'surges' in imports, subsidies, countervailing duties, trade related intellectual property restrictions, trade related investment restrictions, services and four other areas dealing with GATT itself, such as, the GATT system, dispute settlement procedures and implementation of the NTB Codes of the Tokyo Round, especially on anti-dumping.

The Round started in Punta del Este in Uruguay in September 1986 and was scheduled to be completed by December 1990. However, due to many differences and especially due to heated controversies over agriculture, no consensus was arrived at. Finally, in December 1993, the Uruguay Round, the eighth and the most ambitious and largest ever round of multilateral trade negotiations in which 123 countries participated, was completed after seven years of elaborate negotiations. The agreement was signed by most countries on April 15, 1994, and took effect on July 1, 1995. It also marked the birth of the World Trade Organization (WTO) which is the single institutional framework encompassing the GATT, as modified by the Uruguay Round.



### **3.5 THE WORLD TRADE ORGANIZATION (WTO)**

The World Trade Organization (WTO) is the only global international organization dealing 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 ratified in their parliaments. The goal is to ensure that trade flows as smoothly, predictably, and freely as possible. The principal objective of the WTO is to facilitate the flow of international trade smoothly, freely, fairly, and predictably.

The WTO has six key objectives:

1. to set and enforce rules for international trade,
2. to provide a forum for negotiating and monitoring further trade liberalization,
3. to resolve trade disputes,
4. to increase the transparency of decision-making processes,
5. to cooperate with other major international economic institutions involved in global economic management, and
6. to help developing countries benefit fully from the global trading system.

The objectives of the WTO Agreements as acknowledged in the preamble of the Agreement creating the World Trade Organization, include “raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services. The WTO, whose primary purpose is to open trade for the benefit of all, does its functions by acting as a forum for trade negotiations among member governments, administering trade agreements, reviewing national trade policies, assisting developing countries in trade policy issues, through technical assistance and training programmes and cooperating with other international organizations

### **3.5.1 The Structure of the WTO**

The WTO activities are supported by a Secretariat located in Geneva, headed by a Director General. It has a three-tier system of decision making. The WTO’s top-level decision-making body is the Ministerial Conference which can take decisions on all matters under any of the multilateral trade agreements. The Ministerial Conference meets at least once every two years. The next level is the General Council which meets several times a year at the Geneva headquarters. The General Council also meets as the Trade Policy Review Body and the Dispute Settlement Body. At the next level, the Goods Council, Services Council and Intellectual Property (TRIPS) Council report to the General Council. These councils are responsible for overseeing the implementation of the WTO agreements in their respective areas of specialisation. The WTO Secretariat maintains working relations with almost 200 international organisations in activities ranging from statistics, research, standard-setting, and technical assistance and training. Numerous specialized committees, working groups and working parties deal with the individual agreements and other areas such as the environment, development, membership applications and regional trade agreements.

The WTO accounting for about 95% of world trade currently has 164 members, of which 117 are developing countries or separate customs territories. Around 24 others are negotiating membership. The WTO’s agreements have been ratified in all members’ parliaments.

### 3.5.2 The Guiding Principles of World Trade Organization (WTO)

Right from its inception, the WTO has been driven by a number of fundamental principles which are the foundations of the multilateral trading system. Following are the major guiding principles:

Trade without discrimination

1. **Most-favoured-nation (MFN):** treating other people equally Under the WTO agreements, countries cannot normally discriminate between their trading partners. Grant someone a special favour (such as a lower customs duty rate for one of their products) and you have to do the same for all other WTO members.

This principle is known as most-favoured-nation (MFN) treatment (see box). It is so important that it is the first article of the General Agreement on Tariffs and Trade (GATT), which governs trade in goods. MFN is also a priority in the General Agreement on Trade in Services (GATS) (Article 2) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) (Article 4), although in each agreement the principle is handled slightly differently. Together, those three agreements cover all three main areas of trade handled by the WTO.

Some exceptions are allowed. For example, countries can set up a free trade agreement that applies only to goods traded within the group — discriminating against goods from outside. Or they can give developing countries special access to their markets. Or a country can raise barriers against products that are considered to be traded unfairly from specific countries. And in services, countries are allowed, in limited circumstances, to discriminate. But the agreements only permit these exceptions under strict conditions. In general, MFN means that every time a country lowers a trade barrier or opens up a market, it has to do so for the same goods or services from all its trading partners — whether rich or poor, weak or strong.

2. **National treatment:** Treating foreigners and locals equally Imported and locally-produced goods should be treated equally — at least after the foreign goods have entered the market. The same should apply to foreign and domestic services, and to foreign and local trademarks, copyrights and patents. This principle of “national treatment” (giving others the same treatment as one’s own nationals) is also found in all the three main WTO agreements (Article 3 of GATT, Article 17 of GATS and Article 3 of TRIPS), although once again the principle is handled slightly differently in each of these.

National treatment only applies once 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 locally-produced products are not charged an equivalent tax.

### 3.5.3 Overview of the WTO agreements

**Freer trade: gradually, through negotiation**

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

The WTO agreements allow countries to introduce changes gradually, through “progressive liberalization”. Developing countries are usually given longer to fulfil their obligations.

**Predictability: through binding and transparency**

Sometimes, promising not to raise a trade barrier can be as important as lowering one, because the promise gives businesses a clearer view of their future opportunities. With stability and predictability, investment is encouraged, jobs are created and consumers can fully enjoy the benefits of competition — choice and lower prices.

In the WTO, when countries 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 countries tax imports at rates that are lower than the bound rates. Frequently this is the case in developing countries. In developed countries, the rates actually charged and the bound rates tend to be the same.

A country can change its bindings, but only after negotiating with its trading partners, which could mean compensating them for loss of trade. One of the achievements of the Uruguay Round of multilateral trade talks was to increase the amount of trade under binding commitments. In agriculture, 100% of products now have bound tariffs. The result of all this: is a substantially higher degree of market security for traders and investors.

The system tries to improve predictability and stability in other ways as well. One way is to discourage the use of quotas and other measures used to set limits on quantities of imports — administering quotas can lead to more red-tape and accusations of unfair play. Another is to make countries’ trade rules as clear and public (“transparent”) as possible. Many WTO agreements require governments to disclose their policies and practices publicly within the country or by notifying the WTO. The regular surveillance of national trade policies through the Trade Policy Review Mechanism provides a further means of encouraging transparency both domestically and at the multilateral level.

**Promoting fair competition**

The WTO is sometimes described as a “free trade” institution, but that is not entirely accurate. The system does allow tariffs and, in limited circumstances, other forms of protection. More accurately, it is a system of rules dedicated to open, fair, and undistorted competition.



The rules on non-discrimination — MFN and national treatment — are designed to secure fair conditions of trade. So too are those on dumping (exporting at below cost to gain market share) and subsidies. 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.

Many of the other WTO agreements aim to support fair competition: in agriculture, intellectual property, services, for example. The agreement on government procurement (a “plurilateral” agreement because it is signed by only a few WTO members) extends competition rules to purchases by thousands of government entities in many countries. And so on.

### **Encouraging development and economic reform**

The WTO system contributes to development. On the other hand, developing countries need flexibility in the time they take to implement the system’s agreements. And the agreements themselves inherit the earlier provisions of GATT that allow for special assistance and trade concessions for developing countries.

Over three-quarters of WTO members are developing countries and countries in transition to market economies. During the seven and a half years of the Uruguay Round, over 60 of these countries implemented trade liberalization programmes autonomously. At the same time, developing countries and transition economies were much more active and influential in the Uruguay Round negotiations than in any previous round, and they are even more so in the current Doha Development Agenda.

At the end of the Uruguay Round, developing countries were prepared to take on most of the obligations that are required of developed countries. But the agreements did give them transition periods to adjust to the more unfamiliar and, perhaps, difficult WTO provisions — particularly so for the poorest, “least-developed” countries. A ministerial decision adopted at the end of the round says better-off countries should accelerate implementing market access commitments on goods exported by the least-developed countries, and it seeks increased technical assistance for them. More recently, developed countries have started to allow duty-free and quota-free imports for almost all products from least-developed countries. On all of this, the WTO and its members are still going through a learning process. The current Doha Development Agenda includes developing countries’ concerns about the difficulties they face in implementing the Uruguay Round agreements.

### **WTO Agreements**

The WTO agreements cover goods, services and intellectual property and the permitted exceptions. These agreements are often called the WTO’s trade rules, and the WTO is often described as “rules-based”, a system based on rules. (The rules are actually agreements that the governments negotiated).

Following are the important agreements under WTO. Since a thorough discussion on the features of each agreement is beyond the scope of this unit, only the major provisions are given below:

1. Agreement on Agriculture aims at strengthening GATT disciplines and improving agricultural trade. It includes specific and binding commitments made by WTO Member governments in the three areas of market access, domestic support and export subsidies.
2. Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures establishes multilateral frameworks for the planning, adoption and implementation of sanitary and phytosanitary measures to prevent such measures from being used for arbitrary or unjustifiable discrimination or for camouflaged restraint on international trade and to minimize their adverse effects on trade.
3. Agreement on Textiles and Clothing replaced the Multi-Fibre Arrangement (MFA) which was prevalent since 1974 and entailed import protection policies. ATC provides that textile trade should be deregulated by gradually integrating it into GATT disciplines over a 10-year transition period.
4. Agreement on Technical Barriers to Trade (TBT) aims to prevent standards and conformity assessment systems from becoming unnecessary trade barriers by securing their transparency and harmonization with international standards. Often excessive standards or misuse of standards in respect of manufactured goods, and safety/environment regulations act as trade barriers.
5. Agreement on Trade-Related Investment Measures (TRIMs) expands disciplines governing investment measures in relation to cross-border investments. It stipulates that countries receiving foreign investments shall not impose investment measures such as requirements, conditions and restrictions inconsistent with the provisions of the principle of national treatment and general elimination of quantitative restrictions. For example: measures such as local content requirements and trade balancing requirements should not be applied on investing corporations.
6. Anti-Dumping Agreement seeks to tighten and codify disciplines for calculating dumping margins and conducting dumping investigations, etc. in order to prevent anti-dumping measures from being abused or misused to protect domestic industries.
7. Customs Valuation Agreement specifies rules for more consistent and reliable customs valuation and aims to harmonize customs valuation systems on an international basis by eliminating arbitrary valuation systems.
8. Agreement on Pre-shipment Inspection (PSI) intends to secure transparency of pre-shipment inspection wherein a company designated by the importing country

conducts inspection of the quality, volume, price, tariff classification, customs valuation, etc. of merchandise in the territory of the exporting country on behalf of the importing country's custom office and issues certificates. The agreement also provides for a mechanism for the solution of disputes between PSI agencies and exporters.

9. Agreement on Rules of Origin provides for the harmonization of rules of origin for application to all non-preferential commercial policy instruments. It also provides for dispute settlement procedures and creates the rules of origin committee.
10. Agreement on Import Licensing Procedures relates to simplification of administrative procedures and to ensure their fair operation so that import licensing procedures of different countries may not act as trade barriers.
11. Agreement on Subsidies and Countervailing Measures aims to clarify definitions of subsidies, strengthen disciplines by subsidy type and to strengthen and clarify procedures for adopting countervailing tariffs.
12. Agreement on Safeguards clarify disciplines for requirements and procedures for imposing safeguards and related measures which are emergency measures to restrict imports in the event of a sudden surge in imports.
13. General Agreement on Trade in Services (GATS): This agreement provides the general obligations regarding trade in services, such as most-favoured-nation treatment and transparency. In addition, it enumerates service sectors and stipulates that in the service sectors for which it has made commitments, a member country cannot maintain or introduce market access restriction measures and discriminatory measures that are severer than those that were committed during the negotiations.
14. Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS): This agreement stipulates most-favoured-nation treatment and national treatment for intellectual properties, such as copyright, trademarks, geographical indications, industrial designs, patents, IC layout designs and undisclosed information. In addition, it requires member countries to maintain high levels of intellectual property protection and to administer a system of enforcement of such rights. It also stipulates procedures for the settlement of disputes related to the agreement.
15. Trade Policy Review Mechanism (TPRM) provides the procedures for the trade policy review mechanism to conduct periodical reviews of members' trade policies and practices conducted by the Trade Policy Review Body (TPRB).
16. Plurilateral Trade Agreements: Multilateral negotiations are those negotiations involving the entire WTO contracting parties. The Plurilateral trade agreements involve several countries with a common interest but do not involve all WTO countries. Not all the plurilateral agreements are negotiated within the WTO framework.

All the above-mentioned agreements entered into by the members are not static; they are renegotiated from time to time and new agreements evolve from negotiations. Example: Many agreements were negotiated under the Doha Development Agenda, launched by WTO trade ministers in Doha, Qatar, in November 2001.

### 3.6 THE DOHA ROUND

The Doha Round, formally the Doha Development Agenda, which is the ninth round since the Second World War was officially launched at the WTO's Fourth Ministerial Conference in Doha, Qatar, in November 2001. The round seeks to accomplish major modifications of the international trading system through lower trade barriers and revised trade rules. The negotiations include 20 areas of trade, including agriculture, services trade, market access for non-agricultural products (NAMA), trade in services, trade facilitation, environment, geographical indications and certain intellectual property issues. The most controversial topic in the Doha Agenda was agriculture trade.

### 3.7 G 20 ECONOMIES: FACILITATING TRADE

While some trade-restrictive measures have been lifted by G20 countries, the report indicates that the trend has been going in the wrong direction. Export restrictions contribute to shortages, price volatility, and uncertainty. G20 economies must build on their collective pledges from the 12<sup>th</sup> Ministerial Conference and demonstrate leadership to keep markets open and predictable, so that food and fertilizer in particular can flow to where they are needed," said WTO Director-General Ngozi Okonjo-Iweala, who will be attending the G20 Leaders' Summit in Bali, Indonesia, on 15-16 November.

The report indicates that supply chains on the whole have thus far proved to be resilient, despite the war in Ukraine, the continuing impacts of the COVID-19 pandemic, the highest inflation many countries have experienced in decades, and the impacts of monetary tightening by central banks seeking to limit price increases. That said, specific industries and regions have been differently impacted.

Overall, the pace of implementation of new export restrictions by WTO members has increased since 2020, first in the context of the pandemic and subsequently with the war in Ukraine and the food crisis. Some of these export restrictions have been gradually lifted, but several still remain in place.

As of mid-October 2022, WTO members still had in place 52 export restrictions on food, feed and fertilizers, in addition to 27 export restrictions on products essential to combat COVID-

19. Of these, 44% of the export restrictions on food, feed and fertilizers, and 63% of the pandemic-related export restrictions, were maintained by G20 economies.

During the review period, G20 economies introduced 66 new trade-facilitating measures (covering trade worth USD 451.8 billion) and 47 trade-restrictive measures on goods (with a trade coverage of USD 160.1 billion). These measures were not related to the pandemic.

At the same time, the accumulated stockpile of G20 import restrictions continued to grow. By mid-October, 11.6% of G20 imports were affected by trade-restricting measures implemented since 2009 and still in force.

Initiations of trade remedy investigations by G20 economies declined sharply during the review period (17 initiations), after a peak in 2020 that was the highest since the beginning of the trade monitoring exercise in 2009. Anti-dumping measures continued to be the most frequent trade remedy action in terms of initiations and terminations.

Similarly, the implementation of new COVID-19-related trade measures by G20 economies decelerated over the past five months, with four new such measures recorded on goods and one on services. The number of new COVID-19-related support measures to mitigate the social and economic impacts of the pandemic also fell sharply over the past five months.

Since the beginning of the pandemic, 201 COVID-19 trade and trade-related measures in goods were implemented by G20 economies. Most (61%) were trade facilitating, while the rest (39%) could be considered trade restrictive.

G20 economies also continued to phase out pandemic-related import and export measures. By mid-October 2022, 77% of export restrictions had been repealed, leaving 17 restrictions in place. Although the number of the pandemic-related trade restrictions in place decreased, their trade coverage remained significant, at USD 122.0 billion.

The WTO trade monitoring reports have been prepared by the WTO Secretariat since 2009. G20 members are: Argentina; Australia; Brazil; Canada; China; the European Union; France; Germany; India; Indonesia; Italy; Japan; the Republic of Korea; Mexico; the Russian Federation; Saudi Arabia; South Africa; Türkiye; the United Kingdom; and the United States.

## SUMMARY

- ◆ International trade negotiations, especially the ones aimed at formulation of international trade rules, are complex interactive processes engaged in by countries having competing objectives.
- ◆ Regional Trade Agreements (RTAs) are defined as groupings of countries (not necessarily belonging to the same geographical region) which are formed with the objective of reducing barriers to trade between member countries.

- ◆ Trade negotiations result in different types of agreements, namely: unilateral trade agreements, bilateral agreements, regional preferential trade agreements, trading bloc, free-trade area, customs union, common market and economic and monetary union.
- ◆ The General Agreement on Tariffs and Trade (GATT) provided the rules for most of the world trade for 47 years, from 1948 to 1994.
- ◆ Eight multilateral negotiations known as "trade rounds "held under the auspices GATT resulted in substantial international trade liberalization.
- ◆ The eighth of the Uruguay Round of 1986-94, was the last and most consequential of all rounds and culminated in the birth of WTO and a new set of agreements replacing the General Agreement on Tariffs and Trade (GATT).
- ◆ The principal objective of the WTO is to facilitate the flow of international trade smoothly, freely, fairly and predictably.
- ◆ The WTO does its functions by acting as a forum for trade negotiations among member governments, administering trade agreements, reviewing national trade policies, cooperating with other international organizations and assisting developing countries in trade policy issues through technical assistance and training programmes.
- ◆ The WTO activities are supported by the Secretariat located in Geneva, headed by a Director General. It has a three-tier system of decision making. The top-level decision-making body is the Ministerial Conference, followed by councils namely, the General Council and the Goods Council, Services Council and Intellectual Property (TRIPS) Council.
- ◆ The WTO, accounting for about 95% of world trade, currently has 164 members, of which 117 are developing countries or separate customs territories.
- ◆ The major guiding principles of the WTO are trade without discrimination, most-favoured-nation treatment (MFN), the national treatment principle (NTP), free trade, predictability, general prohibition of quantitative restrictions, greater competitiveness, tariffs as legitimate measures for protection, transparency in decision making, progressive liberalization, market access and a transparent, effective and verifiable dispute settlement mechanism.
- ◆ The important agreements under WTO are on agriculture, (SPS) measures, textiles and clothing, technical barriers to trade (TBT), trade-related investment measures (TRIMs), anti-dumping, customs valuation, pre-shipment inspection (PSI) , rules of origin, import licensing procedures, subsidies and countervailing measures , safeguards, trade in services (GATS), intellectual property rights (TRIPS), settlement of disputes (DSU), trade

policy review mechanism (TPRM) and plurilateral trade agreements on trade in civil aircraft and government procurement.

- ◆ The Doha Round, formally the Doha Development Agenda, which is the ninth round since the Second World War was officially launched at the WTO's Fourth Ministerial Conference in Doha, Qatar, in November 2001.
- ◆ The major issues related to the WTO are in respect of slow progress of multilateral negotiations, uncertainties resulting from regional trade agreements, inadequate or negligible trade liberalisation, and those which are specific to the developing countries, namely, protectionism and lack of willingness among developed countries to provide market access, difficulties that they face in implementing the present agreements, apparent north-south divide, exceptionally high tariffs, tariff escalation, erosion of preferences and difficulties with regards to adjustments.

## TEST YOUR KNOWLEDGE

### Multiple Choice Type Questions

1. Which of the following culminated in the establishment of the World Trade Organization?
  - (a) The Doha Round
  - (b) The Tokyo Round
  - (c) The Uruguay Round
  - (d) The Kennedy Round
2. Choose the correct statement
  - (a) The GATT was meant to prevent exploitation of poor countries by richer countries
  - (b) The GATT dealt with trade in goods only, while, the WTO covers services as well as intellectual property.
  - (c) All members of the World Trade Organization are required to avoid tariffs of all types
  - (d) All the above
3. The 'National treatment' principle stands for
  - (a) the procedures within the WTO for resolving disagreements about trade policy among countries

- (b) *the principle that imported products are to be treated no worse in the domestic market than the local ones*
  - (c) *exported products are to be treated no worse in the domestic market than the local ones*
  - (d) *imported products should have the same tariff, no matter where they are imported from*
4. *'Bound tariff' refers to*
- (a) *clubbing of tariffs of different commodities into one common measure*
  - (b) *the lower limit of the tariff below which a nation cannot be taxing its imports*
  - (c) *the upper limit on the tariff that a country can levy on a particular good, according to its commitments under the GATT and WTO.*
  - (d) *the limit within which the country's export duty should fall so that there are cheaper exports*
5. *The essence of 'MFN principle' is*
- (a) *equality of treatment of all member countries of WTO in respect of matters related to trade*
  - (b) *favour one, country, you need to favour all in the same manner*
  - (c) *every WTO member will treat all its trading partners equally without any prejudice and discrimination*
  - (d) *all the above*
6. *The World Trade Organization (WTO)*
- (a) *has now been replaced by the GATT*
  - (b) *has an inbuilt mechanism to settle disputes among members*
  - (c) *was established to ensure free and fair trade internationally.*
  - (d) *(b) and c) above*
7. *The Agreement on Agriculture includes explicit and binding commitments made by WTO Member governments*
- (a) *on increasing agricultural productivity and rural development*
  - (b) *market access and agricultural credit support*
  - (c) *market access, domestic support and export subsidies*



- (d) *market access, import subsidies and export subsidies*
8. *The Agreement on Textiles and Clothing*
- (a) *provides that textile trade should be deregulated gradually and the tariffs should be increased*
- (b) *replaced the Multi-Fiber Arrangement (MFA) which was prevalent since 1974*
- (c) *granted rights of textile exporting countries to increase tariffs to protect their domestic textile industries*
- (d) *stipulated that tariffs in all countries should be the same*
9. *The Agreement on Trade-Related Aspects of Intellectual Property Rights*
- (a) *stipulates to administer a system of enforcement of intellectual property rights.*
- (b) *provides for most-favoured-nation treatment and national treatment for intellectual properties*
- (c) *mandates to maintain high levels of intellectual property protection by all members*
- (d) *all the above*
10. *The most controversial topic in the yet to conclude Doha Agenda is*
- (a) *trade in manufactured goods*
- (b) *trade in intellectual property rights-based goods*
- (c) *trade in agricultural goods*
- (d) *market access to goods from developed countries*
11. *The WTO commitments*
- (a) *affect developed countries adversely because they have comparatively less agricultural goods*
- (b) *affect developing countries more because they need to make radical adjustments*
- (c) *affect both developed and developing countries equally*
- (d) *affect none as they increase world trade and ensure prosperity to all*

## ANSWERS

1.	(c)	2.	(b)	3.	(b)	4.	(c)	5.	(d)	6	(d)
7.	(c)	8.	(b)	9.	(d)	10.	(c)	11.	(b)		