UNIT 11 WTO AND INDIA’S TRADE POLICY

Structure

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11.0 OBJECTIVES

After going through the unit, you should be able to:

- answer what is World Trade Organisation (WTO);
- appreciate evolution of World Trade Organisation (WTO) from General Agreement on Tariffs and Trade (GATT);
- state the objectives of WTO;
- discuss the different trade agreements under WTO; and
- identify the impacts of WTO on Indian Economy.

11.1 INTRODUCTION

The World Trade Organisation (WTO) is the only global international organisation which facilitates the free flow of goods and services across the world by setting the rules of trade among nations. It came into existence on 1st January 1995 as the result of the 8th round of GATT negotiations called the Uruguay round, replacing the GATT agreement. As a global organisation, it
has 164 member nations and 22 observer states. (Afghanistan, being the newest member, who joined the WTO in early 2016 as 164th member). It was established mainly with the same goal as that of the GATT agreement, but has more powers than its predecessor. WTO has wider responsibilities of setting new rules of trading goods and services, international investments and protection of intellectual property rights. The basic objective of WTO is to increase the global income as a result of increased trade and the overall enhancement of the prosperity levels of the member states.

11.2 ORIGIN OF WTO

The Bretton Woods Conference, officially known as the United Nations Monetary and Financial Conference, was a gathering of delegates from 44 nations that met from July 1 to 22, 1944 in Bretton Woods. Three major creations of the conference were:

1) International Monetary Fund (IMF)
2) International Bank for Reconstruction and Development (IBRD), popularly known as The World Bank.
3) International Trade Organisation.

International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD) came into force in December 1947, but, The international trade organisation could not come into existence as its charter was never approved by the Senate of United States of America.

The General Agreements on Tariffs and Trade (GATT) came into existence in Geneva in 1947. Twenty three countries including India were the founder members of GATT. GATT was not an official origination which could enforce the decision. It was just an agreement between member countries that were involved in international trade.

The main purpose of GATT was to reduce tariffs and non-tariff barriers from world trade and ensure competition by reducing barriers and eliminating discrimination in international trade. The aims of GATT were: Expansion of the volume of international trade, Increase in world production and productivity, Development and Full Utilisation of the Resources, and Improve standard of living of the world community as a whole.

GATT is based on the following fundamental principles

1) Trade should be conducted in a non-discriminatory way
2) Eliminations of non-tariff barriers
3) Disagreements should be resolved through consultations.

As per its mandate, GATT progressed and expanded its scope in terms of areas covered by a series of trade rounds. Eight such rounds of negotiations were held under GATT (Table 11.1).
<table>
<thead>
<tr>
<th>Year</th>
<th>Place or Name of Round</th>
<th>Main Subjects</th>
<th>Number of Countries Involved</th>
</tr>
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<tbody>
<tr>
<td>1947</td>
<td>Geneva</td>
<td>Tariff reduction</td>
<td>23</td>
</tr>
<tr>
<td>1949</td>
<td>Annecy</td>
<td>Tariff reduction</td>
<td>13</td>
</tr>
<tr>
<td>1951</td>
<td>Torquay</td>
<td>Tariff reduction</td>
<td>38</td>
</tr>
<tr>
<td>1956</td>
<td>Geneva</td>
<td>Tariff reduction</td>
<td>26</td>
</tr>
<tr>
<td>1960–61</td>
<td>Dillon round</td>
<td>Tariff reduction</td>
<td>26</td>
</tr>
<tr>
<td>1964–67</td>
<td>Kennedy round</td>
<td>Tariffs, anti-dumping measures</td>
<td>62</td>
</tr>
<tr>
<td>1973–79</td>
<td>Tokyo round</td>
<td>Tariffs, nontariff barriers</td>
<td>102</td>
</tr>
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<td>1986–94</td>
<td>Uruguay round</td>
<td>Tariffs, nontariff barriers, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO</td>
<td>123</td>
</tr>
<tr>
<td>2001–</td>
<td>Doha round</td>
<td>Agriculture, services, intellectual property, competition, investment, environment, dispute settlement</td>
<td>147</td>
</tr>
</tbody>
</table>

After the eighth round meeting of GATT in Uruguay, 123 member countries agreed to establish a trade organisation. As a result, WTO was established on 1 Jan. 1995 and it’s headquarter was set up in Geneva, Switzerland, Doha Development round (2001) was the first round under the WTO.

One significant feature of WTO treaty is its self-executive nature. Its provisions over-ride any national legislations which are contrary to WTO charter.

### 11.3 OBJECTIVES OF WTO

Important objectives of WTO are to:

1. implement the new world trade system as visualised in the Agreement;
2. promote World Trade in a manner that benefits every country;
3. ensure that developing countries secure a better balance in sharing of the advantages resulting from the expansion of international trade corresponding to their developmental needs;
4. demolish all hurdles to an open world trading system and usher in international economic renaissance because the world trade is an effective instrument to faster economic growth;
v) enhance competitiveness among all trading partners so as to benefit consumers and help in global integration;

vi) increase the level of production and productivity with a view to ensure high level of employment in the world;

vii) expand and utilise world resources to the best;

viii) improve the level of living for the global population and speed up economic development of the member nations.

Guiding Principles of WTO are as follows:

- Non Discriminatory and rule based trading system where foreign goods and services should receive the same treatment as domestic goods.

- Trade Barriers (tariffs and non-tariff barriers) should be dismantled and international trade should be free.

- Less Developed countries should receive preferential terms of trade.

### 11.4 STRUCTURE OF WTO

WTO is not an agency of UNO like IMF and World Bank. It has its independent status as it acts autonomously at the behest of its membership. It is democratic in nature as it follows “one country one vote” principle.

Organisational structure of WTO consists of 4 different levels, listed as follows:

**Level 1 - Ministerial Conference (MC)** is at the apex of the structural organisation of the WTO. It is the supreme forum which takes ultimate decisions on multilateral trade Agreements (MTA). Ministerial Conference (MC) meets at least once in every two year.

**Level 2 - The General Council (GC)** is composed of the representatives of all the members. General Council acts on behalf of the MC and report to Ministerial Council. It also acts as the Dispute Settlement Body as well as the Trade Policy Review Body.

**Level 3** - There are three councils – the Goods Council, the Services Council and the council of Trade-Related Aspects of Intellectual Property Rights (TRIPS) operating under the GC. These councils deal with different areas and report to the General council. Further, there are three Committees: the Committee on Trade and Development (CTD), the Committee on Balance of Payments Restrictions (CBOPR), and the Committee on Budget, Finance and Administration (CF A) which execute the functions assigned to them by E- WTO Agreement and the GC.

**Level 4** - There are some committees and working Groups which work on specialised subjects and report to the higher level council.

Ministerial Conference appoints a Director General (DG) who is head of The Secretariat and have administration responsibility. He has the tenure of four years. He is assisted by the four Deputy Directors from different member countries. Director General presents the annual budget estimates and financial statement of the WTO to the CBFA for review and recommendations for the final approval by the GC.
Check Your Progress 1

1) What is WTO?

2) What was GATT?

3) State objectives and guiding principles of WTO.

4) What is the organisational structure of WTO?

11.5 TRADE AGREEMENTS

The WTO oversees about sixty different agreements which have the status of international legal texts. Member countries are expected to sign and ratify all WTO agreements on accession. Important agreements are given below:

11.5.1 General Agreements on Trade in Services (GATS)

General agreements on trade in services (GATS) came into existence in the Uruguay round. The agreement covers all internationally traded services such as tourism, telecommunications, professional services, banking etc but GATS do not includes (i) government services (ii) Air transport services and traffic right.
The agreement defines four modes of trading services

**Mode 1: Cross-border supply** - Service supplied within the territory of the Member, from the territory of another Member, e.g. international phone calls, banking, mail etc.

**Mode 2: Consumption abroad** - Services consumer moves into another member’s territory to obtain the services. e.g. Tourism, medical treatments, education.

**Mode 3: Commercial presence** - Service delivered within the territory of the Member by setting up subsidiary or branches through the commercial presence of the supplier. e.g a foreign bank setting a branch in a member country.

**Mode 4: Presence of a natural person** - It involve the admission of foreign individuals to another country to provide services.

<table>
<thead>
<tr>
<th>Mode</th>
<th>Criteria</th>
<th>Supplier Presence</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mode 1</strong></td>
<td>Cross-border supply</td>
<td>1. Service delivered within the territory of the Member, from the territory of another Member.</td>
</tr>
<tr>
<td><strong>Mode 2</strong></td>
<td>Consumption abroad</td>
<td>2. Service delivered outside the territory of the Member, in the territory of another Member, to a service consumer of the Member.</td>
</tr>
<tr>
<td><strong>Mode 3</strong></td>
<td>Commercial presence</td>
<td>3. Service delivered within the territory of the Member, through the commercial presence of the supplier.</td>
</tr>
<tr>
<td><strong>Mode 4</strong></td>
<td>Presence of a natural person</td>
<td>4. Service delivered within the territory of the Member, with supplier present as a natural person.</td>
</tr>
</tbody>
</table>

Source: Scheduling of Initial Commitment in Trade in Services, GATT, MTN.GNS/W/164

11.5.1.1 General Principles of GATS

**I) Most favoured nation (MFN)** - Principle of MFN is based on Non-discriminatory policy of WTO. According to MFN principle, each of WTO Member countries should treat the other entire membership equally as most favoured nation. If a country gives special treatment to one member country such as lower custom duty etc. same benefit Must be given to other member countries as well.

**II) Transparency** - if one member country does change any existing law, regulation and rules, the member country should immediately inform the council of trade in services. Each member is required to establish an enquiry point to respond to request from other members for information.

**III) Market Access** - Market Access is not Obligation but the commitment made by the country to open market in Specific sector for other member countries by negotiation. Market Access have some limitations. For example, a country can allow foreign bank to work within domestic territory but can restrict/ limit number of branches according to national treatment principle.
11.5.2 Trade Related Investment Measures (TRIMs)

The Agreement on Trade-Related Investment Measures (TRIMS) are rules that apply to the domestic regulations a country applies to foreign investors, often as part of an industrial policy. The agreement was agreed upon by all members of the World Trade Organisation. The agreement was concluded in 1994 and came into force in 1995. The WTO was not established at that time, it was its predecessor, the GATT (General Agreement on Trade and Tariffs).

Policies such as local content requirements and trade balancing rules have traditionally been used to promote the interests of domestic industries and combat restrictive business practices have now been banned. Trade-Related Investment Measures is the name of one of the four principal legal agreements of the WTO trade treaty. TRIMs are rules that restrict preference of domestic firms and thereby enable international firms to operate more easily within foreign markets.

Features of TRIMs

1) Abolition of restrictions imposed on foreign capital.
2) Offering equal rights to the foreign investor on par with the domestic investor.
3) No restrictions on any area of investment.
4) No limitation or ceiling on the quantum of foreign investment.
5) Granting permission, without restrictions, to import raw material and other components.
6) No force on the foreign investors to use the total products and or materials.
7) Export of the part of the final product will not be mandatory.
8) Restriction on repatriation of dividend interest and royalty will be removed.
9) Phased manufacturing programming will be introduced to increase the domestic content of manufacturer.

11.5.3 Trade in Agriculture

The Agreement on Agriculture (AoA) is an international treaty of the World Trade Organisation. It was negotiated during the Uruguay Round of the General Agreement on Tariffs and Trade, and entered into force with the establishment of the WTO on January 1, 1995. It has three pillars, which are as follows:

1) **Domestic support**- It refers to the subsidies that governments give to the farmers like food, fertilizer, power, Water etc. The domestic subsidies are grouped into 3 classes called boxes.

   i) **Green Box**: Agriculture related subsidies that fit into WTO’s green box are policies that are not restricted by the trade agreement because they are not considered trade distorting.

   ii) **Amber Box**: This box consists of all domestic support measures considered to distort production and trade. Any support payments that are considered to be trade distorting and
are subject to limitations and disciplines fall into the amber box. These subsidies/support are to be gradually reduced.

iii) **Blue Box:** This Box includes any support payments which are not subject to the amber box reduction agreement because they are direct payments under a production limiting programme.

2) **Export Subsidies** - Export subsidies are to be limited by the developed countries either in value or volume terms so that international prices are not lowered below a point and exports of the developing countries are not eased out. Nairobi Ministerial in 2015 decided to phase them out.

3) **Market Access** - Market access means all member countries should throw open their domestic market to agricultural imports by reduction of tariffs and removal of non tariff barriers. Countries should under take

   a) ‘**Tariffication**’ - to convert non-tariff barriers (like quotas) to tariffs and

   b) ‘**bind**’ their tariffs - to agree to a limit that is the bounded rate and not increase the rates beyond them. The bounded rates are usually high.

### 11.5.4 Trade in Textile and Clothing

The Agreement on Textiles and Clothing (ATC) was negotiated in the Uruguay Round of Trade Negotiations. It replaced the Arrangement Regarding International Trade in Textiles (MFA, or Multi-Fibre Arrangement) of 20 December 1973. The ATC provided for all then existing textile and clothing trade restrictions to be notified and eliminated over a period of 10 years from the date of enforcement of the WTO Agreement. The ATC also provided that the ATC itself would be terminated at the beginning of the 12th year of the WTO, together with all of the remaining restrictions within its scope. As this termination duly took place on January 1, 2005, the ATC is no longer in effect.

### 11.5.5 Trade Related Intellectual Property Right (Trips)

The **Agreement** on Trade-Related Aspects of Intellectual Property Rights (TRIPS) is an international legal **agreement** between all the member nations of the World Trade Organisation (WTO). This provides uniform legal protection for scientific, technological and artistic achievements. It is commonly known as the TRIPS Agreement. The Uruguay Round introduced intellectual property rights into the multilateral trading system. The TRIPS Agreement came into effect on January 1, 1995 and it applies to all WTO members, mandatorily.

The areas of intellectual property include:

- Copyright and related rights (i.e. the rights of performers, producers of sound recordings and broadcasting organisations)
- Trademarks, including service marks
- Geographical indications including appellations of origin
- Industrial designs
- Patents including the protection of new varieties of plants
International Trade

- Layout-designs (topographies) of integrated circuits
- Undisclosed information, including trade secrets; and
- Test data

The main features of the Agreement are:

A) **Standards**: Each member to be provided minimum standard of protection. Each of the main elements of protection is defined, namely the subject-matter to be protected, the rights to be conferred and permissible exceptions to those rights, and the minimum duration of protection.

B) **Enforcement**: Intellectual property right are enforced by domestic procedures and remedies. The Agreement lays down certain general principles applicable to all IPR enforcement procedures.

C) **Dispute settlement**: Dispute settlement body will settle dispute between the WTO members. In addition, the Agreement provides for certain basic principles, such as national and most-favoured-nation treatment and some general rules. The obligations under the Agreement apply equally to all member countries, but developing countries will have a longer period to phase them out.

### 11.5.6 Dispute Settlement

The WTO provides mechanism to settle trade dispute under the Dispute Settlement Understanding. A dispute arises when a member country believes that another member country is violating an agreement which has been made in the WTO. The Dispute Settlement Understanding (DSU) establishes rules and procedures that manage various disputes arising under the Covered Agreements of the Final Act of the Uruguay Round. The DSU created the Dispute Settlement Body (DSB), consisting of all WTO members, which administers dispute settlement procedures. It provides limited time frames to settle the dispute and establishes an appeals system to standardise the interpretation of specific clauses of the agreements. It also provides for the automatic establishment of a panel and automatic adoption of a panel report to prevent nations from stopping action by simply ignoring complaints. Trade disputes are to be settled with two thirds/three fourths majority of the nations. The GATT required unanimity amongst all the members.

#### Check Your Progress 2

1) What are TRIMs?

2) What do you understand by TRIPs?
11.6 WTO AND INDIA

India has been one of the founding members of WTO. It has been playing a very active role in the negotiations of the WTO. Under WTO framework, India has gained most favoured nation (MFN) status in 159 member nations. It took an active part in impartial trade disputes settlement process and stood for free and fair trade across the world. Under WTO framework, Indian Economy got many opportunities, mainly Indian Service sector companies got access to world market. This lead to dominance of Indian companies in sectors like IT related and Pharma especially generic pharma products.

To facilitate the framework of WTO, India has made domestic laws consistent with WTO agreements. For eg: Geographic indication of goods (registration and protection) Act (1999), etc.

India’s participation in WTO, would ultimately lead to better prosperity for the nation. By virtue of being a member of WTO, several countries are now trading with India. This has given a boost to production, employment, standard of living and an opportunity to maximise the use of the world resources. According to the WTO Secretariat Report, along with the policy statement by the Government of India, India is expected to snatch most of the business deals that are presently catering the developed nations which includes major service based industries like telecom, financial services, infrastructure services such as transport and power. The increase in availability of goods and services and reduction in tariffs has prompted many developed nations to go for business with India especially in IT and ITeS industry. If the trend continues, India is expected to cater to the software and services demands of major giants of the business world by 2025.

Implications for India for the various agreements that are signed under WTO are as follows:

i) **GATS**: GATS lead to reduction of Tariff and Non-Tariff Barriers which helped India to participate in the globalisation of services. For example, India has carved a niche for itself in the global market and has emerged as a leading exporter of software services. In several service sectors, including for instance, construction and engineering, health, and education services, India has considerable export potential, due mainly to the availability of skilled and abundant labour.

ii) **Trade Related Investment Measures (TRIMS)**: India has adopted several foreign investment liberalisation measures since the launch of the New Industrial Policy in 1991. Regulations for both FDI and FPI were simplified and now foreign investment is allowed in almost all sectors.

iii) **Trade Related Intellectual Property Rights (TRIPS)**: For India, the WTO’s TRIPs agreement became binding from 2005 onwards as the country has got a ten-year transition period (1995-2005) to make the domestic legislation compatible with TRIPs. Here, India has got additional five-year transition period because of not having product patent regime in critical sector like pharmaceutical. Hence, existing laws were amended and fresh legislations were introduced during this period.

Different amendments to the various existing Acts – Patent Amendment Act (2005), Copyright Amendment Act (2010), are made to strengthen domestic legal framework to fulfil the harmonisation with the WTO’s
TRIPS agreement. Similarly, a number of fresh legislations are made to upgrade the country’s intellectual property regime.

iv) Agreement on Agriculture (AOA): In the short term the Agreement on Agriculture may not affect India much because both its domestic support and export subsidy are negative i.e. less than the minimal 10% in product specific domestic support. Moreover, the safeguards provided in the Agreement for the developing countries protect India from any major impact of liberalisation of the world trade. However, in the long term, due to advantage of cheap labour that India enjoys, the cost of production is lower than any other countries, therefore in spite of its lower productivity as compared to the developed countries, the prices for agricultural products such as rice, tea, sunflower oil and cotton, will still remain lower than the world price. As a result, import into Indian markets will not be attractive as the domestic market prices in such products remain lower than the international standard. Hence, the impact of large scale imports due to liberalisation of the world economy will not be much.

v) Agreement on clothing and textiles: After ATC, quota free regime of international trade from January 2005 has made a positive impact on the Indian textile and clothing (T&C) exports, as well as on the overall exports of the country has been further substantiated. The export trade in the earlier stage was confined to raw material and intermediate products (yarn and fabric). It has now shifted to more value added products, like readymade garments and made-ups. A significant benefit comes from a positive impact on employment in these labour intensive industries. Post-Quota changes continue to shape global textiles trade.

11.7 LET US SUM UP

As an outcome of the agreement by 123 member countries in eight round meeting of General Agreement on Trade and Tariff (GATT) in Uruguay, WTO was established on 1st January, 1995 with Geneva at its headquarters. Its major objectives include to implement the new world trade system as visualised in the Agreement and to promote world Trade Agreement to encourage World Trade in a manner that benefits every country. It has its organisational structure at four levels: ministerial conference, The General Council, Three Councils, Committees and working groups. WTO agreement pertains to agreement on trade in services, agreement on trade related investment measures agreement on agriculture, agreement on textiles and clothing, agreement on trade related intellectual property rights. Dispute settlement mechanism has been provided to settle trade disputes of the member countries.

India has been the founding members of WTO. It has made domestic laws consistent with WTO agreements and has gained most favoured nation status in 159 member nations. By virtue of being a member of WTO, several countries are now trading with India which in turn has given boost to production, employment and standard of living.

11.8 REFERENCES


https://wto.org

### 11.9 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

**Check Your Progress 1**

1) Read Section 11.1

2) Read Section 11.2

3) Read Section 11.3

4) Read Section 11.4

**Check Your Progress 2**

1) Read Sub-section 11.5.2

2) Read Sub-section 11.5.5

### 11.10 REVIEW QUESTIONS

1) What are the major areas in which WTO has facilitated agreements among its members?

2) What is the dispute settlement mechanism under WTO? How is it different from the mechanism under GATT?

3) Explain the impacts of WTO on Indian Economy.