

# Notes on

# Trade & WTO



# TRADE AND WTO

## Types of Agreements in Trade –

There are five types of agreements that we have in trade:

- 1. Partial Scope Agreement** – Partial scope agreement allows for the trade between countries over a small number of goods. "Partial Scope" which is not defined or referred to in the WTO Agreement, means that the agreement covers only certain products. Due to the Partial scope agreement, there is an advantage of market access, overall production will increase, gains or profits will be high, and exporters are encouraged to export more.
- 2. Free Trade Agreement** – Free trade agreement is a preferential arrangement where members will reduce tariffs on trade among themselves, whereas for the rest of the world, they will impose their very own tariffs.

In free trade agreement, there can be a situation of **Bypassing of Trade**.

**Bypassing of Trade:-** It means that the country other than the country which shares a trade agreement can take advantage of a free trade agreement. For example, India, Sri Lanka and Myanmar are in the trade agreement with each other on a specified tax rate say 5%, and China intervenes in Sri Lanka and Myanmar and exporting with a duty of say 2% with them, the duty India shares with China is of 15%, the products of China can enter India through Myanmar at the tax rate of 7% (2%+5%), this process is known as bypassing of trade. The effective rate of Import duty is less here.

- 3. Customs Union** – It is a free trade agreement, wherein countries will have a common external tariff schedule to import from other countries. For example; India, Sri Lanka and Myanmar decides that they have common external tariff schedules to deal with China, say 12%. For the purposes of this agreement, a customs territory shall be understood to mean any territory with respect to which separate tariffs or other regulations of commerce are maintained for a substantial part of the trade of such territory with other territories.

- 4. Common Market** - A common market is the formal agreement where the groups are formed among several country in which each member country adopts a common external tariff. Tariffs are a common element in the process of international trading. It is a customs union where movements of factors of production (Land, Labour, Capital and Enterprise) is relatively free amongst member countries.
  
- 5. Economic Union** – It is a common market, where member countries coordinate on their macro-economic and exchange rate policies. An economic union is a trade bloc which are composed of common market with the customs union. The participant countries have both common policies on product regulation, freedom of movement of goods, services and the factors of production (Land, Labour, Capital and Enterprise) and common external trade policy.

## **WTO – World Trade Organisations**

### **Evolution of WTO**

- WTO'S Head-Quarter is located in Geneva, Switzerland.
- Currently, WTO has 164 members and India is a founding member of WTO.
- Director-General of WTO is Roberto Azevedo.
- After the end of World War-II, various international organizations were formed to facilitate collaboration between countries in dealing with economic, social, and technical problems.
- For the development of world economy and seamless trade among all the countries, a dire need was felt for an international organization for regulating international trade.
- In 1945, a conference was known as the Bretton Woods Conference (by two Bretton wood institutions- IMF and World Bank) was held for the creation of International Trade Organization (ITO) which finally could not be ratified due to lack of approval by the US and many other major countries.
- As the US was emerging world power after World War-II, hence the creation of ITO without the US was meaningless.
- Meanwhile, through negotiations, a multilateral agreement was concluded in 1947 known as the General Agreement on Tariffs and Trade (GATT).

- Various conferences of GATT were held on periodic intervals for negotiations on trade. Finally, during the Uruguay round of conference held from 1986-1994, agreement on the creation of WTO was finally ratified through the Marrakesh Agreement.
- India has been a member of GATT since 1948 and a founding member of WTO. China joined WTO only in 2001 and Russia in 2012.
- **Uruguay Round** - The seeds of the Uruguay Round were sown in November 1982 at a ministerial meeting of GATT members in Geneva. Although the ministers intended to launch a major new negotiation, the conference stalled on agriculture and was widely regarded as a failure. In fact, the work programme that the ministers agreed to formed the basis for what was to become the Uruguay Round negotiating agenda. The challenges of Uruguay Rounds were discussed, and the outcome of these challenges was, WTO, which has gone through the '**Marrakesh Agreement**' in 1994. It did already include commitments to reopen negotiations on agriculture and services at the turn of the century.

### **What happened to GATT?**

The WTO replaced GATT as an international organization, but the General Agreement still exists as the WTO's umbrella treaty for trade in goods, updated as a result of the Uruguay Round negotiations. Trade lawyers distinguish between GATT 1994, the updated parts of GATT, and GATT 1947, the original agreement which is still the heart of GATT 1994.

### **Objectives of WTO**

- To formulate and implement rules for international trade.
- To provide a platform for negotiating and monitoring further trade liberalization.
- To provide a platform for the settlement of disputes.
- To provide assistance to the developing, least developed and low-income countries in transition to adjust to WTO rules and disciplines through technical cooperation and training.
- To cooperate with the other major economic institutions (like the UN, World Bank, IMF, etc.) involved in global economic management.

### **Principles of WTO -**

The WTO Agreements are based on the following simple and fundamental principles: -

**Non-Discrimination:**

The key concept of WTO law and policy:-

- **Most Favored Nation** - All nations should be treated equally. No one country can grant any other member country any special favour. For example, if one country lower tariff to one country, then it has to be lowered to all other member countries.
- **National Treatment** - Same treatment should be given to all products, either local or foreigners. Fair and equal treatment is given to local as well as the products imported from other countries.
- **Reciprocity** - Lowering of import duties and other trade barriers in return for similar concessions from another country.
- **Predictability through Binding and enforceable commitments** - To make the business environment stable and predictable.
- **Transparency** - The WTO members need to publish their trade regulations and to notify changes in trade policies to the WTO.
- **Encouraging Development and Economic Reforms** - All efforts are made by the WTO system to contribute to development.

### **Important Trades Agreements of WTO**

The important trade agreements concluded under WTO are –

- Agreement on Agriculture (AoA),
- Agreement on TRIPS (Trade-Related Aspects of Intellectual Property Rights),
- General Agreement on Trade in Services (GATS) etc.

#### **1. Agreement on Agriculture (AoA) –**

- It was negotiated during the Uruguay Round of the GATT and was concluded with the establishment of the WTO in 1995.
- Through AoA, WTO aims at reforming trade in agriculture with a fair and market-driven system.
- The agreement allows governments to support their rural economies, but only allowed those policies that cause less trade "distortions".
- This agreement has fixed commitments from all member states on the following three agricultural supply chain system: -

**1. Improving Market access**– This can be done by removing various trade barriers by the member states. By fixing the tariffs and progressively promoting free trade among member states which will ultimately lead to an increase in market access.

**2. Domestic Subsidies** - It basically motivates for the reduction in domestic subsidies that distorts free trade and fair prices. This is based on the premise that not all subsidies distort trade to the same extent. Under this Agreement, Subsidies can be categorized into the following three boxes –

**(a) Green Box** – All those subsidies that do not distort trade or cause minimal distortion, comes under the green box. Ex- All government services such as research, disease control, and infrastructure and food security. Also, all those subsidies are given to the farmers that directly do not affect international trade also comes under the green box.

**(b) Amber Box** - All kinds of domestic subsidies or support that can distort production and trade (with some exceptions) fall into the Amber Box. The measures to support prices come under this box. These supports are subject to limits: "de minimis" minimal supports are allowed (generally 5% of agricultural production for developed countries, 10% for developing countries).

**(c) Blue Box** – All those Amber Box subsidies which tend to limit the production comes under Blue Box. This can be increased without limit as long as subsidies are linked to production-limiting programs.

**3. Export subsidies** – All the subsidies that make the export of an agricultural products cheaper are known as export subsidies. Export subsidies are basically presumed to have a trade-distorting effect. The agreement prohibits the use of export subsidies by the member states for agriculture products. The WTO's 11th Ministerial Conference were held in Buenos Aires, Argentina, from 11 to 13 December 2017. It was chaired by the Minister Susana Malcorra of Argentina. The World Trade Organisation's (WTO) 12<sup>th</sup> ministerial conference in Nur-Sultan, Kazakhstan, from June 8-11, is cancelled due "the current situation with COVID-19 and the WHO declaration of a pandemic".

**2. Agreement on TRIPS (Trade-Related Aspects of Intellectual Property Rights) –**

The Agreement on Trade-Related Aspects of the Intellectual Property Rights (TRIPS) is an international legal agreement between the member nations of the World Trade Organization (WTO). It sets down the minimum standards for the regulation by the National governments of several forms of intellectual property (IP), as applied to the Nationals of the other WTO member-nations. TRIPS was settled at the end of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) between 1989 and 1990 , and it was administered by the WTO.

Under TRIPS, there are seven globally recognized IPR'S; these are:-

- i) **Patents** - A patent is a form of intellectual property that gives its owner the legal right to exclude others from the using, selling, or making an invention for a limited period of years in an exchange for publishing an enabling public disclosure of the invention.
- ii) **Copyrights** – A copyright is a type of intellectual property that gives its owner the exclusive right to make copies of creative work, usually for a limited time. The creative work may be in a literary, artistic, educational, or musical form.
- iii) **Trademark** - A trademark is a type of intellectual property consisting of a recognizable expression, sign, or design, which identifies products or services of a particular source from those of others. An example is; a symbol of Nike.
- iv) **Industrial design** – It is the professional practice of designing products, devices, objects, and services. It typically focuses on physical appearance, functionality, and manufacturability. An example is; design of a CVT engine.
- v) **Geographical Indicators** - A geographical indication (GI) is a name or sign used on the products which correspond to the specific geographical location or origin (e.g. a region, town, or a country). An example is; Saffron of Jammu and Kashmir.
- vi) **Trade secrets** - Trade secrets is a type of an intellectual property that comprise formulas, practices, processes, designs, instruments, patterns, or compilations of information that have inherent economic value because they are not generally known or are readily ascertainable by others, and which the owner takes reasonable measures to keep secret.
- vii) **Layout design of IC's** - Under the Layout-Designs of an Integrated Circuits Act, the owner has the right to prevent the copying and the commercial exploitation of an original layout-designs of IC. The owner can exercise his/her rights under the Layout-Designs of Integrated Circuits Act by taking legal action against the infringing party.

### 3. GATS (The General Agreement on Trade in Services) –

It is the least talked Agreement in WTO. All WTO members are at the same time members of the GATS and, to varying degrees, have assumed commitments in individual service sectors. There are two provisions, these are -

- i) **National treatment of foreign services:** A commitment to national treatment implies that the member concerned does not operate discriminatory measures benefiting domestic services or service suppliers. The key requirement is not to modify, in law or in fact, the conditions of competition in favour of the member's own service industry.
- ii) **Market treatment of foreign services:** Market access is a negotiated commitment in specified sectors. For example, limitations may be imposed on the number of services suppliers, service operations or employees in the sector; the value of transactions; the legal form of the service supplier; or the participation of foreign capital.

### **Important update on WTO –**

- The World Trade Organisation's 11th Ministerial Conference was held in the Buenos Aires, Argentina, from 11 to 13 December 2017 and it was chaired by the Minister Susana Malcorra of Argentina.
- The World Trade Organisation's (WTO) 12 ministerial conference in Nur-Sultan, Kazakhstan, from June 8-11, is cancelled due "the current situation with COVID-19 and the WHO declaration of a pandemic".

### **Major countries which are not the member of WTO –**

The major countries which are not the member of WTO are

1. Algeria
2. Azerbaijan
3. Belarus
4. Bosnia and Herzegovina
5. Iran
6. Monaco
7. North Korea
8. Serbia
9. Sudan



## 10. Turkmenistan