

# Academic Script

## **Introduction**

The world was experiencing the problems of an extensive patterns of trade barriers in 1930's, so allied powers proposed a liberal world trading system in Havana (1947-48) for establishing International Trade Organization (ITO). In Geneva trade conference 1947 the General Agreement on Tariffs and Trade (GATT) emerged from the ashes of the "Havana Charter" and came into force from January 1, 1948.

In January 1995 GATT disappeared and passed into history as it was merged in the world trade organization (WTO).

The GATT completed 8 rounds of multilateral trade negotiations (MTNs). The Uruguay Round (the 8th round) concluded with the signing of the Final Act on April 15, 1994, in Marrakesh, and produced the WTO Agreement and its annexes.

The World Trade Organization (WTO) is an intergovernmental organization which regulates international trade. It has 164 members and 20 observer governments. The WTO oversees about 60 different agreements, which have the status of international legal texts. Member countries must sign and ratify all WTO agreements on accession. The WTO agreements are lengthy and complex because they are legal texts covering a wide range of activities. They deal with: agriculture, textiles and clothing, banking, telecommunications, government purchases, industrial standards and product safety, food sanitation regulations, intellectual property, and much more.

## **GATT and Trade liberalization**

The GATT was a multilateral treaty, which had been signed by governments of member nations known as "contracting parties". Its main function was to call international conferences to decide on trade liberalizations on a multilateral basis.

From 1948 to 1994, the General Agreement on Tariffs and Trade (GATT) provided the rules for much of world trade (about 80% of world trade) and presided over periods that saw some of the highest growth rates in international commerce. It

seemed well established, but throughout those 47 years, it was a provisional agreement and organization. The original intention was to create a third institution to handle the trade side of international economic cooperation, joining the two “Bretton Woods” institutions, the World Bank and the International Monetary Fund (IMF).

During this period, GATT sponsored eight trade rounds where member nations agreed to mutually reduce trade barriers.

### **GATT rounds(conferences) of global trade negotiations:**

- First conference at Geneva(Switzerland) in 1947
- Second conference at Annecy (France) in 1949
- Third conference at Torquay (England) in1950-51
- Fourth conference at Geneva(Switzerland) in1955-56
- Fifth conference at Geneva(Switzerland) in1960-61 -Dillon round
- Sixth conference at Geneva(Switzerland) in1964-67-kennedy round
- Seventh conference at Tokyo(japan) in 1973-79
- Eighth conference at Punta del Este in Uruguay in 1986-1994.

In the first rounds, negotiations were conducted on a product-by-product basis (known as the "request/offer" approach), whereby GATT contracting parties exchanged lists of requests and offers on products of interest to them in order to reach agreement on tariff concessions.

The WTO agreement is in fact the Uruguay round agreement whereby the original GATT is now a part of the WTO agreement which came into force from January 1,1995.

The objective of the GATT was to eliminate or substantially reduce trade tariffs and other impediments to trade, on the basis of reciprocity and mutual advantage.

Implicit in this principle are concepts which include:

(1) Most-favored-nation (MFN) treatment: which prohibits discriminatory trade practices favoring one-member state over another.

(2) Principles of non-discrimination: National treatment, which prohibits a member from employing domestic fiscal or administrative laws (e.g. taxes) to discriminate against another member country.

(3) Remedies (e.g. antidumping and countervailing duties), which may be imposed unilaterally when members are found to be in violation of a GATT obligation.

## **GATT to WTO**

By the late 1980s, a growing number of nations decided that GATT could better serve global trade expansion if it became a formal international organization.

The 1982 Ministerial Declaration identified problems including structural deficiencies, spill-over impacts of certain countries policies on world trade that GATT could not manage. Therefore, they pressed for negotiations to formalize GATT and to make it a more powerful and comprehensive organization.

To address these issues, the eighth GATT round (known as the Uruguay Round) was launched in September 1986, in Punta del Este, Uruguay. It was the biggest negotiating mandate on trade ever agreed: the talks were going to extend the trading system into several new areas, notably trade in services and intellectual property, and to reform trade in the sensitive sectors of agriculture and textiles; all the original GATT articles were up for review.

In November 1992, the US and EU settled on reforms for agricultural trade in a deal known informally as "the Blair House Accord". Finally, in April, 1994, the deal was signed by most of the ministers from 123 participating governments at a meeting in Marrakesh, Morocco.

## **Criticisms of GATT**

- 1) Agriculture was treated as a special case where GATT rules hardly applied.
- 2) Developed countries had removed majority of tariff barriers but had devised new trade restrictions (which are outside GATT rules) such as
  - Voluntary export restraints

- Low cost suppliers
- Market disruption

3) GATT rules on subsidies were not explicit

These and other factors convinced GATT members that a new effort to reinforce and extend the multilateral system should be attempted. That effort resulted in the Uruguay Round, the Marrakesh Declaration, and the creation of the WTO.

### **What is 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 help producers of goods and services, exporters, and importers conduct their business.

But the WTO is not just about opening markets, and in some circumstances its rules support maintaining trade barriers — for example, to protect consumers or prevent the spread of disease. **Objectives**

The WTO has following key objectives:

- 1) To set and enforce rules for international trade. Also implement the new world trade system as visualized in the Agreement.
- 2) To improve the level of living for the global population and speed up economic development of the member nations.
- 3) To resolve trade disputes and promote World Trade in a manner that benefits

**Location:** Geneva, Switzerland

**Established:** 1 January 1995

**Created by:** Uruguay Round negotiations (1986-94)

**Membership:** 164 countries on 29 July 2016

**Budget:** 197 million Swiss francs for 2013

**Head:** Roberto Azevêdo (Director-General)

every country.

- 4) To increase the transparency of decision-making processes and enhance competitiveness among all trading partners so as to benefit consumers and help in global integration.
- 5) To cooperate with major international economic institutions involved in global economic management and demolish all hurdles to an open world trading system and usher in international economic renaissance because the world trade is an effective instrument to foster economic growth.
- 6) To ensure that developing countries secure a better balance in the sharing of the advantages resulting from the expansion of international trade corresponding to their developmental needs.
- 7) To increase the level of production and productivity with a view to ensuring rising level of employment in the world and to make best utilization of world resources.

### **Functions of WTO**

It is designed to play an important role in the spheres of trade in goods, trade in services, foreign investment, intellectual property rights, etc. Following are the functions of WTO: -

- 1) The WTO shall facilitate the implementation, administration and operation and further the objectives of this Agreement and of the Multilateral Trade Agreements, and shall also provide the frame work for the implementation, administration and operation of the Trade Agreements.
- 2) The WTO shall provide the forum for negotiations among its members concerning their multilateral trade relations in matters dealt with under the Agreement in the Annexes to this Agreement.
- 3) The WTO shall administer the Understanding on Rules and Procedures Governing the Settlement of Disputes.
- 4) The WTO shall administer Trade Policy Review Mechanism.

5) With a view to achieving greater coherence in global economic policy making, the WTO shall cooperate, as appropriate, with the international Monetary Fund (IMF) and with the International Bank for Reconstruction and Development (IBRD) and its affiliated agencies.

### **Basic principles and areas of operation of WTO**

There are a number of simple and fundamental principles of WTO. These principles are the foundation of the multilateral trading system.

- **NON-DISCRIMINATION PRINCIPLE**

Non-discrimination is a fundamental principle of the multilateral trading system and is recognized in the Preamble of the WTO Agreement as a key instrument to achieve the objectives of the WTO. In the Preamble, WTO members express their desire to eliminate discriminatory treatment in international trade relations. Nondiscrimination in the WTO is embodied by two principles, the most favored nation (MFN) treatment obligation and the national treatment obligation.

#### **1) THE MOST FAVORED NATION (MFN) PRINCIPLE**

Pursuant to the WTO agreements countries cannot normally discriminate between their trading partners. If a Member grants to a country a special favor (such as a lower customs duty on one of its products) it must grant the favor immediately and unconditionally to all WTO members.

#### **2) NATIONAL TREATMENT**

The National Treatment principle addresses the treatment to be applied to imported products once they are in a Member's territory. The National Treatment principle prohibits a Member from favoring its domestic products over the imported products of other Member countries.

- **RECIPROCITY**
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It reflects both a desire to limit the scope of free-riding that may arise because of the MFN rule, and a desire to obtain better access to foreign markets. A related point is that for a nation to negotiate, it is necessary that the gain from doing so be greater than the gain available from unilateral liberalization; reciprocal concessions intend to ensure that such gains will materialize.

- **BINDING AND ENFORCEABLE COMMITMENTS**

The tariff commitments made by WTO members in a multilateral trade negotiation and on accession are enumerated in a schedule (list) of concessions. These schedules establish "ceiling bindings": a country can change its bindings, but only after negotiating with its trading partners, which could mean compensating them for loss of trade. If satisfaction is not obtained, the complaining country may invoke the WTO dispute settlement procedures.

- **TRANSPARENCY**

The WTO members are required to publish their trade regulations, to maintain institutions permit for the review of administrative decisions affecting trade, to respond to requests for information by other members, and to notify changes in trade policies to the WTO. These internal transparency requirements are supplemented and facilitated by periodic country-specific reports (trade policy reviews) through the Trade Policy Review Mechanism (TPRM). The WTO system tries also to improve predictability and stability, discouraging the use of quotas and other measures used to set limits on quantities of imports.

- **SAFETY VALVES**

In specific circumstances, governments are able to restrict trade. The WTO's agreements permit members to take measures to protect the environment but also public health, animal health and plant health.

- **Prohibition of quantitative restrictions**

As a general rule, quantitative restrictions are prohibited under the GATT 1994. However, in some cases, such as safeguard action, quantitative restrictions can be introduced under strictly defined criteria

### **The Structure of WTO**

The Ministerial Conference is at the top of the structural Organization of the WTO. It is the supreme governing body, which takes ultimate decisions on all matters. It is constituted by representatives of (usually, Ministers of Trade) all the member countries.

The General Council is the second level body in the WTO. It acts on behalf of the

Ministerial Conference on all WTO affairs. It meets as the Dispute Settlement Body and the Trade Policy Review Body to oversee procedures for settling disputes between members and to analyze members' trade policies.

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

### **Council for Trade in Goods**

There are 11 committees under the jurisdiction of the Goods Council, each with a specific task. All members of the WTO participate in the committees. The Textiles Monitoring Body is separate from the other committees but still under the jurisdiction of Goods Council. The body has its own chairman and only 10 members. The body also has several groups relating to textiles.

### **Council for Trade-Related Aspects of Intellectual Property Rights**

Information on intellectual property in the WTO, news and official records of the activities of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Council, and details of the WTO's work with other international organizations in the field.

### **Council for Trade in Services**

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

### **Trade Negotiations Committee**

The Trade Negotiations Committee (TNC) is the committee that deals with the current trade talks round. The chair is WTO's director-general. As of June 2012 the committee was tasked with the Doha Development Round.

The Service Council has three subsidiary bodies: financial services, domestic regulations, GATS rules and specific commitments. The council has several different committees, working groups, and working parties. There are committees on the



following: Trade and Environment; Trade and Development (Subcommittee on Least-Developed Countries); Regional Trade Agreements; Balance of Payments Restrictions; and Budget, Finance and Administration. There are working parties on the following: Accession. There are working groups on the following: Trade, debt and finance; and Trade and technology transfer.

### **Working of WTO**

The WTO describes itself as "a rules-based, member-driven organization — all decisions are made by the member governments, and the rules are the outcome of negotiations among members". The highest decision-making body of the WTO is the Ministerial Conference, which usually meets every two years. It brings together all members of the WTO. Next body of authority is The General Council in the WTO.

The WTO Agreement foresees votes where consensus cannot be reached, but the practice of consensus dominates the process of decision-making.

The administration of the WTO is conducted by the Secretariat, which is headed by the Director General appointed by the Ministerial Conference for the tenure of four years. He is assisted by the four Deputy Directors from different member countries. The annual budget estimates and financial statement of the WTO are presented by the Director General to the Committee on Budget, Finance and Administration (CBFA) for review and recommendations for the final approval by The General Council.

### **Conclusion**

The WTO's creation on 1 January 1995 marked the biggest reform of international trade since after the Second World War. It also brought to reality the failed attempt in 1948(GATT) to create an International Trade Organization (ITO). Formation of WTO is widely regarded as the most profound institutional reform of the world trading system since the GATT's establishment. The Ministerial Conference is the supreme governing body of the WTO. It takes ultimate decisions on all matters. The General Council is composed of the representatives of all the members. It is the real engine of the WTO, which acts on behalf of the Ministerial Conference.

The WTO's overriding purpose is to help trade flow as freely as possible — so long as there are no undesirable side effects — because this is important for economic development and well being.