

WTO : A Multilateral Framework



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Why WTO?



- Imagine a situation when many people are driving fast from different directions without traffic lights at road crossings. Will there not be a chaos?
- As road need traffic signals for an orderly movement, so does International Trade require predictability and stability in the rules of business
- And World Trade Organization (i.e. WTO) seeks to provide this



Objectives of WTO

- To raise standards of living of people
- To ensure full employment,
- To expand the production of trade in goods and services,
- To protect and preserve the environment, and
- To secure for less developed countries a share in the growth in international trade commensurate with the needs of their economic development.



Scope & Principles of WTO

- **The Scope** of WTO: covers **goods, services and IPRs** as compared to trade in goods only in case of GATT
- Annexed to this umbrella agreement are dispute settlement mechanism, the trade policy review mechanism and the **plurilateral** agreements.
- **Principles** : seeks to do Trade without discrimination
- **MFN** treatment : bound to grant to the products of other Member countries the treatment not less favourable than accorded to production of other countries
- **National Treatment** : once goods cleared by customs, imported goods be treated no less favourably than the equivalent of domestically produced goods.
- Predictability and Transparency.

Doha Ministerial Declaration (1/2)



- The Doha Ministerial Declaration of November 2001 committed Members to substantial improvements in market access;
- phasing out of all forms of export subsidies; and
- substantial reductions in trade-distorting domestic support
- In 2001, agriculture negotiations became a part of the agenda of the Doha Round of trade negotiations.

Doha Ministerial Declaration (2/2)



- Uncertainty prevails over Doha Round
 - ❖ **when or even whether it will be concluded?**
- Virtually every item of the Doha Round negotiation is considered as part of a whole and indivisible package and cannot be agreed separately. In other words,
 - **“nothing is agreed until everything is agreed”.**
- All major decisions in the WTO are normally taken by consensus.

How WTO came into Being?



The Uruguay Round of multilateral trade negotiations (1986-1994) resulted in an Agreement establishing the World Trade Organization (WTO), which serves as an umbrella agreement

- It was established on 1 January 1995 with 164 Members and is based in Geneva.
- It is successor to GATT, but subsumed GATT.

Managing Export Supply Chain



- Consumer preference
- Traded Volumes
- Assess Competition
- Logistics options

Export Market Intelligence

- Reciprocal trade
- GI recognition
- Reduce tariff
- Mitigate NTMs

Trade Agreement

Trade Management

- Evacuation & Ports
- Marketing, Branding
- Monitor market share
- Feedback to clusters

Domestic Cluster Development

- Agri-export zones
- Technology support
- Infrastructure support
- PHM support

Source: Report on Doubling of Farmers Income, Vol. IV (p.169)

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Subsidies



- The agreement obliged developed countries to reduce the AMS
- However, only some types of subsidies fall under the AMS
- While developed countries reduced their AMS, they also increased their exempted subsidies significantly
- Thereby offsetting the AMS reduction and resulting in an increase in total domestic support

Kinds of Subsidies (1/5)



- ❏ *Subsidies broadly classified in 3 different boxes*
- ❏ **Green Box**, **Blue box** and **Amber** box
 - ❖ **Green Box** includes the amounts spent on **Government services such as research, disease control, infrastructure and food security. ...**
- ❏ Since no ceiling exists for this box, the most developed countries have kept providing subsidies to their farmers under this box

Kinds of Subsidies (2/5)



- Many provisions of Green Box support (Annex 2 of the AoA) formulated to allow developed countries to continue providing subsidies without any limit.
- Provision allows the US, just as an example, to provide unlimited subsidy through its Food Stamp scheme.

kinds of subsidies (3/5)



- ❖ Developing countries are constrained by their de minimis limit in providing support for food security through public stockholding programmes
- ❖ Under **Blue Box**, subsidies provided to limit production by imposing production quotas or requiring farmers to set aside part of their land
- ❖ No upper bound on the amounts of subsidies under Blue Box

Kinds of Subsidies (4/5)



- Given the shortage of food production in developing countries, they have not been able to take recourse to this option
- Empirics show that these provisions have been used mainly by the EU and by the US in some years
- AoA resulted in a category of domestic support that can be used by the developed countries without any limit

Imbalances in Export Subsidies



- Huge imbalance and asymmetries in export subsidies
- Developed Countries that were providing high export subsidies in the reference period of 1986-1988, acquired the legitimacy to continue to provide export subsidies in future.
- Most developing countries did not provide export subsidies during the reference period
- Developing countries unable to provide significant export subsidies.

Kinds of Subsidies (5/5)



- Amber box (AMS) Nearly all domestic support measures considered to distort production and trade (with some exceptions) fall into this box
- Consists of two parts—product-specific subsidies and non-product specific subsidies
- Any domestic support, not covered under the categories of Green Box, or the Blue Box, is categorized as Amber Box support
- Includes price support measures and all non-exempt direct payments

Demystifying Blue Box (1/2)



- Out of three categories of subsidies, the Blue Box remains relatively shrouded in mystery.
- the Blue Box -result of a 'compromise' between the US and the EC during the Uruguay Round of negotiations.
- For a long time, only a few developed members such as the EU, US, Japan, Iceland, and Norway have used this Box to support their producers.
- Without this Box, some members such as Norway, Iceland and the EU would have breached their AMS commitments.

Demystifying Blue Box (2/2)



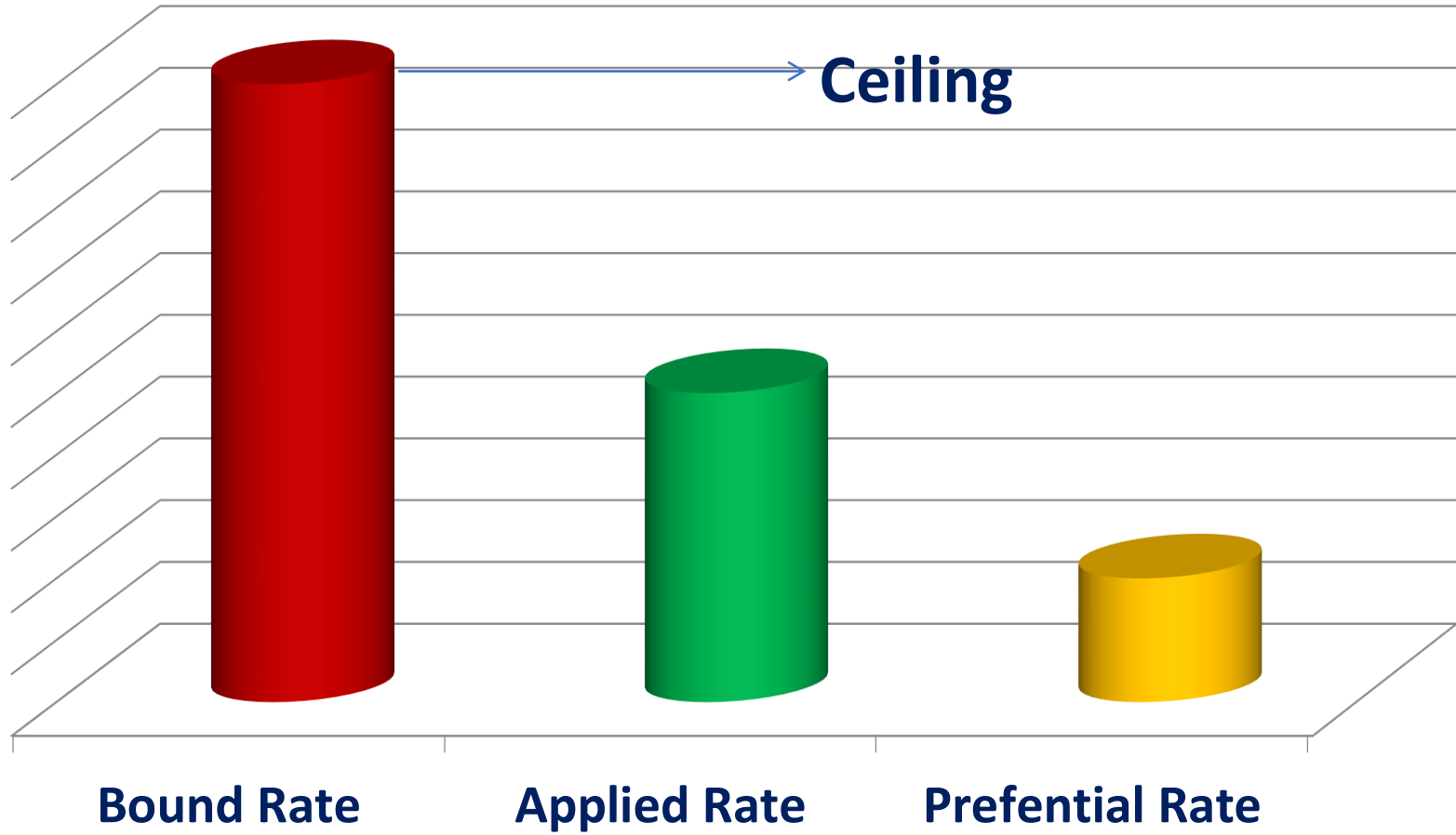
- Members interpreted **Blue Box** provisions with a varying degree of pliancy, as per their convenience.
- Provisions of Blue Box incompatible with the needs of the developing members as they needed to stimulate production rather than limit it.
- Unsurprisingly, developing members rarely explored the provisions of Blue Box to support their producers.
- In 2016, China used Blue Box measures for corn and in 2017 for cotton.

Tariff Bindings (1/3)



- Quantitative restrictions on agricultural imports put in place in India mainly due to Balance of Payment (BOP) reasons
- Following the Uruguay Round, India only had to bind its tariffs and schedule the bound rates and she submitted binding tariffs ranging from 15 percent upto 300 percent
- Notwithstanding high bound tariffs, the actual applied rates of tariffs on most agricultural products quite low

Tariff Bindings (2/3)



Tariff Bindings (3/3)



- Applied tariff rates in case of India are up to 50 percent only for about 90 percent of tariff lines
- An important part of India's agricultural support regime is its MSP for public procurement operations of staple food items
- Under the de minimis provisions, as a developing country, India is entitled to provide 10% of the total value of production of a basic agricultural product as product specific support and 10% of the value of total agricultural production as non-product specific support

China's Entry in WTO (1/3)



- China became the 143 Member of WTO on 11th December, 2001
- Culmination of 15 years of negotiations, especially with the United States
- No single trade policy initiative resulted in larger gains in international trade than China's entry into the WTO.
- Indeed, an important landmark with regard to the Chinese economy.

China's Entry in WTO (2/3)



Why US agreed to China's Entry in WTO?

- Successive US Governments & the western world played a crucial role in bringing China into the global community, culminating to welcome China into the WTO system.
- Two main reasons behind the strategic thinking :
 - Full-on engagement with Beijing would alter the opaque nature of Chinese politics, making it more liberal and open.
 - China will offer 'big market', and 'big business'.

China's Entry in WTO (3/3)



- Subsequent outsourcing of manufacturing and industrial capabilities from the West to China allowed Beijing to 'bide its time'
- China strategically built its influence through control over global supply chains
- Nations turned a 'Nelson eye' to China's endeavours, due to enormous financial returns accruing from labour arbitrage
- China used this economic dependence to flex its political muscle,
 - First in Asia and
 - Now, into the very heart of the EU through the BRI.

Why Impasse?



- ❖ Not just a short-term disruption
- ❖ WTO cast in the mould of interest of developed world and its rules have curtailed the policy space for developing countries
- ❖ but some developing countries like India have gained in agriculture sector as it is net food exporting country
- ❖ US attempting to marginalize WTO and likely to aggressively seek bilateral deals

KICKING AWAY THE LADDER

Ha-Joon Chang's



Kicking Away the Ladder



- From 2015 onwards, developed countries and some developing countries no longer endorse the Doha Round....
- Developed countries have virtually resorted to 'Phenomenon of kicking away the ladder'
- Implicitly, once a country attains summit of greatness, she kicks away the ladder by which she has climbed up, in order to deprive others of the means of climbing up after her

Challenges



- At India's insistence, the WTO Members agreed to put in place an interim mechanism for the issue of public stockholding in relation to support provided for traditional staple food crops in pursuance of public stock holding programmes for food security purposes
- The term '**peace clause**' has been a cause of disquiet ever since India flagged the issue of domestic food security in the WTO negotiations

...in the Wake of COVID-19 Pandemic (1/2)



- Some WTO Members made proposals for negotiating new rules and disciplines on international trade to combat the health crisis.
- Two such proposals stand out:
 1. Joint submission made by **New Zealand and Singapore** : seek a commitment from WTO Members for ensuring that
“during the COVID-19 global pandemic, production and trade in essential items such as medical supplies and food continue to flow freely to their intended destinations”.

...in the Wake of COVID-19 Pandemic (2/2)



2. Submission made by **48 WTO Members** including the **United States, EU, Japan, Australia, Brazil**, state:

“As Members take measures to address the pandemic, it is imperative that these measures do not adversely affect trade in agriculture and agri-food products which would ultimately have negative impacts on the food security, nutrition and health of Members and their populations”.

- The foregoing two submissions appear to use the pandemic as an opportunity for **extracting binding concessions from developing countries at the WTO.**

Way Ahead



- In the aftermath of Covid-19 pandemic with a paradigm shift towards Atamnirbhar
 - an increasing tendency to reduce dependency on other Nations for key supplies such as food, medicines
- Free and open liberal world order has run into rough weather
- China's industrial might causing enormous social and political churn
- Rules of the game of WTO likely to undergo irreversible changes, sooner than later
- **Is WTO smart enough to keep pace with emerging changes?**

Before we move to **'Quiz'**

Any
Comment/Suggestion/Queries



Quiz (1/3)



Quiz Question-1

1. WTO came into being as a result of which Conference / round of multilateral trade negotiations?
- (a) Uruguay Round
 - (b) Geneva Round
 - (c) Marrakesh Ministerial Conference
 - (d) None of these.

Quiz (2/3)



Quiz Question-2

Is there any connection, if any, between GATT and WTO

- (a) WTO is successor to GATT
- (b) WTO subsumed GATT,
- (c) Both (a) and (b)
- (d) None of these.

QUIZ (3/3)

Quiz Question-3

Why did US agree to China's Entry in WTO?

- a) To make China more liberal and open.
- b) Postulated that China will offer 'big market', and 'big business'.
- c) Both (a) & (b)
- d) None of the above.



References



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Thank you