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WTO: Issues and Challenge

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Abstract: The increasing trends towards globalization threw light on the necessity of international trade organization who promotes multilateral trade with elimination of tariff and non tariff barriers among different nations of the world. Then WTO came in to existence on January 1995. The present paper focuses on foundation, issues, different agreements of WTO and challenges faced by under developed countries. WTO have been emerged as one of the strongest trade organization to promote multilateral free trade among different nations of the world.

Keywords: WTO, Trade, Tariff and Non-Tariff Barriers, Subsidy.

Introduction

World Trade Organization was formed with the objective to promote multilateral trade (trade among many countries) in goods and services by eliminating tariff and non-tariff barriers. Eliminating tariff barriers means removing import duties and eliminating non-tariff barriers means removing import quotas (quantitative restrictions), import licensing, etc. Some areas like trade in services, promoting foreign investment, protecting patents, dispute settlement, trade in textile and clothing, etc. were given special emphasis in WTO. The developing countries will benefit from the increased exports, foreign investment, technical assistance, etc. which will help to promote their economic development.

Foundation

In Eighth round of GATT (general agreement on trade and tariff),popularly known as Uruguay Round, member nations of GATT decided to set up a new organization, world Trade Organization in place of GATT.WTO was formed on 1st January 1995.It took over GATT. At the time of its establishment on 1st January 1995, WTO had membership of 124 nations. At present there are 159 member nations on 2nd March 2013. INDIA is one of the founder members of WTO. WTO is a new globally recognized trade organization with the new name succeeding GATT on renewed agreements and having a new vision and strong enforcement power to promote international trade.

Functions of WTO

1. Laying down code of conduct aiming at reducing tariff and non-tariff barriers in international trade.
2. Implementing WTO agreements and administering the international trade.
3. Settling trade related disputes among member nations with the help of its Disputes Settlement Body (DSB).
4. Reviewing trade related economic policies of member countries with the help of its Trade Policy Review Body (TPRB).
5. Acting as forum for trade liberalization.
6. Cooperating with IMF and World Bank and its associates for establishing coordination in Global Trade Policy Making.
7. Providing technical assistance and guidance related to management of foreign trade and fiscal policy to its member nations.

WTO-Some Agreements

Trade in Agriculture- WTO imposes following disciplines on agriculture:

1. Reduction in Domestic Subsidies:
   WTO urged the member nations to reduce subsidy on agriculture inputs and output. However developing countries can give maximum 10% of the market price of crop as agriculture subsidy.
2. Reduction in export subsidies:
   WTO agreements urged the member countries to abolish these export subsidies in phased manner.

3. Improvement in market access:
   To improve market access for international trade, WTO has put tariff limit for different products, on-tariff limit will be abolished. However developing and least developed countries are given some concessions regarding removal of tariff and non-tariff barriers.
4. Public Distribution System(PDS):
   WTO urged the developed member nations to abolish subsidy on food grains in their PDS, but developing countries are not prohibited from providing subsidy on food grains in PDS.

Trade In Textile and Clothing

1. Elimination of Multi-fiber Agreement(MFA):
   WTO eliminates MFA, means elimination of all non-tariff measures (import quota/quantitative restrictions) on textile and clothing industries over a period of 10 years (1995-2004).
2. Reduction in tariff on textile and clothing:
   The import of textile and clothing has been tariff free since 1st January 2005.

Trade Relates Intellectual Property Rights (TRIPs)

TRIPs agreements are related to intellectual property rights. These intellectual property rights can be with regard to copy right, trade mark, patents etc. Under TRIPs, owner of patent gets his patent registered for a particular period of time. Any person who wants to use that patent, can use it by paying royalty to the owner of the patent. TRIPs agreement gives this right on various types of intellectual properties. Underdeveloped countries that do not have patent rules in their countries are to enact patent rules with in a period of 10 years since the start of WTO. Only those intellectual properties can be patented which are new, involve research and can be put to industrial use. But plants cannot be patented. For safeguarding the rights of plant breeders, WTO has recommended the system of 'Sui Generis System'. Under this system, plant breeders will have exclusive right over the new plant breeds that they have invented. India has accepted 'Sui Generis System'. It is different from 'patents' and commonly refers to the system of protection of 'plant Breeders Right' (PBR). It allows farmers to retain the seed from their own cultivated crop (farm saved seeds). The farmers can use these farm saved seeds on their own farms. The commercial sales of seeds can only be done by plant breeders. Only the owner of the PBR will produce and market their breeded plants. For using breeded plants, farmers will have to pay royalty to owners of PBR.

Under TRIPs life of patent has been fixed as follows:

a)	General patents	- 20 years
b)	copy rights	- 50 years
c)	Trademarks	-7 years
d)	Industrial Designs	-10 years
e)	Medicines	-10 years

However certain articles like life saving medicines are exempted from the provisions of patents in the public interest.

Trade related investment measures (TRIMs)

TRIMs are investment related measures proposed by WTO to ensure free flow of investment all over the world. In these measures foreign investment is treated at par with domestic investment. The main features of TRIMs are:

(a) To offer fair treatment and all such facilities to all foreign investors as are available to their domestic investors.
(b) To remove restrictions on repatriation of dividend, interest and royalty by multinational companies.
(c) To allow 100% foreign equity participation in certain cases.
(d) No restriction on foreign investment regarding area, i.e., foreign companies can make investment in any area/place.

General Agreement on Trade in Services (GATS)

GATS is the first multilateral agreement in services whose objective is progressive trade in services. It provides for free flow of services among the member nations. The agreement covers trade in all type of services like insurance, travel, tourism, hotel, banking, shipping, telecommunication, business outsourcing (call centers), IT-enabled services, media services, etc. services constitutes about 50% of the total productive activity of the world. Now foreign services will be treated at par with domestic services.

Disputes Settlement

For settlement of disputes relating to international trade, WTO has set up Dispute Settlement Body (DSB). In first stage, DSB consults parties under disputes. Then Director General of WTO acts as mediator for the settlement of disputes. The complainant country can also ask DSB to set up a panel for dispute settlement. The panel is constituted by DSB whose decision will be unconditionally acceptable to both parties. This panel has to give its report within 60-90 days. The DSB takes the final decision on the basis of this report within 30 days.

Agreement on Export Subsidies

WTO agreements prohibit export subsidies to promote free and fair global competition in the world trade. Export subsidies will be eliminated by 2013. But those developing countries can give export subsidies up to 2018, whose share in world trade is less than 3.25%.

Anti-Dumping Agreements

WTO agreements stipulate that dumping measures will be curbed and no country will be allowed to dump its products in another country, but if volume of dumped imports from a particular country is less than 1% of domestic market sale of that product, then this dumping will be treated as insignificant and WTO will not entertain such complaint of dumping.

Challenges

WTO will be beneficial to developed countries alone and underdeveloped countries like INDIA will stand to lose. Underdeveloped countries like INDIA face following challenges:-

1. Disadvantage to Agriculture Sector

It is apprehended that by including agriculture in WTO, Indian farmers will become dependent on multinational companies for improved seeds and agricultural technology. Farmers will have to pay huge amount to MNCs for branded seeds, fertilizers and pesticides. Big farmers alone will be able to take advantage of costly farm technology. But small farmers, who are large in number, will be forced to sell their land. This will further increase the problem of unemployment in rural sector. This will harm the interest of Indian agriculture. It is clear from the following:

(a) Reduction in subsidy: Critics are of the opinion that in consequence to WTO Agreements, subsidy to agricultural sector will be slashed. It will adversely affect the poor farmers.
(b) Import of Food grains: it is apprehended that by entering in to WTO agreements, surplus food grains of developed countries will be imported on a large scale. The domestic farmers will face competition from imported food grains.
(c) Plant Breeding Protection: According to WTO, protection of breeding has been determined by Sui-Generis system. Indian farmers will have to spend large amount of money to get new and improved variety of plants and their dependence on multinational companies will further increase.

2. Loss to Domestic Industries:

According to WTO agreements, MNCs will have a free entry in the Indian market. This will adversely affect the domestic industry especially SSI, as domestic industries will not be able to compete with MNCs, because of poor marketing and technological capabilities. As a result, domestic investors will be competed out of their own market.

3. Patent of Indian Herbs by Foreign Companies

Some foreign companies have taken patent of Indian hubs / food grains like Haldi, Neem, Tulsi, Basmati Rice, etc. an American company had taken patent of haldi in 1995. India challenged it, and then WTO canceled the patent of haldi to American company. Another American company has already been given the patent of Basmati Rice in the name of Kasmati and Texmati and has also got the patent of Neem. So there is a risk of Indian herbs/ food grains being patented by foreign companies. So Indians will have to make heavy payments as royalty to patent holders for using these herbs/ food grains.

4. Effect on Prices:

If patents for common products like medicines, food grains, chemicals etc. are recognized, then developing countries like India will have to pay huge royalty to the patent holders. It will result in price rise. Indian pharmaceutical industry will be hit hard by patent agreements.

5. Increased Litigation Cost:

MNCs may file a claim against Indian companies for copying of any patent before WTO. Indian companies will have to face difficulties to prove their non-involvement in copying case. They will have to waste their time and money to prove their innocence.

6. Issue of Social Cost, Environment cost and Labour cost:

Developed countries argue that social cost, labor cost is high in developed countries in comparison to developing countries. Because this reason their cost of production is high. So, the developed countries should be allowed to impose tariff on imports to neutralize the difference in such costs. If this decision is taken then developing countries will be disadvantage as they will find it difficult to export their products to developed countries because of tariff barriers.

7. Loss to regional Groupings:

With the promotion of multilateral trade, the trade of regional groupings like SAARC, NAFTA, ASEAN, etc. has come down. So the roll of regional groupings has reduced.

8. Disadvantageous to service sector:

It is feared that WTO will adversely affect our service sector also. Our banking, insurance, transport, education and hotel services will not be able to compete with the similar services offered by MNCs. As a result, indigenous institutes engaged in service sector will gradually wind up and our economic freedom will be endangered.

9. Increase in Unemployment:

WTO will encourage the free flow of imported goods and MNCs in developing countries. MNCs use Capital intensive technology which creates less employment opportunities. Moreover because of liberal imports domestic production of developing countries will come down. Less production activity will result in less employment opportunities.

Conclusion

To conclude WTO is an international organization to promote multilateral trade, focusing on free trade by abolishing tariff and non tariff barriers.WTO agreements also advantages to underdeveloped countries like India in following ways: it increase the foreign trade, agricultural exports, inflow of foreign investment, inflow of better technology and better quality products. WTO promotes research, benefitting clothing and textile industry and makes improvement in services with a necessary check on dumping activities. Thus it can be concluded that WTO agreements will help underdeveloped countries in promoting its foreign trade of goods as well as of services. Inflow of foreign investment, foreign technology, and improved seeds will benefit underdeveloped economies in increasing their rate of economic development. The need of hour is that underdeveloped countries should improve their efficiency to avoid disadvantages of WTO. Moreover all agreements cannot be in favors of one country, as these are formulated keeping in view the interest of all member nations. So underdeveloped countries should try to make maximum advantages of WTO agreements.

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