

E-Book

World Trade Organisation



The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

Southern India Regional Council

Chennai

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This e-book has been authored by

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
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FOREWORD

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.

World Trade Organisation is an International Trade Organisation with a set of Rules and Principles mutually designed to promote International Trade through reduction of Tariff barriers and removal of Import restrictions. The goal is to help producers of goods and services, exporters, and importers conduct their businesses in an effective and efficient manner.

Some of the salient features of World Trade Organisation are as follows:

- (a) Non – Discrimination
- (b) Free Trade
- (c) Stability in the Trading system
- (d) Promotion of Fair Competition
- (e) Special concern for Developing Countries
- (f) Market Access Commitment
- (g) Decision at the Ministerial Level Meeting.

The author has provided the relevant information about taking an integrated approach to many trade related matters, securing employment, reducing tariffs, helping weaker economies in gaining access to capital and technology and paving the way for economic growth of nations. Albeit WTO makes rules for economic development, there are limitations and loopholes like safeguard and anti-dumping rules that are more frequently used to stop competition.

On behalf of SIRC and on my own behalf I place on record our gratitude and appreciation to CA. N C Sekar for sparing his precious time to share with our elite sprofessional fraternity his insightful thoughts and invaluable experience on the World Trade Organisation. I also take the privilege of expressing our grateful thanks to CA. Suresh Kumar for reviewing the basic draft of this e-book and for adding immense value to the substance of the e-book.

As members and readers would agree in a publication meant for professional accountants like this, there is always a scope for improvement of contents, presentation and coverage. Accordingly comments and suggestions on the e-book are welcome at sirc@icai.in

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A SYNOPSIS ON

**World Trade
Organisation**



WTO is an International Trade Organisation with a set of Rules and Principles mutually designed to promote International Trade through reduction of Tariff barriers and removal of Import restrictions.

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Synopsis on World Trade Organisation

Brief Introduction

The WTO is an International Institution which is based on agreements signed by the majority of World's trading nations. The purpose of forming WTO is to oversee the rules of Global Trade among nations for healthy expansion of World Trade by lowering trade barriers and for increased trade among its members. The WTO and its agreement, cover trade in Services, Intellectual Property and handle settlement of disputes as well.

Formation

WTO was established to replace GATT (General Agreement on Trade and Tariffs) which was founded in 1948 as Global Trade Organization to oversee all multilateral trade agreements by giving fair chances to all nations in International Trade. GATT initially founded with twenty-three nations. GATT dealt with trading in Goods only. WTO was established on 1st Jan, 1995 replacing GATT by Uruguay Round Negotiations (1986-94) now consisting of 164 member countries representing 98% of Global trade.

GATT & WTO

WTO has larger membership than GATT. The number of members stand at 164 now. India is one of founding members of WTO. The WTO is an extension of GATT. WTO has taken Trade agreements from GATT and further extended it to General agreement on Trade Services (GATS) and agreements on Trade related aspects on Intellectual Property rights (TRIPS). GATT had only an agreement between contracting Parties and had no independent existence of its own, whereas WTO is a corporate body with recognition under International Law.

Organisation

The WTO is a multilateral organisation headquartered in Geneva, Switzerland. It came in to existence as a successor to GATT. WTO functions as a central body that facilitates Global trade. It provides common platform to negotiate trade agreements among member countries and to resolve trade disputes. WTO manages 60 Global and 300 Regional trade agreements. Regional agreement

refers to a Treaty that is signed by two or more countries to encourage free movement of goods and services across the Globe. The 60 trade agreements are accorded the status of International law. The WTO comprises 164 member states. There are also observer States that are not signatories to the WTO agreements and they do not participate in free trade.

The Ministerial conference of WTO meets every two years to make important decisions about existing Trade agreements made under WTO. The conference includes representatives from all member countries of WTO. It can take decisions on all matters under any of the multilateral trade agreements. It gives equal representation to all its members regardless of size of their economy or their share in international trade. International Trade is an exchange involving a good or service conducted between at least two different countries. The Ministerial conference can be thought of as the legislative branch of the WTO. The WTO is headed by the Ministerial conference while the daily operations are carried out by three administrative bodies.

[General Council.](#)

The General council comprises the representatives of all member Countries and acts as the representative of Ministerial conference when it comes to daily operations. Its job is to carry out the implementation and monitoring function of the WTO. The General council is further divided in to multiple councils and committees that focus on specific topics. Examples of such councils and committees include the Council on Goods, Council on Services, the committee on textiles under the council on Goods etc.,

[Disputes Settlement body](#)

The dispute settlement body is a part of the General council and is responsible for settling trade disputes between member states. There is also an appellate body where member states can appeal on any decisions made against them during a dispute settlement.

[Trade policy Review body](#)

The Trade policy Review body is part of General council. It is responsible for ensuring Trade policies of member states are in line with goals of the WTO. The member countries are required to inform the WTO about the changes in their laws and Trade policies. The body undertakes regular reviews of the Trade policies of member countries to confirm to the rules of WTO. This is one of the monitoring functions of WTO and it helps the WTO to adapt to changing economic landscape.

[WTO Secretariat](#)

The WTO Secretariat, with offices only in Geneva, Switzerland, has 625 regular staff and is headed by Director-General. The professional staff is composed mostly of economists, lawyers and others with specialisation in International Trade. The total staff composed almost equally of Men and Women. The working languages are English, French and Spanish.

WTO Budget

The Budget for the year 2020 per annum was CHF 197.206 millions. WTO gets its major income from its members. The share of each member is derived from a formula based on their share of International Trade.

Objectives

The main objective of the WTO is to help its members to facilitate trade as a means to raise living standards of people and create more jobs.

Improving People's life

The fundamental goal of WTO is to improve the living standards of people around the Globe. The founding agreement of WTO, **Maarkesh** agreement spells out trade should be conducted with a view to raising standards of living, increasing real income, ensuring full employment while expanding global trade in Goods and Services with the optimal use of resources of the world and to speed up the economic development of member countries.

Negotiating Trade Rules

The WTO negotiates trade rules for progressively reducing obstacles to trade. WTO has helped countries for lowering trade barriers and also support maintaining trade barriers in case of protection of consumers or the preservation of environment or to enhance competition among all trading Partners to benefit consumers or to increase level of Production and Productivity with the objective of increasing the level of employment in the World.

Supervision of WTO agreements

The important function of WTO is to make member nations negotiate and sign trade agreements. These agreements provide the rules for International Commerce and bind Governments to keep their trade policies within agreed limits.

Keep up Open Trade

The purpose of the system is for helping free trade flow for stimulating economic growth and employment. It supports integration of developing countries into an International trading system. It ensures that there will be no sudden changes of Policy and the rules are transparent and predictable among member countries.

Settlement of Disputes

The trade agreements entered through WTO may need evaluation and analysis. The differences in interpretation are settled through neutral procedure based on agreed legal framework.

Encourage less developed countries

Over 75% of WTO members are developing economies and support is extended to them for smooth transition to comply WTO provisions and implementation of Trade facilitation agreement.

Upliftment of Poor Nations

To take special steps for upliftment of poor nations.

Principles

Fair Competition

Discouraging unfair trade practices such as export subsidies and dumping products at below normal value to capture market share.

Non-discrimination

Countries should not discriminate between trading partners.

Encouraging expansion of Trade

The best way to encourage trade is through lowering trade barriers which include customs duties and discourage measures including import bans or quotas that restrict quantities selectively.

Transparency and Predictability

The trade barriers will not be raised arbitrarily by nations (members) for stability and predictability.

Protection of the Environment

The WTO agreements allow members to take measures to protect Public, animals, Plant health and environment without discriminating between national and foreign countries.

Inclusion

The WTO binds a more inclusive trading system for more women and small business participation.

Collaboration

The WTO collaborates with Society, unions, universities and business communities to enhance cooperation.

Functions:

Trade negotiations

The WTO facilitates trade negotiations among member countries by providing a framework to streamline agreements as well as providing dispute resolution mechanism. This creates an International legal framework that ensures smooth exchange of goods and Services.

Implementation and Monitoring

One of the functions of WTO is to ensure that signatory countries adhere to their commitments in practice. WTO also makes research on the impact of the agreements on the economies of the countries involved.

Dispute Settlement

The WTO acts as a dispute resolution body when there is conflict between its member states on any of the agreements entered under the WTO. The member countries can file a complaint against other member states if they feel that trade and economic policies are divergent from their commitments under any of the agreements under WTO. There is formal hearing like court proceedings before settlement is reached.

Building Trade capacity

The WTO conducts special programs to support developing countries by helping them to build capacity to participate in free trade with developed countries. It provides concession under certain agreements to low developed countries to facilitate them into free trade with other countries.

Facilitation of Trade

The WTO also persuades Governments to reduce barriers for free and open market trade around the Globe. As part of its larger objectives to promote free trade, WTO carries lobbying with member countries.

Collaborating with International Organisations

Work in cooperation with IMF and World Bank for establishing cooperation in Global trade policy.

Reviewing Economic Policies

Reviewing Trade related economic Policies of member countries through Trade policy Review body.(TPRB)

Digital Trade

General Council reviews WTO's work programme on e-commerce based on reports from various WTO bodies.

Achievements

There was dramatic growth of cross border business activity since 1995. The dollar value of World Trade has nearly quadrupled. The average tariffs of World Trading nations has almost reduced by half from 105% to 64%.

Global Value chains (GVC) have raised due to predictable market conditions encouraged by WTO. The raise in GVCs is an enabler of Growth in developing economies. The world poverty has reduced from one in three in 1995 to extreme poverty rate became less than 10% in 2021, the lowest ever. One of significant achievements of WTO is abolition of farm export subsidy. WTO liberalised trade in IT.

WTO's Goal

WTO's aim is to increase Trade and Services for maximum utilisation of resources with preservation of environment. The WTO increases Trade in commodities and Services through promotion of International Trade (bilateral and multilateral) by elimination of tax as well as non-tariff barriers and increase market access for all member countries. The WTO purpose is to help trading with free, fair and predictable manner. WTO establishes rule-based trade in which participating nations cannot place arbitrary restrictions on Trade.

WTO Trade Benchmarks

The WTO has an Economic Research & Statistical wing which provides information on "real time" about world Trade. They are called WTO Trade Barometers. It provides analysis and data on economic and trade policy issues with the objective of understanding the trends in trade and multilateral Trading system. It provides annual publications which consists of World Trade Report (Global Trade policy of different topic each year), World Trade Statistical Review (Latest developments in World Trade), Trade Profiles (Country by Country trade flows and trade policy measures) and World Tariff Profiles (country by country data on "bound" tariff rates and rates apply in practice). The WTO also collaborates with other International Organisations like WTO, UNCTAD, ILO etc., for joint publications that focus on specific trade issues.

The WTO provides access to WTO research databases, publications and webinars.

Impact on India

Positive Impacts

- 1) Growth in Merchandise export and increase in export earnings. India's merchandise export increased from US\$32 billions (1995) to US\$ 291 billion (2020-21).
- 2) WTO introduced GATT (General agreement on Trade in Services) which is beneficial to India. India's Service Exports increased from US\$5 billion (1995) to US\$ 203 billion (2020-21)
- 3) WTO reduced trade barriers in agricultural export and eliminated domestic subsidies for agricultural products in international market which will benefit India by higher export earnings from agricultural products.
- 4) The Phasing out of MFA (Multi-Fibre arrangement) will benefit India through increase of export of textiles and Clothing.
- 5) The restrictions on foreign Investment have been withdrawn by member nations of WTO as per TRIMS agreement. This has increased the net foreign direct investment in India. The net foreign direct investment in India was US\$ 81.72 billion in 2020-21.

Negative Impacts

- 1) TRIPS (Trade related aspect of Intellectual Property)

One of the major concerns of WTO is protection of Intellectual Property rights. India, as a member of WTO has to comply with TRIPS standards.

Pharmaceutical sector will be affected as product patents will have to be granted that will raise the prices of medicines that go against poor people. However, most of the drugs manufactured in India are off-Patents and hence the impact on India would be less.

Agricultural Sector will also be affected due to TRIPS. Patenting under TRIPS agreement has been extended to micro-organisms also. MNCs having huge financial resources may take up seed production and control food production in India. As majority of people depends on agricultural production for livelihood in India, this development has got serious consequences for India.

- 2) TRIMS (Trade related Investment Measures) is advantageous to developed nations as there are no rules for controlling business practices of foreign investors and also go against our objectives of self-reliance based on locally available technology and resources.

- 3) GATS (General Agreement on Trade in Services) also favours developed nations more as the growing service sector in India have to compete with Giant foreign firms. The foreign firms can remit their profits, dividends and royalties to their countries thereby draining our foreign exchange reserves.
- 4) Trade and non-Tariff barriers
Exports of various Indian products have taken a hit due to non-tariff barriers imposed by nations. The products include Textiles, marine products, floriculture, basmati rice, leather goods, carpets, pharmaceutical products etc.,

Conclusion

WTO was formed for the purpose of taking an integrated approach to many trade related matters, securing employment, reducing tariffs, helping weaker economies in gaining access to capital & technology and paving the way for economic growth of nations. Albeit WTO makes rules for economic development, there are limitations and loopholes like safeguard and anti-dumping rules that are more frequently used to stop competition. There are criticisms that WTO contributes to unequal competition because of following reasons:

- 1) Developed countries give less market access to products from developing countries and tend to impose high tariffs in those products that are most valuable to least developed countries (Clothing, Leather, fish and agriculture).
- 2) The enforcement of Intellectual property rights (TRIPS) will make necessary technology and essential goods (i.e., medicines, seeds) expensive and also not able to stop bio-piracy by foreign companies.

Despite criticisms, the WTO should move forward with their agenda of Economic development of member countries and globalisation of trade and the developing countries should fight for their rights for market access to developed countries for equitable economic growth.

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