

# WTO: Evolution, Structure and Functions

## HISTORICAL OVERVIEW OF THE GATT AND WTO

The World Trade Organization (WTO) and its predecessor, the General Agreement on Tariffs and Trade (GATT) have been enormously successful over the last 50 years at reducing tariff and other trade barriers among an ever-increasing number of countries. The predecessor to the WTO i.e., the GATT began in 1947 with only 23 members; today it has 153 members, comprising approximately 97 per cent of world trade.<sup>17</sup> See table - 1.1 for a timeline of GATT and the WTO. Although the WTO, established in 1995, is relatively young for an international institution, it has its origins in the Bretton Woods Conference at the end of World War II.

## GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

The General Agreement on Tariffs and Trade (GATT) was originally created by the Bretton Woods Conference as part of a larger plan for economic recovery after World War II. The GATT's main purpose was to reduce barriers to international trade.

This was achieved through the reduction of tariff barriers, quantitative restrictions and subsidies on trade through a series of different agreements. The GATT was an agreement, not an organization. Originally, the GATT was supposed to become a full international organization like the World Bank or IMF called the International Trade Organization. However, the agreement was not ratified, so the GATT remained simply an agreement. The World Trade Organization has replaced the functions of the GATT.

The GATT came in to force in the year 1948 and India is the founder member. In the beginning there were 122 member countries, the majority of which were under developed and developing countries, which were parties to GATT.

Over the next 40 years, GATT grew in membership and in its success at reducing barriers to trade. GATT members regularly met in what came to be known as negotiating *rounds*. These rounds were primarily focused on negotiating further reductions in the maximum tariffs that countries could impose on imports from other GATT members. The success of these rounds is evident (see table — 1. 1).

**Table - 1. 1: Timelines of GATT and WTO**

| Sl. No. | YEAR    | EVENT DESCRIPTION  |
|---------|---------|--|
| 1       | 1944    | At the Bretton Woods Conference, which created the World Bank and International Monetary Fund (IMF), there is talk of a third organization, the International Trade Organization (ITO),  |
| 2       | 1947    | As support for another international organization wanes in the U.S. Congress, the General Agreement on Tariffs and Trade (GATT) is created. The GATT treaty creates a set of rules to govern trade among 23 member countries rather than a formal institution. |
| 3       | 1950    | Formal U.S. withdrawal from the ITO concept as the U.S. administration abandons efforts to seek congressional ratification of the ITO.   |
| 4       | 1951-86 | Periodic negotiating rounds occur, with occasional discussions of reforms of GATT. In the 1980s, serious problems with dispute resolutions arise.  |
| 5       | 1986-94 | The Uruguay' Round, a new round of trade negotiations, is launched. This culminates in a 1994 treaty that establishes the  |

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|   |      | World Trade Organization (WTO),  |
| 6 | 1995 | The WTO is created at the end of the Uruguay Round, replacing GATT.                        |
| 7 | 2003 | The WTO consists of 146 members, accounting for approximately 97 per cent of world trade.. |
| 8 | 2008 | The WTO consists of 153 members, accounting for approximately 97 per cent of world trade.  |

Tariffs on manufactured products fell from a trade-weighted average of roughly 35 per cent before the creation of GATT in 1947 to about 1.4 per cent at the start of the Uruguay Round in 1986.

Over the same time period, the volume of trade among GATT members surged: In 2000 the volume of trade among the WTO members stood at 25 times its 1950 volume. This growth in the volume of trade is impressive and appears to have accelerated in recent decades.

## PRINCIPLES OF GATT

The GATT functions according to the following four fundamental principles are:

- 1) **Most favored-Nation Treatment(MFN):** According to Article I, the famous "most favored nation clause," no country is to give special trading advantages to another or to discriminate against it. All are one and on an equal basis, and all share the benefits of any moves towards lower trade barriers.
- 2) **National Treatment Principle:** This is Article III of the GATT and requires that once goods have entered a market, they must be treated no less favorably than the equivalent domestically produced goods.
- 3) **Anti Non-Tariff Barriers Principle:** This principle states that, where protection is given to domestic industry, it should be extended exclusively (subject to very limited exceptions) through customs tariffs and not through

other commercial measures. Among other things, the aim of this rule is to make the extent of protection clear and quantifiable. Fees and charges other than tariffs must be limited to the approximate cost of the services. The "Escape Clause" exception permits the imposition of tariffs and non-tariff barriers in cases where, as a result of unforeseen developments, a product is imported into the territory of a contracting party of like or directly competing with a domestic product in such increased quantities and under conditions which causes harm or threatens serious injury to domestic producers. These may be imposed only to the extent and for such a time as is necessary to prevent or remedy the injury. Exceptions also exist for national security, public morals, short supply or domestic price stabilization, health, and other valid public policy reasons.

4. **Tariff Concession Principle:** Under standard GATT operating practice, a country wishing to become a contracting party to the Agreement must submit negotiated tariff concession schedules (including lists of non-GATT complying non-tariff trade restrictions). These are sometimes referred to as "bindings." They may include schedules of tariff reductions or the elimination of specified non-tariff trade restrictions. These tariff concession schedules are negotiated with other members collectively. Thereafter, tariffs and other trade restrictions may only (with certain exceptions that invite retaliatory action by other members be reduced or eliminated through scheduled, unilateral, or mutually negotiated further trade liberalization. They may not be increased.

## **THE WORLD TRADE ORGANISATION**

Trying to bring order to a disorganized world, the World Trade Organization (WTO) works to facilitate international trade. It provides a forum where its more than 150 member nations negotiate sign trade agreements. The WTO administers the agreements, handles trade disputes, monitors national trade policies, provides technical assistance and training for developing countries, and cooperates with other international organizations. The organization derives most of its operating income from member contributions. The WTO replaced the General Agreement on Tariffs and Trade (GATT) in 1995. World Trade Organization (WTO), international organization

established in 1995 as a result of the final round of the General Agreement on Tariffs and Trade (GATT) negotiations, called the Uruguay Round. The WTO is responsible for monitoring national trading policies, handling trade disputes, and enforcing the GATT agreements, which are designed to reduce tariffs and other barriers to international trade and to eliminate discriminatory treatment in international commerce. In an effort to promote international agreements, WTO negotiations are conducted in closed sessions; many outsiders have strongly criticized such meetings as antidemocratic. Unlike GATT, the WTO is a permanent body but not a specialized agency of the United Nations; it has far greater power to mediate trade disputes between member countries and assess penalties. In the Uruguay Round, agreement was reached to reduce tariffs on manufactured goods by one third. Under the WTO, subsidies and quotas are to be reduced on imported farm products, automobiles, and textiles, which were not covered by GATT; there is also freer trade in banking and other services and greater worldwide protection of intellectual property. Negotiations to eliminate subsidies and protections for agricultural products, however, have proved to be a stumbling block. The Doha Round of talks, launched in 2001, has been deadlocked over such subsidies; the round was originally scheduled to be finished in Jan, 2005. The WTO is headquartered in Geneva and also holds international ministerial conferences; it has 153 members.

The WTO is the only global international organization dealing with the rules of trade between nations. The WTO members account for over 97 per cent of world trade. The goal is to help producers of goods and services exporters and importers conduct their business.

WTO's main task is to make the multilateral trading system credible and transparent. This is the hope, based on assertions by the world's major traders especially the US. The WTO in its principal role as a trade police man will ensure the countries obey multilaterally accepted trade rules, carryout recommendations and rulings and compensate complaints

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## OBJECTIVES OF WTO

- *To promote an equitable, non-discriminatory, multilateral, integrated and durable trading system;*
- *To liberalise the trade with a view to raising standard of living;*
- *To ensure optimal use of the world resources;*
- *To ensure full employment;*
- *To expand the production and trade;*
- *To protect and preserve the environment;*
- *To ensure linkages between trade policies, environmental policies and sustainable development.*

## THE FUNCTIONS OF WTO

*Among the various functions of the WTO, these are regarded by analysts as the most important:*

1. It oversees the implementation, administration and operation of the covered agreements.
  2. It provides a forum for negotiations and for settling disputes\*<sup>7</sup>
  3. Additionally, it is the WTO's duty to review and propagate the national trade policies, and to ensure the coherence and transparency of trade policies through surveillance in global economic policy-making.
  4. Another priority of the WTO is the assistance of developing, least-developed and low-income countries in transition to adjust to WTO rules and disciplines
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through technical cooperation and training.

5. The WTO is also a center of economic research and analysis: regular assessments of the global trade picture in its annual publications and research reports on specific topics are produced by the organization.
  6. To confirm whether the agreements that have been covered are implemented, administrated and executed effectively.
  7. The WTO shall facilitate the implementation, administration, operation, and further the objectives, of this Agreement and of the Multilateral Trade Agreements, and shall also provide the framework for the implementation, administration and operation of the Plurilateral Trade Agreements.
  8. To settle negotiations and disputes by providing a forum check,
  9. The WTO shall provide the forum for negotiations among its Members concerning their multilateral trade relations in matters dealt with under the agreements in the annexes to this Agreement. The WTO may also provide a forum for further negotiations among its Members concerning their multilateral trade relations, and a framework for the implementation of the results of such negotiations, as may be decided by the Ministerial Conference.
  10. The WTO shall administer the Understanding on Rules and Procedures Governing the Settlement of Disputes in Annex 2 to this Agreement.
  11. The WTO shall administer the Trade Policy Review Mechanism provided for in Annex 3 to this Agreement.
  12. With a view to achieving greater coherence in global economic policy-making, the WTO shall cooperate, as appropriate, with the International Monetary Fund and with the International Bank for Reconstruction and Development (IBRD) and its affiliated agencies.
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Finally, the WTO cooperates closely with the two other components of the Bretton Woods system, the IMF and the World Bank.

### **BENEFITS FROM WTO AGREEMENTS / MEMBERSHIP**

1. WTO provides a rule based transparent and predictable multilateral trading system, which protects the member countries from the pressures of their stronger trading partners.
2. WTO works on the principle of one country one vote and as such India as well as other members has a say in the rule making process in WTO. The convention is that decision making is done by consensus.
3. A major advantage arising from WTO is that it automatically guarantees Most Favored Nation (MFN) treatment implying that Members cannot discriminate between various WTO Members in their tariff regimes. In the absence of the MFN Clause, which flows from Membership of the WTO, India would have had to negotiate bilaterally with all Members for obtaining such MFN treatment.
4. The agreement also ensures national treatment for our exports, in all WTO Member countries. National Treatment ensures that our products once imported into the territory of other WTO members would not be discriminated vis-à-vis domestic products in those countries.
5. Another important benefit accruing is the availability of a strong and effective Dispute Settlement Mechanism (DSM) under the WTO.
6. There are contingency protection provisions built into WTO rules, enabling Member countries to take care of exigencies like balance of payment problems and situations like surge in imports. In case of unfair trade practices causing injury to the domestic producers, there are

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provisions to impose Anti-dumping or Countervailing duties as provided for in the Anti- Dumping Agreement and the Subsidies and Countervailing Measures Agreement. As per the WTO Annual Report for the year 2000, India was the 2 highest user of the Anti-dumping measures amongst all the WTO members.

7. The reduction in export subsidies on Agriculture by developed countries if affected through the Agreement on Agriculture will make Indian agricultural exports more competitive in world markets.
8. The commitment of certain developed countries under Agreement on Textiles and Clothing (ATC) to finally phase out the Textile Quotas as were being maintained by them under Multi Fibre Arrangement (MFA) by 1st January 2005 is a positive gain for Indian textile exports.

Highest authority: the Ministerial Conference: The WTO belongs to its members. The countries make their decisions through various councils and committees, whose membership consists of all WTO members. Topmost is the ministerial conference, which has to meet at least once every two years. The Ministerial Conference can take decisions on all matters under any of the multilateral trade agreements.

Seven Ministerial Conferences have been held so far since the inception of the WTO and the eight one is due in December 2011 to be held at Geneva. Several issues have been being discussed while some of them could be arrived at satisfactory conclusions and some still are elusive of solutions.

### **LIMITATIONS OP THE WTO**

However, it is important for the debate to be based on a proper understanding of how the system works

- The WTO dictates Policy.
- The WTO is for free trade at any cost.

- Commercial interests take priority over development, environment and over health and safety.
- The WTO destroys jobs, worsens poverty.
- Small countries are powerless in the WTO.
- The WTO is the tool of powerful lobbies.
- Weaker countries are forced to join the WTO.
- WTO is undemocratic.

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