

# It Takes Many

Writer -Rajat Kathuria (director & chief executive, ICRIER)

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**"A question uppermost on trade economists' minds is whether the WTO is worth saving. One way to evaluate the question is to investigate its achievements, with the obvious caveat that the past is an imperfect guide to the future."**

Another salvo from Washington, on our Independence Day, strips us (and China) of the "developing nations" status. At any other moment, both India and China would have been pleased to rid themselves of this tag, but not at this time. For, there is a catch. President Donald Trump has reiterated his long-standing belief that India and China have benefited immensely by misusing the developing country tag, thereby profiting unduly from privileges conferred on such countries. He blamed the World Trade Organisation (WTO) for this lapse, and reiterated his threat to leave the world's largest multilateral trade forum.

Meanwhile, the narrative from China is one of injury to the national psyche due in part to the "centuries of humiliation" they claim to have suffered at the hands of western powers. Their growing economic and military might presents the Chinese, in their own words, an opportunity to set the historical record straight. For the US, these are anxious times for fear of losing the mantle of the world's preeminent power after at least three decades of unchecked hegemony. Chinese rise and US fears are straining their bilateral trade and causing serious collateral damage to the institution that has served well the cause of trade, growth and stability of the world economy in the post-WWII period.

A question uppermost on trade economists' minds is whether the WTO is worth saving. One way to evaluate the question is to investigate its achievements, with the obvious caveat that the past is an imperfect guide to the future. Since the WTO came into being in 1995, the world has witnessed massive changes, some deeply structural in nature. New technologies have transformed the way we live, communicate, and trade. In 1995, less than 0.8 per cent of the world's population used the internet; in June 2019 it was around 57 per cent. Communication technologies and containerisation lowered costs and boosted volumes of components moving in and out of countries allowing production chains to become increasingly international and also much more complex. An iPhone, for example, has about 14 main components that are manufactured by 7-8 multinational companies with branches in more than 40 countries. Overall trade in goods has nearly quadrupled since 1995, while WTO members' import tariffs have declined by an average of 15 per cent. Over half of world trade is now tariff-free (WTO, 2015). Growth in trade has exceeded growth in world GDP and has been associated with improved standards of living. Today, the WTO

regulates more than 98 per cent of global trade flows among its members.

It also monitors the implementation of free trade agreements, produces research on global trade and economic policy, and serves as a forum for settling trade disputes between nations. An alternate way to look at the WTO's success is not to focus on how much trade it has helped create and the corresponding tariff reductions, but the damage in trade value it has helped avert. One estimate puts the value of avoided trade wars at \$340 billion per year.

When the US-China trade conflict began in July 2018, many were lulled into believing that the sabre-rattling was temporary and the aggressive unilateralism that defined US actions would die a natural death. The US had earlier used Super-301 legislation to designate specific countries as unfair traders, and to threaten them with higher tariffs unless they fell in line. Some countries complied with US pressure to avoid escalation, while others such as India and Brazil refused to negotiate under threat of US sanctions.

In the current instance, however, it does not seem likely that the US will back off. Neither does it seem that the Chinese (or India) will agree to negotiate under duress. In all likelihood, the Chinese will not brook another humiliation, while India at the current juncture is little more than collateral damage. Moreover, it is not possible for India to trade in the developing country status in the WTO without a fight.

In any case, a unilateral finding of unfair trading practices and subsequent action by the US ignoring their own WTO commitments, places other countries on higher moral ground. Under the rules, a measure is defined as unilateral if it is imposed by a country without invoking the WTO dispute settlement procedures or other multilateral international rules and procedures, and which is based solely upon invoking the country's own criteria. Unilateral measures are inconsistent with the letter and the spirit of multilateralism. Article 23 of the Dispute Settlement Understanding (DSU) explicitly prohibits members from doing so.

A gracious explanation is that the US is using its power to discipline the trading system for the benefit of all. China (and India), they claim, has been a free-rider for long having taken advantage of the open trading regime while itself being opaque on subsidies, state owned enterprises and intellectual property. And since dispute settlement in the WTO has become dysfunctional and appeals to the appellate body (AB) are taking longer than the prescribed 90 days, the US has taken matters in its own hands, playing the part of benign dictator for the common good.

While this view might have some isolated resonance, it is extremely charitable. There is no justification for subverting the multilateral process, especially by the country that was instrumental in putting it together in the first place. Further, the AB will cease to function in December unless the US agrees to appoint a replacement to maintain the required quorum of three members. Without the AB, the law of the jungle will replace the rule of law, hurting the weak and destroying the credibility of the entire process.

There is no doubt that the multilateral process needs to be fortified and it cannot happen until the strongest member is vested in it. Multilateralism implies that every country agrees to bind itself to the same rules as other (smaller) countries even when it conflicts with self-interest. Admittedly, trade is much more complex now; negotiation among 164 members on standards to generate consensus is at best hard, and at worst, impossible. The alternative, regionalism, involves a limited number of countries and ostensibly relies less on "altruism" of the members and more on mutual gain. But it suffers from an exclusionary bias.

Multilateral agreement is still the best, and when reasonable men and women sit around the table, a solution can be found. In the absence of pure multilateral negotiations, interested members could negotiate plurilaterally with the aim of achieving multilateral outcomes. But burden-sharing, as opposed to altruism among the big players, will remain an integral part of the multilateral approach. The WTO may still emerge as the lynchpin of global trade governance. For, as the Mirza Ghalib said: Ranjh se khugar hua insaan to mit jaata hai ranj/ Mushkilein mujh par padi itni ki asaan ho gayeen.

## GS World Team...

### World trade organization

#### Introduction

- The WTO is an intergovernmental organization promoting global trade by removing trade-related barriers in the world.
- It was established in 1995 under the Treaty of Marrakesh.
- It is headquartered in Geneva, Switzerland. Currently, 164 countries are its members. On 29 July 2016, Afghanistan became its 164th member.
- The Ministerial Conference of Member States is the apex body for its decisions, whose meeting is held every two years.
- India is a founding member country. China joined it in 2001.

#### An objective

- Its main objective is to establish free, more transparent and more permissible trade system in the world.
- The WTO is based on a solid legal system. Its agreements have been ratified by MPs from member countries.

- No one country has authority over the World Trade Organization. Important decisions are made by designated ministers of member countries. These ministers do meet at least once every two years.
- The World Trade Organization (WTO) has the power to resolve trade differences of various countries.

#### Work

- Providing facilities for the implementation, administration and operation of the World Trade Agreement and Multilateral Agreements.
- To act as a forum for discussion among members on any future issues related to trade and tariffs.
- Administer rules and procedures related to settlement of disputes.
- Implementing rules and provisions related to trade policy review process.
- To collaborate with the International Monetary Fund (IMF) and the World Bank to bring greater harmony in global economic policy-making, and optimize world resources.

### Expected Questions (Prelims Exams)

1. Consider the following statements -

1. WTO was established in 1995.
2. At present the number of member countries of WTO is 164.
3. 120 days has been decided for the period of appeal redressal for Appellate Body of WTO.
4. The Dispute Redressal Agreement has been mentioned in the Article- 23 of WTO.

Which of the above statements is/are correct?

- (a) 1, 2 and 3                      (b) 2, 3 and 4  
(c) 1, 2 and 4                      (d) 1, 3 and 4

### Expected Questions (Mains Exams)

- Q. Recently America has threatened to leave the membership of WTO, Underline the importance of WTO in the present context. (250Words)

**Note:** Answer of Prelims Expected Question given on 19 Aug. is 1 (d)