

WTO - Strain in the Global Trading Order

What is the issue?

\n\n

\n

- The effective functioning of WTO has come under intense strain recently, due to the deadlock between the developed and the developing world.

\n

- Also, the US seems to want a whole new system to replace WTO, as China is posing a formidable challenge to its global dominance.

\n

\n\n

What is the historical perspective?

\n\n

\n

- Powerful western countries have controlled the global trade in the past 5 centuries - by rules if possible, and by war if necessary.

\n

- Between 16th to 19th centuries, Britain and other imperial powers, powered by the industrial revolution, colonised most parts of the rest of the world.

\n

- The colonies provided the source for raw materials and also the markets for their surplus produce - an arrangement that enriched their coffers massively.

\n

- If rulers were hindering free and unrestricted trade as per the liking of the imperialists, war was used as a means to usher in political change.

\n

- Also, wars were fought to control strategic aspects of trade, like the four Anglo-Dutch wars that were fought to control sea routes.

\n

- British success in controlling the seas and its subsequent territorial conquests crowned it Britain as the undisputed power in the mid-19th century.

\n

\n\n

How did trade policies change over the years?

\n\n

\n

- **The Strain** - Rising awareness among the colonial masses and the spread of nationalistic was straining the earlier style of promoting trade by war.

\n

- But trade wars continued in official policy parleys till most colonies forced their way to liberation after the end of 2nd world war (WW-II).

\n

- **New Order** - The comprehensive victory WW-II victory gave confidence to the US and Britain to envision an era of rules based trading order.

\n

\n\n

\n

- Notably, they had already mastered the industrial system and most of their products were innovated and mass produced efficiently and cheaply.

\n

- Given their dominant economic position, the rest of the world was forced to buy their products out of sheer need, which obliterated the need for war.

\n

- The best way to enhance trade was by pushing for reduction in tariffs, and General Agreement on Tariff and Trade (GATT) was to achieve precisely that.

\n

- Notably, GATT member countries reduced import duties significantly during 1947-1986 period through eight rounds of negotiations.

\n

- **WTO** - US and EU clearly reigned over GATT's decisions, but GATT had its limitations as it formulated rules for trade in goods only.

\n

- The growth of pharma industries and services sector mandated more extensive global trade rules for expanding American and European businesses.

\n

- Hence, WTO was born in 1995 to replace GATT and to accommodate the new interests like "Intellectual Property Rights" (IPR).

\n

- Also, the "Dispute Settlement Mechanism" was recreated as an efficient body for disputes resolution with the provision for appeal.

\n

- **The Constrain** - Believing that low import duties are essential for trade growth, US and EU committed to almost zero bound duty for most products.

- \n
- This commitment meant an acceptance in the WTO that they won't increase the import tariffs in future and hence any such move would be a violation.
- \n
- Notably, most developing countries (including China) refrained from such commitments, and hence have retained their sovereign right over tariffs.
- \n
- This inadvertent pledge seems to be constraining US and EU immensely, and has caused their share in global trade volumes to fall considerably.
- \n
- More specifically, in the 1990s, the US and EU could not foresee the rise of China, which was to soon become the manufacturing hub of the world.
- \n

\n\n

How has the rise of China changed the dynamics?

\n\n

- \n
- US and EU had got most WTO members to sign a plurilateral Agreement called the "Information Technology Agreement" in 1996.
- \n
- This was in anticipation of promoting their dominance in Computer and telecom products as most others had then lacked the technical know-how.
- \n
- Yet, most of the benefits of the ITA were cornered by China, which had emerged as the largest electronics and IT product exporter by a big margin.
- \n
- By 2010 it became a leading supplier of computers, mobile phones, washing machines, TVs, organic chemicals, steel and many other items of everyday use.
- \n
- It produces everything from capital-intensive products like factory machinery to labour-intensive products like shoes and umbrellas.
- \n
- China made its own rules for conducting trade by offering free land, power, tax breaks and cheap labour to entice the MNCs to invest there.
- \n
- Wherever necessary, it also stole "intellectual property" (in violation of the IPR agreement) and forced technology transfer obligations at times.
- \n

\n\n

Why and how is WTO getting undermined?

\n\n

\n

- Presently, US and EU are unable to bully the developing countries like India and China the way they have been doing earlier.

\n

- Also, as the decision-making process is consensus-driven, it leaves no scope for unilateral pushing of the agenda by muscling a majority.

\n

- Hence, the US and the EU have probably decided that the WTO in its current avatar is of no use to them, which explains Trump's attempts at weakening it.

\n

- His decision to impose import duty on steel and aluminium from China violate the USA's commitment to "ZERO duty" made at the WTO in 1995.

\n

- Notably, Trump used the 'threat to national security' clause, for imposing tariffs, which is a last resort for exceptional circumstances.

\n

- US has also been blocking the appointment of members to the Appellate Committee, which is increasing case pendency and choking the system.

\n

\n\n

How is the dispute shaping up at WTO summits?

\n\n

\n

- There have been serious contestations between the developed and developing countries regarding agriculture subsidies and their classifications.

\n

- Notably, developing countries (lead by India) are arguing for renegotiating the "Agreement on Agriculture" which they feel is favouring rich counties.

\n

- But contrarily, with little regard for these concerns, the richer countries want to push through newer domains like e-commerce, and investment facilitation.

\n

- The stalemate is only growing stronger and global trade is expected to be the first causality of the weakening international system.

\n

- Also, while a major trade war between US and China seems inevitable, India may probably remain a keen bystander that is focused on its internal economy.

\n

\n\n

\n\n

Source: Business Line

\n

