Spaghetti Bowl Effect

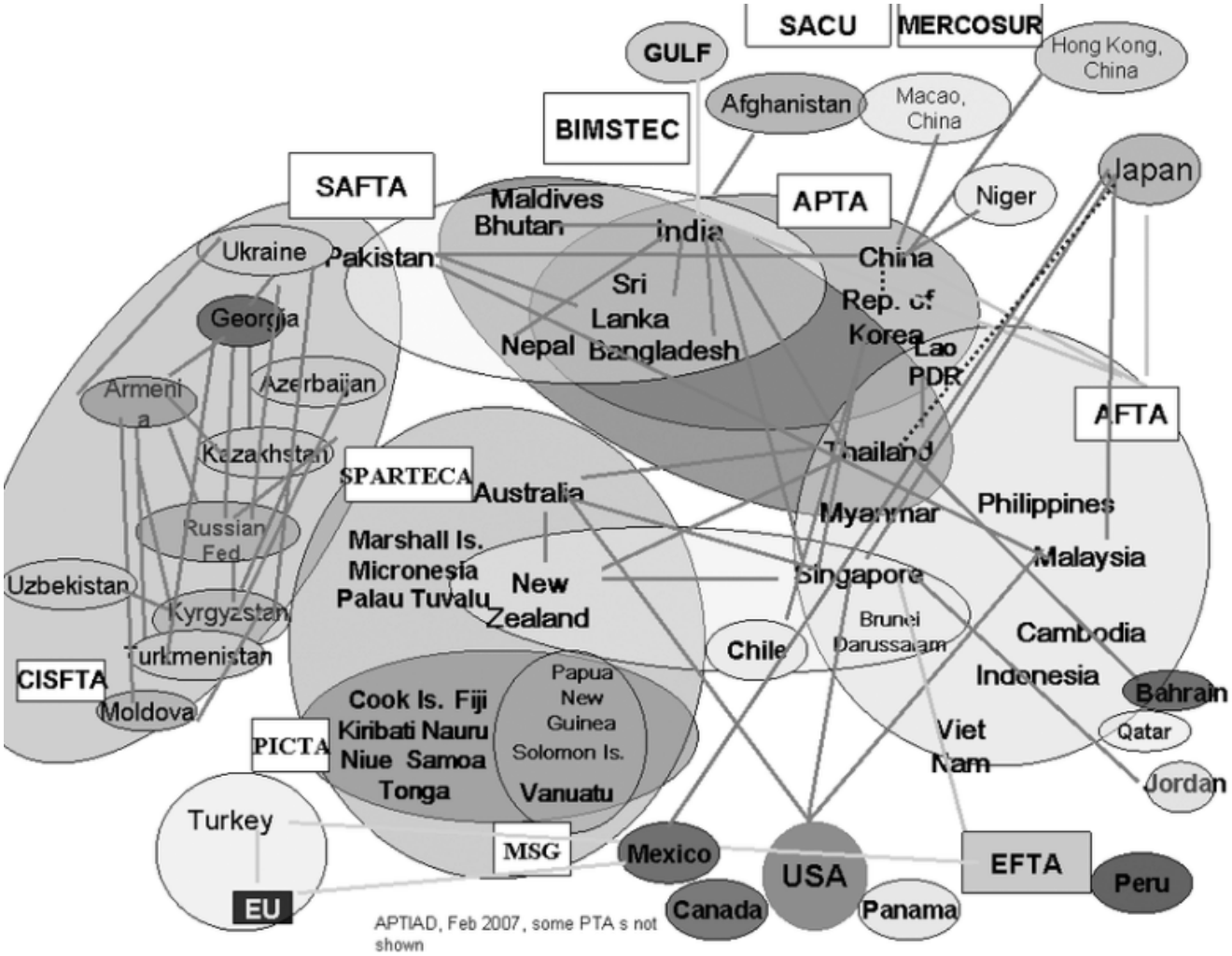
Mains Syllabus: GS II - Important International institutions, agencies and fora- their structure, mandate.

Why in the News?

With the recent new trade tariffs of USA, there is increasing rise in bilateral Free Trade Agreements (FTA).

What is spaghetti bowl effect?

- **Spaghetti bowl effect** - It is an interesting phenomenon in trade economics where the increasing number of Free Trade Agreements (FTAs) between countries slows down trade relations between them.



- **FTA** - In free trade agreements, members agree on a lowered internal tariff to be applied between them, while at the same time each member can have its own external tariff levied on imports from non-member countries.
- **Country of Origin (CoO)** - This introduces the concept of 'country of origin' of the traded product to distinguish products of one country from the other.

What are the issues with spaghetti bowl effect?

- **Overlapping Agreements** - The phenomenon arises from the increasing number of bilateral or regional FTAs, each with its own specific rules and regulations.
- **Conflicting Rules of Origin** - There are rules in international trade known as 'Rules of Origin' (ROO) which set the criteria to determine the country of origin.
- Each FTA typically has its own set of ROO, which determine the country of origin of a product for preferential treatment.
- This can lead to confusion and difficulty in determining which rules apply when a product is traded across multiple FTAs.
- **Trade Diversion** -The existence of multiple FTAs can lead to trade diversion, where businesses are drawn to trade with countries within an FTA rather than those outside of it, even if the latter are more competitive.
- **Complexity and Compliance Costs** - Businesses need to comply with a multitude of different regulations, increasing their administrative and compliance costs.
- **Impact on Trade** - The complexity of the "spaghetti bowl" can hinder trade, as businesses may find it difficult to navigate the various rules and regulations, leading to slower growth in trade volumes.

How did decline in WTO contributed to the effect?

- **Ineffectiveness of negotiation** - The negotiating function of WTO lost it's effectiveness since the Doha Round of talks in 2001.
- There is only one multilateral agreement, the fisheries agreement, that has been concluded, and even that has not been fully concluded.
- Consensus or decision making by consensus is proving to be a problem in the negotiation platform.
- **Dysfunction dispute settlement mechanism (DSM)** -U.S. has been blocking appointments to the Appellate body, the ultimate court of appeal for a long time.
- **Trade monitoring challenges** - There is a lot of opacity about trade measures from a number of members, particularly one big member.
- This has affected the trade monitoring function of the WTO.

What lies ahead?

- The WTO is struggling to remain relevant in the face of proliferating bilateral trade agreements, uncertain global development.
- Though the WTO has seen decline in recent times, the need for an international organization to regulate the global trade has never faded.
- FTAs , RTAs (Regional Trade Associatons) and PTAs (Preferential Trade Associations) cannot become a substitute for multilateralism and the WTO.

- Structural re-organization and providing adequate powers to WTO is essential to restore confidence in rules based global trade order.
- Convincing US to approach the WTO forum to resolve it’s trade issues, instead of having individual bilateral talks.

References

The Hindu | WTO Relevance

The Indian Express | A global trade reset

To practice mains question, click here

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