WTO - Strain in the Global Trading Order

What is the issue?

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- The effective functioning of WTO has come under intense strain recently, due to the deadlock between the developed and the developing world.
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- Also, the US seems to want a whole new system to replace WTO, as China is posing a formidable challenge to its global dominance.
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What is the historical prespective?

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- Powerful western countries have controlled the global trade in the past 5 centuries - by rules if possible, and by war if necessary.
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- Between 16th to 19th centuries, Britain and other imperial powers, powered by the industrial revolution, colonised most parts of the rest of the world.
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- The colonies provided the source for raw materials and also the markets for their surplus produce - an arrangement that enriched their coffers massively.
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- 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.
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- Also, wars were fought to control strategic aspects of trade, like the four Anglo-Dutch wars that were fought to control sea routes.
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- British success in controlling the seas and its subsequent territorial conquests crowned it Britain as the undisputed power in the mid-19th century.
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How did trade policies change over the years?

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- **The Strain -** Rising awareness among the colonial masses and the spread of nationalistic was straining the earlier style of promoting trade by war.
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- 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).
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- **New Order -** The comprehensive victory WW-II victory gave confidence to the US and Britain to envision an era of rules based trading order.
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- Notably, they had already mastered the industrial system and most of their products were invovated and mass produced efficiently and cheaply.
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- Given their dominant economic position, the rest of the world was forced to buy their products out of sheer need, which obliviated the need for war.
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- The best way to enhance trade was by pushing for redction in tariffs, and General Agreement on Tariff and Trade (GATT) was to acheieve precisely that.
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- Notably, GATT member countries reduced import duties significantly during 1947-1986 period through eight rounds of negotiations.
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- **WTO -** US and EU clearly reigned over GATT's decisions, but GATT had its limitations as it formulated rules for trade in goods only.
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- The growth of pharma industries and services sector mandated more extensive global trade rules for expanding American and European businesses.
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- Hence, WTO was born in 1995 to replace GATT and to accommodate the new interests like "Intellectual Property Rights" (IPR).
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- Also, the "Dispute Settlement Mechanism" was recreated as an efficient body for disputes resolution with the provision for appeal.
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- **The Constrain -** Believing that low import duties are essential for trade growth, US and EU committed to almost zero bound duty for most products.

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- 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.
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- Notably, most developing countries (including China) refrained from such commitments, and hence have retained their sovereign right over tariffs.
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- This inadvertent pledge seems to be constraining US and EU immensely, and has caused their share in global trade volumes to fall considerably.
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- 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.
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How has the rise of China changed the dynamics?

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- US and EU had got most WTO members to sign a plurilateral Agreement called the "Information Technology Agreement" in 1996.
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- This was in anticipation of promoting their dominance in Computer and telecom products as most others had then lacked the technical know-how.
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- 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.
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- By 2010 it became a leading supplier of computers, mobile phones, washing machines, TVs, organic chemicals, steel and many other items of everyday use.
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- It produces everything from capital-intensive products like factory machinery to labour-intensive products like shoes and umbrellas.
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- 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.
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- Wherever necessary, it also stole "intellectual property" (in violation of the IPR agreement) and forced technology transfer obligations at times.
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Why and how is WTO getting undermined?

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- Presently, US and EU are unable to bully the developing countries like India and China the way they have been doing earlier.
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- Also, as the decision-making process is consensus-driven, it leaves no scope for unilateral pushing of the agenda by mussling a majority.
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- 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.
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- 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.
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- Notably, Trump used the 'threat to national security' clause, for imposing tariffs, which is a last resort for exceptional circumstances.
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- US has also been blocking the appointment of members to the Appellate Committee, which is increasing case pendency and choking the system.
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How is the dispute shaping up at WTO summits?

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- There have been serious contestations between the developed and developing countries regarding agriculture subsidies and their classifications.
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- Notably, developing countries (lead by India) are arguing for renegotiating the "Agreement on Agriculture" which they feel is favouring rich counties.
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- But contrarily, with little regard for these concerns, the richer countries want to push through newer domains like e-commerce, and investment facilitation.
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- The stalemate is only growing stronger and global trade is expected to be the first causality of the weakening international system.
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- 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.

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Source: Business Line

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