

IS THE WTO BECOMING A NEW BATTLEFRONT

Why is the U.S. President critical of the organisation? Where do India and China stand in this confrontation?

The story so far: U.S. President Donald Trump earlier this month attacked the World Trade Organization (WTO) for allowing countries such as India and China to engage in unfair trade practices that affect American economic interests. While addressing a gathering in Pennsylvania, Mr. Trump took issue with the “developing country” status enjoyed by India and China at the WTO. He argued that these countries are not developing economies, as they claim to be, but instead grown economies that do not deserve any preferential trade treatment from the WTO over developed countries such as the U.S.

What is the “developing country” status?

The “developing country” status allows a member of the WTO to seek temporary exception from the commitments under various multilateral trade agreements ratified by the organisation. It was introduced during the initial days of the WTO as a mechanism to offer some respite to poor countries while they try to adjust to a new global trade order marked by lower barriers to trade. Countries such as India and China, while seeking exception from various WTO agreements, have argued that their economic backwardness should be considered when it comes to the timeline of implementation of these agreements. The issue of farm subsidies, for instance, is one over which rich and poor countries have had major disagreements. The WTO, however, does not formally classify any of its members as a developing country. Individual countries are allowed to unilaterally classify themselves as developing economies. So, as many as two-thirds of the 164 members of the WTO have classified themselves as developing countries.

How do countries such as India and China benefit from the special status?

The WTO was envisaged as an international trade body to help foster more trading in goods and services between nations by lowering various barriers to trade such as tariffs, subsidies and quotas. Towards this end, several trade agreements have been ratified over the years under the WTO.

Developing countries such as India and China, however, as earlier mentioned, can seek to delay the implementation of these WTO agreements owing to their disadvantaged economic status. They can continue to impose tariffs and quotas on goods and services in order to limit imports and promote domestic producers who may otherwise be affected

adversely by imports that are lower in price or better in quality. India, for instance, subsidises agriculture heavily in the name of food security in order to protect its farmers. While local producers may be protected by protectionist barriers such as tariffs, consumers in India and China will have limited access to foreign goods.

Is the U.S. justified in criticising the WTO?

While the “developing country” status was supposed to help poor countries ease gradually into a more globalised world economy, it has had other unintended effects. Since the WTO allows countries to unilaterally classify themselves as “developing”, many countries have been happy to make use of this freedom. Even many developed economies such as Singapore and Hong Kong which have per capita income levels higher than the U.S., have made use of the provision to classify themselves as growing economies. Further, countries such as China justify that while their per capita income level has increased many-fold over the last few decades, these are still far below that of high income levels in countries such as the U.S. Thus, Mr. Trump may have a prima facie case in urging the WTO to address the issue of how countries arbitrarily classify themselves as “developing” to justify raising trade barriers. This is, however, not to say that WTO rules always work to the advantage of developing countries alone.

Developed countries such as the U.S. have tried to force poorer countries to impose stringent labour safety and other regulations that are already widely prevalent in the West. These regulations can increase the cost of production in developing countries and make them globally uncompetitive. Developing countries further view the introduction of labour issues into trade agreements as beyond the scope of the WTO, which is primarily supposed to be an organisation dealing with trade. Many economists also oppose the fundamental argument of poorer countries that low per capita income levels justify their decision to raise trade barriers. They argue that free trade benefits all countries irrespective of their income levels. In fact, they argue that protectionist trade barriers impede the transition of developing economies to higher income levels. The developing country status may thus simply be a false pretext to justify protectionism.

What lies ahead?

Mr. Trump’s criticism of the WTO is seen by many as the opening of a new front in his trade war against China. Earlier, the U.S. President had termed China as a “currency manipulator” for allowing the yuan to depreciate against the dollar. China and the U.S. have also been slapping steep tariffs on imports from each other since early last year. China’s

developing country status at the WTO gives Mr. Trump yet another opportunity to attack China. Since developing countries are likely to oppose any efforts to stop them from protecting their domestic economic interests, global trade rules are unlikely to experience any drastic reform any time soon. Further, ahead of the next ministerial-level talks of the WTO scheduled to be held in Kazakhstan next year, the inability of the WTO to rein in global trade tensions has raised questions about its relevance in today's world. This is particularly so given that global tariff rates over the years have dropped more due to bilateral trade agreements rather than due to multilateral trade agreements brokered at the WTO.

Further, the dispute resolution mechanism of the WTO, which can pass judgments on disputes, lacks the powers to enforce them as the enforcement of decisions is left to individual member states. While initially envisaged as a global body to promote free trade, the WTO has now deteriorated into a forum where competing governments fiercely try to protect their narrow interests.

<u>Words</u>	<u>Kind</u>	<u>Meaning</u>
Preferential		Special, better, privileged, superior
Commitment		Dedication, devotion, allegiance, loyalty
Multilateral		Agreed up-on by three / morporties
Ratify		Confirm, approve, sanction, endorse
Respite		Relief, break, interlude, pause
Barriers		Obstruction, obstacle, hindrance
Instance		Example, occasion, occurrence, case
Unilaterally		Agreed, upon by one party
Envisage		Foresee, predict, forecast, foretell, anticipate
Foster		Promote, encourage, stimulate, advance
Disadvantaged		Deprived, underprivileged, needy
Adverse		Unfavourable , disadvantageous, untoward
Access		Retrieve, gain, acquire, obtain
Unintended		Unplanned, not meant
Prima facie		Conceivable, plausible, demonstrable
Urge		Appeal, desire, impulse, wish, long
Arbitrary		Capricious, whimsical, random, chance

Stringent	Strict, draconian, exacting
Prevalent	Widespread, prevailing, frequent
Impede	Obstruct, hinder, constrain, restrain
Transition	Change, more, adaptation, metamorphosis
Pretext	False excuse, ostensible, false, reason
Depreciate	Decrease, in value, cheapen, devalue
Drastic	Extreme, serious, forceful, desperate
Reform	Improve, make better, ameliorate, refine
Side step	Avoid, side line, circumvent, parry, shun
Opprobrium	Criticism, stick, diatribe, stricture
Catch phrase	Battle cry, slogan, catch line, catch word
Relevance	Pertinence, applicable, apposition
Broker (v)	Arrange, organize, engineer
Lack	Want, lacuna, dearth, meagre, scarcity
Deteriorate	Decrease, devalue, demote
Forum	Meeting, assembly, gathering, conference
Fiercely	Savagely, dangerously