

WORLD TRADE ORGANIZATION

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The World Trade Organization *WTO* is the single global international organization dealing with the rules related to international trade. WTO's agreements are negotiated and signed by a majority of prominent trading nations. The agreements are ratified in the parliaments of the contracting countries.

Reasons behind the Formation of WTO

On 1st January, 1995, the World Trade Organization replaced GATT. The reasons for GATT being replaced by the WTO are the following.

- GATT was only a provisional arrangement. It lacked the qualities of an international covenant, and it could not ensure the enforcement mechanisms. GATT could do nothing in case of a bilateral trade-agreement failure. There were rules set for enforcement by GATT, but there was no mechanism for its application.
- GATT's jurisdiction was applicable only to product-transactions. Due to globalization, services and technologies became a major part of international investments and trade.
- Limitations and restriction on dispute settlement systems of GATT also made it vulnerable to challenges. GATT required a fully positive consensus in the GATT Council to propose the dispute to the panel. Many countries often objected in dispute settlement cases related to discrimination.
- Moreover, GATT's rules were not sufficiently strict and their execution was very hard to practice. Many participating parties tried to bend the rules of GATT in their self-interests, and GATT could not verify and inspect these issues.
- Finally, there were some influences of powerful nations in some historical multilateral rounds. Starting from the Geneva Round till the Uruguay Round, national sovereignty was present in the multilateral negotiation rounds.

The WTO was a natural demand of the times for a holistic development of economies.



Role of WTO in Promoting International Trade

WTO promotes business liberalization and economic globalization. It has implemented a substantial decline in tariff levels.

WTO members experienced an average of 40% decline in tariff rate. Agriculture industry and textile trade expansions, security enhancement, anti-dumping and countervailing, dispute-free investment and trade in services and intellectual properties have been the most significant achievements of the WTO.

In 1999, tariff rate in developed countries dropped from 6.3% to 3.9%. Imported duty-free manufactured goods increased from 20% to 43%, and tariffs on imported manufactured goods reduced to 5% on average.

WTO plays a major role in promoting peace among the countries. WTO lets international trade and investment to run smoothly. Countries also get a constructive and fair institution for dealing with disputes over trade issues due to the presence of the WTO.

The WTO also plays a role in decreasing the cost of living. Protectionism increases the cost of the goods. WTO lowers the trade barriers via negotiation and through its non-discrimination policy.

Role of Developing Countries

Developing countries usually don't have the muscle to negotiate in the international markets and they need to follow the developed countries' terms. WTO's Most favored Nation *MFN* principle, which allows market liberalization, helps the developing nation to trade and prosper. Besides, it also supports the multilateral framework for rules and agreement.

Developing countries benefit from the intellectual property rules of WTO. **Trade-Related Aspects of Intellectual Property Rights** *TRIPS* agreement offers a suitable policy framework that helps to promote technology transfer and FDI flow to developing nations.

There are some preferential treatments available for the developing countries too. **Generalized System of Preferences** *GSP* enables non-reciprocal preferential treatment by developed countries.

WTO offers flexibility to developing countries to implement their *TRIPS* obligation, especially those ~~that are adopted in the Uruguay round~~. It helps in holistic improvement of developing nations.

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