CHAPTER - 2

World Trade Organisation
And Indian Economy
**About World Trade Organisation**

The entire world is one country for the business erasing national political boundaries for the purpose of business can be termed as globalisation. In other words, integration of the economy of a country with the rest of the world economy is called globalisation. Globalisation implies opening up the economy for foreign investment by liberalizing the rules and regulations by creating favourable and encouraging industrial climate.

Indian Government globalised economy by announcing in 1991. The step taken by the Government of India helped the country to integrate the Indian economy with the rest of the global economy. In fact the seeds for an integrated global economy were sown as early as 1940s. When the steps were taken to establish International Monetary Fund, International Bank for Reconstruction and Development, General Agreement on Tariff and Trade and the like.

Government of the member countries of GATT concluded the Uruguay round negotiations on 15th December 1994, the Minister expressed political support to the outcome of the meeting by signing the final act in Marrakesh, Morocco on 15th April 1994. According to the Marrakesh declaration, the results of the Uruguay round would strengthen the world economy and lead to more trade, investment, employment and income growth throughout the world.

In order to implement the final act of Uruguay round agreement of GATT, the World Trade Organisation (WTO) was established on January 1, 1995. WTO is to take over all functions of GATT when it starts functioning. In fact WTO is to completely replace the GATT from the date it is brought into force. The WTO framework will ensure a “Single Undertaking approach” to the result of the Uruguay Round. Membership of WTO will entail accepting all the results of VIII Round without exception.
**Status**

As the name World Trade Organisation, suggests it is a world organization set up by countries (Called contracting parties) to function in a broad - enough sense in the context of multinational trade. It is a voluntary organisation which any country of the world can join, of course, subject to a decision of the governing body of the WTO already in existence. A country can as well leave the organization on a six months notice. The members have to abide by the rules and regulation of the organization laid down from time to time. At times and for the laid down purpose concerning International trade, the organization can appear functioning as an authority over and above the authorities of the sovereign states which are members of the organization. The WTO will have a legal personality and every member would provide to WTO the legal capacity as it can and as is needed for the WTO to exercise a legal personality.

The WTO shall be guided by the decisions, procedures and customary practices followed by the contracting parties of GATT 1947 and the bodies established in the frame work of GATT 1947, unless specified otherwise. The secretariat of GATT 1947 shall become the secretariat of WTO and the Director General (Or Executive Secretory, as called originally) of the contracting parties of the GATT 1947 shall serve as the Director General of WTO till the Ministerial conference appoints a director general and adopts the regulation setting out the powers, duties, conditions of services and terms of office to the director General.

The Ministerial conference and the general council shall have the exclusive authority to interpret the agreement establishing WTO and the Multilateral trade agreements. The WTO shall continue the practice of decision making by consensus as followed under GATT 1947. The contracting parties of GATT 1947 and the European Communities shall become original members of WTO.
WTO - FACTS

Location  Geneva, Switzerland
Established  1st. January 1995
Created By  GATT's Uruguay Round of Negotiations (1986-94)
Members  144 Countries (as of 1st January, 2002)
Head  Director - General

Structure of WTO -  The W.T.O has to have constituents as under-

1  Ministerial Conference
2  General Council
3  The Secretariat
4  Council for Trade in Services
5  Council for Trade in Goods
6  Council for Trade Related Aspects of Intellectual Property Rights.

Ministerial conference

This is to be a body composed of representatives of all members. Ministerial conference is to be the highest body of the WTO. This will meet at least once in every two years. This body would be responsible, ultimately, to carry out all the functions of WTO, either by itself directly or by any other authority delegated by it.
General Council:

This body would also be composed of representatives of all members and would do all that is required of it by the Ministerial Conference. In fact between the meetings of the Ministerial Conferences, its functions will be conducted by the General council.

The General council will meet as and when appropriate. In fact the general council would be the body discharging all functions of WTO except that the very basic policy decision would be left out for the more authorised body the Ministerial Conference.

The council for Trade in Services the Council for Trade in Goods and the Council for trade related aspects of intellectual property rights are the bodies made responsible for specific tasks and they are to function within their limited scope under the overall directions of the general council and ultimately of the Ministerial Conference. Since WTO is a replacement of GATT it has to take up all functions of GATT and more. It has to be responsible for all that is desired to be done in the context. The constituents of WTO have therefore to run through all the activities relevant and have to assume all the responsibilities.

The Secretariat

The WTO has to have a secretariat. The head of the secretariat is to be the Director General, who is to be appointed by the ministerial conference of the WTO. The powers, duties and conditions of services of the Director General are to be decided by the Ministerial Conference. The Director General would in turn appoint the member of the staff of the Secretariat and also settle their duties and conditions of service. The Director General and the members of staff of the secretariat will have an international status, which will be so regarded by the members of WTO.
WTO Agreements

The WTO agreements cover goods, services and intellectual property. They spell out the principles of liberalisation with guidelines, permitted exceptions and include member countries commitments to lower tariff and other trade barriers and set procedures for settling disputes. Governments do make their trade policies transparent, by notifying the WTO their laws in force and measures adopted on a continuing basis. WTO now encompasses the GATT, GATS, TRIPS and DSB as shown in figure below. Each of these agreements are detailed with their associated agreements and impacts of them on Indian industry in the following:

- **GATT**
  - General Agreement on Tariffs and Trade
  - Deals with issues of Trade in merchandise

- **GATT**
  - General Agreement on Trade in Services
  - Deals with issues of Services

- **WTO**
  - World Trade Organization

- **DSB**
  - Trade Dispute Settlement Body
  - Deals with Trade Disputes

- **TRIPS**
  - Trade Related Intellectual Property Rights
  - Deals with patents, copyrights etc.
General Agreement on Tariffs and Trade (GATT)

The entire work structure of GATT's open and liberal system is built on four basic rules:

* Protection of domestic industry through Tariffs only; non-tariff barriers (like mandatory import licensing, quotas, other form of restrictions) to be eliminated.
* Reduction in tariffs and other barriers to trade by negotiations; tariffs are bound against subsequent increases (on most of the products).
* Most Favored Nation (MFN) Principle - No discrimination among member countries.
* National Treatment - same treatment to imported products and domestic product. Besides import duty no extra tax other than ones also levied on domestic products.

As overnight elimination of Quantitative Restrictions (QRs) was not possible, flexibility was granted for eliminating QRs in specified time frame. Developing countries including India, were given more time to adjust. Delayed removal of QRs was allowed to countries having Balance of Payment problems to restrict import. There also, the agreement requires the developing countries to take price-based measures (as import surcharge) instead of QRs (as restrictive import licensing). Similarly, in textiles, quotas levied by many developed countries on import of textile products from developing countries are to be phased out completely in a specific time frame by 1st Jan 2005. The GATT includes many associated agreements. Some of the agreements have direct and indirect impact on Indian textile industry are discussed in detail following the implications of DSB in forthcoming headings.
General Agreement on Trade in Services (GATS)

The GATS applies the basic rules of 'trade in goods' to 'trade in services'. The rules, however, are suitably modified to take into account the difference in goods and services and the different modes in which international trade in services takes place. All services (any service under any sector) are covered by GATS. Like the agreement on goods, GATS operates on three levels. The first part contains general principles, second part contains annexes on specific sectors and the third part describes member countries commitments for market access.

The agreement principles are the same as in GATT with a few modifications in view of the basic difference in nature of goods and services; The services also covers sectors like Environmental, Engineering, Educational, Business etc., with their sub-sectors like R&D, Technical Treatment and Analysis, etc.

The Agreement recognises the asymmetry that exists between developed and developing countries in the development of service sector. It provides greater flexibility to developing countries to open up fewer sectors and fewer types of transactions. One area where India has real chances of becoming a super power, is services. India has tremendous potential in the area because of its comparative advantage in the field, and availability of supporting research institutions and universities.

Agreement on Trade Related Intellectual Property Rights (TRIPS)

The objects of intellectual property are creations of human mind, the human intellect, thus the designation 'intellectual property'. The Agreement on Trade Related Intellectual Property Rights (TRIPS) is built on the existing international conventions dealing with IPRs. Its provisions apply to the seven IPRs only vis.
- Patents
- Copyright and related right
- Trademarks
- Industrial designs

The agreement addresses five broad issues:

* How the basic principles of the trading system & international IPR agreements should be applied
* How to give adequate protection to IPRs
* How countries should enforce those rights
* How to settle disputes on IPRs
* Special transitional arrangements for the period when the new system is being introduced

Implications of TRIPS

Some of the implications for India with relevance to TRIPS are

* Impact will be on all businesses
* Main source of technology for SMEs-reverse engineering will be difficult, with the stricter IPR regime and in new regime 'Ignorance of law will be no excuse' (the burden of proof is on infringe)
* The transfer of technology cases may increase however on commercial terms as counterfeit trade will have effective deterrent (amended laws)
* India's own R&D institutions could reap benefits within India as well as abroad.
* Implications for Indian designers as well as garment/textiles industry using protected design and manufacture
* Patented products cannot be manufactured without license
* Importing a patented product for selling will require licence from patent holder.
Trade Dispute Settlement Body (DSB)

The formation of the WTO also gave the process of multilateral trade negotiations a more structured institutional framework. Most notably, the dispute settlement system of the WTO is stronger than that of the GATT. Since it is no longer necessary for member states to unanimously accept reports, it is more likely that the enforcement mechanism will move forward. This gives the WTO much greater power to ensure compliance with its rules. It also means that countries will have less autonomy to pursue trade policies that are most conducive to their particular level of development. Further, the formation of the WTO politicises the multilateral trade negotiations process even more due to the frequency of ministerial meetings and the more direct involvement of upper-level government representatives.

The WTO procedure for resolving trade quarrels under the DSB is vital for enforcing the rules and therefore for ensuring that trade flows smoothly. A dispute arises when a member government believes another member government is violating an agreement or a commitment that it has made in the WTO. The authors of these agreements are the member governments themselves — the agreements are the outcome of negotiations among members. Ultimate responsibility for settling disputes also lies with member governments through the DSB.

Implications of DSB

The Indian industry is more susceptible for getting into disputes with the developed countries mainly when it is viewed under the context of need of the products which are in demand in developed countries. The past trade shows that many of the products like yarn, fabric and made ups have faced a number of anti-dumping investigations in recent years which are attributed to sub-standard quality mainly...
by the EU nations, which incurred huge losses to the companies. Under these cases if India wants to win over the disputes it cannot do it, as according to the "Agreement on Safeguards Measures" any nation has the right to defend itself from the substandard products coming into the domestic market. To escape from such disputes ITI has to continually keep updating its production according to the international market demand.

**Associated Agreements of GATT**

Some of the associated agreements of GATT, which have direct and indirect impacts, are,

* Agreement on Technical Barriers to Trade (TBT)
* Agreement on Safeguards Measures (ASM)
* Agreement on Textiles and Clothing (ATC)

**Agreement on Technical Barriers to Trade (TBT)**

The Agreement on Technical Barriers to Trade (TBT) establishes that Mandatory Standards (adopted by government to protect health and safety of the people and to protect environment) should not be so applied as to cause unnecessary obstacles to trade. The agreement visualizes that standards do not create unnecessary barriers if they are uniform and based on internationally agreed standards. Further, for non-voluntary standards, the Code of Good practices for preparation, adoption and application of standards is an integral part of TBT. The agreement also covers PPM (Process and Production Methods) standards having special relevance to certain products.

**Impacts of TBT**

As most of the India's standards are below international standards, the industries based on local standards can be affected mostly. As the agreement
covers PPM, which can be a source to discriminate the Indian exports, the Indian products are more likely susceptible to see rejection under quality requirements.

**Agreement on Safeguard Measures (ASM)**

The Agreement on Safeguards authorises importing countries to restrict imports for temporary period if, after investigations carried out by 'competent authorities', it is established that imports are taking place in such increased quantities (either absolute or in relation with domestic industry) as to cause 'serious injury' to the domestic industry that produces similar or directly competitive products. It further provides for measures that could be taken by the importing country such as increased tariffs over the bound rates or imposition of quantitative restrictions. They should normally be imposed on MFN basis i.e. on all the sources (countries).

The agreement lays down criteria and sets out procedural requirements which investigating authorities must consider in determining whether increased exports are causing 'injury' to domestic industry. The procedures also provide adequate opportunity to the likely affected foreign suppliers to defend their interests by giving evidence.

**Impact of ASM**

The ASM shows that any country can take active measures against any country, if the product imported is causing a serious damage to the domestic industry. Developing nations like India may encounter special difficulties in achieving the technical standards and quality requirements, which are given importance in developed countries, mainly European Countries.
Historical background

The global environment has undergone profound changes within the past decade. The formation of the World Trade Organization has redefined the structure of the international trade framework. The demise of the iron curtain has eliminated key barriers to corporate activity. The resulting new opportunities have restructured relations between nations. Technology is another major factor affecting the competitiveness of countries and companies.

In 1948, after years of negotiation, more than 50 nations signed the Havana character to create the International Trade Organization (ITO). Several major principles were to govern world trade from then on. One of the principles was the non discriminatory treatment of parties and a commitment to reduce tariffs and other trade barriers and eliminate quotas. Services were to be covered just as well as products, owners of patents and intangible assets were to be protected. Foreign direct investment was to receive fair treatment and domestic - content requirements and public subsidies were to be regulated. But in the 1950, President Truman decided not to resubmit the ITO charter to congress for ratification due to perceived threats to national sovereignty and the danger of too much ITO intervention in markets.

The Uruguay round of multilateral trade negotiation, concluded on 15 December 1993 and the final act signed by member countries at a meeting in Marrakesh, Morocco in April 1994 marked a watershed in the history of multilateral trade in more ways than one. In 1994 the focus was on a totally new organisation which the uruguay round negotiations agreed on the world trade organisation (WTO) and this WTO, as if by magic has a lot of components which sound remarkably similar to the provisions of the ITO. Infect, this eighth in the series, was the most ambitious and complex of the trade rounds held since the inception of GATT in 1947. While GATT covered only trade in goods, the scope of multilateral trade negotiation under the uruguay round leading to the
establishment of the World Trade Organisation (WTO) was extended to cover several new areas such as services investment and intellectual property rights. Even in the area of goods, agriculture and textiles which were outside the ambit of GATT were brought into the of multilateral trade negotiations. The basic principals underlying these agreements was to have an open trading system based on multilaterally agreed rules. The WTO agreement incorporates some 29 individual texts-- covering. Subjects ranging from agriculture to textiles and clothing, services, rules of origin and intellectual property rights. In addition, there were more than 25 ministerial declarations, decisions and understandings which spell out various obligations and commitments for WTO members.

India and the WTO

India is a founder member of both GATT (1947) and its successor organisation, the W.T.O., which came into effect from 1.1.1995 by virtue of its W.T.O. membership, India automatically avails of most favoured nation and national treatment from all WTO members for its exports and its participation in this increasingly rule-based system is aimed towards ensuring more stability and predictability in the governance of international trade.

India played a pro active role in the deliberations at the fourth Ministerial conference at Doha. It wanted a genuine resolution of implementation related concerns, increased market access in agriculture sufficient flexibility and clarity under TRIPS for public health policies and was strongly opposed to introduction of non-trade issues like labour in the agenda. It was able to ensure adoption of an agenda that emphasised not only trade but also the developmental goals and priorities of developing countries. The out come of the conference takes into account a number of concerns expressed by India. With the Doha declaration laying down the agenda for the forthcoming trade talks the focus will now shift to the work programme in W.T.O. India along with other developing countries would work to ensure that their interests and concerns are adequately taken care of in
the work programme. The opportunity also needs to be used for fastening the pace of domestic reforms to further strengthen the country's competitiveness in global trade.

Under TRIPS, India has been seeking greater flexibility and clarity in the interpretation of the agreement on TRIPS in order to ensure affordable access to essential medicines and life saving drugs in keeping with the public health concern of developing countries Barbados, Bolivia, Brazil, Dominican Republic, Philippines, Peru, Sri Lanka, Thailand and Venezuela jointly submitted a paper on TRIPS and public health to the TIPS council in which India, along with other co-sponsors had demanded that the WTO should ensure that TRIPS agreement does not undermine the right of the WTO members to formulate their own public health policies and adopt measures for providing affordable access to medicines. Nothing in the TRIPS agreement should prevent government from taking measures for protecting public health. It should also be clarified and reconfirmed that governments to issue compulsory licences to achieve public policy objectives and ensuring that nothing in the TRIPS agreement limit the grounds for governments to issue compulsory licences. The Doha declaration affirms that the TRIPS agreement can and should be interpreted and implemented in a manner supportive of WTO members right to protect public health and in particular to promote access to medicines for all.

India along with other developing countries continued to maintain pressure for resolution of implementation related issues relating to various perceived asymmetries and imbalances in existing WTO agreements and effective operationalisation of various special and differential treatment provisions for developing countries. The developing countries during their preparatory process and also during the conference adopted a highly coordinated approach making it simply clear that genuine resolution of their implementation related concerns is a must for the success of the conference and also to maintain their confidence in the multilateral trading regime under the WTO. This yielded results and at the
conclusion of the conference the minister adopted a decision on implementation related concerns. Out of the total of 102 issues considered, the Doha conference took decisions in respect of 43 issues. The remaining issues have been referred either to negotiation or to subsidiary bodies for further examination and thus are an integral part of the work programme of the WTO.

Do or Die for Indian Industry and Exports

In this era of globalisation, the only possible way for deficit nations like India to put the economy back on rails would be to assiduously pursue an exported growth policy rather than depending merely on the domestic market activities. The government is committed to removing all bottlenecks for the exporters to push India's exports to about $75 billion by 2004 even assuming that the Indian exports are hampered by a slowdown of U.S. and Japanese economies, nevertheless it would not be an ambitious target to increase its global share in the world trade from 0.7 percent to at least 1 percent in the none too distant future. EXIM announcement is a policy of intention, mechanism has already been put in place to kick start the Indian exports as well as the domestic industry growth.

The market Access Initiative (MAI) announced in the policy would strengthen commercial intelligence. This would catapult export to $75 billion annually within the next three years. It could be about three years before these policies are fully implemented hopefully the targets would then get translated into realities as otherwise the much touched MAI would merely remain in paper, crore of rupees would be required for the purpose and the government has made available about Rs. 100 crore to the states to start acting on the export activities. There should be no scarcity of funds for boosting exports and creating infrastructure facilities. For examples while some of the ports in the country take about 7 days to load or off-load a container, the same work is performed in about 7 to 8 hours by the Hongkong port or any other technologically advanced port in the world. Though Indian government has been making efforts to boost the private sector in these
cash starved and obsolete domestic ports with a view to modernise fully comply with its commitment to assist the industry in research and development, market research specific market and product studies providing warehousing and retail marketing infrastructure in select countries and assisting in direct market promotion activities through media advertising and buyer seller meets. A plan scheme has been evolved by the government for the purpose. Adequate safeguards are already in place in the forum of institutional mechanisms such as adjustment of tariffs, application of safeguard measures and imposition of anti-dumping duties to counter any surge in unrealistic imports. But despite all these measures there is no room for any compliances. A standing group for tracking collating and analysing data on 300 sensitive items which are of importance to the public, would take timely action for checking any import volatility. The group would consist of commerce, revenue, small scale Industries and the animal husbandry secretaries and its main task would to compile and publish a statement about the import status of these sensitive items every month.

The future of the World Trade Organisation

It is meaningful and of value for the nations to be part of the WTO ratification towards this is the right step. But the WTO must have the opportunity to become a successful organisation. On the eve of conclusion of the Uruguay Round, it was predicted that under the new liberalised world trading system, world trade would expand at the rate of 18-20 percent and the developing countries would realise large benefits on account of the increase in the size of the world trade. However, due to various unforeseen circumstances, freeing of world trade through reduction in tariff level has not led to the expected increase in the world trade and as such developing countries have been left with the following question: were the expectation prior to the establishment of WTO deliberately hyped up.

Yet another puzzle that has cropped up in the recent years is the fact that trade goods and service is not the prime engine of growth. Technology, Knowledge
and information have emerged as new engines of growth and development. Persistence of neo-protectionism in the developed world and recurrence of crisis situations in the dynamic part of the developing world have frustrated the prospects of trade alone generating growth with equity and social justice volatility of capital flows absence of discipline in the exchange rate behaviour, lack of coordination in the macroeconomic policies of the major players have all contributed to the frustration of trade remaining as an engine of growth. Further in the emerging liberalised and globalized framework, cheap labour and availability of raw materials do not necessarily determine the comparative advantage. There are also indications that the countries that have liberalised their trade regimes and opened up their capital markets freer flow of capital and services, have often fallen in the debt trap and have experienced a puzzling profile of de-industrialisation and social unrest. It is therefore necessary to examine whether suitable complementing policy packages are required, along with liberalisation of trade to ensure growth and overall development.

The world economy has been experiencing rise in instabilities with increase in liberalisation and globalisation. The sources of instabilities are both internal and external and danger of intensification of instabilities due to external shocks has increased in a liberalised and globalize framework. The debt crisis of Latin America and the African crises of structural adjustment in the 1980, the Mexican crisis of 1994 and the recent last Asian and South East Asian crisis of 1997-98 have all been triggered by external shocks and got further intensified by the weakness of the domestic banking sector weak institutional framework, inadequate social security measures and by huge expansion of internal and external debts, The contagion effects of these crisis situation have also been large due to the integration of the financial markets and liberalisation of trade and service. The norms and the rules of the game prescribed in the WTO framework are not adequate either to avoid the origination of instabilities or to check them when they have appeared and got intensified. There is therefore, and analytical question as to how one should achieve growth with stability and this
has been a pertinent question both for the developed and the developing world.

While the new trading system under WTO is a reflection of the urge for evolving a rule based trading environment. There are no corresponding initiatives for evolving a sound financial architecture, which would enforce some norms of behavior in the context of financial flows for investment and speculative transactions in the currency markets. In the absence of a stable financial architecture the rule based trading system of WTO would not be able to realise the cherished objectives of free play of market forces. Inequalities in the world economic order, which constitute the important sources for the frustration of development in some part of the world would continue to hamper the process of economic transformation aimed at improving the welfare of the people in all parts of the world. It is therefore necessary that the trading system and financial architecture should be evolved in an integrated manner if one is interested in establishing a just world economic order with universal peace and global welfares on a sustainable basis. Ever since the collapse of the Bretton Woods system in the 1970s and the emergence of highly volatile exchange and capital market the world has been experiencing high degrees of instabilities and crisis situation. Since many vested interests have emerged to take advantage of the volatile capital and exchange markets.

With increasing emphasis on liberalisation and globalisation under the WTO frame work, only the efficiency aspect of development is receiving prime attention. We observe everywhere a massive displacement of labour from its present employment status in the name of improvement of efficiency. Retrenchment of labour from one occupation and facilities for training in new professions. Further the social security measures and safety net schemes also fall short of the requirement of the labour displacement process that is being forced upon the economies under the new trading system. The result of all this is growing unemployment and some sort of immiserisation of growth in the process of structural adjustment. Neither academicians nor policy makers are showing
adequate concern about the impending dangers of growing unemployment and the consequent increase in the social unrest in the economics of the world. Growth in crime rates increase in terrorism, collapse of securities in society etc. are all reflections of the mismatch between growth of trade, growth of output and growth of employment. The dangers of jobless growth and the adverse effects of growth. Which aggravates inequities need to be recognised in right time before they assume explosive proportion in the world as a whole. It is therefore necessary that liberalisation of trade and globlisation of the economies should be pursued in a phased manner so that adverse effect on employment and equity are put under check, further one must reflect on all the "social causes" that are now being introduced into trade decisions. It is debated whether the WTO should also deal with issues such as labour laws. Competition and emigration freedom clearly, there are many important issues other than trade in addition to the social issues mentioned above. Religion, health care, the safety of animals, the pursuits of happiness, all of these are worth while concern and desires. There is something of an irony if one considers that all these issues might have been easily introduced by the united states in the ITO back in 1948.

Today however the genie is out of the bottle. Large number of Governments that participated in the uruguay round have diverse perspectives, histories, relations, economies and ambitions. A successful ambitious round of multilateral trade negotiations would result in major benefits for the world economy. A round would contribute to the restoration of market confidence and create new export opportunities. Strengthen the multilateral trading system which was debilitated after Doha and stimulate economic reforms by encouraging countries to extend regional liberalisation to all WTO members. A new round could thus contribute substantially to global economic growth over the longer term. The potential welfare gains from eliminating remaining trade barriers on merchandise trade are considerable - ranging from $250 billion to $680 billion a year excluding dynamic effects about one third of these gains would accrue to developing countries, more than twice the actual flow of aid of these countries. The gains from the liberalisation
of services are likely to be even larger given the size of this sector. Its importance in overall competitiveness and still high protection.

A new round should be sufficiently broad in scope to allow for trade off across sectors and issues. The goals for market access should be ambitious, aiming for substantial reduction or elimination of trade barriers where remaining protection is highest agriculture, labour intensive manufactures and services. Both industrial and developing countries stand to gain substantially from liberalisation in these areas susceptible to capture by protectionist. Interests (e.g. antidumping and other safeguard measures health, safety and environmental standards) and the dispute settlement mechanism further developed. The full participation of all WTO members in the development of the rules-based trading system is essential and trade agreements should provide for flexibility in implementing commitments, recognizing the capacity constraints and development needs of the poorer countries.

The failure to make tangible process toward a new round of trade negotiation would reduce confidence in the multilateral trading system and the commitment to further trade liberalization. Lacking a broader context that would allow for concessions negotiations in agriculture and services under the built in agenda could languish while there was no resort to protectionism after the financial crises of the late 1990s and the failure of the Seattle Ministerial conference, protectionist pressures will be much more difficult to contain if the world economy slow down for a sustained period of time and there is little prospect of advancing on the multilateral trade front. Failure to continue to develop the rules and the dispute settlement procedures and to thereby give confidence to trading partners and their major constituencies that the multilateral system remains relevant and responsive could erode support for it. In this environment, increased resort to regional trading arrangements could untimely have adverse consequences for the world economy. The GATT/WTO was created precisely to prevent the emergence of hostile trading blocks. In the absence of a new round,
the primacy of multilateralism over regionalism may be threatened a development that would be particularly detrimental to the poorest countries which could be further marginalised.

To be successful, the WTO needs to be able to focus on its core mission which deals with international trade and investment. The piling on of social causes may appear politically expedient, but will be a key cause for liberalisation of trade and investment. Failure to achieve such progress would leave the WTO without teeth and would negate much of the progress achieved in the Uruguay Round negotiations. There are other organisations that can take on social causes, for example the International labour organisation for labour issues. Such groups can and should study ways of further improving the well being of human kind. WTO can help in the implementation of activities that work in support of social causes. For example the International Trade Centre, cosponsored by UNCTAD/GATT, could provide training on how to utilise rain forest or how to improve labour conditions.

The core contribution of the WTO, however will be in the fact that the flag follows trade and investment. Over time increased economic ties will cross pollinate cultures, values and ethics between economic partners and together with the income effects on individuals and countries, causes changes in the social arena. Together with the other pillars of the global economy- the World Bank for development and the International Monetary Fund for finance- the WTO can form the underpinnings for a world economic platform. After that platform is secured further societal dimensions can be built on top of it.

**Objects and Functions of WTO**

India is one of the founder member of the WTO. The GATT was not an organisation but it was only a legal agreement. On the other hand WTO is designed to play the role of watchdog in the sphere of trade in goods, trade in services, foreign investment, intellectual property rights etc. Its function as set out in article III are as follows -
The WTO shall facilitate the implementation, administration and operation and further the objectives of this agreement and on the multinational trade agreements and shall also provide the framework for implementation, administration and operation of the plurilateral trade agreement.

The WTO shall administer the understanding on rules and procedure governing the settlement of disputes.

The who shall administer the trade policy review mechanism with a view to achieving greater coherence in global, economic policy making, the WTO shall co-operate, as appropriate with the International Monetary Fund and with the International Bank for Reconstruction and Development and its affiliated agencies.

WTO administers the 28 agreements contained in the final act and a number of plurilateral agreements and government procurement through various councils and committees.

WTO oversees the implementation of the significant tariff cut (averaging 40%) and also reduction of non tariff measures agreed to in the trade negotiations.

WTO examines regularly the trade regimes of individual member countries. Thus it acts as a watchdog of international trade.

WTO provides for disputes settlement court in order to adjudicate the trade disputes which could not be solved through bilateral talks between member countries. The disputes are examined by the panel of independent expert in view of WTO rules and provides rulings. This procedure is laid down in order to provide equal treatment for all trading partners and to encourage member countries to live up to their obligation.

WTO acts as a management consultant for world trade. The economist of the WTO observe the pulse of the global economy and provide studies on the main trade issue.
Technical cooperation and training division is established in the WTO's secretariat in order to help the developing countries in the implementation of Uruguay Round results.

Member countries can use the WTO as a forum for continuous negotiation of exchange of trade barriers in the entire world.

WTO co-operates with other international institutions like IMF, IBRD (World Bank) and ILO involved in global economic policy making.

WTO oversees the national trade policies of member government.

The WTO shall provide the institutional frame work for facilitating trade relations among the members, in the areas included in this agreement and the multilateral trade agreement.

The implementation, administration, operation and enhancement of objectives of this agreement, multilateral trade agreement and plurilateral trade agreements shall be the major functions of WTO

The WTO shall facilitate the trade organisation among the members by providing a forum and shall also provide a frame work for the proper implementation of the results of such negotiations.

The trade policy review mechanism and the settlement of disputes shall be executed by the WTO.

The WTO is expected to co-operated with the International Monetary Fund. The International Bank for Reconstruction and Development and its affiliated agencies. Whenever necessary to facilitate the global economic policy making.
- Acting as a forum for multilateral trade negotiation.
- Seeking to resolve trade disputes.
- Overseeing national trade policies; and
- Co-operating with other international institution involved in global economic policy making.

**Impact of WTO on Indian Economy**

**Benefits to India**

1. World Bank, OECD and the GATT Secretariat have estimated that the income effects of the implementation of the Uruguay round package will add between 213 and 274 billion U.S. dollars annually to world income. The GATT Secretariat's estimate of the overall trade impact is that the level of merchandise trade in goods will be higher by 745 billion U.S. dollars in the year 2005, than it would otherwise had been. The GATT Secretariat further projects that the largest increases will be in the areas of clothing (60 percent), agriculture, forestry and fishery products (20 percent) and processed food and beverages (19 percent).

According to the Government of India, Since our country's existing and potential export competitiveness lies in these product groups, it is logical to believe that India will obtain large gains in these sectors. Assuming that India's market share in world exports improves from 0.5 percent to 1 percent, and that we are able to take advantage of the opportunities thus created, the government believes that the trade gains may conservatively be placed at 2.7 billion U.S. dollars extra exports per year. A more generous estimate will range from 3.5 to 7 billion U.S. dollars per year.

However, Muchkund Dubey has argued that the above estimates suffer from several infirmities. Firstly, the GATT estimate of increase in world trade is itself of dubious value. Secondly, in the face of a trend till recently of a decline in India's share of the world exports, it is unrealistic to assume that this share will go up
from 0.5 percent to 1 percent. Thirdly, increase in world trade depends not only on trade liberalization but a number of other factors like quality consciousness, proper infrastructure for export production, assured supply of export products, level of technology, etc. and India suffers from a relative disadvantage vis-a-vis the developed countries in most of these factors. Not only this indulging in projection in a world full of economic and political uncertainties is a risky game more so if the intention is to mask reality and indulge in half truths.

2. The phasing out of the MFA (Multi-Fibre Arrangement) by 2005 will benefit India as the exports of textiles and clothing will increase. While the developed countries had demanded a 15 year period, the developing countries (Including India) had insisted on a 10 year period. Acceptance of the developing countries’ demand in the Uruguay round has been enthusiastically received in these countries. However the catch here is that the phasing out schedule favors the developed countries as a major proportion of quota regime to the extent of 49 percent is going to be removed only during the tenth year, i.e. by 2005. Thus the Uruguay round does not provide an immediate market access for the Third world textile exports. By the time the MFA is completely phased out in 10 years, the developed countries could gear themselves to effect improvement in quality, efficiency and competitiveness. Countries like Portugal, Greece and Spain in the European Community and Mexico in the NAFTA block are going to strengthen their textile industry in the phase out period. Towards this end Portugal was extended a grant of $1 million by the European Union to modernise its textile industry.

Moreover, as pointed out by Bibek Debroy, When quotas are removed they will be eliminated not only for India, but for everyone else. There will therefore be considerable competition from China Vietnam, Pakistan, Bangladesh, Indonesia and Malaysia. The question thus basically boils down to evaluating the competitiveness of India’s garment exports. In this respect, India does not fare well vis-a-vis its competitors. There are a number of supply side constraints like higher costs and prices, poor quality and unreliability of the end product.
3. The third benefit that India expects relates to the improved prospects for agricultural exports as a result of likely increase in the world prices of agricultural products due to reduction in domestic subsidies and barriers to trade. While on the one hand earnings from agricultural exports are likely to increase, on the other hand India has ensured that all major programs for the development of agriculture will be exempted from the disciplines in the agricultural Agreement. Thus the operation of the public distribution system will not be affected by the provisions of the Agreement; agricultural subsidies granted by developing countries need not be withdrawn till such time they remain within the prescribed limits specified in the Agreement; and protection necessary for developing the agricultural sector in the under developed countries might be continued. In fact as stated above India hopes that the reduction of subsidies in the USA and the European Community will enable it to increase its earnings from agricultural exports.

4. The Uruguay round Agreement has strengthened multilateral rules and disciplines. The most important of these relate to antidumping, subsidies and countervailing measures, safeguards and disputes settlement. This is likely to ensure greater security and predictability of the international trading system and thus create a more favorably environment for India in the new world economic order.

**Disadvantages to India**

The most important advantage of the new world economic order claimed by its supporters is that it will increase the volume of trade substantially and as a result, India's export earnings will expand considerably. However, as stated above the estimates of quantitative gains by India are suspect and the projections may well prove wrong. In addition, Dubey argues that there are numerous prospects of increase in agricultural exports from India due to the very limited extent of agricultural liberalisation. Moreover there will hardly be any liberalisation of our textile exports till 2005, with most of the liberalization expected to come at the
end of this period. The gains expected by the Government of India on account of tariff reductions on goods may also not materialise as the number of goods of exporty interest to India is very small. Not only thitherto will be erosion of the preferences enjoyed by India and India will most probably be graduated out of the generalised system of preferences (GSP)."

The most serious disadvantages to India are likely to flow from the agreements pertaining to the TRIPs, TRIMs and services, and it is to a discussion of these disadvantages that we now turn. The question of loss of sovereignty and interference in the functioning of the nation-State is also a serious issue but due to its political connotations, is treated separately in the next section.

**TRIPs.** The stock argument in favour of protection of intellectual property rights (patents, copy rights, trademarks etc.) is that it encourages innovation by rewarding the inventors with the grant of monopoly rights over the commercial exploitation of their inventions for a specified period. However, the efforts made under the Uruguay round to make such protection more stringent under the TRIPs agreement is bound to favour a handful of developed countries. This is due to the reason that just 10 Countries account for the bulk of all technological activity in the world. The top 10 countries account for as much as 84 percent of global resources spent on Rand D activity annually, they control 94 percent of the technological output in terms of patents taken out in the USA and receive 91 percent of global cross border royalties and technology licence fees. It is obviously these countries that are bound to corner most of the benefits flowing from TRIPs agreement. Moreover the agreement itself is highly weighted in favour of the multinational corporations and the developed countries. Muchkund Dubey has raised another valid point. According to him protection of IPRs (intellectual property rights) is in itself, anti competition and anti liberalization and goes against the spirit of opening up the world economy and global integration. It amounts to legalising the monopoly of MNCs is itself, a barrier to trade. Let us now see how the agreement on TRIPs is likely to work against India.
1. The first point to be noted in this context is that the TRIPs Agreement goes against the Patent Act of India, 1970 in almost all important areas as would be clear from the discussion below: Under the Indian patents Act only process patents can be granted in food, chemicals and medicines. TRIPs Agreement provides for granting product patents also in all the areas; Under the TRIPs Agreement methods of agriculture and horticulture and biotechnological process (including living organisms like plants and animals) are patentable there cannot be any exceptions as under the Indian Act; TRIPs Agreement provides that the general term of a patent shall be 20 years. The Indian patents Act provides for a general term of 14 years for both product as well as process patents. In sectors like food, Chemicals and medicines process patents are granted for a duration of 5 to 7 years. In India there are reasonable and effective provisions for the compulsory licensing of patents and also for the revocation of patents in public interest under TRIPs Agreement there are no such provision. Under TRIPs no ceiling can be placed on royalty demanded on patents like in the Indian patents Act. Importation will be treated as working of a patent in the TRIPs Agreement contrary to the patent philosophy in India; and TRIPs also reverses the burden of proof. Under the Indian legal system the patentee has to establish a prima facie case that his patent has been infringed. However, Under TRIPs the patentee will just have to accuse a person or a company of patent infringement and the person or company will have to prove that he did not infringe the patent.

2. Under the patent Act of 1970 in India, only process patents are granted to drugs and medicines. This means that an Indian company only needs to develop and patent its own process for producing a drug. It is not required to invent the drug itself. The company can then legally manufacture this drug, even if it is protected under a product patent abroad. Finally Indian drug companies are allowed to obtain what are called licences of right which allow them to produce regardless of the process used inventions (again usually pharmaceuticals) patented abroad. Licences of right can be obtained only 3 years after the original patent is granted.
The effects of these laws have been positive for India. Indian drug prices are considered to be among the lowest in the world, and this is not at the expense of quality. In addition, the indigenous pharmaceutical industry has grown rapidly after the passage of the 1970 Act. Not only this the market share of Indian drug companies in the local drug market has grown from 30 percent in 1970 to 61 percent in 1993. Today, India is in fact an exporter of drugs to other parts of Asia, Europe and even USA.

All this will change in the new order the granting of product patents will effectively place the reins of the Indian pharmaceutical industry in the hands of MNCs who will exploit this advantage to the full by hiking the prices of drugs and medicines considerable. In a study published in 2000, Jayashree watal demand function and 242 percent (with a constant elasticity-type demand function) as a result of the introduction of product patents. An earlier study by Subramanian published in 1994 had found the maximum price increase of 67 percent for India following the introduction of product patents. A study conducted by Carsten Fink in 2000 estimated the range of price increase between 182 to 225 percent. This suggests that introduction of product patents would affect prices of medicines significantly leading. In turn to a decline in the health levels of the population. The welfare loss to India consequent upon the introduction of product patents in pharmaceuticals would range between $1.4 billion and $4.2 billion a year.

3. The extension of intellectual property rights to agriculture (via the patenting of plant varieties) has serious consequences for India. In India plant breeding and seed production are largely in the public domain. Plant breeding is undertaken by agricultural universities and units of ICAR (Indian Council of Agricultural Research), where as seed multiplication is in the hands of the National and State seed corporations. This is due to the reason that India being a poor country where agriculture is the livelihood of the majority of the population the government must bear the responsibility of ensuring the supply of adequate quantities of seeds at reasonable prices to the farmers. The aim is not to maximise profit as would be
the case in the private sector, but to sustain the livelihood of the majority of the population on the one hand and to achieve self sufficiency in food grains on the other hand. Patenting of plant varieties will transfer all the gains to the multinational companies. Almost all new varieties will belong to MNCs simply by virtue of their massive financial resources. As noted by Suman Sahai, "Research is unfortunately as much a matter of talent as of money. More money means more resources to invest in breeding and it means greater speed in putting varieties on the market." In terms of financial resources, there is absolutely no comparison between MNCs and Indian companies. In Indian research institutions are unable to compete financially and are denied access to patented genetic material (as TRIPs Agreement is designed to ensure). The Indian scientists will find it extremely difficult to breed new varieties. This will gradually become the sole privilege of the large foreign companies. As a result the control over our genetic resources will pass into the hands of MNCs who will not find it difficult to control the seed production in this country. Since control of seed production implies control over food supply, the entire Indian food security system will be jeopardized and thrown out of gear.

4. Under TRIPs patenting has been extended not only to plant varieties but to the large area of micro organisms as well. Micro organisms refer to very small forms of life. In this category are included such living creatures as bacteria, virus, fungus, algae (the green scum that grows near water), small plans and animals and even genes. As argued by Suman Sahai, there are vital economic sectors that are linked to micro organisms the most important being agriculture, pharmaceuticals and industrial biotechnology. In the field of agriculture, efforts are on world wide to develop bio-substitutes (which are based to a large extent on micro organisms) for chemical fertilisers and pesticides as the latter are not ecologically sustainable and will poison our land and water. In the field of pharmaceuticals, several kinds of drugs are derived from micro organisms. The patenting of life forms will strike at the very roots of indigenous manufacturing of such drugs. As far as industrial biotechnology is concerned, it is estimated that
in the coming two to three decades, 60 to 70 percent of the global economy would rest on biotechnology because this is perhaps the most versatile of all the technologies that we have seen so far. Patents in all the three fields (agriculture, Pharmaceuticals and industrial biotechnology) linked to micro organisms are either already with the multinational companies or are likely to be acquired at a much faster rate vis-a-vis the developing countries. Thus multinational companies belonging to the developed countries are likely to dominate the global economy that will emerge in the coming years.

TRIMs. According to Muchkund Dubey the developed countries achieved almost everything they wanted from the RRIMs agreement. In order to make the Agreement balanced from the point of view of the developing countries it was necessary to formulate international rules for controlling restrictive business practices of foreign investors. However the TRIMs agreement is totally silent on this vital question and is concerned mainly with provisions for elimination of trade related investment measures which are designed to protect the interests of foreign investors in the developing countries. Of course the developing countries have been allowed to deviate from the provisions of TRIMs agreement on balance of payments ground. However once there is an improvement in the balance of payments the host country is required to eliminate the identified measures even if there is justification to maintain them on broader macroeconomic and strategic considerations. When applied to the developing countries the provisions of the TRIMs agreement will most likely have the effect of undermining any plan or strategy of self reliant growth based on the technology and other resources available locally. It could also prove a drain on the foreign exchange reserves of the developing countries, adversely affecting their balance of payments position.

Services- There is a vast level of difference in the development of services like banking, insurance telecommunications and shipping as between the developed countries and the developing countries. Therefore inclusion of trade in services is bound to benefit developed countries much more than the developing countries
like India. In fact the very inclusion of trade in services in Uruguay round negotiations was on persistent insistence of the developed countries who have all along been arguing that opening up of trade in service is an important requirement for globalisation and development of world trade. Data indicate that the size of the world market for services was $100 billion in 1993 of which the share of the developed countries was as high as $950 billion or 95 percent. Thus developing countries had only a share of 5 percent in world trade of services in 1993. The principal exporters of services are the USA, France, Japan and Netherlands in that order and together they account for about 60 percent share of the world trade in services. It is these countries that will benefit most from the new agreement on service as arrived at in the Uruguay Round and the share of the developing countries will decline further. The service industry is in an incipient stage in many developing countries and its progress will now be throttled under the new Agreement. As far as India is concerned, services sector is not as underdeveloped as in many other developing countries. Yet, in terms of the new agreement, it will be required to denationalise insurance and banking. Thus the banking sector may not be able to play a positive social role as it has been playing since 1969 when 14 major banks were nationalised (the positive social role is in the form of more advances to priority sectors and opening up of branches in backward regions). Foreign firms will now be free to expand their network in the Indian services sector. They will also be free to remit resources to their parent country in the form of profits, interest royalties etc. All this will involve a foreign exchange burden on India. As far as Indian firms are concerned they will find it difficult to compete with the firms supplying services in the developed countries. Thus it will not be an easy task for them to penetrate the services sector in developed countries.

It is concluded that the World Trade Organisation plays a significant role in the economic development of the entire world but as far as India is concern. The WTO is not as beneficial as in comparison to the other developed
countries. Most of the provisions are not in favour of the developing countries like India. If we want to utilise the benefits of the globalised economy through WTO then the government should provide all the assistance to the manufacturers and traders.
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