



TRADE NEGOTIATIONS

TAXONOMY OF REGIONAL TRADE AGREEMENTS

Regional Trade Agreements (RTAs) are defined as **groupings of countries**, which are formed with the **objective of reducing barriers to trade** between member countries.

■ In other words, a regional trade agreement (RTA) is a treaty between two or more governments that define the rules of trade for all signatories.

■ As of **1 February 2021**, **339 RTAs were in force.**

Trade negotiations result in different types of agreements which are discussed below-

1) **Unilateral trade agreements** under which an **importing country offers trade incentives in order to encourage the exporting country**, to engage in international economic activities that **will improve the exporting country's economy.**

✦ E.g. **Generalized System of Preferences. GSP**

2) **Bilateral Agreements** are agreements that **set rules of trade between two countries, two blocs or a bloc and a country.**

These may be limited to certain goods and services or certain types of market entry barriers.

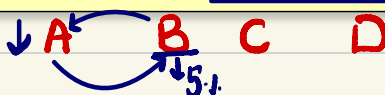
✦ E.g. **EU-South Africa Free Trade Agreement;**

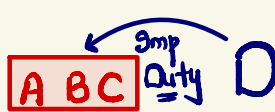
ASEAN-India Free Trade Area.



3) **Regional Preferential Trade Agreements** among a **group of countries reduce trade barriers on a reciprocal and preferential basis for only the members of the group.**

E.g. **Global System of Trade Preferences among Developing Countries (GSTP)**





4) Trading Bloc has a group of countries that have a free trade agreement between themselves and may apply a common external tariff to other countries.

✚ Example: Arab League (AL), European Free Trade Association (EFTA)

5) Free-trade area is a group of countries that eliminate all tariff and quota barriers on trade with the objective of increasing exchange of goods with each other. The trade among the member states flows tariff free, but the member states maintain their own distinct external tariff with respect to imports from the rest of the world.

■ In other words, the members retain independence in determining their tariffs with non-members.

✚ Example: The ASEAN-India Free Trade Area (AIFTA) is a free trade area among the ten member states of the Association of Southeast Asian Nations (ASEAN) and India. it came into force on 1 August 2005

6) A customs union is a group of countries that eliminate all tariffs on trade among themselves but maintain a common external tariff on trade with countries outside the union (thus, technically violating MFN) ✓

■ The common external tariff which distinguishes a customs union from a free trade area implies that, generally, the same tariff is charged wherever a member imports goods from outside the customs union.

✚ The EU is a Customs Union; its 27 member countries form a single territory for customs purposes. Other examples are Gulf Cooperation Council (GCC), Southern Common Market (MERCOSUR).

7) Common Market: A Common Market deepens a customs union by providing for the free flow of output and of factors of production (labour, capital and other productive resources) by reducing or eliminating internal tariffs on goods and by creating a common set of external tariffs.

■ The member countries attempt to harmonize some institutional arrangements and commercial and financial laws and regulations among themselves.

✚ There are also common barriers against non-members (e.g., EU, ASEAN)



8) **Economic and Monetary Union**: The next stage in the integration sequence of common market is formation of some form of monetary union.

In an Economic and Monetary Union, the members share a common currency. Adoption of common currency also makes it necessary to have a strong convergence in macroeconomic policies.

For example, the European Union countries implement and adopt a single currency

The political institutions that facilitate trade negotiations, and support international trade cooperation by providing the rules of the game have been the former General Agreements on Tariffs and Trade (GATT) and the World Trade Organization (WTO).

THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

- The workings of the GATT agreement are the responsibility of the Council for Trade in Goods (Goods Council)
- The Goods Council has 10 committees dealing with specific subjects (such as agriculture, market access, subsidies, anti-dumping measures, and so on). Again, these committees consist of all member countries.

The GATT lost its relevance by the 1980s because

- it was obsolete to the fast-evolving contemporary complex world trade scenario characterized by emerging globalisation
- international investments had expanded substantially
- intellectual property rights and trade in services were not covered by GATT
- world merchandise trade increased by leaps and bounds and was beyond its scope.
- the ambiguities in the multilateral system could be heavily exploited
- efforts at liberalizing agricultural trade were not successful
- there were inadequacies in institutional structure and dispute settlement system
- it was not a treaty and therefore terms of GATT were binding only insofar as they are not incoherent with a nation's domestic rules.

THE URUGUAY ROUND AND THE ESTABLISHMENT OF WTO

- The need for a formal international organization which is more powerful and comprehensive was felt by many countries by late 1980s.
- The Uruguay Round brought about the biggest reform of the world's trading system.
- Members established 15 groups to work on limiting restrictions in the areas of tariffs, non-tariff barriers, tropical products, natural resource products, textiles and clothing, agriculture, safeguards against sudden 'surges' in imports, subsidies, countervailing duties, trade related intellectual property restrictions, trade related investment restrictions, services and four other areas dealing with GATT itself, such as, the GATT system, dispute settlement procedures and implementation of the NTB Codes of the Tokyo Round, especially on anti-dumping.
- The Round started in Punta del Este in Uruguay in September 1986 and was scheduled to be completed by December 1990.
- However, due to many differences and especially due to heated controversies over agriculture, no consensus was arrived at.
- Finally, in December 1993, the Uruguay Round, the eighth and the most ambitious and largest ever round of multilateral trade negotiations in which 123 countries participated, was completed after seven years of elaborate negotiations.
- The agreement was signed by most countries on April 15, 1994, and took effect on July 1, 1995. It also marked the birth of the World Trade Organization (WTO) which is the single institutional framework encompassing the GATT, as modified by the Uruguay Round.



THE WORLD TRADE ORGANIZATION (WTO)

■ The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations.

■ The principal objective of the WTO is to facilitate the flow of international trade smoothly, freely, fairly, and predictably.

The WTO has six key objectives:

1. To set and enforce rules for international trade,
2. To provide a forum for negotiating and monitoring further trade liberalization,
3. To resolve trade disputes,
4. To increase the transparency of decision-making processes,
5. To cooperate with other major international economic institutions involved in global economic management, and
6. To help developing countries benefit fully from the global trading system.

■ The objectives of the WTO Agreements as acknowledged in the preamble of the Agreement creating the World Trade Organization, include “raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services”.

The Structure of the WTO

- The WTO activities are supported by a **Secretariat located in Geneva, headed by a Director General.**

- It has a three-tier system of decision making:

- ☞ The WTO's **top-level decision-making** body is the Ministerial Conference which can take decisions on all matters under any of the multilateral trade agreements. The Ministerial Conference meets at least once every two years.

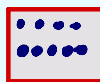
- ☞ The next level is the **General Council** which meets **several times a year** at the Geneva headquarters.

- ☞ At the next level, the **Goods Council, Services Council and Intellectual Property (TRIPS) Council** report to the General Council. These councils are responsible for overseeing the implementation of the WTO agreements in their respective areas of specialisation.

- **The WTO** **accounting for about 95% of world trade** **currently has 164 members**, of which **117 are developing countries**. Around 24 others are negotiating membership.

The Guiding Principles of World Trade Organization (WTO)

1) Trade without Discrimination- Most-favoured-nation (MFN)



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■ Treating other people equally. ✓

■ Under the WTO agreements, countries cannot normally discriminate between their trading partners. Grant someone a special favour (such as a lower customs duty rate for one of their products) and you have to do the same for all other WTO members.

■ It is so important that it is the first article of the General Agreement on Tariffs and Trade (GATT), which governs trade in goods.

■ Some exceptions are allowed.

For example, countries can set up a free trade agreement that applies only to goods traded within the group – discriminating against goods from outside.

Or they can give developing countries special access to their markets.

Or a country can raise barriers against products that are considered to be traded unfairly from specific countries.

■ But the agreements only permit these exceptions under strict conditions. In general, MFN means that every time a country lowers a trade barrier or opens up a market, it has to do so for the same goods or services from all its trading partners – whether rich or poor, weak or strong.

2) National treatment:

■ Treating foreigners and locals equally. Imported and locally- produced goods should be treated equally – at least after the foreign goods have entered the market.

■ The same should apply to foreign and domestic services, and to foreign and local trademarks, copyrights and patents.



- National treatment only applies once a product, service or item of intellectual property has entered the market. Therefore, charging customs duty on an import is not a violation of national treatment even if locally-produced products are not charged an equivalent tax

3) Freer trade: gradually, through negotiation

- Lowering trade barriers is one of the most obvious means of encouraging trade. The barriers concerned include customs duties (or tariffs) and measures such as import bans or quotas that restrict quantities selectively.

- From time to time other issues such as red tape and exchange rate policies have also been discussed.

- The WTO agreements allow countries to introduce changes gradually, through “progressive liberalization”. Developing countries are usually given longer to fulfil their obligations.

4) Predictability: through binding and transparency

- Sometimes, promising not to raise a trade barrier can be as important as lowering one, because the promise gives businesses a clearer view of their future opportunities. With stability and predictability, investment is encouraged, jobs are created and consumers can fully enjoy the benefits of competition — choice and lower prices.

- In the WTO, when countries agree to open their markets for goods or services, they “bind” their commitments. For goods, these bindings amount to ceilings on customs tariff rates.

- Sometimes countries tax imports at rates that are lower than the bound rates. Frequently this is the case in developing countries. In developed countries, the rates actually charged and the bound rates tend to be the same.

- A country can change its bindings, but only after negotiating with its trading partners, which could mean compensating them for loss of trade.

- In agriculture, 100% of products now have bound tariffs. The result of all this: is a substantially higher degree of market security for traders and investors.

The system tries to improve predictability and stability in other ways as well.

- Make **countries' trade rules as clear and public ("transparent") as possible.**
- Many WTO agreements require governments to disclose their policies and practices publicly within the country or by notifying the WTO.

5) Promoting fair competition

- The **WTO is sometimes described as a "free trade" institution,** but that is not entirely accurate.
- The system does allow tariffs and, in limited circumstances, other forms of protection. More accurately, it is a system of rules dedicated to open, fair, and undistorted competition.
- The rules on non-discrimination — MFN and national treatment — are designed to secure fair conditions of trade. **So too** are those on dumping (exporting at below cost to gain market share) **and subsidies.**

6) Encouraging development and economic reform

- The WTO system contributes to development. On the other hand, developing countries need flexibility in the time they take to implement the system's agreements.
- Over **$\frac{3}{4}$ three-quarters** of **WTO members are developing countries** and countries in transition to market economies.
- During the **seven and a half years** of the Uruguay Round, **over 60 of these countries implemented trade liberalization programmes autonomously.**

- At the end of the Uruguay Round, developing countries were prepared to take on most of the obligations that are required of developed countries. But the agreements did give them transition periods to adjust to the more unfamiliar and, perhaps, difficult WTO provisions – particularly so for the poorest, “least-developed” countries.
- The current Doha Development Agenda includes developing countries’ concerns about the difficulties they face in implementing the Uruguay Round agreements.

WTO Agreements

- The WTO agreements cover goods, services and intellectual property and the permitted exceptions.
- These agreements are often called the WTO’s trade rules, and the WTO is often described as “rules-based”, a system based on rules.

Following are the important agreements under WTO:

- 1) Agreement on Agriculture aims at strengthening GATT disciplines and improving agricultural trade. It includes specific and binding commitments made by WTO member governments in the three areas of market access, domestic support and export subsidies.
- 2) Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures establishes multilateral frameworks for the planning, adoption and implementation of sanitary and phytosanitary measures to prevent such measures from being used for arbitrary or unjustifiable discrimination or for camouflaged restraint on international trade and to minimize their adverse effects on trade.

3) Agreement on Textiles and Clothing replaced the Multi-Fibre Arrangement (MFA) which was prevalent since 1974. ATC provides that textile trade should be deregulated by gradually integrating it into GATT disciplines over a 10-year transition period.

4) Agreement on Technical Barriers to Trade (TBT) aims to prevent standards and conformity assessment systems from becoming unnecessary trade barriers by securing their transparency and harmonization with international standards. Often excessive standards or misuse of standards in respect of manufactured goods, and safety/environment regulations act as trade barriers.

5) Agreement on Trade-Related Investment Measures (TRIMs) expands disciplines governing investment measures in relation to cross-border investments.

- It stipulates that countries receiving foreign investments shall not impose investment measures such as requirements, conditions and restrictions inconsistent with the provisions of the principle of national treatment and general elimination of quantitative restrictions.

- For example: measures such as local content requirements and trade balancing requirements should not be applied on investing corporations.

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6) Anti-Dumping Agreement seeks to tighten and codify disciplines for calculating dumping margins and conducting dumping investigations, etc. in order to prevent anti-dumping measures from being abused or misused to protect domestic industries.

7) Customs Valuation Agreement specifies rules for more consistent and reliable customs valuation and aims to harmonize customs valuation systems on an international basis by eliminating arbitrary valuation systems.

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8) Agreement on Pre-shipment Inspection (PSI) intends to secure transparency of pre-shipment inspection wherein a company designated by the importing country conducts inspection of the quality, volume, price, tariff classification, customs valuation, etc. of merchandise in the territory of the exporting country on behalf of the importing country's custom office and issues certificates. The agreement also provides for a mechanism for the solution of disputes between PSI agencies and exporters.

9) Agreement on Rules of Origin provides for the harmonization of rules of origin for application to all non-preferential commercial policy instruments. It also provides for dispute settlement procedures and creates the rules of origin committee.

10) Agreement on Import Licensing Procedures relates to simplification of administrative procedures and to ensure their fair operation so that import licensing procedures of different countries may not act as trade barriers.

11) Agreement on Subsidies and Countervailing Measures aims to clarify definitions of subsidies, strengthen disciplines by subsidy type and to strengthen and clarify procedures for adopting countervailing tariffs.

12) Agreement on Safeguards clarify disciplines for requirements and procedures for imposing safeguards and related measures which are emergency measures to restrict imports in the event of a sudden surge in imports.

13) General Agreement on Trade in Services (GATS): This agreement provides the general obligations regarding trade in services, such as most-favoured-nation treatment and transparency.

■ In addition, it enumerates service sectors and stipulates that in the service sectors for which it has made commitments, a member country cannot maintain or introduce market access restriction measures and discriminatory measures that are severer than those that were committed during the negotiations.

14) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS): This agreement stipulates **most-favoured-nation treatment and national treatment for intellectual properties**, such as copyright, trademarks, geographical indications, industrial designs, patents, IC layout designs and undisclosed information.

■ In addition, it requires **member countries to maintain high levels of intellectual property protection** and to administer a system of enforcement of such rights. It also stipulates procedures for the settlement of disputes related to the agreement.

15) Trade Policy Review Mechanism (TPRM) provides the procedures for the trade policy review mechanism to conduct periodical reviews of members' trade policies and practices conducted by the **Trade Policy Review Body (TPRB)**.

16) Plurilateral Trade Agreements: Multilateral negotiations are those negotiations involving the entire WTO contracting parties.

■ The **Plurilateral trade agreements involve several countries with a common interest but do not involve all WTO countries**. Not all the plurilateral agreements are negotiated within the WTO framework.

■ **All the above-mentioned agreements entered into by the members are not static**; they are renegotiated from time to time and new agreements evolve from negotiations. Example: Many agreements were negotiated under the **Doha Development Agenda**, launched by WTO trade ministers in Doha, Qatar, in November 2001.



THE DOHA ROUND

- The Doha Round, formally the Doha Development Agenda, which is the ninth round since the Second World War was officially launched at the WTO's Fourth Ministerial Conference in Doha, Qatar, in November 2001.
- The round seeks to accomplish major modifications of the international trading system through lower trade barriers and revised trade rules.
- The negotiations include 20 areas of trade, including agriculture, services trade, market access for non-agricultural products (NAMA), trade in services, trade facilitation, environment, geographical indications and certain intellectual property issues.
- The most controversial topic in the Doha Agenda was agriculture trade.

G 20 ECONOMIES: FACILITATING TRADE

- The G-20 is a group comprising of 20 countries, representing around 85% of global GDP.
 - G20 members are: Argentina; Australia; Brazil; Canada; China; the European Union; France; Germany; India; Indonesia; Italy; Japan; the Republic of Korea; Mexico; the Russian Federation; Saudi Arabia; South Africa; Türkiye; the United Kingdom; and the United States.
 - The pace of implementation of new export restrictions by WTO members has increased since 2020, first in the context of the pandemic and subsequently with the war in Ukraine and the food crisis. Some of these export restrictions have been gradually lifted, but several still remain in place.
- * Since the beginning of the pandemic, 201 COVID-19 trade and trade-related measures in goods were implemented by G20 economies. Most (61%) were trade facilitating, while the rest (39%) could be considered trade restrictive

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