



Trade Negotiations

Chapter IV unit 3

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Trade negotiation

- **is a process in which nations meet together to discuss the possibility of trade, with the goal of reaching a trade agreement.**

Trade negotiations

- are complex interactive processes engaged in by countries having competing objectives
- Host of interested parties – domestic, national and supranational
- Competing and cooperating

Many stakeholders

- **Interest groups**
- **Lobbying groups**
- **Pressure groups**
- **Government**
- **Non governmental organizations (NGO)**

Regional Trade Agreements (RTAs)

- **Groupings of countries**
- **not necessarily of the same geographical region**
- **Formed with the objective of reducing barriers to trade between member countries.**

- **Members liberalize trade on a reciprocal and preferential basis.**
- **As of 1 June 2020, 303 RTAs were in force.**

Following WTO convention

- **Regional trade agreement encompasses**
- **Both reciprocal, bilateral free trade or customs areas and**
- **Multicountry (plurilateral) agreements.**

Unilateral

- **Technically not an agreement**
- **Without any formal agreement for reciprocation from its trade partners.**
- **Other states are under no obligation to reciprocate.**

Trade negotiation –Unilateral

- **Tariff reductions made independently and without reciprocal action by other countries**
- **Chile and China in recent decades, have undertaken unilateral tariff reductions**

Advantage

- **a country can reap the benefits of free trade immediately**
- **Do not have to wait or persuade**
- **Open up – grow faster**
- **India's after 1991**

Bilateral Agreements

- **Are agreements that set rules of trade between two countries,**
- **two blocs or**
- **a bloc and a country.**

Regional Preferential Trade Agreements

ASEAN

- **Indonesia,**
- **Malaysia,**
- **Philippines,**
- **Singapore**
- **Thailand**
- **Brunei,**
- **Cambodia,**
- **Myanmar**
- **Laos, Vietnam. Not WTO members**

Trading Bloc

- **Apply a common external tariff**

Free-trade area

- **Each member state continues to apply different tariffs, quotas, etc. vis-a-vis non-members**
- **retains independence in determining their tariffs with nonmembers**

INDIA FTAs

- **FTAs Signed / In Effect –**
- **India-Sri Lanka Free Trade Agreement**
- **- ASEAN-India Comprehensive Economic Cooperation Agreement**
- **-Asia-Pacific Trade Agreement –**
- **India-Afghanistan Preferential Trading Agreement**
- **– India-Bhutan Trade Agreement**

- - **India-Chile Preferential Trading Agreement**
- - **India-Korea Comprehensive Economic Partnership Agreement**
- - **India-MERCOSUR Preferential Trade Agreement**
- - **India-Singapore Comprehensive Economic Cooperation Agreement**
- -

Mercosur

- **Brazil,**
- **Argentina,**
- **Uruguay and**
- **Paraguay,**

- **Indo-Nepal Treaty of Trade**
- **- Japan-India Comprehensive Economic Partnership Agreement**
- **- Malaysia-India Comprehensive Economic Cooperation Agreement**
- **- South Asian Free Trade Area**

Agreements Signed

- - **Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Area**
- - **India-Gulf Cooperation Council Free Trade Area.**

How?

- **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.**

Free trade agreement

- **A free trade agreement (FTA) is a treaty between two or more countries to facilitate trade and eliminate trade barriers.**
- **It aims at eliminating tariffs completely from day one or over a certain number of years.**

India

- **India has bilateral agreements with the following countries and blocs**
- **Afghanistan**
- **ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam)**
- **Bhutan**
- **Chile**

- **European Union (negotiations stalled)**
- **EFTA (Iceland, Lichtenstein, Norway, Switzerland) (negotiations stalled)**
- **Japan**
- **Malaysia**
- **MERCOSUR (Argentina, Brazil, Paraguay, Uruguay and Venezuela)**

Customs Union

- **A customs union is a free trade area with a common external tariff.**
- **The EU is a Customs Union;**

Common Markets

- In addition to the common tariffs, also allow free movement of resources such as capital and labour between member countries
- Harmonize some institutional arrangements and commercial and financial laws

The General Agreement on Tariffs and Trade (GATT)

- **Provided the rules for much of world trade for from 1948 to 1994**
- **Only multilateral instrument governing international trade or a provisional agreement**
- **Not binding**

‘Codes’

- **Because they were not acknowledged by the full GATT membership.**

Uruguay Round (1986-94)

- **The eighth**
- **the last and**
- **most consequential of all rounds and culminated in the birth of WTO**

Economic and Monetary Union

- **Share a common currency and macroeconomic policies.**

Monetary union is a deeper form of integration

- The single European currency, the euro, was introduced in 1999 and came into common circulation in January 2002
- No country has yet left the Euro Area
- There are nineteen member nations
- Of the 28 EU countries (the UK leaves), 9 are not part of the single currency including Denmark, Hungary, the Czech Republic and Poland

- **The WTO's rules – the agreements – are the result of negotiations between the members.**
- **The Uruguay Round created new rules for dealing with trade in services and intellectual property and new procedures for dispute settlement.**

WTO

- **The biggest reform of the world's trading system**
- **A single institutional framework**
- **Encompassing the GATT, as modified by the Uruguay round.**

Objective

- **“The principal objective of the WTO is to facilitate the flow of international trade smoothly, freely, fairly and predictably.**
- **Primary purpose is to open trade for the benefit of all**
- **Global rules of trade provide assurance of market opening and stability in demand .**

The WTO has six key objectives:

- **To set and enforce rules for international trade,**
- **To provide a forum for negotiating and monitoring further trade liberalization,**
- **To resolve trade disputes,**
- **To increase the transparency of decision-making processes,**

- **To cooperate with other major international economic institutions involved in global economic management, and**
- **To help developing countries benefit fully from the global trading system.**

- **Only global international organization dealing with the rules of trade between nations**
- **Decisions **taken by consensus** among all members and are ratified by members' parliaments**
- **98% of commerce takes place under the WTO rulebook.**

Disputes

- **Trade frictions are channeled into the WTO's dispute settlement process,**
- **where the focus is on interpreting agreements and commitments and**
- **how to ensure that members' trade policies conform with them.**

Agreements are legal foundations for global trade.

- **Contracts, guaranteeing WTO members important trade rights.**
- **Bind governments to keep their trade policies transparent and predictable which is to everybody's benefit.**

Non- discriminatory trading system

- **WTO members operate a non-discriminatory trading system**
- **that spells out their rights and their obligations.**

Mutual

- Each **member receives guarantees** that its exports will be treated fairly and consistently in other members' markets.
- Each **promises to do the same** for imports into its own market

GATS

- **General Agreement on Trade in Services (GATS)**
- **Individual commitments under the GATS stating which of their service sectors they are willing to open to foreign competition**

Services

- Banks,
- Insurance firms, telecommunications companies,
- Tour operators,
- Hotel chains and
- Transport companies
- Looking to do business abroad enjoy the same principles of **more open trade** that originally only applied to trade in goods.

Intellectual property

- **The WTO's Intellectual Property Agreement contains rules for trade in ideas and creativity.**
- **The rules state how copyrights, patents, trademarks, geographical names used to identify products, industrial designs and undisclosed information such as trade secrets – “intellectual property” – should be protected when trade is involved.**

Note

- **The General Agreement still exists as the WTO's umbrella treaty for trade in goods,**
- **updated as a result of the Uruguay Round negotiations.**

- **Secretariat located in Geneva**
- **Top level decision-making body is the ministerial conference**
- **The general council**
- **The goods council, services council and intellectual property (TRIPS) council**
- **Numerous specialized committees**

Objectives of the WTO

- **“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”**

WTO does its functions by

- **Acting as a forum for trade negotiations among member governments**
- **Administering trade agreements**
- **Reviewing national trade policies**
- **Assisting developing countries in trade policy issues, through technical assistance and training programmes and**
- **Cooperating with other international organizations**

What governments have agreed to put into practice

- **Lower trade barriers**
- **Trimming red tape in customs and trade**
- **Justifications for restricting imports on health, safety and environmental grounds that are rational, not arbitrary**

What governments have agreed to put into practice

- **Disciplines on how they can react when imports increase sharply or the prices of imports tumble**
- **Limits on harmful agricultural subsidies**
- **Access to services markets**
- **Intellectual property protection.**

The Guiding Principles of WTO

- **Trade without discrimination**
- **‘Most Favoured Nation’ (MFN)**
- **All WTO members are MFN for trade**
- **If one country grants a special favor to one nation –it will have to give that special favour to all member-nations of WTO.**

- **Permitted exception**
(Application question)
- **Formation of common
markets / free trade
agreement / regional trading
agreements**

2

- **Special market access on special concessional terms to certain goods from a specific country or group of developing countries.**
- **Eg Generalised System of Preferences (GSP)**

3

- Can initiate actions **against dumping and trade distortion** by imposing antidumping duties or countervailing duties on goods traded.
- Raise barriers against products that are considered to be traded unfairly

The National Treatment Principle (NTP)

- **GATT Article III**
- **Treatment not less favourable than that which is accorded to like domestic products**
- **Once it has crossed borders**

Example

- **Internal taxes**
- **Internal laws**
- **Transportation**
- **Marketing**
- **Product visibility**
- **Any other aspect**

Freer trade

- **Lowering trade barriers**
- **Cover non-tariff barriers**
- **Cover services**
- **Include IPRs**
- **Progressive liberalization**

Note

- **Developing countries given longer time to conform to their obligations.**

Predictability

- **‘Binding’ tariff rates**
- **Discouraging the use of quotas**
- **Market-opening commitments and other measures to ensure transparency**

QRs

- **Principle of general prohibition of Quantitative Restrictions**
- **With tariffs** , still possible to increase exports as long as one is price competitive enough to overcome the barriers created by the tariff.

QUOTA

- Impossible to export in excess of the quota no matter how price competitive foreign products may be

Only tariffs

- **Progressively reduce them through negotiations on a**
- **‘on a reciprocal and mutually advantageous’ basis.**
- **Market access by converting all non- tariff barriers into tariffs**
- **Special privileges less developed countries to phase out the transition period**

Transparency in Decision Making

- **Transparent and verifiable policy decisions**
- **Trade or of trade related rules have to be invariably and without delay be notified to all the trading partners**

Special privileges less developed countries

- **‘Special and differential treatment ‘**
- **Greater flexibility**
- **Special privileges and**
- **Permission to phase out the transition period**

Dispute settlement mechanism

- **Stage-by-stage procedure**
- **The possibility of a judgment by a panel of experts**
- **And the opportunity to appeal the ruling on legal grounds.**

Overview of the WTO agreements cover

- **Goods, Services, Intellectual property ,and The permitted exceptions.**
- **‘Rules-based’, a system based on rules which are agreements**

Agreement on Agriculture, 1995

- **Market access,**
- **Domestic support and**
- **Export subsidies**

Agreement on Textiles and Clothing

- **Terminated on January 1, 2005. (Ten year expiry)**
- **Now governed by the general rules and disciplines embodied in the multilateral trading system**

Agreement on Technical Barriers to Trade (TBT)

- **Excessive standards or misuse of standards act as trade barriers**
- **Transparency and harmonization with international standards**

Agreement on Trade-Related Investment Measures (TRIMs)

- **Stop restrictions inconsistent with the provisions of the principle of national treatment**
- **E.g.. Local content requirements**

Anti-Dumping Agreement

- **Tighten and codify disciplines**
- **Dumping margins**
- **Dumping investigations**
- **Prevent anti-dumping measures from being abused or misused**

Customs Valuation Agreement

- **Harmonize customs valuation systems**
- **Eliminating arbitrary valuation systems**

Agreement on Pre-shipment Inspection (PSI)

- **To secure transparency of pre-shipment inspection**

Rules of origin

- **Laws, regulations and administrative procedures, which determine a product's country of origin.**

Agreement on Import Licensing

- **Relates to simplification of administrative procedures and to ensure their fair operation**

Agreement on Subsidies and Countervailing Measures

Agreement on Safeguards

- **Authorizes members to impose significant import restrictions**
- **Designed to remedy or prevent serious injury to domestic industries**
- **That is caused by an increase in imports.**

General Agreement on Trade in Services (GATS)

- **Stipulates most-favored-nation treatment and national treatment for intellectual properties**
- **Maintain high levels of intellectual property protection**
- **Administer a system of enforcement of such rights.**

- **Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU)**

Trade Policy Review Mechanism (TPRM)

- **Trade Policy Review Body (TPRB).**
- **Seeks to increase awareness of the extent and effects of trade-distorting policies**
- **Through annual notification requirements and**
- **Through a policy-review mechanism.**

Mandatory

- **Notices of all changes in members' trade and trade-related policies must be published and made accessible to their trading partners.**

Plurilateral Trade Agreements

- **What are these?**
- **The Plurilateral trade agreements involve several countries with a common interest but do not involve all WTO countries**
- **Come from the failure to find agreement among the entire WTO contracting parties**

Plurilateral Trade Agreements

- **WTO member countries would be given the choice to agree to new rules on a voluntary basis.**
- **multilateral, where all WTO members are party to the agreement.**
- **Eg. The Agreement on Government Procurement**

- **A special type of multilateral treaty. Between a limited number of states with a particular interest in the subject of the treaty.**
- **The primary difference between a plurilateral treaty and other multilateral treaties is that the availability of reservations is more limited under a plurilateral treaty.**

- **Agreement on Trade in Civil Aircraft:**
- **Agreement on Government Procurement**

Agreements

- **Not static**
- **Are renegotiated from time to time and new agreements evolve**

Doha Development Agenda

- **The Doha Round- launched in 2001 the latest round of trade negotiations**
- **aim is to achieve major reform of the international trading system**
- **through the introduction of lower trade barriers and revised trade rules.**

Doha- Issues for discussion

- **Multilateral environmental agreements**
- **Trade barriers on environmental goods & services**
- **Fisheries subsidies may harm environment –fish stock depletion**

25 years of The WTO

- **World trade has increased nearly four-fold**
- **Predictable market conditions fostered by the WTO**
- **Lasting boost to national income**
- **Fastest poverty reduction**

WTO-major issues

- **Very slow progress of multilateral negotiations**
- **Regionalism a plausible alternative**
- **Complex network of regional agreements introduces uncertainties**

**Developing
countries are
dissatisfied**

Why?

- **Poor bargaining power**
- **Erosion of preferences**
- **Lack of human as well as physical capital**
- **Poor infrastructure**
- **Inadequate institutions**
- **Political instabilities etc.**

- **The north-south divide**
- **Face exceptionally high tariffs on selected products**
- **Tariff peaks on textiles, clothing, and fish and fish products**
- **Tariff escalation'**

- **Liberalizing trade in agriculture, textiles, and apparel, and in many other areas of international commerce has been negligible.**
- **Doha development round definitive success is doubtful**

Developing countries are dissatisfied

- **Real expansion of trade in the three key areas of agriculture, textiles and services has been dismal**
- **Protectionism and lack of willingness among developed countries**
- **Forced to seek regional alternatives**

Escalated tariffs

- **The bias in the structure of many developing countries' exports towards unprocessed products**

The least-developed countries

- **Lack human as well as physical capital,**
- **poor infrastructure,**
- **inadequate institutions,**
- **political instabilities**

- **unilateral measures and counter measures by some members.**
- **mounting trade tensions**
- **Appellate Body of WTO's dispute settlement mechanism nearly paralyzed**

- **India banned 59 Chinese apps, the country's embassy in New Delhi said the move violates international laws governing global trade and e-commerce.**

Erosion of preferences

- **An issue that worries developing countries is the erosion of preferences — special tariff concessions granted by developed countries on imports from certain developing countries become less meaningful if the normal tariff rates are cut because the difference between the normal and preferential rates is reduced.**

- **Developing countries have placed on the Doha Agenda a number of problems they face in implementing the present agreements.**

Developing countries

- **still face exceptionally high tariffs on selected products (“tariff peaks”) in important markets that continue to obstruct their important exports.**
- **Examples include tariff peaks on textiles, clothing, and fish and fish products.**