

# THE WORLD TRADE ORGANISATION: ITS ROLE AND FUNCTIONS

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Despite the breakdown of the Fifth WTO Ministerial Conference in Cancún, Mexico, in September last year, the WTO continues to play a vital role in international trade. In fact, it is vital for anyone who thinks of globalisation or liberalisation to know the role and the functions of WTO, because WTO is the prime mover for any form of trade globalisation or liberalisation.

Recently, the Production & Manufacturing Technical Division of IEM invited Encik Amran Sameon from the Ministry of International Trade and Industries to present a brief talk on the role and functions of WTO at the IEM headquarters. Below is a brief summary of the talk.

## WHAT IS WTO?

WTO is an international body that sets ground rules for conducting international trade. WTO was formed by the signing of the Marrakech Agreement on 15 April 1994. It came into force on 1 January 1995. In WTO, explicit consensus is negotiated and agreed upon by participating countries. This explicit consensus is in fact a legally binding agreement. WTO also provides a forum for the settlement of disputes. A brief structure of WTO is shown in Figure 1.

## WHY DO WE NEED THE WTO? WHY IS THE WTO ATTRACTING ATTENTION?

Prior to the formation of WTO, world trade was characterised by the absence of rules on international trade, tariff protection and inward-looking policies. Neighbouring countries want to out-do each other with "beggar-thy-neighbour" policies.

WTO promotes global trade through market opening measures and the establishment of rules. These include:

- The provision of transparency, security and predictability.
- The prevention of adoption of unilateral measures
- The provision of redress of unfair trade practices through the dispute settlement mechanism.

WTO does not require members to remove all barriers to trade. Instead, it allows member countries to seek protection on legitimate grounds and to pursue developmental goals.

WTO safeguards and provides contingency measures such as anti-dumping and countervailing duties. This is particularly useful for developing countries whose economies are fragile to these actions which can injure or affect adversely through surges in imports or unfair trading practices.

Rules and disciplines in WTO are evolving and are decided by consensus. At the present moment, these rules are not perfect. However, the rules provide safeguards against "bullying" actions by bigger trading partners. These rules can be strengthened through negotiations. Malaysia takes an active part in this process.

## WHAT PRINCIPLES GUIDE WTO WORK?

A country gaining entry into WTO enjoys the benefits of membership. These benefits are derived largely based on the ability of the member country to impose discipline. The WTO Agreement ensures that each member country is able to exercise its rights and obligations.

Some of the principles that are found in the WTO Agreement include:

- Most Favoured Nation (MFN) – It means that a country should not discriminate between its trading partners.
- National Treatment – A country should not discriminate between its own and foreign products.
- Free Trade – Trade should be made freer through the lowering of tariff barriers, and the removal of quantitative restrictions (QRs). WTO does not recognise the need of member countries to protect domestic industries, but requires member countries to provide such protection through tariffs which should be lowered progressively.
- Predictability – Since tariffs are bound by the member countries involved, they cannot be raised without one member country offering compensation to the affected partner. It should be noted that the commitment to bind is as important as the commitment to lower tariffs because it offers the policy of predictability and stability which is important for business.
- Transparency – For internal transparency almost all WTO agreements require governments to disclose their policies and practices by notifying the WTO. External transparency is required to avoid mistrust and suspicion of WTO work.

## HOW DOES THE NEGOTIATION PROCESSES WORK IN WTO?

All negotiations are undertaken by governments and not corporations or individuals. The prerequisite to the trade negotiations is the assurance that overseas markets remain open and access is not disrupted by sudden and arbitrary imposition of restrictions.

Mutual benefits or reciprocity should be realised by the member countries. By reciprocity, it means that a country seeking improved access through an overseas market (e.g. through tariff reduction) must be ready to make concessions (e.g. in tariffs) which its trading partners consider to be reciprocal or of equivalent value.



Figure 1: Structure of the World Trade Organisation

## WHAT TREATMENTS ARE ACCORDED TO DEVELOPING COUNTRIES?

We acknowledge that developing countries in the world are at different stages of development. GATT has a special section – Part IV on Trade and Development, which allow:

- developed countries to grant special concessions to developing countries without expecting developing countries to make matching offers in return, and
- developed countries to grant special and differential (S&D) treatment to developing countries.

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