

## is the WTO facing challenges?

### What is the problem?

Union Commerce Minister Suresh Prabhu last week stated that India does not subsidise its exports to the rest of the world. The Minister's statement comes in the wake of increasing criticism that financial incentives offered by the Indian government to domestic exporters are distorting international trade. Mr. Prabhu also warned that the very existence of the World Trade Organisation (WTO) is currently under threat amid the rise in trade tensions between the U.S. and its major trading partners such as China, the European Union, Canada and others since the beginning of the year.

U.S. President Donald Trump is trying to narrow his country's trade deficit with the rest of the world, particularly China. The trade deficit is the amount by which the value of imports into a country exceeds the value of its exports to other countries. The U.S. believes that sops offered to Indian exporters work against the interests of American companies that are unable to match the price of subsidised Indian goods. This further worsens America's trade deficit.

### Is WTO under threat?

The WTO was formed in 1995 with the goal of regulating trade between countries through appropriate ground rules. Among other things, members of the WTO were supposed to adopt non-discriminatory trade practices that offered a level playing field for all businesses. This has, however, been easier said than done as countries have tried to favour their domestic companies. Domestic companies are generally able to lobby their governments to adopt trade practices favourable to them.

In March this year, the U.S. dragged India to the WTO for failing to curb export subsidies that it argues give an unfair advantage to Indian exporters. The WTO had earlier allowed India and a number of other low-income countries with an income per capita of under \$1,000 to offer export subsidies. India, however, broke past this threshold in 2013. The Indian government encourages exports through special economic zones and schemes like the Merchandise Exports from India Scheme (MEIS), which offer tax breaks to exporters.

### What if tensions increase?

The increase in trade tensions between countries has raised questions about the WTO's purpose and relevance. The international trade body has been used by politicians as a forum to voice and defend the needs of various special interest groups. India's politicians, for instance, have been keen on protecting the interests of their farmers through the minimum support price. Countries in the West have also tried to protect their farmers and industries through the heavy use of subsidies.

Without these subsidies, the production and distribution of goods across the world would be determined purely based on market forces. Many critics have argued that a bureaucratic organisation like the WTO cannot fulfil the ideal of unfettered free trade between countries that can vastly improve global living standards. Instead, they argue that such a bureaucracy is likely to be captured by special interest groups whose demands will harm the free market.

### What is in store?

The future of the WTO hangs in the balance as the world slowly slips into a trade war. The biggest casualty is likely to be economic growth as tit-for-tat tariffs increase the tax burden on the global

economy. The WTO's track record in achieving free trade is also likely to come under scrutiny. Critics argue that the WTO, by discouraging competition between governments, may be preventing the tearing down of global trade barriers.

In fact, they view certain export subsidies like tax breaks, which are prohibited under the rules of the WTO but employed by governments to attract businesses, as lowering the overall tax burden on the global economy. Further, according to the World Bank, the tariff rates applied between 1996 and 2008 under unilateral and preferential trade agreements have actually been lower than under the WTO's multilateral framework.

Prashanth Perumal J.

Sign up to receive our newsletter in your inbox every day!

Please enter a valid email address.

Our existing notification subscribers need to choose this option to keep getting the alerts.

END

Downloaded from **crackIAS.com**

© **Zuccess App** by crackIAS.com

crackIAS.com