

Should Bhutan Join WTO: A SWOT Analysis

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Introduction

Bhutan is under negotiations for joining WTO which would imply following of global trade rules if Bhutan becomes a member country. Meaning of WTO membership can be narrowed down to maintaining a balance of rights and obligations. World trade organization (WTO) was established on 1st January 1995 as a result of the Uruguay Round negotiations (1986-1994), located in Geneva, Switzerland. 149 countries were members of WTO as of 11 December 2005, 153 countries as of 23rd July, 2008 and there were 159 countries members as of 2nd March, 2013. The output of negotiations differ and vary from one country to another.

The scope of the multilateral trading system was broadened from trade in goods (GATT) to encompass services (General Agreement for Trade in Services) and intellectual property rights (Trade Related Aspects of Intellectual Property Rights). It was a rule-based global trading system complemented with its own dispute resolution procedures. Multilateral agreements of trade are treated as a single undertaking which means member countries (WTO) is a party to every one of these agreements and must implement them accordingly. Modalities and mandate becomes the main point of difference between WTO and GATT.

Key Words: Accession, Negotiations, Multilateral Trade Agreements

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Purpose and Mission of WTO

WTO provides a forum to member nations where they can reach on lowering tariffs (or taxes) on foreign trade, in other words everything we buy and sell beyond our borders. The business of the WTO should be of interest to us because the rules that are being decided therein have an impact on country's economy, inhabitants, and everything that has to do with our lives, what we eat, what we dress, what we buy and sell. This framework helps to cut the cost of living, raise standards of living, full employment, real income growth, effective demand strengthening, protect and preserve environment adding to sustainable development of a country. It is secure for developing countries a share in the growth of international trade that is proportionate with the needs of their development.

Objectives of World Trade Organisation:

1. WTO administers Agreements and facilitates their operation and implementation.
2. Provider of organizational mechanism for negotiating trade among member nations about the Agreements and more liberalization of trade amongst members.
3. Facilitator of settlement of differences and disputes between members.
4. Carries out reviews of the trade policies of member states at regular intervals.
5. Facilitates capacity building by training developing countries and providing them technical support and assistance.
6. Cooperates with other international organizations on subjects of mutual interest.

WTO Postulates:

1. A country should follow a policy of non-discrimination and avoid favouritism between different trade partners.
2. Secured and predictable market access.
3. To help developing countries by ensuring their participation in a multilateral trading framework.
4. Fair trade- possibility to respond to unfair trading practices such as dumping and subsidization.
5. To maintain lucidity in trade practices.

Main Activities of WTO

1. It negotiates for minimizing or abolition of trade barriers in the form of import tariffs, anti-dumping, subsidies, product standards, etc.
2. WTO is involved in implementation and execution rules framed for trade in goods, services & IPR.
3. It is also involved in monitoring and reviewing the trade policies of members, as well as ensures more justified trade agreements between two nations or within a region.
4. It also settles disputes among members as an interpreter and by invoking the agreements.
5. It is assisting the process bringing some 30 countries into WTO fold. It is also undertakes research related with economic issues and gathering and releasing trade statistics favoring its other main activities.

Benefits of World Trade Organization

1. Helps promote peace within nations

Peace is an outcome of the trading system. Smooth trade flow and provision of a constructive and fair outlet to countries for dealing with disputes over trade issues are two paramount points. Peace acts as a confidence building measure created and reinforced by the WTO.

2. Disputes are handled positively

As trade grows in volume, traded products and in the number of countries and corporations involved in trading, there is a higher possibility of surfacing more disputes. It facilitates overcoming these disputes by devising a win-win strategy. Left to the member states, these may lead to serious conflict. Prior - existing WTO agreements provide a sound basis for judging who is right or wrong. These judgments provide the necessary direction for any further actions that are needed.

3. Rules make life easier for all

WTO regime is based on rules for different circumstances rather than power and this makes life smooth for all participating nations in trading activities. WTO ushers in equalities by giving smaller countries more voice, and simultaneously freeing the major powers from the vagaries of negotiations with member nations. Forum of the WTO can be used by major economic powers to negotiate with all or most of their trading partners together. The life for the big economic powers is put to an ease.

4. Free trade cuts the cost of living

Protectionism is expensive, it raises prices, WTO facilitates lowering trade barriers through negotiation and application of the principle of equal treatment to all nations. The cost of production is reduced because imported raw materials used in production are cheaper and consequently reduced prices of finished goods and services, which makes a lower cost of living possible.

5. Increased choices, space for preferences and better quality

Consumer gets more choices for different bundles of goods with varied quality to maximize his utility and get better off. The imports in product or service on the domestic market encourages producers to compete, which further makes the more choice of brands available to consumers as well as increasing the range of locally produced goods and services.

6. Trade raises overall earnings

As a result of lowering of impediments to trade, country's imports and exports are increased helping a country to build more foreign exchange reserves and thus raising the country's income.

7. Acceleration of economic i.e. growth and development

One of the argument which can't be generalized is that free and fair trade policies help an developing economy to expand which provides better job opportunities.

8. Basic principles increases efficiency in trade

The increased trade with the help of removal of artificial blockades facilitates more income, accelerated economic growth and development make the system economically viable and sustainable. Many benefits of the trading system are as a result of essential principle at the heart of the WTO system and helps the enterprises directly involved in international trade and for the producers of goods/services. Such principles include non-discrimination, transparency, increased certainty about trading conditions etc. This helps in accomplishing the task of simplified trading terms which helps in cost cutting and increasing confidence and this in turn means more job opportunities and better goods and services for consumers.

9. Governments are shielded from narrow interest

WTO system shields the government from narrow interests. Government is justified against lobbying from narrow interest groups by focusing on benefits that are going to accrue to the economy.

10. The system encourages good governance

WTO framework envisions good governance by rejecting injudicious policies and providing a corruption free environment. Member nations are motivated to honor the commitment made to liberalize various sectors of trade.

Drawbacks of World Trade Organization

1. Industrialized countries benefit more than poor countries

Despite being members of WTO, developed nations maintain high import duties and quotas in certain products to discourage imports from developing countries thereby attempting to protect local industry. The anti-dumping measures are invoked against developing countries. For instance, giving high subsidies for protecting agriculture in developed countries while developing nations are pressurized to open markets. The TRIPs agreement puts restrictions on developing countries from using some technology which originates abroad in their local systems including medicines and agricultural products.

2. Labor is exploited and environment not cared

The issues of labor and environment are blatantly neglected. Without proper environmental regulations and management of natural resources, might lead to environmental degradation which is over and above any gains from trade as cost to the environment are not factored. Labor unions criticize the working conditions of labor in developing countries, and to an extent WTO has been successful in promotion of globalization but environment and labor have been by far neglected. If environment and labor can enter the WTO system it would be conceptually difficult to argue why other social and cultural issues should also not be negotiated. Trade measures are a tool in the hands of big corporations and social organizations in promoting their interests.

3. Least participation & de-motivate of developing countries

Developing countries are least participated in decision making, all the decisions are in favor of industrialized economies. Free trade may prevent developing economies develop their infant industries. For example, if a developing economy tries to diversify economy to develop a new manufacturing industry, may be unable to do it without some tariff protection.

4. Decision Making in Green room

Discussions in the WTO as unrepresentative and non-inclusive; more active participants, representing more diverse interests and objectives, have complicated WTO decision-making, and

the process of consensus-building has not been successful. Results of green room discussions are presented to the rest of the WTO members which may vote on the result.

5. Harms the domestic Market

Excessive use of foreign product might demoralize the domestic producer. Free trade concludes with immense growth of imported product were the domestic market product demand decreases conveying the economic growth downstairs.

Bhutan's inception into WTO

Time Line and Events

The journey of Bhutan towards becoming a member of WTO started in the year 1999 when it applied for the World Trade Organization's membership. Bhutan was granted the status of the observer nation in the following year. Ever since Bhutan has become an observer nation, she made a progressive achievement both at bilateral and international negotiations front with a few steps away from becoming a WTO member.

When Bhutan chose its first democratically elected government in 2008 the accession process came to a halt because the new government stressed on a broader debate on the advantages and disadvantages of joining WTO. One of the important areas of concern was impacts that joining WTO would bring on the development philosophy of Gross National Happiness which Bhutan obediently followed.

Accession of Bhutan to WTO: Advantages and Challenges

Advantages

1. **Market access:** Bhutan as a member of WTO would provide better & stable access to global markets which would kick start the engines of production economy. Bhutan may also be benefitted from the multilateral trade framework without negotiations with nations individually by using 'Most Favored Nation' clause and the principle of single undertaking.

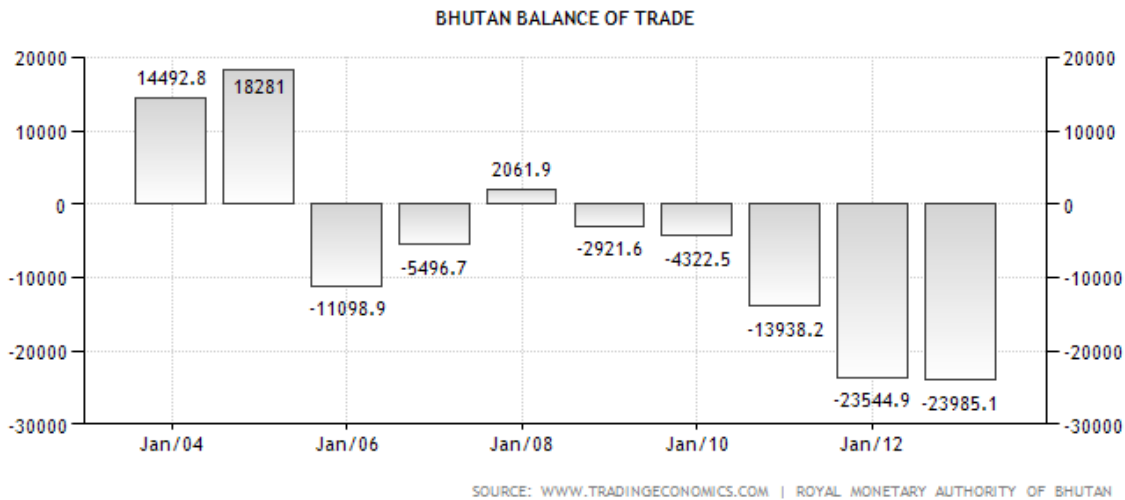
2. **Enabling economic reforms:** Bhutan will have to frame non-discriminatory trade legislations and policies in near future as a compliance measure with WTO regulations.
3. **Reforms for development:** Establishing due institutional mechanism for implementation of economic reforms to synchronize with WTO regulatory framework which would help members to attract investment as it gives investors a sense of security.
4. **Dispute settlement mechanism:** Multilateral dispute mechanism helps member countries to resolve their trade disputes rather than addressing them unilaterally. Mostly developing countries and LDCs (Least Developing Countries) get benefitted from dispute settlement mechanism, as small countries can challenge trading partners if the latter adopt measures that do not comply with WTO provisions.
5. **Shaping the future of trade:** Accession of Bhutan to WTO will give new dimensions to its international trade thus strengthening its domestic economy.
6. **Special and differential treatment for developing countries:** Special focus and differential treatment by WTO with respect to developing countries and LDCs needs to be highlighted as over 150 provisions covering major concerns such as: substantial market access in agriculture and manufacturing; flexibility in meeting WTO commitments, greater opportunities to resort to safeguard measures to protect their economies and access to technical assistance. As Bhutan is still an LDC, early accession will enable Bhutan to benefit from these provisions.

CHALLENGES

1. There are a lot of theoretical and practical differences between the benefits derived from WTO membership especially for LDC like Bhutan who have less financial abilities and less human resources
2. Enhanced market access is inconsequential without commercial gain as it depends on competitiveness. As Bhutan's economy is small which is mostly agrarian tourism

economy cannot fully benefit from market access due to supply side constraints, high transportation costs and lack of export diversification.

Bhutan's Balance of Payment status



From the figure, the Balance of trade has gone negative for Bhutan from the year 2006. The negative fall in the balance of trade still continues. Joining the WTO would mean increasing the export along with the import in the trade relationship between the member countries. Despite many government regulations and assistance, the capacity of the Bhutanese economy to export is still immaterial. Thus joining WTO at this stage would bring in more deficits in the country's balance of trade.

3. If Bhutan follows the accession path it will have to come up with progressive tariff reduction to give enhanced market access. This will result in increased imports leading to rise in current account deficits making Bhutan's domestic economy vulnerable if exports are not intensified proportionately.
4. If Bhutan joins WTO its credibility might increase but it will not be sufficient for investors as they always look for high returns, lower production cost, flexible labor markets and markets for their goods and services. Foreign investors would mostly

tempted to sectors where Bhutan could offer comparative advantages such as power-intensive industries and tourism.

The Bitter Reality of Bhutanese Economy

Though there are advantages in joining WTO, it won't be advantageous for Bhutan looking into her economic scenario. As discussed in the *Challenges* we can highlight some facts to justify the truth of the challenges.

1. Bhutan is a tiny state: Bhutan appears on almost every list of tiny states, a category with populations of less than 1.5 million people.
2. Bhutan has limited resources: The Bhutan's capacity to increase exports or accelerate domestic economic development is conditioned by its lack of natural, capital and labor resources, etc. Whatever corrective steps are initiated to address this scarcity in one area will have spiraling effects in other areas.
3. Bhutan is without sea-shores: Countries without sea-shores and ports negotiate peculiar problems to tap global markets, which is a limiting factor to leverage trade as a way to overcome the scarcity of resources.
4. Bhutan is highly integrated with Indian economy: Bhutanese economy is already highly linked with the Indian economy. If Bhutan opts for its open association with the world economy for its development, it is severely constrained to the extent of existing linkages with the Indian economy.

Choice before Royal Government of Bhutan

The government would have to design a befitting policy to take best out of terms and conditions at the WTO due to changed arrangements. During the Hong Kong ministerial meeting in 2005 the WTO agreed to grant special concession to the LDCs as regards tariff and free quota. Royal Government of Bhutan needs to study of these concessions already offered.

Further, Bhutan will have to revisit farm sector reform solicited by the WTO and choose kind of agriculture products Bhutan can make use of through this reform process and kind of sanitary standards could be adopted.

Sanitary standards in Bhutan will have to be upgraded as this being a major condition for export of agriculture products. Service sector will also be opened up more in the light of Doha round concessions. Bhutan can also gain benefits because in terms of services sector, in tourism, for instance, Bhutan should stand to gain strongly from tourism.

Cost Implication for different Sectors and Government in Joining WTO?

There will be cost implications because country will have to make new laws for private and government, which will be costly in terms of effort to frame laws, defend and invoke them, like intellectual property law to cite an example.

That will be costly to set up the court, set up investigating machinery for the cases. But, there would be different programmes through which Bhutan can avail the opportunity of make use of some financial or training facilities. So, there will be cost administering some of these new laws, there will also be cost of training and re-training different institutions and industries to match overseas competition.

Bhutan might be embroiled in legal issues which will have cost implications for some time to come. But such cost will be immaterial, which can be taken care of by other advanced countries to assist Bhutan in this effort, Bhutan being an LDC. But Bhutan would have to know where

she would like to be assisted because there might be different facilities and conditionality to put to gain some assistance.

Risks of being a WTO member

WTO is unlike the UN, it has interest of countries that would have to be protected and exchanged unlike UN which always offers assistance. Neither, WTO is a development institution; it facilitates an opportunity to become a part of global trading system based on indiscriminate and transparent rules to provide win-win situation to all. Before joining WTO, we have to make preparations to be a part of the world-based system. Bhutan will have to show compliance which will put to certain hazards. It is not that advanced countries are trying to prevent other countries from joining because everyone will have to follow the rules and be compliant enough with the whole agreements. It means our own legislative framework have to be put in order if Bhutan were to join WTO.

Conclusion

Negotiations for WTO membership is a covenant between governments to be acceded to shape their domestic legislations and policies for trade to comply with WTO rules. Whether to join World Trade Organization or not is a decision Bhutan is considering seriously. The country is debating and weighing the pros and cons of joining WTO, representatives from various government departments and agencies engaged in trade or trade related issues are being equipped with capacity building lessons on International Trade.

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