

# The terms of world trade organization and customs union

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The World Trade Organization (WTO) is the sole body which is responsible for making global trade rules which are binding on its member States. Following the guidelines laid by the WTO, the member States are able to conduct their trading practices in such a manner that no one particular nation is able to reap benefits of trade at the loss of another. The core functions of the organization include administering the WTO agreements, handling trade disputes between member States, closely studying the national trade policies, and serving the purpose of a forum for trade negotiations. Since its creation, the WTO's focus has shifted from public interest goals to ones dealing primarily with the liberalization of trade, helping trade flow as freely as possible. The philosophy of the most favored nation (MFN) is an outcome of the WTO agreements, what it implies is that if a country was to give preferential treatment to anyone country with regard to any trade-related issues, it was to treat all members equally regarding the same issue. Originally the MFN clause was included in bilateral trade agreements; however, several steps which limited the functioning of the MFN principle were taken in the 1930s which led to the division of the world economy into a number of separate trade blocks. After going through this ordeal the WTO introduced MFN in the form of a multilateral reciprocal relationship.

2. What is a customs union? Would Jagdish Bhagwati be in favor of forming customs union as a basis for international trade? Explain.

Ans: Jagdish Bhagwati is known to have criticized the foundations on which customs unions function for instance proximity of the trading nations & the volume of trade criterion. We should note however that formation of a customs union is the transition period between two states of trading

equilibrium. Given any initial trading equilibrium, there exists a series of steps, and at each of these steps either new customs unions are created or the older unions are enlarged this happens due to the innate nature of the negative impact the unions create that in order to ensure that no member is harmed there is need to expand continuously , ultimately leading to the final step where the global market consists of one big customs union, so we can say that the end result of customs unions is similar to what Jagdish Bhagwati would like out of global trade, but not the means of getting there.