INTERNATIONAL DISPUTES SETTLEMENT MECHANISMS

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CONTENTS

Authors’ Profile ........................................................................................................ i
Preface .................................................................................................................... v
Contents .................................................................................................................. vii
Table of Cases ........................................................................................................ xv

Chapter 1
The Concept of Pacific Settlement under International Law: An Overview

INTRODUCTION ................................................................................................... 1
NATURE AND CONCEPT OF PACIFIC SETTLEMENT ............................................. 2
The Necessity of the Pacific Settlement ................................................................. 3
Pacific Settlement in a Historical Perspective ................................................... 4
METHODS OF PEACEFUL SETTLEMENT OF INTERNATIONAL DISPUTES .............. 6
An Overview of Diplomatic Methods ................................................................. 7
An Overview of Legal Methods ........................................................................... 24
CONCLUSION ....................................................................................................... 35

Chapter 2
The Diplomatic Means of Settling International Disputes

INTRODUCTION ................................................................................................... 45
NEGOTIATION ...................................................................................................... 46
Forms of Negotiation ............................................................................................ 47
Chapter 3

Referral to Arbitration and Negotiation: Modern Trends in International Dispute Resolution Institutions

INTRODUCTION ................................................................. 71
RELEVANCE OF ARBITRATION AND NEGOTIATION IN INTERNATIONAL DISPUTE SETTLEMENT .......... 73
DISPUTE SETTLEMENT AND NOTABLE INTERNATIONAL BODIES ......................................................... 76
Permanent Court of Arbitration ..................................... 76
The International Court of Justice ................................. 78
Dispute Settlement System of the World Trade Organization ................................................................. 80
International Tribunal for the Law of the Sea and
Dispute Settlement of UNCLOS ................................. 85
The International Centre for Settlement of Investment
Disputes ........................................................................ 87

INSTANCES OF COURT REFERRALS TO NEGOTIATION
AND ARBITRATION .................................................. 89
Reference to Amicable Settlement by an International
Treaty or Convention .................................................... 90
Direct Reference to Amicable Settlement by the
International Dispute Settlement Body ...................... 92
Reference to Negotiation or Arbitration after a
Decision ........................................................................ 94
Out-of-court Settlement on the Volition of the Parties
to the Dispute .............................................................. 96

CONCLUSION .............................................................. 98

Chapter 4
The World Court: A Bulwark of International
Justice

INTRODUCTION .......................................................... 109

ORGANIZATION OF THE COURT .............................. 110
Election of judges ....................................................... 110
Ad hoc judges .............................................................. 111
Chambers of the Court ............................................... 111

JURISDICTION ............................................................ 112
Access to the Court (jurisdiction *ratione personae*) .... 113
Contentious cases ...................................................... 113
Advisory opinions ...................................................... 113
Contentious Jurisdiction .............................................. 114
Consent is the basis of Court’s jurisdiction .............. 114
Various ways of expressing consent ......................... 116
Consent given by special agreement (*Compromis*) ..... 116
*Forum prorogatum* ................................................. 116
Consent given by a compromissory clause in a
Chapter 5
The International Tribunal for the Law of the Sea
and the Significance of Urgent Proceedings

INTRODUCTION ......................................................... 142
COMPOSITION AND STRUCTURE .............................. 144
JURISDICTION OF THE TRIBUNAL ............................. 146
Access to the Tribunal ............................................ 146
Contentious jurisdiction ........................................... 147
How can a dispute be submitted to the Tribunal .......... 148
Advisory jurisdiction .............................................. 149
THE POPULARITY OF URGENT PROCEEDINGS .......... 150
PROVISIONAL MEASURES .......................................... 152
PROMPT RELEASE OF VESSELS AND CREWS ............ 157
CONCLUSION .......................................................... 164
Chapter 6
Settlement of International Trade Disputes

INTRODUCTION ........................................................................................................ 171
THE GATT AND ITS DISPUTE SETTLEMENTMECHANISM ................................ 172
THE WTO DISPUTE SETTLEMENT MECHANISM ...... 173
  The Dispute Settlement Understanding (DSU) ................ 174
  Main Features of the DSU ......................................................... 174
  DSU provides for intergovernmental and mandatory
  process ..................................................................................... 175
  DSU a quasi-judicial system ....................................................... 175
  DSU requires adherence to the principles of GATT
  1947 and rules of public international law ......................... 176
  DSU provides security and predictability to the
  multilateral trading system ....................................................... 177
  Stages in a WTO Dispute Settlement ................................. 179
  Consultation ............................................................................ 179
  Good offices, conciliation and mediation ............................. 181
  The panel stage ........................................................................ 181
  Appellate review ..................................................................... 184
  Adoption of panel and Appellate Body reports .................. 186
  Implementation of rulings and recommendations ................ 187
REGIONAL TRADE DISPUTE SETTLEMENT
SYSTEMS ........................................................................................................... 189
  The Proliferation of RTAs .......................................................... 189
  RTAs permitted by WTO under exceptional
  circumstances ........................................................................... 202
  RTAs dispute resolution mechanism .................................... 203
CONCLUSION ....................................................................................................... 204

Chapter 7
Settlement of International Investment Disputes

INTRODUCTION ................................................................................................. 213
Chapter 8
Settlement of Politico-Legal Disputes through the United Nations: Analyzing the War in Bosnia and Herzegovina

INTRODUCTION ................................................................. 241
THE FIVE STRATEGIES OF DISPUTE SETTLEMENT ..... 243
THE BOSNIAN QUAGMIRE ................................................... 247
  Preventive Diplomacy .................................................. 250
  Peace Keeping ............................................................ 251
  Peace Enforcement and Peace Making ............................ 254
  Peace Building ........................................................... 256
CONCLUSION ..................................................................... 258
CHAPTER 7

SETTLEMENT OF INTERNATIONAL INVESTMENT DISPUTES

by

MOHAMMAD NAQIB ISHAN JAN

INTRODUCTION

A stable international investment environment necessitates the existence of a special and well structured dispute settlement mechanism to settle disputes between host States and foreign investors. The presence of such mechanism is crucial because in the absence of such mechanism investment disputes may become politicized leading to, as it did in the past, to the frequent exercise of diplomatic protection and even the use of force\(^1\). The need for such mechanism was felt by the World Bank\(^2\) in the 960s. Subsequently, on 18\(^{th}\) March 1965 the text of the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (hereinafter the ICSID Convention or the Washington Convention) was adopted by the Executive Directors of the World Bank\(^3\). The main purpose of the ICSID Convention is to encourage foreign investments which play a pivotal role in economic development. It particularly