The World Trade Organization (WTO) is the only international organization dealing with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible.

The result is assurance. Consumers and producers know that they can enjoy secure supplies and greater choice of the finished products, components, raw materials and services that they use. Producers and exporters know that foreign markets will remain open to them.

The result is also a more prosperous, peaceful and accountable economic world. Decisions in the WTO are typically taken by consensus among all member countries and they are ratified by members' parliaments. Trade friction is channeled into the WTO's dispute settlement process where the focus is on interpreting agreements and commitments, and how to ensure that countries' trade policies conform with them. That way, the risk of disputes spilling over into political or military conflict is reduced.

By lowering trade barriers, the WTO's system also breaks down other barriers between peoples and nations.

At the heart of the system—known as the multilateral trading system—are the WTO's agreements, negotiated and signed by a large majority of the world's trading nations, and ratified in their parliaments. These agreements are the legal ground-rules for international commerce. Essentially, they are contracts, guaranteeing member countries important trade rights. They also bind governments to keep their trade policies within agreed limits to everybody's benefit.

The agreements were negotiated and signed by governments. But their purpose is to help producers of goods and services, exporters, and importers conduct their business.

The goal is to improve the welfare of the peoples of the member countries.
The World Trade Organization came into being in 1995. One of the youngest of the international organizations, the WTO is the successor to the General Agreement on Tariffs and Trade (GATT) established in the wake of the Second World War.

So while the WTO is still young, the multilateral trading system that was originally set up under GATT is well over 50 years old.

The past 50 years have seen an exceptional growth in world trade. Merchandise exports grew on average by 6% annually. Total trade in 1997 was 14-times the level of 1950. GATT and the WTO have helped to create a strong and prosperous trading system contributing to unprecedented growth.

The system was developed through a series of trade negotiations, or rounds, held under GATT. The first rounds dealt mainly with tariff reductions but later negotiations included other areas such as anti-dumping and non-tariff measures. The last round—the 1986-94 Uruguay Round—led to the WTO’s creation.

The negotiations did not end there. Some continued after the end of the Uruguay Round. In February 1997 agreement was reached on telecommunications services, with 69 governments agreeing to wide-ranging liberalization measures that went beyond those agreed in the Uruguay Round.

In the same year 40 governments successfully concluded negotiations for tariff-free trade in information technology products, and 70 members concluded a financial services deal covering more than 95% of trade in banking, insurance, securities and financial information.

In 2000, new talks started on agriculture and services. These have now been incorporated into a broader work programme, the Doha Development Agenda (DDA), launched at the fourth WTO Ministerial Conference in Doha, Qatar, in November 2001.

The agenda adds negotiations and other work on non-agricultural tariffs, trade and environment, WTO rules such as anti-dumping and subsidies, investment, competition policy, trade facilitation, transparency in government procurement, intellectual property, and a range of issues raised by developing countries as difficulties they face in implementing the present WTO agreements.

The deadline for the negotiations is 1 January 2005.

**WTO AGREEMENTS**

How can you ensure that trade is as fair as possible, and as free as is practical? By negotiating rules and abiding by them.

The WTO’s rules—the agreements—are the result of negotiations between the members. The current set were the outcome of the 1986-94 Uruguay Round negotiations which included a major revision of the original General Agreement on Tariffs and Trade (GATT).

GATT is now the WTO’s principal rule-book for trade in goods. The Uruguay Round also created new rules for dealing with trade in services, relevant aspects of intellectual property, dispute settlement, and trade policy reviews. The complete set runs to some 30,000 pages consisting of about 60 agreements and separate commitments (called schedules) made by individual members in specific areas such as lower customs duty rates and services market-opening.

Through these agreements, WTO members operate a non-discriminatory trading system that spells out their rights and their obligations. Each country receives guarantees that its exports will be treated fairly and consistently in other countries’ markets. Each promises to do the same for imports into its own market. The system also gives developing countries some flexibility in implementing their commitments.

**GOODS**

It all began with trade in goods. From 1947 to 1994, GATT was the forum for negotiating lower customs duty rates and other trade barriers; the text of the General Agreement spelt out important rules, particularly non-discrimination.

Since 1995, the updated GATT has become the WTO’s umbrella agreement for trade in goods. It has annexes dealing with specific sectors such as agriculture and textiles, and with specific issues such as state trading, product standards, subsidies and actions taken against dumping.

**SERVICES**

Banks, insurance firms, telecommunications companies, tour operators, hotel chains and transport companies looking to do business abroad can now enjoy the same principles of freer and fairer trade that originally only applied to trade in goods.

These principles appear in the new General Agreement on Trade in Services (GATS). WTO members have also made individual commitments under GATS stating which of their services sectors they are willing to open to foreign competition, and how open those markets are.
**INTELLECTUAL PROPERTY**

The WTO’s intellectual property agreement amounts to rules for trade and investment in ideas and creativity. The rules state how copyrights, patents, trademarks, geographical names used to identify products, industrial designs, integrated circuit layout-designs and undisclosed information such as trade secrets—“intellectual property”—should be protected when trade is involved.

**DISPUTE SETTLEMENT**

The WTO’s procedure for resolving trade quarrels under the Dispute Settlement Understanding is vital for enforcing the rules and therefore for ensuring that trade flows smoothly. Countries bring disputes to the WTO if they think their rights under the agreements are being infringed. Judgements by specially-appointed independent experts are based on interpretations of the agreements and individual countries’ commitments.

The system encourages countries to settle their differences through consultation. Failing that, they can follow a carefully mapped out, stage-by-stage procedure that includes the possibility of a ruling by a panel of experts, and the chance to appeal the ruling on legal grounds. Confidence in the system is borne out by the number of cases brought to the WTO—around 300 cases in eight years compared to the 300 disputes dealt with during the entire life of GATT (1947-94).

**POLICY REVIEW**

The Trade Policy Review Mechanism’s purpose is to improve transparency, to create a greater understanding of the policies that countries are adopting, and to assess their impact. Many members also see the reviews as constructive feedback on their policies.

All WTO members must undergo periodic scrutiny, each review containing reports by the country concerned and the WTO Secretariat.

**DEVELOPMENT AND TRADE**

Over three quarters of WTO members are developing or least-developed countries. All WTO agreements contain special provision for them, including longer time periods to implement agreements and commitments, measures to increase their trading opportunities, provisions requiring all WTO members to safeguard their trade interests, and support to help them build the infrastructure for WTO work, handle disputes, and implement technical standards.

The 2001 Ministerial Conference in Doha set out tasks, including negotiations, for a wide range of issues concerning developing countries. Some people call the new negotiations the Doha Development Round.

Before that, in 1997, a high-level meeting on trade initiatives and technical assistance for least-developed countries resulted in an “integrated framework” involving six intergovernmental agencies, to help least-developed countries increase their ability to trade, and some additional preferential market access agreements.

A WTO committee on trade and development, assisted by a sub-committee on least-developed countries, looks at developing countries’ special needs. Its responsibility includes implementation of the agreements, technical cooperation, and the increased participation of developing countries in the global trading system.

**TECHNICAL ASSISTANCE AND TRAINING**

The WTO organizes around 100 technical cooperation missions to developing countries annually. It holds on average three trade policy courses each year in Geneva for government officials. Regional seminars are held regularly in all regions of the world with a special emphasis on African countries. Training courses are also organized in Geneva for officials from countries in transition from central planning to market economies.

The WTO set up reference centres in over 100 trade ministries and regional organizations in capitals of developing and least-developed countries, providing computers and internet access to enable ministry officials to keep abreast of events in the WTO in Geneva through online access to the WTO’s immense database of official documents and other material.
The WTO's overriding objective is to help trade flow smoothly, freely, fairly and predictably. It does this by:

- Administering trade agreements
- Acting as a forum for trade negotiations
- Settling trade disputes
- Reviewing national trade policies
- Assisting developing countries in trade policy issues, through technical assistance and training programs
- Cooperating with other international organizations

The WTO has nearly 150 members, accounting for over 97% of world trade. Around 30 others are negotiating membership.

Decisions are made by the entire membership. This is typically by consensus. A majority vote is also possible but it has never been used in the WTO, and was extremely rare under the WTO's predecessor, GATT. The WTO's agreements have been ratified in all members' parliaments.

The WTO's top level decision-making body is the Ministerial Conference which meets at least once every two years. The Fifth WTO Ministerial Conference will be held in Cancún, Mexico from 10 to 14 September 2003.

Below this is the General Council (normally ambassadors and heads of delegation in Geneva, but sometimes officials sent from members' capitals) which meets several times a year in the Geneva headquarters. The General Council also meets as the Trade Policy Review Body and the Dispute Settlement Body.

At the next level, the Goods Council, Services Council and Intellectual Property (TRIPS) Council report to the General Council.

Numerous specialized committees, working groups and working parties deal with the individual agreements and other areas such as the environment, development, membership applications and regional trade agreements.

The WTO Secretariat, based in Geneva, has around 560 staff and is headed by a director-general. It does not have branch offices outside Geneva. Since decisions are taken by the members themselves, the Secretariat does not have the decision-making role that other international bureaucracies are given.

The Secretariat's main duties are to supply technical support for the various councils and committees and the ministerial conferences, to provide technical assistance for developing countries, to analyze world trade, and to explain WTO affairs to the public and media.

The Secretariat also provides some forms of legal assistance in the dispute settlement process and advises governments wishing to become members of the WTO. The annual budget is roughly 155 million Swiss francs.
The WTO was born out of negotiations; everything the WTO does is the result of negotiations.

1. What is the World Trade Organization?

Simply put: the World Trade Organization (WTO) deals with the rules of trade between nations at a global or near-global level. But there is more to it than that.

**Is it a bird, is it a plane?**

There are a number of ways of looking at the WTO. It’s an organization for liberalizing trade. It’s a forum for governments to negotiate trade agreements. It’s a place for them to settle trade disputes. It operates a system of trade rules. (But it’s not Superman, just in case anyone thought it could solve — or cause — all the world’s problems!)

**Above all, it’s a negotiating forum...** Essentially, the WTO is a place where member governments go, to try to sort out the trade problems they face with each other. The first step is to talk. The WTO was born out of negotiations, and everything the WTO does is the result of negotiations. The bulk of the WTO’s current work comes from the 1986–94 negotiations called the Uruguay Round and earlier negotiations under the General Agreement on Tariffs and Trade (GATT). The WTO is currently the host to new negotiations, under the “Doha Development Agenda” launched in 2001.

Where countries have faced trade barriers and wanted them lowered, the negotiations have helped to liberalize trade. But the WTO is not just about liberalizing trade, and in some circumstances its rules support maintaining trade barriers — for example to protect consumers or prevent the spread of disease.

**It’s a set of rules...** At its heart are the WTO agreements, negotiated and signed by the bulk of the world’s trading nations. These documents provide the legal ground-rules for international commerce. They are essentially contracts, binding governments to keep their trade policies within agreed limits. Although negotiated and signed by governments, the goal is to help producers of goods and services, exporters, and importers conduct their business, while allowing governments to meet social and environmental objectives.
The system's overriding purpose is to help trade flow as freely as possible — so long as there are no undesirable side-effects. That partly means removing obstacles. It also means ensuring that individuals, companies and governments know what the trade rules are around the world, and giving them the confidence that there will be no sudden changes of policy. In other words, the rules have to be “transparent” and predictable. And it helps to settle disputes … This is a third important side to the WTO’s work. Trade relations often involve conflicting interests. Agreements, including those painstakingly negotiated in the WTO system, often need interpreting. The most harmonious way to settle these differences is through some neutral procedure based on an agreed legal foundation. That is the purpose behind the dispute settlement process written into the WTO agreements.

Born in 1995, but not so young

The WTO began life on 1 January 1995, but its trading system is half a century older. Since 1948, the General Agreement on Tariffs and Trade (GATT) had provided the rules for the system. (The second WTO ministerial meeting, held in Geneva in May 1998, included a celebration of the 50th anniversary of the system.) It did not take long for the General Agreement to give birth to an unofficial, de facto international organization, also known informally as GATT. Over the years GATT evolved through several rounds of negotiations. The last and largest GATT round, was the Uruguay Round which lasted from 1986 to 1994 and led to the WTO’s creation. Whereas GATT had mainly dealt with trade in goods, the WTO and its agreements now cover trade in services, and in traded inventions, creations and designs (intellectual property).

2. Principles of the trading system

The WTO agreements are lengthy and complex because they are legal texts covering a wide range of activities. They deal with: agriculture, textiles and clothing, banking, telecommunications, government purchases, industrial standards and product safety, food sanitation regulations, intellectual property, and much more. But a number of simple, fundamental principles run throughout all of these documents. These principles are the foundation of the multilateral trading system.

A closer look at these principles:

Trade without discrimination

1. Most-favoured-nation (MFN): treating other people equally Under the WTO agreements, countries cannot normally discriminate between their trading partners. Grant someone a special favour (such as a lower customs duty rate for one of their products) and you have to do the same for all other WTO members. This principle is known as most-favoured-nation (MFN) treatment (see box). It is so important that it is the first article of the General Agreement on Tariffs and Trade (GATT), which governs trade in goods. MFN is also a priority in the General Agreement on Trade in Services (GATS) (Article 2) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) (Article 4), although in each agreement the principle is handled slightly differently. Together, those three agreements cover all three main areas of trade handled by the WTO.
Some exceptions are allowed. For example, countries can set up a free trade agreement that applies only to goods traded within the group — discriminating against goods from outside. Or they can give developing countries special access to their markets. Or a country can raise barriers against products that are considered to be traded unfairly from specific countries. And in services, countries are allowed, in limited circumstances, to discriminate. But the agreements only permit these exceptions under strict conditions. In general, MFN means that every time a country lowers a trade barrier or opens up a market, it has to do so for the same goods or services from all its trading partners — whether rich or poor, weak or strong.

2. National treatment: Treating foreigners and locals equally

Imported and locally-produced goods should be treated equally — at least after the foreign goods have entered the market. The same should apply to foreign and domestic services, and to foreign and local trademarks, copyrights and patents. This principle of “national treatment” (giving others the same treatment as one’s own nationals) is also found in all the three main WTO agreements (Article 3 of GATT, Article 17 of GATS and Article 3 of TRIPS), although once again the principle is handled slightly differently in each of these.

National treatment only applies once a product, service or item of intellectual property has entered the market. Therefore, charging customs duty on an import is not a violation of national treatment even if locally-produced products are not charged an equivalent tax.

Freer trade: gradually, through negotiation

Lowering trade barriers is one of the most obvious means of encouraging trade. The barriers concerned include customs duties (or tariffs) and measures such as import bans or quotas that restrict quantities selectively. From time to time other issues such as red tape and exchange rate policies have also been discussed.

Since GATT’s creation in 1947–48 there have been eight rounds of trade negotiations. A ninth round, under the Doha Development Agenda, is now underway. At first these focused on lowering tariffs (customs duties) on imported goods. As a result of the negotiations, by the mid-1990s industrial countries’ tariff rates on industrial goods had fallen steadily to less than 4%.

But by the 1980s, the negotiations had expanded to cover non-tariff barriers on goods, and to the new areas such as services and intellectual property.

Opening markets can be beneficial, but it also requires adjustment. The WTO agreements allow countries to introduce changes gradually, through “progressive liberalization”. Developing countries are usually given longer to fulfil their obligations.

Predictability: through binding and transparency

Sometimes, promising not to raise a trade barrier can be as important as lowering one, because the promise gives businesses a clearer view of their future opportunities. With stability and predictability, investment is encouraged, jobs are created and consumers can fully enjoy the benefits of competition — choice and lower prices. The multilateral trading system is an attempt by governments to make the business environment stable and predictable.
In the WTO, when countries agree to open their markets for goods or services, they “bind” their commitments. For goods, these bindings amount to ceilings on customs tariff rates. Sometimes countries tax imports at rates that are lower than the bound rates. Frequently this is the case in developing countries. In developed countries the rates actually charged and the bound rates tend to be the same.

A country can change its bindings, but only after negotiating with its trading partners, which could mean compensating them for loss of trade. One of the achievements of the Uruguay Round of multilateral trade talks was to increase the amount of trade under binding commitments (see table). In agriculture, 100% of products now have bound tariffs. The result of all this: a substantially higher degree of market security for traders and investors.

The system tries to improve predictability and stability in other ways as well. One way is to discourage the use of quotas and other measures used to set limits on quantities of imports — administering quotas can lead to more red-tape and accusations of unfair play. Another is to make countries’ trade rules as clear and public (“transparent”) as possible. Many WTO agreements require governments to disclose their policies and practices publicly within the country or by notifying the WTO. The regular surveillance of national trade policies through the Trade Policy Review Mechanism provides a further means of encouraging transparency both domestically and at the multilateral level.

Promoting fair competition

The WTO is sometimes described as a “free trade” institution, but that is not entirely accurate. The system does allow tariffs and, in limited circumstances, other forms of protection. More accurately, it is a system of rules dedicated to open, fair and undistorted competition.

The rules on non-discrimination — MFN and national treatment — are designed to secure fair conditions of trade. So too are those on dumping (exporting at below cost to gain market share) and subsidies. The issues are complex, and the rules try to establish what is fair or unfair, and how governments can respond, in particular by charging additional import duties calculated to compensate for damage caused by unfair trade.

Many of the other WTO agreements aim to support fair competition: in agriculture, intellectual property, services, for example. The agreement on government procurement (a “plurilateral” agreement because it is signed by only a few WTO members) extends competition rules to purchases by thousands of government entities in many countries. And so on.

Encouraging development and economic reform

The WTO system contributes to development. On the other hand, developing countries need flexibility in the time they take to implement the system’s agreements. And the agreements themselves inherit the earlier provisions of GATT that allow for special assistance and trade concessions for developing countries.

Over three quarters of WTO members are developing countries and countries in transition to market economies. During the seven and a half years of the Uruguay Round, over 60 of these countries implemented trade liberalization programmes autonomously. At the same time, developing countries and transition economies were much more active and influential in the Uruguay Round negotiations than in any previous round, and they are even more so in the current Doha Development Agenda.
At the end of the Uruguay Round, developing countries were prepared to take on most of the obligations that are required of developed countries. But the agreements did give them transition periods to adjust to the more unfamiliar and, perhaps, difficult WTO provisions — particularly so for the poorest, “least-developed” countries. A ministerial decision adopted at the end of the round says better-off countries should accelerate implementing market access commitments on goods exported by the least-developed countries, and it seeks increased technical assistance for them. More recently, developed countries have started to allow duty-free and quota-free imports for almost all products from least-developed countries. On all of this, the WTO and its members are still going through a learning process. The current Doha Development Agenda includes developing countries’ concerns about the difficulties they face in implementing the Uruguay Round agreements.

3. The case for open trade

The economic case for an open trading system based on multilaterally agreed rules is simple enough and rests largely on commercial common sense. But it is also supported by evidence: the experience of world trade and economic growth since the Second World War. Tariffs on industrial products have fallen steeply and now average less than 5% in industrial countries. During the first 25 years after the war, world economic growth averaged about 5% per year, a high rate that was partly the result of lower trade barriers. World trade grew even faster, averaging about 8% during the period.

The data show a definite statistical link between freer trade and economic growth. Economic theory points to strong reasons for the link. All countries, including the poorest, have assets — human, industrial, natural, financial — which they can employ to produce goods and services for their domestic markets or to compete overseas. Economics tells us that we can benefit when these goods and services are traded. Simply put, the principle of “comparative advantage” says that countries prosper first by taking advantage of their assets in order to concentrate on what they can produce best, and then by trading these products for products that other countries produce best.

In other words, liberal trade policies — policies that allow the unrestricted flow of goods and services — sharpen competition, motivate innovation and breed success. They multiply the rewards that result from producing the best products, with the best design, at the best price.

But success in trade is not static. The ability to compete well in particular products can shift from company to company when the market changes or new technologies make cheaper and better products possible. Producers are encouraged to adapt gradually and in a relatively painless way. They can focus on new products, find a new “niche” in their current area or expand into new areas.

Experience shows that competitiveness can also shift between whole countries. A country that may have enjoyed an advantage because of lower labour costs or because it had good supplies of some natural resources, could also become uncompetitive in some goods or services as its economy develops. However, with the stimulus of an open economy, the country can move on to become competitive in some other goods or services. This is normally a gradual process.

TRUE AND NON-TRIVIAL?

Nobel laureate Paul Samuelson was once challenged by the mathematician Stanislaw Ulam to “name me one proposition in all of the social sciences which is both true and non-trivial.”

It took Samuelson several years to find the answer — comparative advantage. “That it is logically true need not be argued before a mathematician; that it is not trivial is attested by the thousands of important and intelligent men who have never been able to grasp the doctrine for themselves or to believe it after it was explained to them.”
Nevertheless, the temptation to ward off the challenge of competitive imports is always present. And richer governments are more likely to yield to the siren call of protectionism, for short term political gain — through subsidies, complicated red tape, and hiding behind legitimate policy objectives such as environmental preservation or consumer protection as an excuse to protect producers.

Protection ultimately leads to bloated, inefficient producers supplying consumers with outdated, unattractive products. In the end, factories close and jobs are lost despite the protection and subsidies. If other governments around the world pursue the same policies, markets contract and world economic activity is reduced. One of the objectives that governments bring to WTO negotiations is to prevent such a self-defeating and destructive drift into protectionism.

**Comparative advantage**

This is arguably the single most powerful insight into economics.

Suppose country A is better than country B at making automobiles, and country B is better than country A at making bread. It is obvious (the academics would say “trivial”) that both would benefit if A specialized in automobiles, B specialized in bread and they traded their products. That is a case of **absolute advantage**.

But what if a country is bad at making everything? Will trade drive all producers out of business? The answer, according to Ricardo, is no. The reason is the principle of **comparative advantage**.

It says, countries A and B still stand to benefit from trading with each other even if A is better than B at making everything. If A is much more superior at making automobiles and only slightly superior at making bread, then A should still invest resources in what it does best — producing automobiles — and export the product to B. B should still invest in what it does best — making bread — and export that product to A, even if it is not as efficient as A. Both would still benefit from the trade. A country does not have to be best at anything to gain from trade. That is comparative advantage.

The theory dates back to classical economist David Ricardo. It is one of the most widely accepted among economists. It is also one of the most misunderstood among non-economists because it is confused with absolute advantage.

It is often claimed, for example, that some countries have no comparative advantage in anything. That is virtually impossible.

Think about it ...

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The WTO’s creation on 1 January 1995 marked the biggest reform of international trade since after the Second World War. It also brought to reality — in an updated form — the failed attempt in 1948 to create an International Trade Organization.

Much of the history of those 47 years was written in Geneva. But it also traces a journey that spanned the continents, from that hesitant start in 1948 in Havana (Cuba), via Annecy (France), Torquay (UK), Tokyo (Japan), Punta del Este (Uruguay), Montreal (Canada), Brussels (Belgium) and finally to Marrakesh (Morocco) in 1994. During that period, the trading system came under GATT, salvaged from the aborted attempt to create the ITO. GATT helped establish a strong and prosperous multilateral trading system that became more and more liberal through rounds of trade negotiations. But by the 1980s the system needed a thorough overhaul. This led to the Uruguay Round, and ultimately to the WTO.

GATT: ‘provisional’ for almost half a century

From 1948 to 1994, the General Agreement on Tariffs and Trade (GATT) provided the rules for much of world trade and presided over periods that saw some of the highest growth rates in international commerce. It seemed well-established, but throughout those 47 years, it was a provisional agreement and organization.

The original intention was to create a third institution to handle the trade side of international economic cooperation, joining the two “Bretton Woods” institutions, the World Bank and the International Monetary Fund. Over 50 countries participated in negotiations to create an International Trade Organization (ITO) as a specialized agency of the United Nations. The draft ITO Charter was ambitious. It extended beyond world trade disciplines, to include rules on employment, commodity agreements, restrictive business practices, international investment, and services.

Even before the talks concluded, 23 of the 50 participants decided in 1946 to negotiate to reduce and bind customs tariffs. With the Second World War only recently ended, they wanted to give an early boost to trade liberalization, and to begin to correct the legacy of protectionist measures which remained in place from the early 1930s.

This first round of negotiations resulted in 45,000 tariff concessions affecting $10 billion of trade, about one fifth of the world’s total. The 23 also agreed that they should accept some of the trade rules of the draft ITO Charter. This, they believed, should be done swiftly and “provisionally” in order to protect the value of the tariff concessions they had negotiated. The combined package of trade rules and tariff concessions became known as the General Agreement on Tariffs and Trade. It entered into force in January 1948, while the ITO Charter was still being negotiated. The 23 became founding GATT members (officially, “contracting parties”).

Although the ITO Charter was finally agreed at a UN Conference on Trade and Employment in Havana in March 1948, ratification in some national legislatures proved impossible. The most serious opposition was in the US Congress, even though the US government had been one of the driving forces. In 1950, the United States government announced that it would not seek Congressional ratification of the Havana Charter, and the ITO was effectively dead. Even though it was provisional, the GATT remained the only multilateral instrument governing international trade from 1948 until the WTO was established in 1995.
For almost half a century, the GATT’s basic legal principles remained much as they were in 1948. There were additions in the form of a section on development added in the 1960s and “plurilateral” agreements (i.e. with voluntary membership) in the 1970s, and efforts to reduce tariffs further continued. Much of this was achieved through a series of multilateral negotiations known as “trade rounds” — the biggest leaps forward in international trade liberalization have come through these rounds which were held under GATT’s auspices.

In the early years, the GATT trade rounds concentrated on further reducing tariffs. Then, the Kennedy Round in the mid-sixties brought about a GATT Anti-Dumping Agreement and a section on development. The Tokyo Round during the seventies was the first major attempt to tackle trade barriers that do not take the form of tariffs, and to improve the system. The eighth, the Uruguay Round of 1986–94, was the last and most extensive of all. It led to the WTO and a new set of agreements.

### The GATT trade rounds

<table>
<thead>
<tr>
<th>Year</th>
<th>Place/ name</th>
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</tr>
</thead>
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<tr>
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<td>Tariffs</td>
<td>23</td>
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<tr>
<td>1949</td>
<td>Annecy</td>
<td>Tariffs</td>
<td>13</td>
</tr>
<tr>
<td>1951</td>
<td>Torquay</td>
<td>Tariffs</td>
<td>38</td>
</tr>
<tr>
<td>1956</td>
<td>Geneva</td>
<td>Tariffs</td>
<td>26</td>
</tr>
<tr>
<td>1960–1961</td>
<td>Geneva (Dillon Round)</td>
<td>Tariffs</td>
<td>26</td>
</tr>
<tr>
<td>1964–1967</td>
<td>Geneva (Kennedy Round)</td>
<td>Tariffs and anti-dumping measures</td>
<td>62</td>
</tr>
<tr>
<td>1973–1979</td>
<td>Geneva (Tokyo Round)</td>
<td>Tariffs, non-tariff measures, “framework” agreements</td>
<td>102</td>
</tr>
<tr>
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<td>Geneva (Uruguay Round)</td>
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<td>123</td>
</tr>
</tbody>
</table>

### The Tokyo Round: a first try to reform the system

The Tokyo Round lasted from 1973 to 1979, with 102 countries participating. It continued GATT’s efforts to progressively reduce tariffs. The results included an average one-third cut in customs duties in the world’s nine major industrial markets, bringing the average tariff on industrial products down to 4.7%. The tariff reductions, phased in over a period of eight years, involved an element of “harmonization” — the higher the tariff, the larger the cut, proportionally.

In other issues, the Tokyo Round had mixed results. It failed to come to grips with the fundamental problems affecting farm trade and also stopped short of providing a modified agreement on “safeguards” (emergency import measures). Nevertheless, a series of agreements on non-tariff barriers did emerge from the negotiations, in some cases interpreting existing GATT rules, in others breaking entirely new ground. In most cases, only a relatively small number of (mainly industrialized) GATT members subscribed to these agreements and arrangements. Because they were not accepted by the full GATT membership, they were often informally called “codes”.

They were not multilateral, but they were a beginning. Several codes were eventually amended in the Uruguay Round and turned into multilateral commitments accepted by all WTO members. Only four remained “plurilateral” — those on government procurement, bovine meat, civil aircraft and dairy products. In 1997 WTO members agreed to terminate the bovine meat and dairy agreements, leaving only two.
Did GATT succeed?
GATT was provisional with a limited field of action, but its success over 47 years in promoting and securing the liberalization of much of world trade is incontestable. Continual reductions in tariffs alone helped spur very high rates of world trade growth during the 1950s and 1960s — around 8% a year on average. And the momentum of trade liberalization helped ensure that trade growth consistently out-paced production growth throughout the GATT era, a measure of countries’ increasing ability to trade with each other and to reap the benefits of trade. The rush of new members during the Uruguay Round demonstrated that the multilateral trading system was recognized as an anchor for development and an instrument of economic and trade reform.

But all was not well. As time passed new problems arose. The Tokyo Round in the 1970s was an attempt to tackle some of these but its achievements were limited. This was a sign of difficult times to come.

GATT’s success in reducing tariffs to such a low level, combined with a series of economic recessions in the 1970s and early 1980s, drove governments to devise other forms of protection for sectors facing increased foreign competition. High rates of unemployment and constant factory closures led governments in Western Europe and North America to seek bilateral market-sharing arrangements with competitors and to embark on a subsidies race to maintain their holds on agricultural trade. Both these changes undermined GATT’s credibility and effectiveness.

The problem was not just a deteriorating trade policy environment. By the early 1980s the General Agreement was clearly no longer as relevant to the realities of world trade as it had been in the 1940s. For a start, world trade had become far more complex and important than 40 years before: the globalization of the world economy was underway, trade in services — not covered by GATT rules — was of major interest to more and more countries, and international investment had expanded. The expansion of services trade was also closely tied to further increases in world merchandise trade. In other respects, GATT had been found wanting. For instance, in agriculture, loopholes in the multilateral system were heavily exploited, and efforts at liberalizing agricultural trade met with little success. In the textiles and clothing sector, an exception to GATT’s normal disciplines was negotiated in the 1960s and early 1970s, leading to the Multifibre Arrangement. Even GATT’s institutional structure and its dispute settlement system were causing concern.

These and other factors convinced GATT members that a new effort to reinforce and extend the multilateral system should be attempted. That effort resulted in the Uruguay Round, the Marrakesh Declaration, and the creation of the WTO.

Trade rounds: progress by package
They are often lengthy — the Uruguay Round took seven and a half years — but trade rounds can have an advantage. They offer a package approach to trade negotiations that can sometimes be more fruitful than negotiations on a single issue.

- The size of the package can mean more benefits because participants can seek and secure advantages across a wide range of issues.
- Agreement can be easier to reach, through trade-offs — somewhere in the package there should be something for everyone.

This has political as well as economic implications. A government may want to make a concession, perhaps in one sector, because of the economic benefits. But politically, it could find the concession difficult to defend. A package would contain politically and economically attractive benefits in other sectors that could be used as compensation.

So, reform in politically-sensitive sectors of world trade can be more feasible as part of a global package — a good example is the agreement to reform agricultural trade in the Uruguay Round.

- Developing countries and other less powerful participants have a greater chance of influencing the multilateral system in a trade round than in bilateral relationships with major trading nations.

But the size of a trade round can be both a strength and a weakness. From time to time, the question is asked: wouldn’t it be simpler to concentrate negotiations on a single sector? Recent history is inconclusive. At some stages, the Uruguay Round seemed so cumbersome that it seemed impossible that all participants could agree on every subject. Then the round did end successfully in 1993–94. This was followed by two years of failure to reach agreement in the single-sector talks on maritime transport.

Did this mean that trade rounds were the only route to success? No. In 1997, single-sector talks were concluded successfully in basic telecommunications, information technology equipment and financial services.

The debate continues. Whatever the answer, the reasons are not straightforward. Perhaps success depends on using the right type of negotiation for the particular time and context.
5. The Uruguay Round

It took seven and a half years, almost twice the original schedule. By the end, 123 countries were taking part. It covered almost all trade, from toothbrushes to pleasure boats, from banking to telecommunications, from the genes of wild rice to AIDS treatments. It was quite simply the largest trade negotiation ever, and most probably the largest negotiation of any kind in history.

At times it seemed doomed to fail. But in the end, the Uruguay Round brought about the biggest reform of the world’s trading system since GATT was created at the end of the Second World War. And yet, despite its troubled progress, the Uruguay Round did see some early results. Within only two years, participants had agreed on a package of cuts in import duties on tropical products — which are mainly exported by developing countries. They had also revised the rules for settling disputes, with some measures implemented on the spot. And they called for regular reports on GATT members’ trade policies, a move considered important for making trade regimes transparent around the world.

A round to end all rounds?

The seeds of the Uruguay Round were sown in November 1982 at a ministerial meeting of GATT members in Geneva. Although the ministers intended to launch a major new negotiation, the conference stalled on agriculture and was widely regarded as a failure. In fact, the work programme that the ministers agreed formed the basis for what was to become the Uruguay Round negotiating agenda.

Nevertheless, it took four more years of exploring, clarifying issues and painstaking consensus-building, before ministers agreed to launch the new round. They did so in September 1986, in Punta del Este, Uruguay. They eventually accepted a negotiating agenda that covered virtually every outstanding trade policy issue. The talks were going to extend the trading system into several new areas, notably trade in services and intellectual property, and to reform trade in the sensitive sectors of agriculture and textiles. All the original GATT articles were up for review. It was the biggest negotiating mandate on trade ever agreed, and the ministers gave themselves four years to complete it.

Two years later, in December 1988, ministers met again in Montreal, Canada, for what was supposed to be an assessment of progress at the round’s half-way point. The purpose was to clarify the agenda for the remaining two years, but the talks ended in a deadlock that was not resolved until officials met more quietly in Geneva the following April.

Despite the difficulty, during the Montreal meeting, ministers did agree a package of early results. These included some concessions on market access for tropical products — aimed at assisting developing countries — as well as a streamlined dispute settlement system, and the Trade Policy Review Mechanism which provided for the first comprehensive, systematic and regular reviews of national trade policies and practices of GATT members. The round was supposed to end when ministers met once more in Brussels, in December 1990. But they disagreed on how to reform agricultural trade and decided to extend the talks. The Uruguay Round entered its bleakest period.
Despite the poor political outlook, a considerable amount of technical work continued, leading to the first draft of a final legal agreement. This draft “Final Act” was compiled by the then GATT director-general, Arthur Dunkel, who chaired the negotiations at officials’ level. It was put on the table in Geneva in December 1991. The text fulfilled every part of the Punta del Este mandate, with one exception — it did not contain the participating countries’ lists of commitments for cutting import duties and opening their services markets. The draft became the basis for the final agreement.

Over the following two years, the negotiations lurched between impending failure, to predictions of imminent success. Several deadlines came and went. New points of major conflict emerged to join agriculture: services, market access, anti-dumping rules, and the proposed creation of a new institution. Differences between the United States and European Union became central to hopes for a final, successful conclusion.

In November 1992, the US and EU settled most of their differences on agriculture in a deal known informally as the “Blair House accord”. By July 1993 the “Quad” (US, EU, Japan and Canada) announced significant progress in negotiations on tariffs and related subjects (“market access”). It took until 15 December 1993 for every issue to be finally resolved and for negotiations on market access for goods and services to be concluded (although some final touches were completed in talks on market access a few weeks later). On 15 April 1994, the deal was signed by ministers from most of the 123 participating governments at a meeting in Marrakesh, Morocco.

The delay had some merits. It allowed some negotiations to progress further than would have been possible in 1990: for example some aspects of services and intellectual property, and the creation of the WTO itself. But the task had been immense, and negotiation-fatigue was felt in trade bureaucracies around the world. The difficulty of reaching agreement on a complete package containing almost the entire range of current trade issues led some to conclude that a negotiation on this scale would never again be possible. Yet, the Uruguay Round agreements contain timetables for new negotiations on a number of topics. And by 1996, some countries were openly calling for a new round early in the next century. The response was mixed; but the Marrakesh agreement did already include commitments to reopen negotiations on agriculture and services at the turn of the century. These began in early 2000 and were incorporated into the Doha Development Agenda in late 2001.

**What happened to GATT?**

The WTO replaced GATT as an international organization, but the General Agreement still exists as the WTO’s umbrella treaty for trade in goods, updated as a result of the Uruguay Round negotiations. Trade lawyers distinguish between GATT 1994, the updated parts of GATT, and GATT 1947, the original agreement which is still the heart of GATT 1994. Confusing? For most of us, it’s enough to refer simply to “GATT”.

The post-Uruguay Round built-in agenda

Many of the Uruguay Round agreements set timetables for future work. Part of this “built-in agenda” started almost immediately. In some areas, it included new or further negotiations. In other areas, it included assessments or reviews of the situation at specified times. Some negotiations were quickly completed, notably in basic telecommunications, financial services. (Member governments also swiftly agreed a deal for freer trade in information technology products, an issue outside the “built-in agenda”.)

The agenda originally built into the Uruguay Round agreements has seen additions and modifications. A number of items are now part of the Doha Agenda, some of them updated.

There were well over 30 items in the original built-in agenda. This is a selection of highlights:

1996
• Maritime services: market access negotiations to end (30 June 1996, suspended to 2000, now part of Doha Development Agenda)
• Services and environment: deadline for working party report (ministerial conference, December 1996)
• Government procurement of services: negotiations start

1997
• Basic telecoms: negotiations end (15 February)
• Financial services: negotiations end (30 December)
• Intellectual property, creating a multilateral system of notification and registration of geographical indications for wines: negotiations start, now part of Doha Development Agenda
1998
• Textiles and clothing: new phase begins 1 January
• Services (emergency safeguards): results of negotiations on emergency safeguards to take effect (by 1 January 1998, deadline now March 2004)
• Rules of origin: Work programme on harmonization of rules of origin to be completed (20 July 1998)
• Government procurement: further negotiations start, for improving rules and procedures (by end of 1998)
• Dispute settlement: full review of rules and procedures (to start by end of 1998)

1999
• Intellectual property: certain exceptions to patentability and protection of plant varieties: review starts

2000
• Agriculture: negotiations start, now part of Doha Development Agenda
• Services: new round of negotiations start, now part of Doha Development Agenda
• Tariff bindings: review of definition of “principle supplier” having negotiating rights under GATT Art 28 on modifying bindings
• Intellectual property: first of two-yearly reviews of the implementation of the agreement

2002
• Textiles and clothing: new phase begins 1 January

2005
• Textiles and clothing: full integration into GATT and agreement expires 1 January
10 common misunderstandings about the WTO

Is it a dictatorial tool of the rich and powerful? Does it destroy jobs? Does it ignore the concerns of health, the environment and development? Emphatically no.

Criticisms of the WTO are often based on fundamental misunderstandings of the way the WTO works.

The debate will probably never end. People have different views of the pros and cons of the WTO’s “multilateral” trading system. Indeed, one of the most important reasons for having the system is to serve as a forum for countries to thrash out their differences on trade issues. Individuals can participate, not directly, but through their governments.

However, it is important for the debate to be based on a proper understanding of how the system works. This booklet attempts to clear up 10 common misunderstandings.

The 10 misunderstandings

1. The WTO dictates policy
2. The WTO is for free trade at any cost
3. Commercial interests take priority over development …
4. … and over the environment
5. … and over health and safety
6. The WTO destroys jobs, worsens poverty
7. Small countries are powerless in the WTO
8. The WTO is the tool of powerful lobbies
9. Weaker countries are forced to join the WTO
10. The WTO is undemocratic

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8. The WTO is the tool of powerful lobbies
9. Weaker countries are forced to join the WTO
10. The WTO is undemocratic
The WTO does not tell governments how to conduct their trade policies. Rather, it’s a “member-driven” organization.

That means:
• the rules of the WTO system are agreements resulting from negotiations among member governments,
• the rules are ratified by members’ parliaments, and
• decisions taken in the WTO are virtually all made by consensus among all members.

In other words, decisions taken in the WTO are negotiated, accountable and democratic.

The only occasion when a WTO body can have a direct impact on a government’s policies is when a dispute is brought to the WTO and if that leads to a ruling by the Dispute Settlement Body (which consists of all members). Normally the Dispute Settlement Body makes a ruling by adopting the findings of a panel of experts or an appeal report.

Even then, the scope of the ruling is narrow: it is simply a judgement or interpretation of whether a government has broken one of the WTO’s agreements—agreements that the infringing government had itself accepted. If a government has broken a commitment it has to conform.

In all other respects, the WTO does not dictate to governments to adopt or drop certain policies.

As for the WTO Secretariat, it simply provides administrative and technical support for the WTO and its members.

In fact: it’s the governments who dictate to the WTO.

It’s really a question of what countries are willing to bargain with each other, of give and take, request and offer.

Yes, one of the principles of the WTO system is for countries to lower their trade barriers and to allow trade to flow more freely. After all, countries benefit from the increased trade that results from lower trade barriers.

But just how low those barriers should go is something member countries bargain with each other. Their negotiating positions depend on how ready they feel they are to lower the barriers, and on what they want to obtain from other members in return.

The WTO’s role is to provide the forum for negotiating liberalization. It also provides the rules for how liberalization can take place.

The rules written into the agreements allow barriers to be lowered gradually so that domestic producers can adjust.

They have special provisions that take into account the situations that developing countries face. They also spell out when and how governments can protect their domestic producers, for example from imports that are considered to have unfairly low prices because of subsidies or “dumping”.

Here, the objective is fair trade.

Just as important as fair trade—perhaps more important—are other principles of the WTO system. For example: non-discrimination, and making sure the conditions for trade are stable, predictable and transparent.

The WTO is NOT for free trade at any cost

It all depends on what countries want to bargain
The WTO is NOT only concerned about commercial interests. This does NOT take priority over development.

The WTO agreements are full of provisions taking the interests of development into account. Underlying the WTO’s trading system is the fact that freer trade boosts economic growth and supports development. In that sense, commerce and development are good for each other. At the same time, whether or not developing countries gain enough from the system is a subject of continuing debate in the WTO. But that does not mean to say the system offers nothing for these countries. Far from it. The agreements include many important provisions that specifically take developing countries’ interests into account. Developing countries are allowed more time to apply numerous provisions of the WTO agreements. Least-developed countries receive special treatment, including exemption from many provisions. The needs of development can also be used to justify actions that might not normally be allowed under the agreements, for example governments giving certain subsidies. The negotiations and other work launched at the Doha Ministerial Conference in November 2001 include numerous issues that developing countries want to pursue.

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Many provisions take environmental concerns specifically into account.

The preamble of the Marrakesh Agreement Establishing the World Trade Organization includes among its objectives, optimal use of the world’s resources, sustainable development and environmental protection. This is backed up in concrete terms by a range of provisions in the WTO’s rules. Among the most important are umbrella clauses (such as Article 20 of the General Agreement on Tariffs and Trade) which allow countries to take actions to protect human, animal or plant life or health, and to conserve exhaustible natural resources. Beyond the broad principles, specific agreements on specific subjects also take environmental concerns into account. Subsidies are permitted for environmental protection. Environmental objectives are recognized specifically in the WTO agreements dealing with product standards, food safety, intellectual property protection, etc. In addition, the system and its rules can help countries allocate scarce resources more efficiently and less wastefully. For example, negotiations have led to reductions in industrial and agricultural subsidies, which in turn reduce wasteful over-production. A WTO ruling on a dispute about shrimp imports and the protection of sea turtles has reinforced these principles. WTO members can, should and do take measures to protect endangered species and to protect the environment in other ways, the report says. Another ruling upheld a ban on asbestos products on the grounds that WTO agreements give priority to health and safety over trade. What’s important in the WTO’s rules is that measures taken to protect the environment must not be unfair. For example, they must not discriminate. You cannot be lenient with your own producers and at the same time be strict with foreign goods and services. Nor can you discriminate between different trading partners. This point was also reinforced in the recent dispute ruling on shrimps and turtles, and an earlier one on gasoline.

Also important is the fact that it’s not the WTO’s job to set the international rules for environmental protection. That’s the task of the environmental agencies and conventions. An overlap does exist between environmental agreements and the WTO—on trade actions (such as sanctions or other import restrictions) taken to enforce an agreement. So far there has been no conflict between the WTO’s agreements and the international environmental agreements.
The WTO does NOT dictate to governments on issues such as food safety, and human health and safety. Again commercial interests do NOT override.

The agreements were negotiated by WTO member governments, and therefore the agreements reflect their concerns. Key clauses in the agreements (such as GATT Art. 20) specifically allow governments to take actions to protect human, animal or plant life or health. But these actions are disciplined, for example to prevent them being used as an excuse for protecting domestic producers—protectionism in disguise.

Some of the agreements deal in greater detail with product standards, and with health and safety for food and other products made from animals and plants. The purpose is to defend governments’ rights to ensure the safety of their citizens.

As an example, a WTO dispute ruling justifies a ban on asbestos products on the grounds that WTO agreements do give priority to health and safety.

The relationship between trade and employment is complex. So is the relationship between trade and equality.

Freer-flowing and more stable trade boosts economic growth. It has the potential to create jobs, it can help to reduce poverty, and frequently it does both.

The biggest beneficiary is the country that lowers its own trade barriers. The countries exporting to it also gain, but less. In many cases, workers in export sectors enjoy higher pay and greater job security.

However, producers and their workers who were previously protected clearly face new competition when trade barriers are lowered. Some survive by becoming more competitive. Others don’t. Some adapt quickly (for example by finding new employment), others take longer.

The WTO does NOT destroy jobs or widen the gap between rich and poor.

The accusation is inaccurate and simplistic. Trade can be a powerful force for creating jobs and reducing poverty. Often it does just that. Sometimes adjustments are necessary to deal with job losses, and here the picture is complicated. In any case, the alternative of protectionism is not the solution. Take a closer look at the details.

In particular, some countries are better at making the adjustments than others. This is partly because they have more effective adjustment policies. Those without effective policies are missing an opportunity because the boost that trade gives to the economy creates the resources that help adjustments to be made more easily.

The WTO tackles these problems in a number of ways. In the WTO, liberalization is gradual, allowing countries time to make the necessary adjustments. Provisions in the agreements also allow countries to take contingency actions against imports that are particularly damaging, but under strict disciplines.

At the same time, liberalization under the WTO is the result of negotiations. When countries feel the necessary adjustments cannot be made, they can and do resist demands to open the relevant sections of their markets.

There are also many other factors outside the WTO’s responsibility that are behind recent changes in wage levels.

Why for example is there a widening gap in developed countries between the pay of skilled and unskilled workers? According to the OECD, imports from low-wage countries account for only 10–20% of wage changes in developed countries. Much of the rest is attributable to “skill-based technological change”. In other words, developed economies are naturally adopting more technologies that require labour with higher levels of skill.

The alternative to trade—protection—is expensive because it raises costs and encourages inefficiency. According to another OECD calculation, imposing a 30% duty on imports from developing countries would actually reduce US unskilled wages by 1% and skilled wages by 5%. Part of the damage that can be caused by protectionism is lower wages in the protectionist country.

At the same time, the focus on goods imports distorts the picture. In developed countries, 70% of economic activity is in services, where the effect of foreign competition on jobs is different—if a foreign telecommunications company sets up business in a country it may employ local people, for example.

Finally, while about 1.15 billion people are still in poverty, research, such as by the World Bank, has shown that trade liberalization since World War II has contributed to lifting billions of people out of poverty. The research has also shown that it is untrue to say that liberalization has increased inequality.
Small countries would be weaker without the WTO. The WTO increases their bargaining power.

In recent years, developing countries have become considerably more active in WTO negotiations, submitting an unprecedented number of proposals in the agriculture talks, and working actively on the ministerial declarations and decisions issued in Doha, Qatar, in November 2001. They expressed satisfaction with the process leading to the Doha declarations. All of this bears testimony to their confidence in the system.

At the same time, the rules are the result of multilateral negotiations (i.e. negotiations involving all members of GATT, the WTO’s predecessor). The most recent negotiation, the Uruguay Round (1986–94), was only possible because developed countries agreed to reform trade in textiles and agriculture—both issues were important for developing countries.

As a result, in the WTO’s dispute settlement procedure, developing countries have successfully challenged some actions taken by developed countries. Without the WTO, these smaller countries would have been powerless to act against their more powerful trading partners.

In short, in the WTO trading system, everyone has to follow the same rules. As a result, in the WTO’s dispute settlement procedure, developing countries have successfully challenged some actions taken by developed countries. Without the WTO, these smaller countries would have been powerless to act against their more powerful trading partners.

The WTO system offers governments a means to reduce the influence of narrow vested interests.

This is a natural result of the “rounds” type of negotiation (i.e. negotiations that encompass a broad range of sectors).

The outcome of a trade round has to be a balance of interests.

• A related misunderstanding is about the WTO’s membership. The WTO is an organization of governments.

The private sector, non-governmental organizations and other lobbying groups do not participate in WTO activities except in special events such as seminars and symposiums.

They can only exert their influence on WTO decisions through their governments.

Most countries do feel that it’s better to be in the WTO system than to be outside it. That’s why the list of countries negotiating membership includes both large and small trading nations.

The reasons are positive rather than negative. They lie in the WTO’s key principles, such as non-discrimination and transparency. By joining the WTO, even a small country automatically enjoys the benefits that all WTO members grant to each other. And small countries have won dispute cases against rich countries – they would not have been able to do so outside the WTO.

The alternative would be to negotiate bilateral trade agreements with each trading partner. That could even include regularly negotiating the regular renewal of commitments to treat trading partners as equals.

For this, governments would need more resources, a serious problem for small countries. And in bilateral negotiations smaller countries are weaker.

By joining the WTO, small countries can also increase their bargaining power by forming alliances with other countries that have common interests.
Decisions in the WTO are generally by consensus. In principle, that’s even more democratic than majority rule because no decision is taken until everyone agrees.

It would be wrong to suggest that every country has the same bargaining power. Nevertheless, the consensus rule means every country has a voice, and every country has to be convinced before it joins a consensus. Quite often reluctant countries are persuaded by being offered something in return.

Consensus also means every country accepts the decisions. There are no dissenters.

What is more, the WTO’s trade rules, resulting from the Uruguay Round trade talks, were negotiated by member governments and ratified in members’ parliaments.

Decisions are by consensus.
Agreements are ratified in parliaments.

The WTO is NOT undemocratic