

# World Trade Organisation

## History

At the United Nations conference held at Geneva in 1947, twenty three countries including United States of America signed **General Agreement on Tariffs and Trade (GATT)**. During the same year, a charter was put on the table for setting up, within the United Nations Organisation, of a new agency to be called **International Trade Organisation (ITO)**. Fifty nations signed the charter in Havana the following year, but it was never subsequently ratified by the required number of countries. The purpose of the agreement was to promote international trade free of barriers in the aftermath of World War II, and to draw up proposals for the implementation of policies based on those principles set in the agreement. It covered all the issues like tariffs, quotas, taxes, international commodity agreements and whatever was considered to have a bearing on the development of international trade, and was based on policies of non-discrimination and tariff reductions.

GATT has been expanded and updated through a series of multi-year conferences. The most famous have been the Kennedy Round (1963-1967), the Tokyo Round (1973-1979), and the Uruguay Round (1986-1994). The Uruguay Round ended with the decision to dissolve GATT and establish the more powerful and more institutionalised **World Trade Organization (WTO)** in 1995. The WTO replaced GATT as an international organization, but the General Agreement still exists as the WTO's umbrella treaty for trade in goods. Trade lawyers distinguish between the GATT 1994, the updated agreement, and the GATT 1947, the original agreement which is still the heart of GATT 1994.

## Introduction

The WTO has nearly 150 members, accounting for over 97% of world trade. Around 30 others are negotiating membership. By definition, 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. 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 is not a Superman, just in case anyone thought it could solve — or cause — all the world's problems!). The WTO is like a table. People sit round the table and negotiate, and resolve trade disputes.

Essentially, the WTO is a place where member governments try to sort out the trade problems they face with each other. Therefore, the first step is to talk. The WTO was born out of negotiations, and everything the WTO does is the result of negotiations. 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.

WTO also ensures that individuals, companies and governments know what the trade rules are around the world, and gives them the confidence that there will be no sudden changes of policy. In other words, the rules have to be “transparent” and predictable.

### **Principles / Characteristics of WTO Trading System**

The World Trade Organisation is based on the following core-principles or characteristics:

#### **1. Trade without discrimination:**

The main principle in the charter of the World Trade Organisation is to promote international trade without any discrimination. This principle is further elaborated into two – MFN and national treatment:

**(a) Most-favoured-nation (MFN) – treating other people equally:** Under the WTO agreements, countries cannot normally discriminate between their trading partners. If a member country grants a special favour (such as a lower customs duty) to another member country, she has to do the same for all other WTO members.

This principle is also known as most-favoured-nation (MFN) treatment. It is so important that it is the first article of the GATT, which governs trade in goods. MFN is also a priority in the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

However, 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. 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.

**(b) 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.

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.

#### **2. Freer trade:**

First of all it should be noted here that the WTO is not for free trade at any cost. It is all about lowering trade barriers between trading countries. 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.

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.

### **3. Predictability:**

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.

One way of making investment stable and predictable is to '*bind*' the member countries to their commitments. For example, ceilings on customs tariff rates, etc. However, a country can change its bindings, but only after negotiating and compensating its trading partners.

There are other ways as well to improve predictability and stability. One way is to discourage the use of quotas and other measures used to set limits on quantities of imports. Another way is to make countries' trade rules as clear and 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.

### **4. Promoting fair competition:**

WTO 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 these rules also apply on dumping and subsidies. Many of the other WTO agreements aim to support fair competition, for example, in agriculture, intellectual property, services, etc.

### **5. 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. Over 3/4<sup>th</sup> 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 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 for the poorest or ‘least-developed’ countries such as Bangladesh, Cambodia, Djibouti, Central African Republic, Guinea, Madagascar, Myanmar, Nepal, Uganda, etc. 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.

### **Benefits of World Trade Organisation**

The following common benefits of the WTO’s trading system doesn’t claim that everything is perfect, otherwise there would be no need for further negotiations and for the system to evolve and reform continually:

1. The system helps ***promote peace***. Peace is partly an outcome of two of the most fundamental principles of the trading system:
  - helping trade to flow smoothly, and
  - providing countries with a constructive and fair outlet for dealing with disputes over trade issues.

It is also an outcome of the international confidence and cooperation that the system creates and reinforces.

2. ***Disputes are handled constructively***. As trade expands in volume, in the number of products traded, and in the numbers of countries and companies trading, there is a greater chance that disputes will arise. The WTO system helps resolve these disputes peacefully and constructively.

Around 300 disputes have been brought to the WTO since it was set up in 1995. Without a means of tackling these constructively and harmoniously, some could have led to more serious political conflict.

3. A system makes ***life easier for all***. Decisions in the WTO are made by consensus. The WTO agreements were negotiated by all members, were approved by consensus and were ratified in all members’ parliaments. The agreements apply to everyone. This makes life easier for all, in several different ways. Smaller countries can enjoy some increased bargaining power. Without a multilateral regime such as the WTO’s system, the more powerful countries would be freer to impose their will unilaterally on their smaller trading partners. Smaller countries would have to deal with each of the major economic powers individually, and would be much less able to resist unwanted pressure.

In addition, smaller countries can perform more effectively if they make use of the opportunities to form alliances and to pool resources. Several are already doing this.

4. Freer trade *cuts the costs of living*. Protectionism is expensive as it raises prices through imposition of import duties and quotas. The WTO's global system lowers trade barriers through negotiation and applies the principle of non-discrimination. The result is reduced costs of production (because imports used in production are cheaper) and reduced prices of finished goods and services, and ultimately a lower cost of living.
5. It provides *more choice of products and qualities*. This expands the range of final products and services that are made by domestic producers, and it increases the range of technologies they can use. When mobile telephone equipment became available, services sprang up even in the countries that did not make the equipment. Sometimes, the success of an imported product or service on the domestic market can also encourage new local producers to compete, increasing the choice of brands available to consumers as well as increasing the range of goods and services produced locally.
6. Trade *raises incomes*. Lowering trade barriers allows trade to increase, which adds to incomes — national incomes and personal incomes. But some adjustment is necessary. Trade also poses challenges as domestic producers face competition from imports. But the fact that there is additional income means that resources are available for governments to redistribute the benefits from those who gain the most — for example to help companies and workers adapt by becoming more productive and competitive in what they were already doing, or by switching to new activities.
7. Trade *stimulates economic growth*. This is a difficult subject to tackle in simple terms. There is strong evidence that trade boosts economic growth, and that economic growth means more jobs. It is also true that some jobs are lost even when trade is expanding. But the picture is complicated by a number of factors. Nevertheless, the alternative – protectionism – is not the way to tackle employment problems. In fact, the protectionism hurts the employment in the long run. For example, the US car industry, when the US Government designed trade barriers to protect the jobs by restricting imports of Japanese Cars, the American cars became more expensive, fewer cars were sold and there were major job cuts.
8. The basic principles *make life more efficient*. One of the most important features of WTO is that it provides efficiency in the international trade mechanism. It helps to cut costs because of important principles enshrined in the system. Such principles include non-discriminatory trade, transparency, increased certainty in trade conditions, simplification and standardisation of customs procedures, removal of red tapism, removal of bureaucracy, centralised databases of information, and such other measures that come under the head '*trade facilitation*'.

- 9. *Governments are shielded from lobbying.*** One of the lessons of the protectionism that dominated the early decades of the 20th Century was the damage that can be caused if narrow sectoral interests gain an unbalanced share of political influence. The result was increasingly restrictive policy which turned into a trade war.

Superficially, restricting imports looks like an effective way of supporting an economic sector. But it biases the economy against other sectors which shouldn't be penalized — if you protect your clothing industry, everyone else has to pay for more expensive clothes, which puts pressure on wages in all sectors.

Governments need to be armed against pressure from narrow interest groups, and the WTO system can help. The GATT-WTO system covers a wide range of sectors. So, if during a GATT-WTO trade negotiation one pressure group lobbies its government to be considered as a special case in need of protection, the government can reject the protectionist pressure by arguing that it needs a broad-ranging agreement that will benefit all sectors of the economy.

- 10. The system *encourages good government.*** Under WTO rules, once a commitment has been made to liberalize a sector of trade, it is difficult to reverse. The rules also discourage a range of unwise policies. For businesses, that means greater certainty and clarity about trading conditions. For governments it can often mean good discipline.

The WTO agreements help in reducing corruption and bad government. But, quite often, governments use the WTO as a welcome external constraint on their policies. This cannot be done because it would violate the WTO agreements.

### **Criticism on World Trade Organisation**

Criticisms of the WTO are often based on fundamental misunderstandings of the way the WTO works. Following are most common misunderstandings or criticisms on WTO:

- 1. The WTO *dictates policy.*** According to critics, the WTO dictates the trade policy on its member countries. But that is not the case; in fact, it's the governments who dictate to the WTO. WTO is a member-driven organisation. The rules of WTO are based on agreements resulting from negotiations among member governments. These rules are ratified by members' parliaments. And all the decisions taken in the WTO are virtually made by consensus among all members.
- 2. The WTO is *for free trade.*** There is another criticism on the World Trade Organisation is that it promotes free trade. According to critics, free trade could hamper the domestic production and serves the interests of giant global companies. Small domestic companies are unable to compete with such multinational companies and would not be able to survive. As a result, unemployment increases and national income decreases. It is true that it is one of the principles of WTO system that the member countries should lower their trade

barriers and allow trade to flow more freely. But how low those barriers should go depends on the bargaining of member countries.

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

3. According to critics, the ***commercial interests take priority over development***. Whereas, the WTO agreements are full of provisions taking the interests of development into account. Freer trade boosts economic growth and supports development. In that sense, commerce and development are good for each other.
4. ***Environmental issues***. In WTO system, commercial interests do not take priority over environmental protection. Whereas, many provisions of WTO take environmental concerns specifically into account. For example, the preamble of the Marrakesh (Morocco) Agreement establishing the World Trade Organization includes among its objectives, optimal use of the world's resources, sustainable development and environmental protection.
5. ***Health and safety issues***. 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.
6. The WTO ***destroys jobs and worsens poverty***. Another accusation on WTO is that WTO system destroys jobs and widens the gap between rich and poor. In other words, it promotes economic inequalities internationally. The accusation is inaccurate and simplistic. Trade can be a powerful force for creating jobs and reducing poverty. 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. It should be borne in mind that the biggest beneficiary is the country that lowers its own trade barriers.
7. ***Small countries are powerless*** in the WTO. But small countries are not powerless in WTO. In fact, they would be weaker without 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 trade proposals. They expressed satisfaction with the process leading to the Doha declarations. All of this bears testimony to their confidence in the system.
8. The WTO is ***the tool of powerful lobbies***. This is a common misunderstanding that the system of the World Trade Organisation supports the powerful countries such as US, EU, Japan, etc. Giant corporations get undue protection from the WTO. The answer is that the WTO is a common platform for all the governments. The WTO treats all the countries equally. Therefore, WTO is not the tool of powerful lobbies; in fact, it offers governments a means to reduce the

influence of narrow vested interests. The most common feature of the WTO is the negotiations that took place between the governments. These negotiations create a balance of interests. Governments can find it easier to reject pressure from particular lobbying groups by arguing that it had to accept the overall package in the interests of the country as a whole.

The WTO does not support the giant multinational companies. The WTO is an organisation 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.

- 9. *Weaker countries are forced to join*** the WTO. Another criticism about the WTO is that the weaker or developing countries or poor countries are influenced by developed countries or by the WTO itself to join the WTO. In fact, weaker countries do have a choice to join the WTO or not. However, they are convinced to join the WTO, because they can enjoy the benefits that all WTO members grant to each other. They have the opportunity to trade, negotiate, and settle their disputes with advanced countries within the WTO. Whereas, outside the WTO, i.e., under bilateral agreements, smaller countries are weaker and cannot increase their bargaining power esp. with advanced countries.
- 10. The WTO is *undemocratic*.** Some theorists claim that the system of the WTO is undemocratic. Whereas, 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.