



WORLD TRADE  
ORGANIZATION



The world is complex. The World Trade Organization is complex. This booklet is brief, but it tries to reflect the complex and dynamic nature of trade and the WTO's trade rules. It highlights benefits of the trading system, but it doesn't claim that everything is perfect. Were it a perfect system, there would be no need for further negotiations and for the system to evolve and reform continually.

Nor does this booklet claim that everyone agrees about everything in the WTO. That's one of the most important reasons for having the system: it's a forum for countries to thrash out their differences on trade issues.

That said, there are a number of reasons why we're better off with the system than without it.



### **What's the WTO's view on ...?**

The WTO *is* its members. With over 150 members, the WTO has over 150 views — probably more than that, too.

# 10 things the WTO can do

## The WTO can...

	page
<b>1</b> ... cut living costs and raise living standards	2
<b>2</b> ... settle disputes and reduce trade tensions	10
<b>3</b> ... stimulate economic growth and employment	14
<b>4</b> ... cut the cost of doing business internationally	20
<b>5</b> ... encourage good governance	26
<b>6</b> ... help countries develop	30
<b>7</b> ... give the weak a stronger voice	36
<b>8</b> ... support the environment and health	40
<b>9</b> ... contribute to peace and stability	46
<b>10</b> ... be effective without hitting the headlines	50

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The WTO can...

1

... cut living costs  
and raise living  
standards

**We are all consumers.**

**The prices we pay for our food and clothing, our necessities and luxuries, and everything else in between, are affected by trade policies.**

# 1 ... cut living costs and raise living standards

**Protectionism is expensive:** it raises prices. The WTO's global system lowers trade barriers through negotiation and operates under the principle of non-discrimination.

The result is reduced costs of production (because imports used in production are cheaper), reduced prices of finished goods and services, more choice and ultimately a lower cost of living.

Elsewhere, we look at the challenges that imports can present. Here the focus is on the impact on us, as consumers.

**Overall incomes can rise.** Trade opening since 1945 has boosted US annual incomes by \$1 trillion, or \$9,000 per household, according to the US government. Two major trade agreements of the 1990s – the WTO Uruguay Round and the North American Free Trade Agreement between the US, Canada, and Mexico – generate increased purchasing power of \$1,300 to \$2,000 per year for the average American family of four, it says.

The European Union, which, through the creation of its single market undertook the third major liberalization at the turn of the century, says the gains from the wider variety of goods and services available to the average European consumer are in the range of €600 a year, in addition to the gains from lower prices.

**Food is cheaper** if protection is reduced. When you protect your agriculture, food is artificially expensive. When protection is particularly high – as when market prices are naturally low – the impact can be huge.

Protecting agriculture raised food prices by an estimated \$1,500 per year for a family of four in the European Union in 1997 and by the equivalent of a 51% tax on food in Japan (1995). In just one year (1988), US consumers had \$3 billion added to their grocery bills just to support sugar.

**But there is also a paradox.** Protection and subsidies in rich markets raise prices domestically but force down prices externally in world markets and particularly in poorer countries. If reform in the developed world raises world prices, consumers in the poorer countries may suffer, but their farmers receive more realistic prices, encouraging them to produce more and improving supplies within the country.

Negotiating agricultural trade reform is therefore a complex undertaking. Governments are still debating the roles agricultural policies play in a range of issues from food security to environmental protection.

But WTO members are now reducing the subsidies and the trade barriers that are the worst offenders. And they are negotiating to continue the reform in agriculture.

These issues have now been incorporated into a broader work programme, the Doha Development Agenda, launched at the fourth WTO Ministerial Conference in Doha, Qatar, in November 2001.

**Clothes are cheaper.** Like agriculture, trade in garments and textiles has been reformed although some protection remains. At times of peak protection, the costs to consumers were high.

In the US, import restrictions and high customs duties combined to raise US textiles and clothing prices by 58% in the late 1980s during the early years of the negotiations that produced global reform – the Uruguay Round talks that created the WTO.

UK consumers paid an estimated £500 million more per year for their clothing because of these restrictions. For Canadians, the bill was around C\$780 million. For Australians, it would have been A\$300 annually per average family if Australian customs duties had not been reduced in this period.

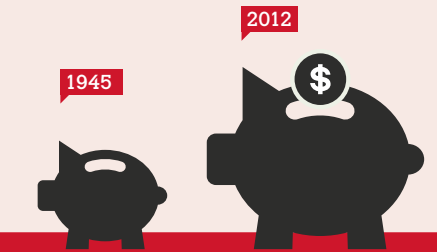
Reform of the textiles and clothing trade under the WTO was completed in 2005. The programme included eliminating restrictions on quantities of imports.

Even now, the import duties on cheaper essential products can be a disproportionate burden on the neediest.

If customs duties on textiles and clothing were also to be eliminated, economists calculated that the result could be a gain to the world of around \$23 billion, including \$12.3 billion for the US, \$0.8 billion for Canada, \$2.2 billion for the EU and around \$8 billion for developing countries.



Protecting agriculture raised food prices by an estimated \$1,500 per year for a family of four in the European Union in 1997



Trade opening since 1945 has boosted US annual incomes by \$9,000 per household



In the Republic of Korea, protectionism in the car industry adds around 43% to the cost of an imported car

**The same goes for other goods ...**

For example, it is estimated that at their peak in the early 1980s, quotas on cars imported into the US were transferring \$5 billion a year in additional profits to Japanese car makers (and additional costs to consumers), who could sell their quota-limited cars at a premium.

Despite this protection, the US car industry continued to lose market share. Foreign producers simply jumped over the trade barrier and began manufacturing cars in the US.

Many other countries have also protected their car industries. In the Republic of Korea, for example, the combination of an 8% tariff and taxes on engine size add about \$9,000 to the price tag of a \$30,000 imported car.

**... and services.** In Africa, Tanzania, Uganda and Mozambique were among the countries with the highest price drops for telephone, Internet and other forms of communications services in 2008-10. So were Bhutan and Bangladesh in Asia, according to calculations by the International Telecommunications Union (ITU). Recent market opening in least-developed countries is beginning to show dividends.

From 2008 to 2010, Internet broadband prices in developing countries (as a proportion of gross domestic product or GDP) declined much more rapidly, by 52%, than in rich countries, at 35%. Today, hardly any countries still allow Internet services to be provided under monopoly rights.

More broadly, according to ITU data, regions that have liberalized telecoms more slowly and less fully – the Middle East and Africa – show higher average price levels than regions such as Europe, the Americas and Asia, which embraced reform earlier.

And businesses as well as citizens benefit. Price reductions and affordability resulting from market opening around the world mean that telecoms services reach more small and medium-sized enterprises too.

**Tariffs often hurt the poor.** According to studies in the United States, higher tariffs are charged on a number of products that are bought by lower-income sections of the population. These include sports shoes, underwear, T-shirts and much more – meaning these consumers pay tariff rates five to ten times higher than middle-class or rich families pay in upmarket shops. Poorer exporting countries, such as Cambodia and Bangladesh, are also hurt: they face tariffs 15 times higher than those applied to wealthy nations and oil exporters.

**And so it goes on.** The system now entrusted to the WTO has been in place for over 60 years.

In that time, there have been eight major rounds of trade negotiations. Trade barriers around the world are lower than they have ever been in modern trading history. They continue to fall, and we are all benefiting.



According to critics of agricultural protectionism, consumers and governments in rich countries have paid \$350 billion per year supporting agriculture – enough to fly their 41 million dairy cows first class around the world one and a half times.

## Differing points of view: food security

Food security is the elephant in the room which the WTO must address. Trade did not feed the hungry when food was cheap and abundant, and is even less able to do so now that prices are sky-high. Global food imports shall be worth \$1.3 trillion in 2011, and the food import bills of the least developed countries have soared by over a third over the last year. The G-20 has acknowledged that excessive reliance on food imports has left people in developing countries increasingly vulnerable to price shocks and food shortages. The WTO must now do the same.

— Olivier De Schutter, Special Rapporteur on the Right to Food, “Food security hostage to trade in WTO negotiations – UN right to food expert”, Office of the UN High Commissioner for Human Rights website, 16 November 2011

First, trade isn't – and never was – a silver bullet. Not for food security or really any other purpose. Trade offers important advantages, and when it works well, it reduces costs, improves consumer options, and assists in managing risks. But over-reliance on trade – either as importers or exporters – has real economic and food security risks.

— Gawain Kripke, Oxfam America Director of Policy and Research, “Finding some focus: Trade and food security, the politics of poverty”, Oxfam America website, 6 June 2012



I fundamentally disagree with your assertion that countries need to limit reliance on international trade to achieve food security objectives. On the contrary, there is agreement among most UN-led experts that international trade is part of the package of solutions to achieve food security.

The UN High Level Task Force on the Global Food Security [...] noted that ‘more liberalized international markets would contribute to global food and nutrition security through increased trade volumes and access to diverse sources of food imports.’ [...]

The Inter-agency report for the G-20 stated, for example, that ‘trade is an essential component of any food security strategy’ and that ‘policies that distort production and trade in agricultural commodities potentially impede the achievement of long run food security’. [...]

Indeed, our members negotiate towards a more level playing field in agriculture in order to enhance their ability to achieve food security.

— Pascal Lamy, WTO Director-General, letter to Olivier De Schutter, 14 December 2011

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The WTO can...

**2** settle disputes and  
reduce trade tensions

**More trade, more traded goods and services and more trading countries – they bring benefits but they can also increase the potential for friction. The WTO's system deals with these in two ways.**

**One is by talking: countries negotiate rules that are acceptable to all.**

**The other is by settling disputes about whether countries are playing by those agreed rules.**

## 2 ... settle disputes and reduce trade tensions

Well over 400 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 spiralled into more serious political conflict.

**The fact that the disputes are based on WTO agreements** means that there is a clear basis for judging who is right or wrong. Once the judgement has been made, the agreements provide the focus for any further actions that need to be taken.

The increasing number of disputes brought to the WTO does not reflect increasing tension in the world. Rather, it reflects the closer economic ties throughout the world, the WTO's expanding membership and the fact that countries have faith in the system to solve their differences.

Sometimes the exchanges between the countries in conflict can be acrimonious, but they always aim to conform to the agreements and commitments that they themselves negotiated.

**Closer relationships have huge benefits** but they can also bring friction: more trade increases the possibility of disputes. In the past, such disputes have erupted into serious conflict. But today, international trade tension is reduced because countries can turn to organizations, in particular the WTO, to settle their trade disputes.

Before World War II, there was no forum for global trade negotiations, and no legal procedure for settling disputes.

After the war, the world's community of trading nations negotiated trade rules which are now entrusted to the WTO. Settling their differences by talking and by agreeing on rules is vital for reducing tension.

Those rules also include an obligation for members to bring their disputes to the WTO and not to act unilaterally.

Dispute settlement is sometimes described as the jewel in the WTO's crown. It's the central pillar of the multilateral trading system, and the WTO's unique contribution to the stability of the global economy.

WTO dispute settlement focuses countries' attention on the rules. Once a verdict has been announced, countries concentrate on complying with the rules, and perhaps later renegotiating them – rather than declaring war on each other.



... were brought to the WTO from 1995 to 2011.

**Less than half** resulted in the establishment of dispute panels. A large number were resolved through discussions between the parties and never reached the panel stage.

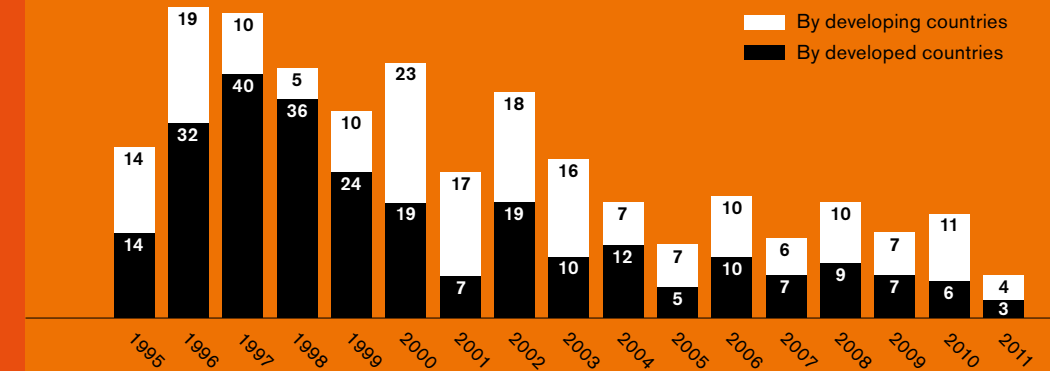
**More than 90%** of rulings have been complied with by the responding countries, less than 4% resulted in sanctions by the complaining countries.

The average time taken in panel proceedings is **10 months**. In other international organizations or even national courts, the time taken can be two to five years.

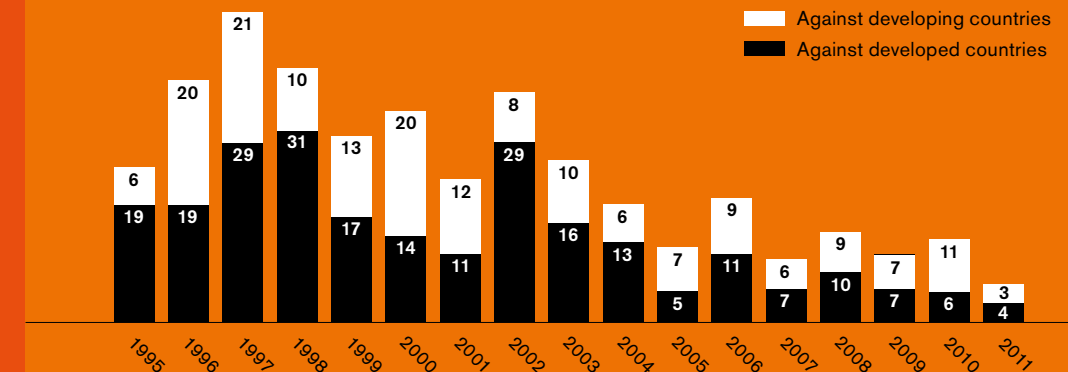
## Developing countries are more active in WTO disputes

The annual number of disputes has declined overall. Developing countries are active, reflecting their increasing participation in trade. However, their share of disputes – either in initiating complaints or being complained against – has fluctuated over the years.

**Complaints by developing / developed countries**  
Annual number of cases



**Complaints against developing / developed countries**  
Annual number of cases



**Sources:** WTO dispute settlement data; Raúl A. Torres, "Use of the WTO Trade Dispute Settlement Mechanism by the Latin American Countries – dispelling myths and breaking down barriers", WTO Staff Working Paper ERSD-2012-03, February 2012.



The WTO can...

**3** ...stimulate  
economic growth  
and employment

The relationship between trade and jobs is complex. It is true that trade can create jobs, but it is equally true that competition from imports can put producers under pressure and lead them to lay off workers.

The impact of competition from foreign producers varies across firms in a sector, across sectors of the economy as well as across countries. So does the impact of new trade opportunities.

### 3 ...stimulate economic growth and employment

**Achieving higher living standards, full employment and sustainable development** is the aim of the WTO's member governments, as expressed in the WTO's founding Marrakesh Agreement. The means for achieving this include the "substantial reduction of tariffs and other obstacles to trade".

This process of trade opening takes place in the framework of WTO rules, which take into account the fact that some countries are better equipped than others to open their markets widely. Some countries, for instance, have a more advanced legal, regulatory and physical infrastructure than others. Generally speaking, it is easier for developed countries to open their markets than for many developing countries. As a result, average tariffs (import duties) in developed countries, at least for manufactured goods, are much lower than in developing countries – although this is not true in every case or for every product.

**Open economies tend to grow faster and more steadily** than closed economies and economic growth is an important factor in job creation. Profitable companies tend to hire more workers than those posting a loss. Trade can also be a catalyst for greater efficiency and productivity. This is because companies

have access to a wider range of high-quality, affordable inputs. They also have access to technology and know-how they could not obtain in a closed economy. Access to technology and quality inputs can boost innovation and creativity in the workplace.

Moreover, competition in the marketplace can be a powerful stimulus to companies seeking new ways of making things better and more cheaply. An infusion of new ideas from other countries can make companies more productive. So can enhanced access to export markets. But doing things more productively often means doing more with less and that can mean using fewer workers. Inevitably, this means that some workers in some industries will lose their jobs.

**This is part of what economists call "churn"** and what the Austrian-American economist Joseph Schumpeter termed "creative destruction". It has been part of economic life for centuries and it can bring pain. But history tells us that countries seeking to block incoming goods, services or ideas often find their economies stagnating.

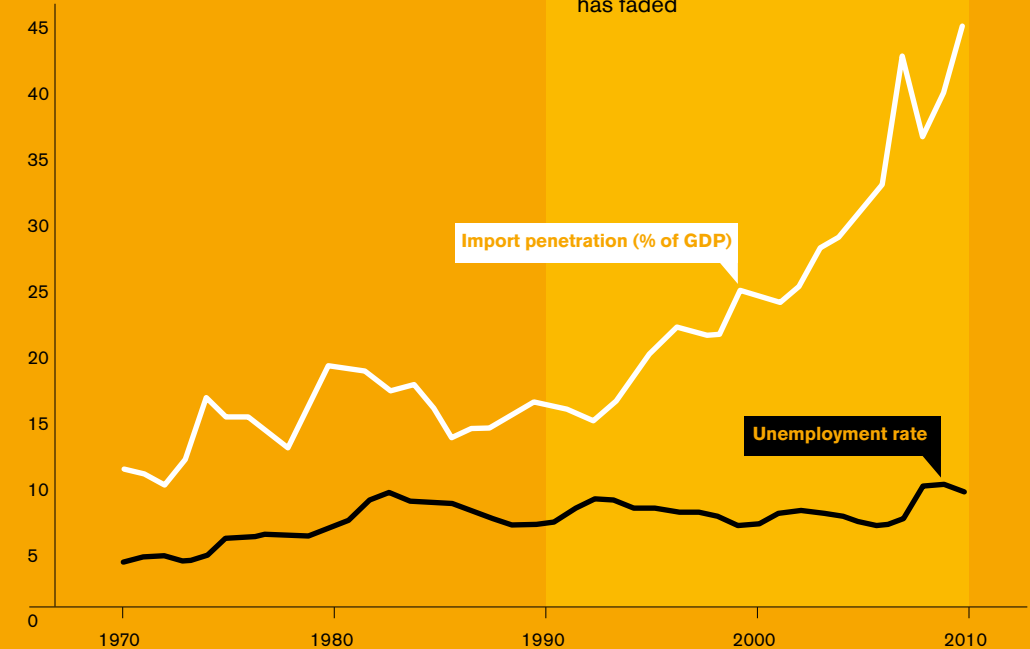
**It is important to acknowledge** that while trade holds real benefits for most people, most of the time – consumers as well as producers – there are people who are hurt by trade. Recognizing that trade can be a threat is important socially and politically. Workers who have lost their jobs need support and polls strongly suggest that people are far more likely to favour trade opening if they know that such support will be available.

This is why governments need to maintain effective social programmes that can protect workers who lose their jobs through trade and help train them to find new jobs.

### Imports are no longer linked to job losses



The chart below suggests that imports and the jobless rate might have been linked from 1970 to 1990. But since 1990, these lines have diverged sharply and 20 years later any linkage between the two has faded



The 23 countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany and West Germany (until 1991), Iceland, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, UK, US.

Source: Newfarmer, R. and Sztajerowska M. (2012), "Trade and Employment in a Fast-Changing World", in OECD (2012), Policy Priorities for International Trade and Jobs, Douglas Lippoldt (ed.), OECD, Paris

**But if the link between trade and jobs is complex, one thing is straightforward:**

protectionism does not protect jobs, or does so at a very high cost which can adversely impact employment elsewhere in an economy. This is particularly true today in our ever more interconnected global economy.

The proliferation of global value chains means that production and sourcing now take place across many frontiers. Products are rarely made in a single country but rather are assembled using parts and services from many countries.

Participation in these chains would be seriously undermined if the goods and services needed to make these products were rendered more expensive or harder to find.

Moreover, there are many jobs in all countries that are directly related to imports, particularly in industries like retail, shipping, express delivery and logistics. The adage that exports are good and imports are bad has always been a dubious one and today this is more clear-cut than ever before.

In the information and communications technology sector, developing countries such as Malaysia, Mauritius and Egypt have benefited enormously from opening their markets, achieving high levels of employment in this area. Developed countries such as Finland, Sweden and Ireland have followed a similar approach, leading to economic growth and new job opportunities.

**While trade can put some jobs under threat,** most economists believe technological advances contribute far more than trade to job loss, particularly for low-skill jobs. When the automobile was invented, it was bad news for blacksmiths and horse breeders. The electric light was problematic for candle makers. But of course these innovations created millions of jobs in the automobile and lighting sectors.

The OECD has charted the impact of imports on the jobless rate in 23 countries. While the correlation between the rate of import penetration and unemployment may have suggested a linkage between the two during the period 1970-90, the last 20 years have been a different story. Beginning in 1990, these lines diverged sharply and today any linkage between the two has faded.



**Jobs that are tied to trade tend to pay better** than those that are not. In Western Europe, those working in export-oriented companies collect a 10%-20% wage premium over the average wage. In the United States, the premium is 6% and in Sub-Saharan Africa the figure is 34%.

Overall, wages in economies that are open are higher than in closed economies. Workers in the manufacturing sector in open economies earn three to nine times more than those in closed economies.

But as with most things, the picture is neither all black nor all white. Trade promotes greater productivity, and higher productivity leads to larger salaries. But there is also strong evidence suggesting that wages in some sectors in advanced countries are suppressed when those sectors are exposed to competition from lower-wage countries. There is research that shows, as well, that in some cases trade can contribute to greater income inequality in some sectors.



**As we said at the beginning,** the relationship between trade and employment is complex and the impact of trade on employment cannot be assessed in a vacuum. Many other factors are tied to sustainable job creation. In some cases, rapid opening of trade may be the wrong policy. Without adequate physical, institutional and legal infrastructure, the benefits of more open trade can be lost.

And yet greater openness has helped many countries in reducing poverty. In Asia today, less than 20% of the people live in absolute poverty. In 1975, it was 60%. In Africa today, for the first time, fewer than half the people live in such poverty. Trade has been an important component in the development and poverty alleviation in both regions.

Trade is an important tool and we know that without it, growth, job creation and development are more difficult to attain. But trade is not a panacea.

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The WTO can...

**4** ... cut the cost of doing  
business internationally

Many of the benefits of the trading system are more difficult to summarize in numbers, but they are still important.

They are the result of essential principles at the heart of the system, and they make life simpler for the enterprises directly involved in trade and for the producers of goods and services.

## 4 ... cut the cost of doing business internationally

**Trade allows a division of labour between countries.** It allows resources to be used more efficiently and effectively for production. But the WTO's trading system offers more than that. It helps to increase productivity and to cut costs even more because of important principles enshrined in the system, designed to make life simpler and clearer.

**Imagine a situation where** each country sets different rules and different customs duty rates for imports coming from different trading partners. Imagine that a company in one country wants to import raw materials or components – copper for wiring or touchscreens for electronic equipment, for example – for its own production.

It would not be enough for this company to look at the prices offered by suppliers around the world. The company would also have to make separate calculations about the different duty rates it would be charged on the imports (which would depend on where the imports came from), and it would have to study each of the regulations that apply to products from each country. Buying copper or touchscreens would become very complicated. That, in simple terms, is one of the problems of discrimination.

Imagine now that the government announces it will charge the same duty rates on imports from all countries, and will use the same regulations for all products, whether imported

or locally produced. Life for the company would be much simpler. Sourcing components would become more efficient and cost less.

**Non-discrimination is just one of the key principles** of the WTO's trading system. Others include:

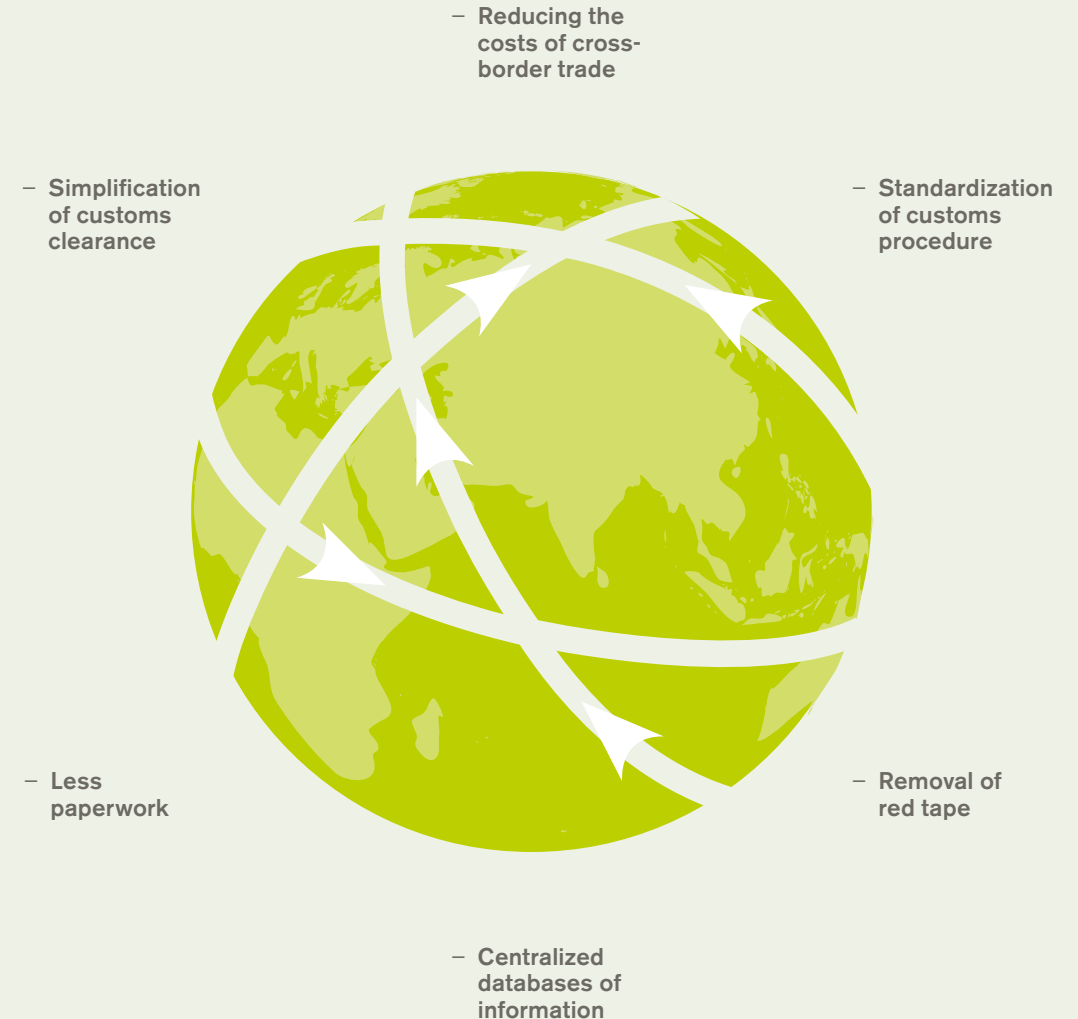
- transparency (clear information about policies, rules and regulations)
- increased certainty about trading conditions (commitments to lower trade barriers and to increase other countries' access to one's markets are legally binding)
- simplification and standardization of customs procedure, removal of red tape, centralized databases of information, and other measures to simplify trade, known as "trade facilitation".

Together, they make trading simpler, cutting companies' costs. That, in turn, means more jobs and better goods and services for consumers.

**"Trade facilitation"** has become an important subject in the Doha Round negotiations. Red tape and other obstacles are like a tax on trade. The saving from streamlining procedures could be 2%–15% of the value of the goods traded, according to estimates by the Organisation for Economic Cooperation and Development (OECD). The Peterson Institute for International Economics estimates that it could add \$117.8 billion to the world economy (global GDP). The World Bank says that for every dollar of assistance provided to support trade facilitation reform in developing countries, there is a return of up to \$70 in economic benefits.

Africa is already seeing major improvements. For example, under an investment project in the East African Community, delays at border crossings have been slashed from three days to three hours, allowing goods to move much faster between Mombassa port and neighbouring countries. It's no surprise that some business leaders have even said they consider trade facilitation to be the top priority in the Doha Round.

## Streamlining trade



## 'Made in ... where?'

The Boeing Dreamliner aircraft may be made in America, but with essential imports sourced from so many other places that it's difficult to know where to begin.



There's the Integrated Surveillance System Processor and an Integrated Navigation Radio, from Canada.

There's also a Valve Control Unit from Germany – passengers can thank that for keeping their cabin air pressure within tolerable limits.

And there's a turbine engine exhaust nozzle, brought in from Mexico from titanium sheets made in China. Those are just the first three telling examples that show up from a glance through US Customs records – with each import necessary to the American workers in places like Everton.

That doesn't even get to the big-ticket items: the Rolls-Royce Trent 1000 engine, the testing in wind tunnels in the UK and France; the Mitsubishi Heavy Industries' wing; Italian horizontal stabilizers, doors from France, and other critical components from Sweden, India, South Korea – it's a very long list.

The Dreamliner is as cosmopolitan as the American people. Boeing's American workers should love imports, because their jobs depend upon them.

Source: **Greg Rushford**, "Made in America?", 21 February 2012, *Rushford Report*, [www.rushfordreport.com](http://www.rushfordreport.com)

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The WTO can...

**5** ... encourage  
good governance

Transparency – shared information and knowledge – levels the playing field. Rules reduce arbitrariness and opportunities for corruption.

They also shield governments from lobbying by narrow interests.

## 5 ...encourage good governance

**Governments need to be armed against pressure** from narrow interest groups, and the WTO system can help.

Historically, protectionism has taught us about the damage that can be caused if narrow sectoral interests gain a disproportionate share of political influence. Restrictive policies turned into trade wars, which no one won and everyone lost.

The WTO system helps governments take a more balanced view of trade policy. They are better-placed to defend themselves against lobbying from narrow interest groups by focusing on trade-offs that are made in the interests of everyone in the economy.

Restricting imports can look like an effective way of supporting an economic sector. But it biases the economy against other sectors which shouldn't be penalized – for example, if you protect your agriculture, everyone else has to pay for more expensive food, which puts pressure on wages in all sectors.

The WTO system covers a wide range of sectors. If, during a negotiation, one pressure group lobbies its government and pleads to be considered as a special case needing

protection, the government can deflect the pressure by arguing it needs a broad-ranging agreement that will benefit all sectors of the economy. Governments do just that, regularly.

**The rules include commitments not to backslide** into unwise policies. Protectionism in general is unwise because of the damage it causes domestically and internationally.

Particular types of trade barriers cause additional damage because they provide opportunities for corruption and other forms of bad government.

One kind of trade barrier that the WTO's rules try to tackle is the quota – for example, restricting imports or exports to no more than a specific volume each year.

Because quotas limit supply, they artificially raise prices, creating abnormally large profits for companies selling inside this quota (economists talk about “quota rent”). Such circumstances create serious market distortions and these extra profits can be used to influence policies because more money is available for lobbying. These conditions can also provide opportunities for corruption – for example, in the allocation of quotas among traders. That is unfortunately all too common around the world.

In other words, quotas are a particularly bad way of restricting trade. Governments have agreed through the WTO's rules that their use should be discouraged.

Nevertheless, quotas of various types remain in use in most countries, and governments argue strongly that they are needed. But they are controlled by WTO agreements and there are commitments to reduce or eliminate many of them.

**Many other areas of the WTO's agreements** can also help reduce corruption and bad government.

One that has a direct impact via the public sector is the Government Procurement Agreement. This disciplines how participating governments make their purchases, and opens major parts of the procurement markets to foreign competition. In December 2011, a new deal worth an estimated \$80–100 billion per year was struck under the agreement, improving the disciplines and expanding access to these markets.

Transparency (such as making available to the public all information on trade regulations, fees and required paperwork), greater harmony between countries on other aspects of “trade facilitation”, clearer criteria for regulations dealing with the safety and standards of

products, and non-discrimination also help by reducing the scope for arbitrary decision-making and cheating.

Quite often, governments use the WTO as a welcome external constraint on their policies: “We can't do this because it would violate the WTO agreements.”

Internationally, the WTO is working closely with other international agencies to improve the way global issues are tackled. Around 140 intergovernmental organizations are observers in WTO committees and councils. The WTO is formally an observer in several agencies. The WTO Secretariat works with almost 200 of them in activities such as statistics, research, standard-setting, and technical assistance and training. The extent of the cooperation varies, and it continues to evolve so as to help member governments with their economic policies.



WTO agreements can help to reduce corruption and bad government.



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The WTO can ...

6

... help countries  
develop

**Underlying the WTO's trading system is the fact that more open trade can boost economic growth and help countries develop. In that sense, commerce and development are good for each other.**

**In addition, the WTO agreements are full of provisions that take into account the interests of developing countries.**

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## 6 ...help countries develop

**Over three-quarters of WTO members** are developing or least-developed countries. All of those in the queue to join are likewise developing countries. Whether the interests of developing countries are well enough served in the WTO is a subject of continuing debate. But even the most critical developing countries acknowledge that the system offers them benefits.

In fact, few economists dispute that properly handled, trade is essential for development.

**All WTO agreements contain special provisions** for developing countries, including longer periods to implement agreements and commitments, measures to increase their trading opportunities and support to help them build the infrastructure for WTO work, handle disputes, and implement technical standards. Least-developed countries receive special treatment, including exemption from many provisions.

The needs of developing countries can also be used to justify actions that might not normally be allowed under the agreements – for example, governments giving certain subsidies.

And the negotiations and other work launched at the Doha Ministerial Conference in November 2001 include numerous issues that developing countries want to pursue.



**75%**  
of WTO members  
are developing  
countries.

The WTO only cares about trade

Well, it is the World Trade Organization

“But what about poverty and the environment?”

“What about them?”

“What’s the WTO doing to help the poor and protect the environment? The way I see it, trade makes the rich richer, and the poor poorer. And even worse, the WTO actually allows rich countries to pay huge subsidies to their farmers. So cheap tomatoes and wheat flood developing countries’ markets and put local farmers out of business.”

“But that’s what the WTO is trying to stop. If it were allowed to do its job properly, trade would help the poor to be fed. It would even fill in the gaps when there are local shortages. It would help poor farmers produce and sell more without having to compete with cheap subsidized produce. And the WTO is actually cutting those subsidies gradually. Without the WTO they could be much higher.”

“And what about WTO patent rules that allow big pharmaceutical companies to earn huge profits by making their medicines so expensive the poor can never buy them?”

“There’s plenty of room in the WTO rules on patents for governments to get medicines to the poor. But there are lots of other obstacles to overcome too. And we need incentives so that new medicines are invented.”

“I’m still not convinced.”

“Well, just imagine what it would be like with no world trade. How would developing countries get the food they need when they are hit by drought or floods? Like it or not, the world depends on trade and the WTO’s job is to make the rules as fair as possible for everyone.”

**Finally, although the WTO is not an aid agency,** it does have a role to play, particularly as a forum and clearing house for information on trade-related development aid.

**Aid for Trade.** The debate over whether developing countries need aid or trade is at an end.

Today, there is widespread recognition that developing countries need both. But WTO agreements do not guarantee increased trade flows: they provide opportunities. Some countries are better placed than others to grasp those opportunities. Some need help: “Aid for Trade” and various other tools are aimed at enhancing the capacity of developing countries to participate more effectively in the global marketplace.

The WTO is the coordinating agency for the “Aid for Trade” programme and as such regularly brings donors, development agencies, recipient governments and the private sector together. This dialogue helps to highlight what is being provided and what is needed while encouraging the development of more suitably designed projects.

Both donor and recipient countries have responded to these efforts. Donor countries have committed an average of \$40 billion a year to trade-related development programmes while recipient countries have had success in pinpointing the specific areas where aid is needed and in mainstreaming trade into their development strategies.

**Better communications.** The WTO has 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. Efforts are also being made to help countries that do not have permanent representatives in Geneva.



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The WTO can...

7

... give the weak  
a stronger voice



**Small countries would be weaker without the WTO. Differences in bargaining power are narrowed by agreed rules, consensus decision-making and coalition building.**

**Coalitions give developing countries a stronger voice in negotiations. The resulting agreements mean that all countries, including the most powerful, have to play by the rules. The rule of law replaces might-makes-right.**

## 7 ... give the weak a stronger voice

**WTO geopolitics are evolving.** In recent years, developing countries have become considerably more active in all areas of the WTO's work. They made sure development would be at the heart of the Doha Round talks and submitted an unprecedented number of proposals on agriculture and other subjects.

They are active in all WTO councils and committees. They have set up numerous coalitions to increase their bargaining power, particularly in negotiations. Some of these are developing country coalitions; some are mixed, working on shared interests that cut across developed-developing country boundaries.

Until the mid-1990s, the "Quad" – the US, EU, Japan and Canada, then the largest traders – were seen as the most powerful consensus-brokers. Now, any attempt to break a major deadlock has to include at least some of the major emerging economies and representatives of various coalitions, including the least-developed countries.

There wouldn't be much point in a "multilateral" trading system if that weren't the case.

**One important point about the WTO is the practice of reaching decisions by consensus.** Every country has to be convinced before agreement can be reached. Compromise is key: whatever is proposed has to be refined until it is acceptable to everyone or more precisely until it is objectionable to no one. Consensus means there are no dissenters.

**Another is the agreed rules.** All countries, big or small, weak or powerful, have to follow broadly the same rules. There are exceptions, delays or flexibilities for poorer countries, but they are still the same package of rules – the flexibilities are just a way of allowing these poorer countries to play by the rules.

**The rules are the result of negotiations and consensus decisions,** and have been ratified in members' parliaments. The negotiation that set up the WTO, the Uruguay Round (1986-94), was only possible because of a bargain. Developed countries agreed to reform trade in textiles and agriculture – both issues were important for developing countries.

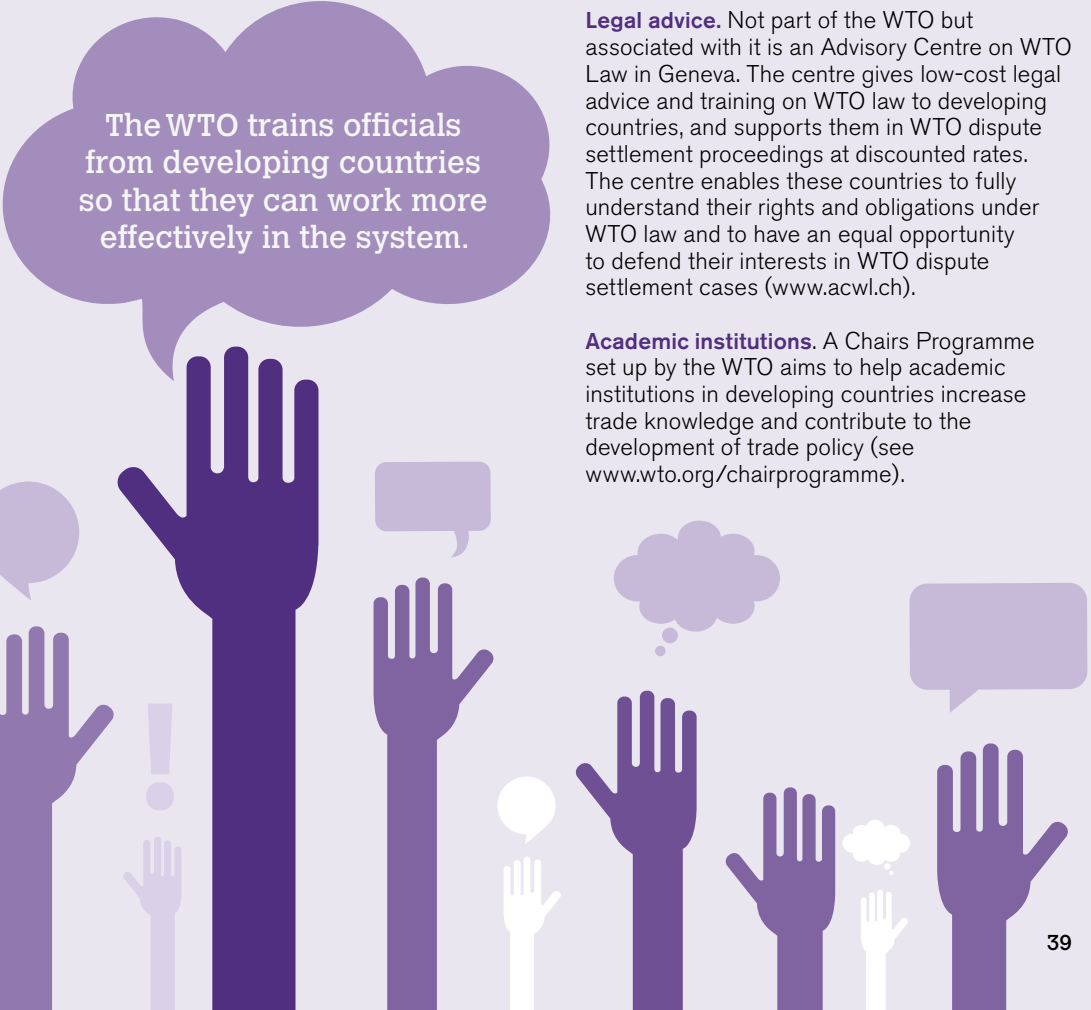
Once the rules have been agreed, all countries are equal under them. That also applies to the dispute settlement system, which is similar to a court. This century, except in a handful of years, developing countries have filed complaints in at least half of all legal disputes, sometimes considerably more. And their complaints are against both developed and developing countries. Without the WTO, these smaller countries would have been powerless to act against their more powerful trading partners.

### And then there's assistance

**Technical assistance and training.** This is an area where the WTO is actively involved in aid. The WTO trains officials from developing countries so that they can work more effectively in the system. That includes training on how to negotiate effectively within the rules. Each year, the WTO organizes around 100 seminars, workshops and other training sessions for these officials. They also come to Geneva for longer trade policy courses.

**Legal advice.** Not part of the WTO but associated with it is an Advisory Centre on WTO Law in Geneva. The centre gives low-cost legal advice and training on WTO law to developing countries, and supports them in WTO dispute settlement proceedings at discounted rates. The centre enables these countries to fully understand their rights and obligations under WTO law and to have an equal opportunity to defend their interests in WTO dispute settlement cases ([www.acwl.ch](http://www.acwl.ch)).

**Academic institutions.** A Chairs Programme set up by the WTO aims to help academic institutions in developing countries increase trade knowledge and contribute to the development of trade policy (see [www.wto.org/chairprogramme](http://www.wto.org/chairprogramme)).



The WTO trains officials from developing countries so that they can work more effectively in the system.

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The WTO can ...

8

... support the  
environment  
and health

An often-heard  
accusation is that the  
WTO system treats  
trade as the priority,  
at the expense of  
environmental and  
humanitarian objectives.

This is untrue.

## 8 ... support the environment and health

**Trade is nothing more than a means to an end.** It could never be more important than protecting the environment or raising the quality of life. What WTO agreements do is to try to make trade support the things we really want, including a clean and safe environment, and to prevent governments using these objectives as an excuse for introducing protectionist measures.

How this works is not always understood. Take a WTO dispute ruling that says a measure designed to protect the environment is illegal under WTO rules. Often, this is misinterpreted to mean the measure is illegal because it conflicts with trade.

In fact, the ruling would say that the action violates trade rules. Typically this could be about discrimination: the measure is tougher on products from some countries than from others or is tougher on products coming from other countries than from domestic producers. If it were equally tough (or equally lenient) on goods from all sources, it would be legal.

That was the basis of a ruling in a WTO legal dispute about gasoline in the 1990s. The same applied in a case dealing with shrimp imports and the protection of sea turtles, when the WTO's Appellate Body went out of its way

to stress that WTO members can, should and do take measures to protect endangered species and to protect the environment in other ways.

**The importance of these concerns is enshrined in the rules.** The Marrakesh Agreement Establishing the WTO includes among its objectives optimal use of the world's resources, sustainable development and environmental protection.

**"The Parties to this Agreement [recognize] that their relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services, while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development ..."**



Preamble to the Marrakesh Agreement Establishing the WTO

This is backed up by a range of provisions in the WTO's rules. For example, they allow countries to curb trade to protect human, animal or plant life or health, and conserve exhaustible natural resources. They allow subsidies for environmental protection. These provisions can be found in more general rules and in specific agreements on product standards, food safety, intellectual property protection, and so on.

Reforms under the rules, such as cutting industrial and agricultural support, help to reduce waste and environmental damage, and encourage efficient use of resources.

## Other points of view

Globalization is not a policy choice – it is a fact. But all of us face a choice. We can work to shape these powerful forces of change to the benefit of our people. Or we can retreat behind walls of protection – and get left behind in the global economy. We must build a trading system for the 21st century that honours our values as it expands opportunity. We must do more to make sure that this new economy lifts living standards around the world, and that spirited economic competition among nations never becomes a race to the bottom in environmental protections, consumer protections and labour standards. We should level up, not level down. Without such a strategy, we cannot build the necessary public support for the global economy. Working people will only assume the risks of a free international market if they have the confidence that this system will work for them.

— Bill Clinton, 50th anniversary of the multilateral trading system, Geneva

In the 50 years of the GATT [General Agreement on Tariffs and Trade] we have surely learnt enough – despite the de facto exclusion of many, many developing countries – to vastly improve on the management of the world trading system to the mutual benefit of all nations and people. We are firmly of the belief that the existence of the GATT, and now the World Trade Organization, as a rules-based system, provides the foundation on which our deliberations can build in order to improve. However, to realize the aspirations of all requires wise work to be done. The WTO came into existence precisely as a response to the need for a more effective regulatory, supervisory and enforcement environment for world trade and investment than the GATT could then provide. But now we can see that the success of the system agreed to in Marrakesh in 1994 will depend on the wisdom with which it is implemented and taken forward.

— Nelson Mandela, 50th anniversary of the multilateral trading system, Geneva

The WTO, like all other institutions, has its shortcomings. But the main objections cannot be addressed by the WTO itself. The task of the WTO is to lay down ground rules for international trade; it is not designed to pursue other social goals. So the trouble is thus not really with the WTO, but with the lack of similarly powerful and effective institutions devoted to these other social goals. Indeed, the most fundamental problem of the present global order is that the production of private goods has taken precedence over social development – i.e. the provision of public goods.

Not only is the WTO not designed to deal with environmental protection, food safety, human rights and labor rights, but its modus operandi is unsuitable for the provision of public goods. The strength of the WTO lies in its enforcement mechanism which states are willing to accept because they want the benefits of trade. They will not, however, accept it in other areas.

— George Soros, "Fixing, not Sinking, the WTO", Project Syndicate, [www.project-syndicate.org/commentary/fixing--not-sinking--the-wto](http://www.project-syndicate.org/commentary/fixing--not-sinking--the-wto)

**The same applies to health.** Here, the greatest attention has been on pharmaceutical patents. The intellectual property (“TRIPS”) agreement is all about balance. In public health, it protects inventors’ rights for a limited period in order to encourage research into new and more effective treatments, but it also allows governments room to manoeuvre so that the treatments are affordable. Developing new medicines and allowing governments some flexibility both contribute to better health.

Opinions differ on whether the balance is right. The present consensus agreement — including a rule change in 2003 — is the result of compromises on all sides. Meanwhile, the WTO, the World Intellectual Property Organization and the World Health Organization are collaborating to improve our knowledge of how to make patenting and other policies work better together in the interests of public health.

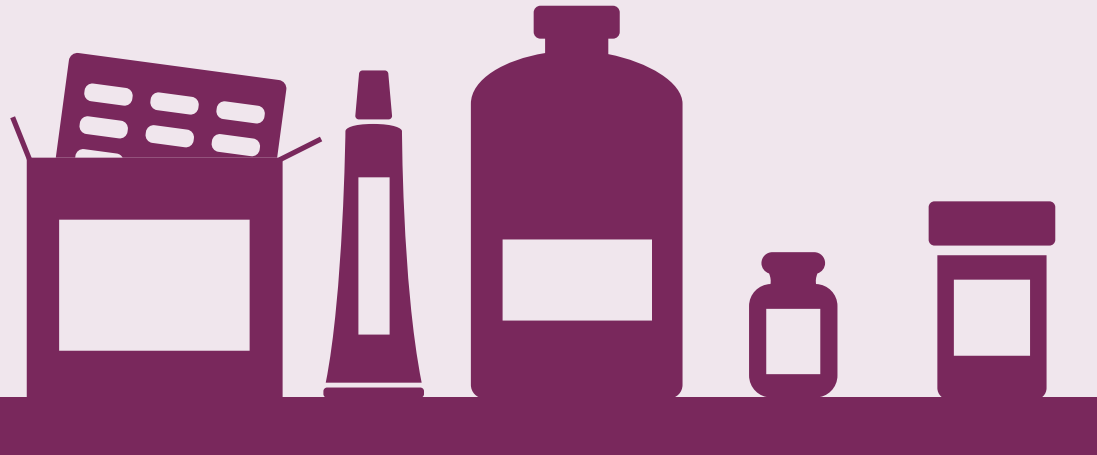
Then there’s the question of whether traded goods are safe. An agreement on food safety and animal and plant health (sanitary and phytosanitary measures) deals with

governments’ actions on contaminants in food and the spread of disease, and how to prevent these from being excuses for protectionism. Another on technical barriers to trade includes issues such as food labelling and product safety standards.

Broader, more complex issues such as food security, handled by the Agriculture Agreement, are also important for health. And finally, dispute settlement rulings have also confirmed that WTO agreements give priority to health and safety over trade, such as one that upheld a ban on asbestos products.

### Pharmaceuticals

The WTO’s intellectual property agreement protects inventors’ rights and allows governments room to make treatments affordable.



### Product labelling

A WTO agreement on technical barriers to trade covers issues such as food labelling.



Nutritional Facts

Ingredients list

Dietary facts

Country of origin



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The WTO can ...



9

*... contribute  
to peace and  
stability*

**This is an under-reported benefit of the WTO's trading system.**

**Trade helps to sustain growth.**

**Trade rules stabilize the world economy by discouraging sharp backward steps in policy and by making policy more predictable. They deter protectionism; they increase certainty. They are confidence-builders.**

## 9 ... contribute to peace and stability

**When the world economy is in turmoil,** the multilateral trading system can contribute to stability. Some would argue that this can even contribute to international peace. History is littered with examples of trade disputes escalating into armed conflict.

It's a claim that should not be exaggerated, but there is truth in it. If we understand why, we have a clearer picture of what the system actually does.

**Why was the system set up?** Essentially, it was for two reasons. One was the big-picture need to avoid a repeat of the destructive trade tensions before World War II. The other was countries' pragmatic desire for their producers to trade more easily.

The result was the General Agreement on Tariffs and Trade (GATT), created in 1948, immediately after the war. Its success led to further reforms, and the World Trade Organization (WTO) emerged in 1995. An ever-increasing number of countries have agreed on trade rules that are now almost global. They are committed to the legally binding limits on their trade barriers and subsidies that they have also negotiated.

Sticking to these is self-interest because countries want their trading partners also to play by the rules and stay within their commitments – and just in case pressure from domestic interests is too great, the information on raised trade barriers is shared globally through regular monitoring. By and large, peer pressure works.

Two of the most fundamental principles of the trading system are at work here: helping trade to flow smoothly, and providing countries with a constructive and fair outlet for dealing with disputes over trade issues.

### **Before: when protectionism backfired.**

The early 1930s saw a devastating trade war. In the Great Depression, fear that imports would throw more people out of work led governments to raise their trade barriers, thus setting off a vicious cycle of retaliation. This simply worsened unemployment. The world economy spiralled downwards, eventually contributing to the outbreak of World War II. Protectionism can easily plunge us into a situation where no one wins and everyone loses.

**After: restraint and confidence.** Post-war, under the GATT/WTO system trade surged. More importantly, it has been much more stable, even during economic crises. Agreed rules and confidence-building are key.

Confidence helps to avoid the no-win trade wars witnessed in the 1930s. When governments believe that others will keep their trade barriers within agreed limits, they will do the same. They will be in a much better frame of mind to cooperate with each other.

The WTO trading system plays a vital role in creating and reinforcing that confidence. Particularly important are negotiations that lead to agreement by consensus and a focus on abiding by the rules.

### **Before ...**

Protectionism drained away two-thirds of world trade from 1929–33

Without a multilateral trading system and agreed rules, countries did not trust each other to keep their markets open. Nor could they resist lobbying by narrow domestic interests. During the Great Depression, competition to raise trade barriers and protect domestic production and employment contributed to a slump in trade from about \$3 billion per month in January 1929 to less than \$1 billion by March 1933. Two-thirds of world trade had been wiped out, with a devastating effect on the jobs and industries that were supposed to be protected.

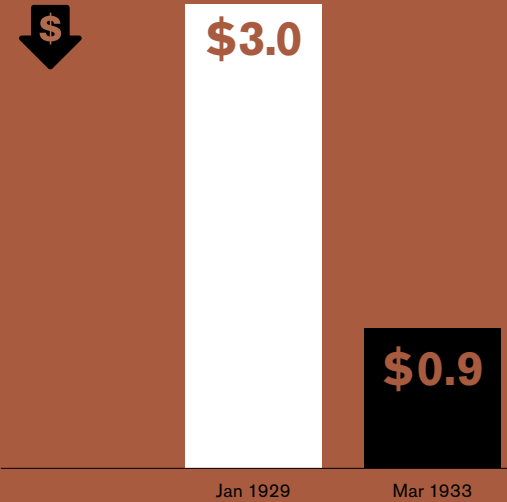
### **... and after**

History has not been repeated

Even the financial crisis of 2007 saw a quick rebound. There was some protectionist pressure around the world in the belief that it would protect jobs. But by and large, governments resisted. They were bound by their obligations in the WTO, and because they knew others were similarly bound, they were confident that the system would remain stable. If anything like two-thirds of world trade had been wiped out, the picture would have looked very different, and the damaging effect would have been immense.

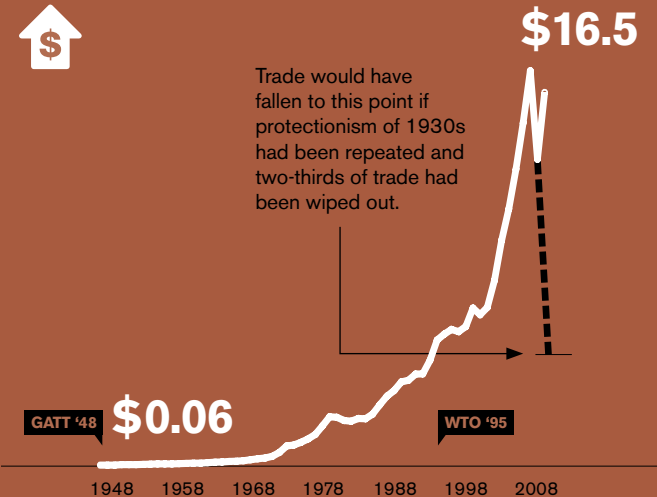
### **Monthly value of world trade, 1929–33**

\$ billion



### **Value of world trade, 1948–2010**

\$ trillion, current prices



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The WTO can...

**10** ... be effective  
without hitting  
the headlines

**Negotiations and disputes are news-makers, but a lot of vital WTO work takes place out of the limelight to help trade flow smoothly, for the benefit of the world economy and for all of us.**

## 10 ...be effective without hitting the headlines

**The negotiations are over.** The chairperson has gavelled the deal through. Ministers have signed it. Parliaments have ratified it. It's taken years and now most of the media have left.

But for the WTO and its member governments, this is just the start.

The deal consists of the agreements or "rules". They aim to help bring us safe food to eat, a good choice of clothing to wear and telephone services with which to call our friends and relatives, and effective medicines at affordable prices. WTO rules can even make it easier to have fun travelling or being entertained in our own homes.

WTO agreements can only do that if they are put into practice effectively – they have to be implemented and monitored. Years of essential, unglamorous work lie ahead.

**What governments have agreed** to put into practice includes:

- lower trade barriers
- trimming red tape in customs and trade
- justifications for restricting imports on health, safety and environmental grounds that are rational, not arbitrary

- disciplines on how they can react when imports increase sharply or the prices of imports tumble
- limits on harmful agricultural subsidies
- access to services markets
- intellectual property protection.

They also want to know that other countries are keeping their promises too – that's a right in addition to their own obligations to keep to the rules. And often they want to see how other countries are putting the rules into practice because they can learn from each other.

**Much of this work is technical and detailed.** It involves countries sharing information with each other and with the public, on anything within the WTO's scope, from "anti-dumping" investigations to labels listing food ingredients, from copyright law to measures taken to combat bird flu.

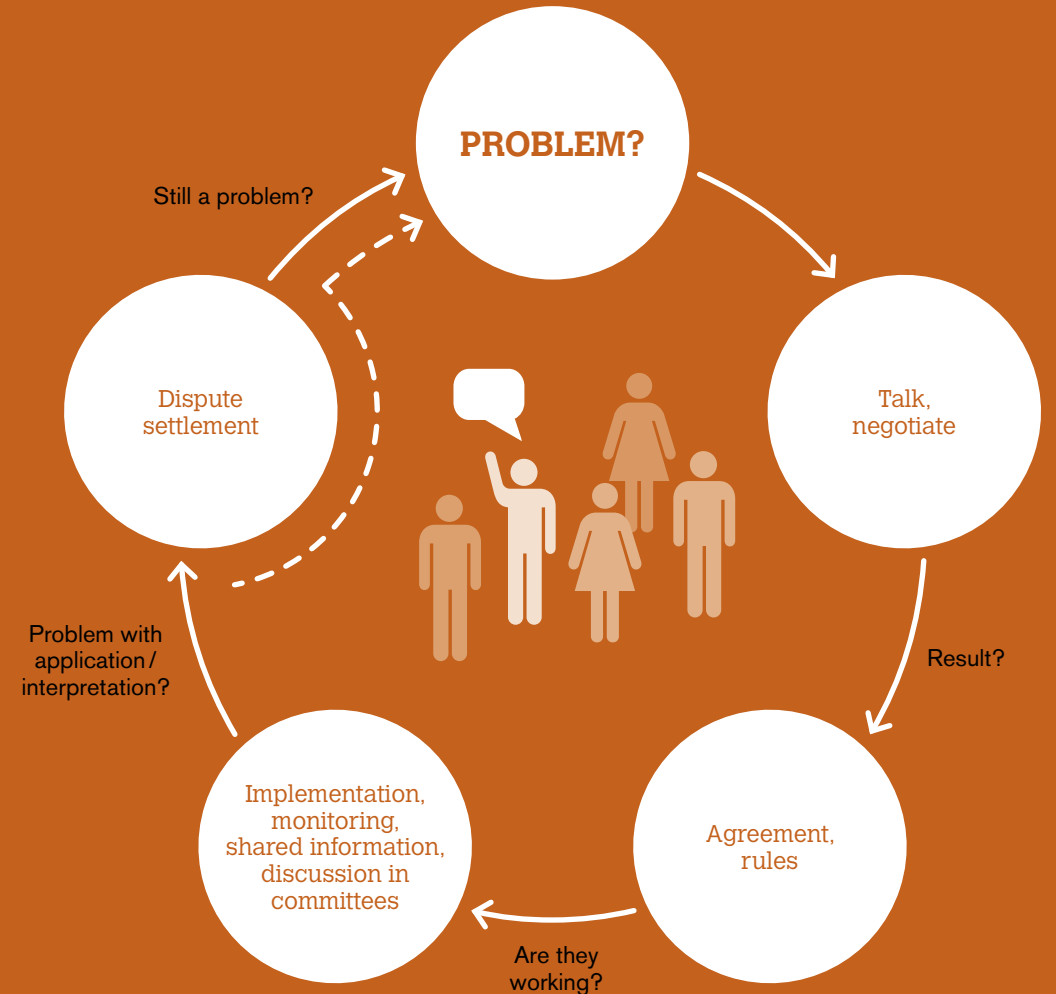
It also includes opportunities for countries to comment on each other's actions and sometimes to influence the final outcome.

In the WTO's first 16 years, governments sent in over 10,000 "notifications" just on their regulations for food safety and animal and plant health – very detailed, very technical, but very important for specialists, essential for trade and for health.

This does not make headlines – when it works, few people notice. When there is a problem, that's when it becomes news. So when the WTO is not in the headlines, it's likely that things are going well, at least as far as day-to-day trading is concerned.

**That, in a nutshell** is what the WTO's routine work is about. Without it, the negotiations would be pointless.

## The WTO process



 WTO FACT FILE

**Location:** Geneva, Switzerland

**Established:** 1 January 1995

**Created by:** Uruguay Round GATT negotiations (1986–94)

**Membership:** 157 countries\* on 24 August 2012

**Budget:** 196 million Swiss francs for 2012

**Secretariat staff:** 646 (at end 2011)  
76 nationalities  
55% women, 45% men

**Head:** Pascal Lamy (Director-General)

**Functions:**

- Administering WTO trade agreements
- Forum for trade negotiations
- Handling trade disputes
- Monitoring national trade policies
- Technical assistance and training for developing countries
- Cooperation with other international organizations

\* In this booklet, the word "country" is used to describe WTO members. However, a few members are officially "customs territories" and not necessarily countries in the usual sense of the word.

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