



WORLD TRADE ORGANIZATION

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.*

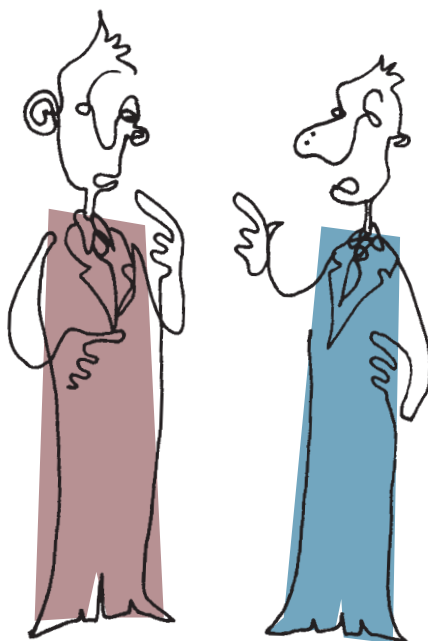


The debate will probably never end. People have different views of the pros and cons of the WTO's "multilateral" trading system. Indeed, one of the most important reasons for having the system is to serve as a forum for countries to thrash out their differences on trade issues. Individuals can participate, 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



1. The WTO does NOT tell governments what to do

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.



The WTO is member-driven

2. The WTO is NOT for free trade at any cost

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. One country's commitments become another country's rights, and vice versa.

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 freer 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.



It all depends on what countries want to bargain

3.

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.

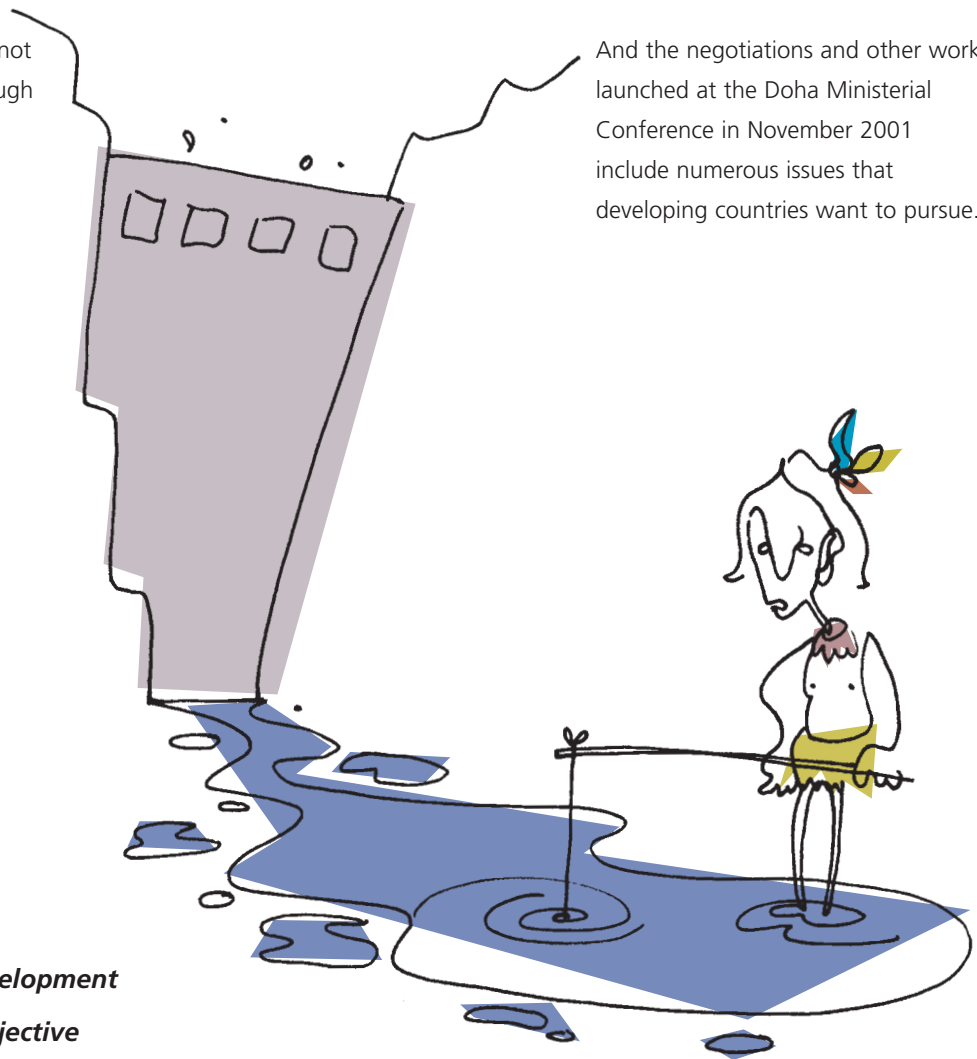
Developing countries are allowed more time to apply numerous

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.

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

***Sustainable development
is a principal objective***



4. In the WTO, commercial interests do NOT take priority over environmental protection

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.

5.

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 justified a ban on asbestos products on the grounds that WTO agreements do give priority to health and safety over trade.

At the same time, the agreements are also designed to prevent governments setting regulations arbitrarily in a way

that discriminates against foreign goods and services. Safety regulations must not be protectionism in disguise.

One criterion for meeting these objectives is to base regulations on scientific evidence or on internationally recognized standards.

Again, the WTO does not set the standards itself. In some cases other international agreements are identified in the WTO's agreements. One example is Codex Alimentarius, which sets recommended standards

for food safety and comes under the UN Food and Agriculture Organization (FAO) and World Health Organization (WHO).

But there is no compulsion to comply even with internationally negotiated standards such as those of Codex Alimentarius. Governments are free to set their own standards provided they are consistent in the way they try to avoid risks over the full range of products, are not arbitrary, and do not discriminate.



Safety concerns are built into the WTO agreements

6. 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.

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.

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.

7. Small countries are NOT powerless in the WTO

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.

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.



Everyone has to follow the same rules

8. The WTO is NOT the tool of powerful lobbies

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.

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.

- 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.

9. Weaker countries do have a choice, they are NOT forced to join the WTO

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.

10. The WTO is NOT undemocratic

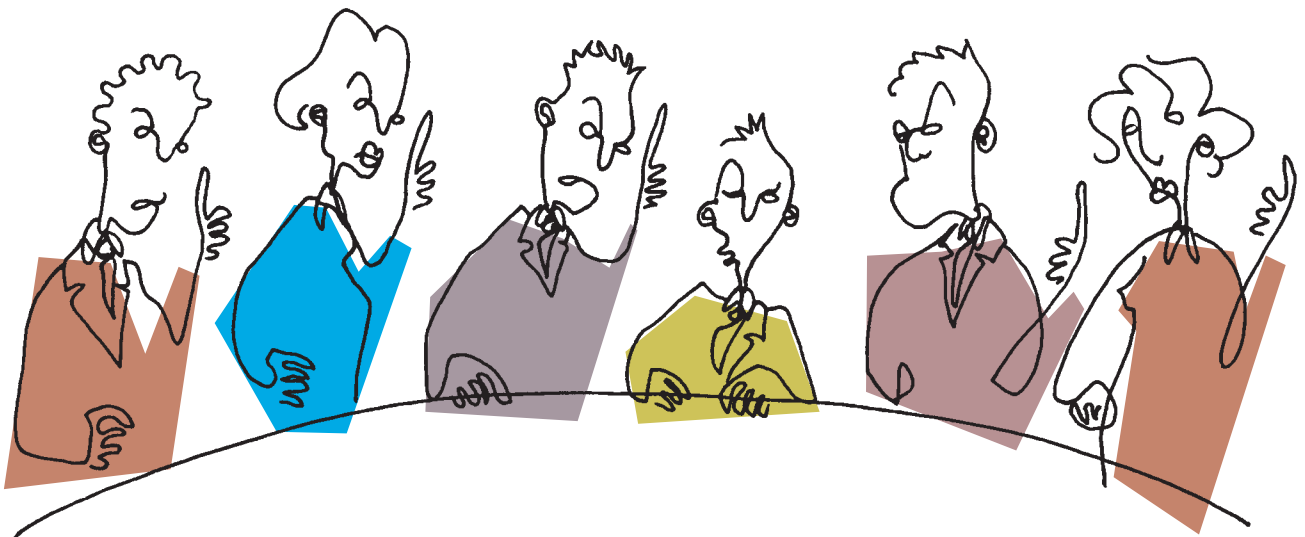
Decisions in the WTO are generally by consensus. In principle, that's even more democratic than majority rule because no decision is taken until everyone agrees

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.***

FACT FILE

The WTO

Location: Geneva, Switzerland

Established: 1 January 1995

Created by: Uruguay Round negotiations (1986–94)

Membership: 153 countries (on 23 July 2008)

Budget: 185 million Swiss francs for 2008

Secretariat staff: 625

Head: Director-General, Pascal Lamy

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

FURTHER INFORMATION

The World Trade Organization in Brief and *10 Benefits of the WTO Trading System*
companion pamphlets in this series.

Understanding the WTO

in booklet and interactive electronic versions, obtainable from WTO publications,
downloadable from the WTO website <http://www.wto.org>.

Guide to the Uruguay Round Agreements

by the WTO Secretariat, published jointly by the WTO and Kluwer Law International.

The WTO website

<http://www.wto.org>

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