
The World Trade Organisation

Global free trade – now that would be a monument worthy of a new Millennium!

William Hague, speech in Berlin, 17th September 1999.

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The First Half-Century

The World Trade Organisation (WTO) is the only world body dealing with the rules of trade between nations. Set up in 1995 following the 1986-1994 Uruguay Round of trade negotiations, it is the successor to the "GATT" organisation established to support the 1947 General Agreement on Trade and Tariffs.

The WTO multilateral trading system encompasses most areas of world trade including agricultural products, services and intellectual property as well as manufactured goods. It now has 134 members. By contrast, GATT was initially concerned only with manufactured goods accounting for about one fifth of world trade and had just 23 founder members. Through GATT and seven subsequent trade rounds, culminating in the Uruguay Round, the average tariff on trade in manufactured goods (excluding textiles and clothing) between developed countries has been reduced from its post war level of around 40% to under 4%.

The WTO Ministerial Conference in Seattle over 30th November to 3rd December 1999 is scheduled to launch a ninth trade round.

Expansion of World Trade Since Establishment of GATT

Between 1948 and 1998:-

- World merchandise exports (manufactured goods, mining and

Principles of Multilateral Trading System

The WTO multilateral trading system is designed to help trade flow as freely as possible. Six principles underlie the rules of the multilateral trading system:-

Non-discrimination

One country should not offer another country more favoured terms of access to its markets than it does to other countries (formerly known as "most favoured nation" treatment). Within national markets imported and locally sourced products should be treated equally.

Gradual lowering of trade barriers

Multilateral negotiations to lower trade barriers can enable all countries to achieve net gains, as demonstrated by the eight successful trade rounds to date.

Predictability of trading conditions

Most WTO members' tariffs are "bound" at ceiling rates above which they can never normally be increased. Almost all developed country tariffs are bound at their actual rates. Furthermore, the introduction of quotas or other measures intended to restrict imports is not normally permitted.

Transparency

WTO members undertake to make their trade rules as clear and public as possible and to notify all new rules to the WTO. The WTO publishes regular trade policy reviews on all members.

agricultural products) grew 18-fold in real terms (6.0% per annum).

- World manufactured exports grew 43-fold in real terms (7.8% per annum).
- The share of world GDP represented by trade in merchandise grew from under 7% to 17.4%.
- The share of world GDP represented by trade in commercial services grew to 4.5%.

Aggregate world trade in 1998 was US \$6.6 trillion, 80% merchandise and 20% commercial services.

Promoting fair competition

WTO members may, subject to detailed rules, charge extra duty on imports which are clearly being "dumped" at prices below importers' home market levels or being subsidised. The WTO can order the immediate withdrawal of direct export subsidies.

Encouraging development

Allowance is made for the needs of developing countries, with appropriate transition periods for new members and provisions for special assistance and trade concessions.

The 1994 WTO Agreements

The main agreements are:-

Agreements on Trade in Goods

These agreements include a new GATT, based on the original 1947 GATT, and a number of agreements on specific subjects. The only major sectors outside the new GATT are aerospace, defence and mining products.

For manufactured goods (excluding textiles and clothing), which account for 69% of world merchandise trade, tariffs on trade between developed countries now average 3.8%. Individual rates range from zero (for 44% of goods by value) to over 12% (for 10% of goods by value). Tariffs remain relatively high in footwear and leather goods, motor vehicles, processed foods and some transport and high technology products. Tariffs on most information technology products were eliminated under a separate agreement signed in 1997 by 40 leading countries.

For agricultural products (11% of world merchandise trade) there are no quotas and export subsidies and domestic support programmes are being materially cut back.

Organisation and Membership

The supreme decision making body of the WTO is the biennial Ministerial Conference of all member governments. Day-to-day decisions are made in Geneva by officials of member-governments. Decision making is normally by consensus.

The WTO Secretariat is based in Geneva with around 500 people and a budget of under US \$100 million. Its head is the Director-General and its primary functions are to provide a forum for trade negotiations, to handle trade disputes and to monitor national trade policies. The current Director-General is Mr Mike Moore, a New Zealander. His scheduled successor, in September 2002, is Dr Supachai Panitchpakdi, a Thai.

Members include all OECD countries and most significant developing countries, though not yet China and Russia. They retain full autonomy over their external commercial relations and are free to withdraw at six months notice (although none ever has). The WTO has no supranational authority.

The EU, the USA, Japan and Canada, which together account for over 50% of world trade (excluding intra-EU trade), work closely together on many issues in an informal

Tariffs are still relatively high. A further round of negotiations in agriculture is due in 2000.

For textiles and clothing (7% of world merchandise trade) the import quotas and bilateral agreements established under the 1974 Multifibre Arrangement are gradually being replaced by tariffs, albeit at relatively high rates.

Other agreements tackle non-tariff barriers based on discriminatory technical standards and health and safety measures.

GATS (General Agreement on Trade in Services)

GATS covers all service sectors, apart from air transport, and lists the specific sectors which each country agreed to open up to international competition. It provides for further rounds of negotiations, the first of which is due in 2000. Specific agreements for telecommunications and financial services were signed in 1997.

TRIPS (Trade-Related Aspects of Intellectual Property Rights)

TRIPS covers copyrights, trademarks (including service marks), patents, geographical indications, industrial designs and trade secrets. It prescribes minimum legal protection standards and infringement penalties.

Dispute Settlement

Whilst the WTO Agreements are legally binding contracts between governments, the WTO's new dispute settlement procedure was designed to encourage countries to reach mutually agreed solutions with the help of WTO mediation. When necessary, the WTO gives a ruling based on the report of an independent panel of experts, normally within 12-15 months. If the parties still fail to settle their dispute, the WTO has power to authorise retaliation with trade sanctions equivalent in value to the impairment of trade suffered.

Since the WTO was established only some

grouping known as the Quad.

Regionalism

Regional trade agreements are permitted provided that internal trade is barrier-free in substantially all sectors and that regional trade barriers are not raised against the outside world. Most are free trade agreements, members of which are free to determine their own external trade policies.

Regional preference is by definition excluded from the WTO's ultimate objective of global free trade.

The WTO and the European Union (EU)

The EU is a customs union which participates in the WTO as a single entity, with the European Commission (specifically the trade commissioner, Pascal Lamy) negotiating on behalf of the 15 EU Member States as a whole. The UK ceded control of its external trade policy to Brussels on accession in 1973, and, under Article 133 of the EC Treaty, cannot veto a measure negotiated by the EU on its behalf, though it remains a WTO member in its own right. The UK will not have a seat at the negotiating table during the forthcoming trade round.

The EU "Single Market", like the internal market of any WTO member, is only the concern of the WTO with regard to the non-discrimination principle that imported and locally sourced products should be treated equally.

The Future

A prime objective of the forthcoming Ministerial Conference in Seattle will be to agree the agenda for the next trade round, which must include agriculture and services. The agenda will probably include industrial tariffs as well. Pressures will certainly be felt from the anti-globalisation and environmental movements. Whatever the outcome, the risk of the trade liberalisation process ever going into permanent reverse seems small, for no country would benefit thereby.

70 disputes have required the appointment of a panel and, outside the agricultural sector, none has led to trade sanctions. The US \$319 million of trade sanctions authorised in response to the EU's refusals to lift its quotas on bananas shipped by USA companies and to permit the import of hormone-treated meat from the USA and Canada are very small in the context of aggregate world trade of US \$6.6 trillion.
