

"Ten Benefits of the WTO System"

The following is condensed from a reading on the website of the World Trade Organization, www.wto.org.

The WTO's paramount objective is to help trade flow smoothly, freely, fairly, and predictably. It does this by:

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

1. The system helps to keep the peace.

How does this work? Crudely put, sales people are usually reluctant to fight their customers — usually. In other words, if trade flows smoothly and both sides enjoy a healthy commercial relationship, political conflict is less likely.

What's more, smoothly flowing trade also helps people all over the world become better off. People who are more prosperous and contented are also less likely to fight.

The short-sighted protectionist view is that defending particular sectors against imports is beneficial. But that view ignores how other countries are going to respond. The longer term reality is that one protectionist step by one country can easily lead to retaliation from other countries, a loss of confidence in freer trade, and a slide into serious economic trouble for all — including the sectors that were originally protected. Everyone loses.

Confidence is the key to avoiding that kind of no-win scenario. When governments are confident that others will not raise trade barriers, they will not be tempted to do the same. They will also 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.

2. The system allows disputes to be handled constructively.

As trade expands in volume, in the numbers of products traded, and in the numbers of countries and companies trading, there are more opportunities for trade disputes to arise. The WTO system helps resolve these disputes peacefully and constructively.

When member nations bring disputes to the WTO, the WTO's procedure focuses their attention on the rules. Once a ruling has been made, countries concentrate on trying to comply with the rules, and perhaps later renegotiating the rules — not on declaring war on each other.

Nearly 200 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 based on rules rather than power makes life easier for all.

The WTO cannot claim to make all countries equal. But it does reduce some inequalities, giving smaller countries more voice, and at the same time freeing the major powers from the complexity of having to negotiate trade agreements with each of their numerous trading partners.

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. Rich and poor countries alike can be challenged if they violate an agreement, and they have an equal right to challenge others in the WTO's dispute settlement procedures.

The result for smaller countries is some increased bargaining power. Without the WTO's system, the more powerful countries would be freer to impose their will 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.

The fact that there is a single set of rules applying to all members greatly simplifies the entire trade regime.

4. Freer trade cuts the cost of living.

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.

Protectionism is expensive: It raises prices. 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.

The system now entrusted to the WTO has been in place for over 50 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.

5. The WTO system gives consumers more choice, and a broader range of qualities to choose from.

Think of all the things we can now have because we can import them: fruits and vegetables out of season, foods, clothing and other products that used to be considered exotic, cut flowers from any part of the world, all sorts of household goods, books, music, movies, and so on.

Think also of the things people in other countries can have because they buy exports from us and elsewhere.

Look around and consider all the things that would disappear if all our imports were taken away from us. Imports allow us more choice — both more goods and services to choose from, and a wider range of qualities. Even the quality of locally produced goods can improve because of the competition from imports.

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.

The fact that there is additional income means that resources are available for governments to redistribute. The WTO's own estimates for the impact of the 1994 Uruguay Round trade deal were between \$109 billion and \$510 billion



Associated Press/Eugene Hoshiko

Residents of Shanghai, China pass a Pepsi billboard.

added to world income (depending on the assumptions of the calculations and allowing for margins of error).

Trade clearly boosts incomes. 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, and that can be good news for employment.

It is also true that some jobs are lost even when

trade is expanding. Some countries are better at making the adjustment than others. This is partly because some countries have more effective adjustment policies. Those without effective policies are missing an opportunity.

The E.U. Commission calculates that the creation of its Single Market means that there are somewhere in the range of 300,000–900,000 more jobs than there would be without the Single Market.

Often, job prospects are better in companies involved in trade.

In the United States, 12 million people owe their jobs to exports; 2 million of those jobs were created between 1993 and 1997. And those jobs tend to be better-paid with better security. Between 1987 and 1992, employment growth in companies involved in exporting was around 18% higher than in other comparable companies.

8. The basic principles make the system economically more efficient, and they cut costs.

Trade allows a division of labor between countries. It allows resources to be used more appropriately and effectively for production.

Also, when governments charge the same duty rates on imports from all countries, and use the same regulations for all products, no matter where they come from, whether imported or locally produced, life for companies is much simpler.

Non-discrimination is just one of the key principles of WTO's trading system. Others include: transparency (clear information about policies, rules, and other 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, etc.

9. The WTO system shields governments from narrow interests.

Governments 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. Superficially, restricting imports looks like an effective way of supporting an economic sector. But if you protect your clothing industry, everyone else has to pay for more expensive clothes, which puts pressure on wages in all sectors, for example.

Protectionism can also escalate as other countries retaliate by raising their own trade barriers. That's exactly what happened in the 1920s and '30s with disastrous effects. Even the sectors that were demanding protection ended up losing.

If, during a 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 greater clarity about trading conditions.

For governments, it can often mean good discipline. ■

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