

# Commentary

BUFFIN PARTNERS INC.

ECONOMIC INVESTMENT AND ACTUARIAL RESEARCH

## World Trade Organization

The World Trade Organization (WTO) was established in 1995 as a successor to the General Agreement on Tariffs and Trade (GATT). WTO provides a forum for trade negotiations, administers trade agreements, monitors national trade policies, handles trade disputes, and provides technical assistance for developing countries. The main purpose of WTO is to ensure that trade flows as smoothly, predictably and freely as possible in accordance with global rules of trade between nations, resulting in a more prosperous, peaceful and accountable economic world. At the heart of the WTO multilateral trading system are the WTO agreements that are negotiated by a majority of the world's trading nations. These agreements represent the ground-rules for international commerce and trade that guarantee WTO member countries important trade rights. The system was developed through a series of trade negotiations, or rounds, held under GATT. The first rounds dealt mainly with tariff reductions, but later negotiations included other areas such as anti-dumping and non-tariff measures. In 1997, 69 nations agreed to wide-ranging liberalization measures on telecommunications services, 40 nations successfully concluded negotiations for tariff-free trade in information technology products, and 70 nations concluded a financial services agreement covering more than 95% of trade in banking, insurance, securities and financial information. In 2000, new talks started on agriculture and services; these discussions were incorporated into the Doha Development Agenda at the WTO Ministerial Conference in Doha, Qatar in 2001. This Agenda was comprehensive in scope and included non-agricultural tariffs, trade and environment issues, investment, competition policy, trade facilitation, intellectual property, transparency in government procurement, and a number of issues of concern to developing countries with respect to imple-

mentation of WTO agreements. There are about 60 agreements and separate commitments made by individual WTO member countries in specific areas such as customs duty rates and opening domestic markets to international trade. Through these agreements, WTO members operate a non-discriminatory trading system; each country receives guarantees that its exports will be treated fairly and consistently in other countries' markets; each country provides promises of comparable treatment for imports into its own market.

The WTO intellectual property agreement establishes rules for trade and investment in ideas and creativity. The rules state how copyrights, patents, trademarks, industrial designs, geographical names used to identify products, and trade secrets should be protected when trade is involved. The WTO procedure for resolving trade disputes under the Dispute Settlement Understanding is vital for enforcing the rules and ensuring that trade flows smoothly. Countries bring disputes to the WTO if they believe that their rights under the agreements are being infringed. Judgments by specially-appointed independent experts are based on interpretations of the agreements and individual countries' commitments.

The WTO has 149 members, accounting for over 97% of world trade, and there are some 30 others that are negotiating membership terms and conditions. Russia and Vietnam are among the list of nations that are expected to soon become members of the WTO. The WTO's top level decision-making body is the Ministerial Conference that meets at least once every two years. Below this is the General Council that meets several times a year; the General Council also meets as the Trade Policy Review Body and the Dispute Settlement Body. Numerous special committees, working groups and working parties deal with the individual agreements and other areas such as the environment,

development, regional trade agreements, and membership applications.

Under the WTO agreements, the guiding principle is trade without discrimination; this implies that imported and locally-produced goods should be treated equally; the same principle applies to foreign and domestic services. Countries cannot discriminate between their trading partners and are required to follow the principle of most-favored-nation (MFN) by extending any special concessions that are granted to any trading partner to all trading partners without discrimination. Lowering trade barriers is one of the most obvious means of encouraging trade; such barriers include customs duties, tariffs, and measures such as import bans or quotas that restrict quantities selectively; other indirect barriers to trade include administrative procedures and exchange rate policies. Other guiding principles of the WTO include encouraging freer trade through negotiation, achieving predictability through binding commitments and transparency, promoting fair competition, and encouraging development and economic reform. Nevertheless, the challenge presented by competitive imports is real and some nations seek protectionism measures through subsidies, administrative complexity, and appeals to policy objectives such as consumer protection or environmental preservation. The WTO encourages its members to pursue policies that prevent a trend to protectionism with its attendant risks of market contraction and reduced global economic activity.

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