World Trade Organization

The General Agreement on Tariffs and Trade (GATT) was an international organization created in 1947 to reduce trade barriers through multilateral negotiations. In January 1995, the GATT was replaced by a stronger World Trade Organization (WTO), the result of eight years of GATT negotiations. Today, member countries number 125 (nearly the whole world except China, some former communist countries, and a number of small nations) and WTO rules apply to over 90 percent of international trade.

Although still a little-known and little-understood institution, the WTO has become increasingly controversial as it has expanded the scope of its work from its original narrow GATT focus on reducing tariffs on manufactured goods. The WTO now also works to eliminate nontariff barriers, and can be used to challenge environmental, health, and other regulations that may serve legitimate social goals but may be regarded as impediments to international trade. The 1995 replacement of the General Agreement on Tariffs and Trade (GATT) by the WTO heightened concern among critics because its stronger enforcement powers represent a further shift in power from citizens and national governments to a global authority run by unelected bureaucrats.

The most controversial outcome of the Uruguay Round were the establishment of much stronger enforcement mechanisms in the WTO. The most controv ersial outcome of the Uruguay Round was the establishment of much stronger enforcement mechanisms in the WTO. The General Agreement on Tariffs and Trade (GATT) functions were intended to be part of a broader International Trade Organization (ITO), whose charter was negotiated in the mid-1940s. The ITO, which would have been under the aegis of the UN, was to have a broad regulatory mandate, covering trade, employment rules, and business practices. However, largely due to pressure from the business community and concerns about the ITO threatening U.S. sovereignty, the U.S. Senate killed the organization by refusing to ratify it, leaving the more narrowly focused GATT to evolve on its own.

Key Points
- World Trade Organization (WTO) rules apply to over 90 percent of international trade.
- The 1995 replacement of the General Agreement on Tariffs and Trade (GATT) by the WTO heightened concern among critics because its stronger enforcement powers represent a further shift in power from citizens and national governments to a global authority run by unelected bureaucrats.
- The most controversial outcomes of the Uruguay Round were the establishment of much stronger enforcement mechanisms in the WTO.

Negotiators from member nations revised GATT rules and liberalized world trade several times in multi-year conferences called “Rounds.” The GATT’s (and now the WTO’s) approach to reducing trade barriers was based on the “most-favored nation” principle, which requires that when a nation grants a trade privilege to one country, it must grant the same privilege to all GATT members. Another guiding principle is that of “national treatment,” which requires nations to give equal treatment to foreign imports of goods or services as to domestic goods or services.

The most recent GATT Round, the Uruguay Round, concluded in 1993 and received U.S. congressional approval in November 1994. It is slated to result in average tariff reductions of 38 percent for developed economies, reducing average tariffs worldwide from 6.3 percent to 3.9 percent. In comparison, average tariff rates just after World War II were 40 percent.

The most controversial outcome of the Uruguay Round was the establishment of much stronger enforcement mechanisms in the WTO. Although GATT always had a dispute resolution process, member nations often ignored its rulings since they lacked serious enforcement power. Unlike GATT, WTO panel decisions are binding. If one nation makes a complaint to the WTO that another nation’s law or regulation is protectionist and in violation of WTO rules, the WTO can make that nation bring the law into compliance with the WTO standard (with minor exceptions). If the country fails to comply, the WTO can authorize the complainant nation to impose trade sanctions.

Liberalization of investment was another goal of the Uruguay Round, but deadlocked negotiators had to extend the deadline for new rules in this area. Thus, at the WTO ministerial meeting in Singapore in December 1996, European nations, backed by the U.S. and Japan, pushed for talks on a proposed Multilateral Investment Agreement (MIA). The MIA would force national governments to grant foreign investors “national treatment,” the same concept of nondiscrimination that is already applied to trade. If the MIA were adopted, corporations could invest without restrictions in any WTO member nation.
GATT negotiations take place behind closed doors in Geneva, Switzerland. Although U.S. negotiators must consult with nongovernmental advisory committees, these entities have a disproportionate number of corporate lobbyists. Labor unions and environmental groups have only token representation, while family farm, consumer, health, and other citizens groups are completely shut out. Likewise, the WTO lacks mechanisms for public accountability or participation. It is not required to consult with nongovernmental organizations or release documents until after decisions are made. WTO dispute resolution panels are comprised of “trade experts” (chosen by government trade representatives from a set roster) who hold hearings and announce rulings in secret.

Under the WTO, member countries have the right to challenge other countries’ local, state, or federal laws as impediments to international trade. If the WTO finds the law to be WTO-illegal, the federal government may overturn the law or face potential trade sanctions. This shift in power to a global-level bureaucracy undermines a cornerstone of democracy—the practice of citizens working with public officials to develop laws that protect the public welfare.

While promoters argue that the WTO gives developing countries expanded access to industrialized country markets, critics charge that trade liberalization undermines Southern nations’ long-term development prospects. Small-scale, locally owned firms have difficulty competing with transnational firms because they lack comparable access to capital, economies of scale, or advanced technology. This concern is particularly acute in agriculture, where WTO rules on trade and domestic policy reform undermine national strategies to ensure food security.

New WTO rules also strip protections for local firms in the services sector. For example, countries must allow foreign banks to open branches in small towns, threatening locally owned banks with deeper ties to the community. Malaysian economist Martin Khor claims that new WTO rules could also decrease access to health care, because they require that private companies (primarily from the North) be allowed to buy up hospitals, which could raise costs for the public. The proposed Multilateral Investment Agreement would further diminish developing countries’ power to protect local industries and cultures from being wiped out by foreign corporations.

The Uruguay Round did nothing to address what the AFL-CIO calls “the cruelest and most prevalent trade subsidy of all”—the suppression of worker rights. Members even refused to create a process for studying the inclusion of internationally recognized worker rights in the WTO, largely due to opposition from a coalition of Southern governments and a few nongovernmental groups concerned that worker-rights standards would be used as nontariff barriers against the exports of low-income countries.

The argument for linking labor, as well as environmental standards, to the WTO is rooted in two concepts. First, the violation of core worker rights and environmental standards is often used by corporations and governments to gain unfair advantage in trade. Second, the core labor rights and environmental standards to be protected in the WTO must be only those that are internationally recognized in the UN-affiliated International Labor Organization (ILO) conventions and international environmental treaties.

Under the WTO, a nation cannot discriminate against products on the basis of how they are produced—be it by child labor or with environmentally destructive technologies. U.S. law, for example, has banned tuna imports from countries that allow long circular nets designed to catch tuna, but which also trapped and killed numerous dolphins. Yet in the eyes of the WTO, a can of tuna is a can of tuna, whether dolphins were killed in the production process or not.

One of the most contentious aspects of the WTO rules is the use of the “least trade-restrictive” test. Under GATT and now WTO rules, a measure is deemed “necessary” only if there is no less trade-restrictive means available to achieve the measure’s legitimate health-related goals. This test limits a WTO member’s ability to develop its own approach to environmental protection.

In 1994 the European Union used this principle to challenge the U.S. Corporate Average Fuel Economy (CAFE) standards, charging that the fuel conservation goals of the standards could have been just as easily obtained through gasoline taxes. The standards were ruled partially in violation of GATT.

In effect, the Uruguay Round places downward pressure on each country’s laws to match lower international standards (in the areas where they exist). Thus, if a U.S. law sets a higher standard on health or food safety (e.g., allowable pesticide use) than the international norms codified by the UN, a country with a lower standard could challenge the law as an impediment to trade, and, depending on the outcome of the challenge, potentially force the U.S. to lower the standard down to a common denominator.
Toward a New Foreign Policy

Three sets of issues should be high on the U.S. agenda as it approaches the new WTO in the short term:

1. The expansion of WTO Powers: The U.S. should re-examine its support for expansion of WTO powers into the investment realm. Certain governments in the South have justifiably argued for a thorough evaluation of the current WTO before any new powers are considered. Such a review would benefit from participation by farm, labor, environmental, and other organizations that have been affected by the new trade rules.

2. Democracy and Transparency: European nongovernmental groups have taken the lead in arguing for an end to the secrecy which shrouds the operations of the WTO. As a public entity, the WTO should make all documents public immediately. Dispute resolution procedures should be open to public scrutiny. Nongovernmental groups should be recognized as important WTO monitors and contributors to WTO deliberations, and be allowed to observe WTO meetings.

3. Labor Rights and the Environment: The U.S. government has called for the establishment of a WTO Working Party on Worker Rights that will make proposals on the inclusion of labor standards within WTO rules. Yet the U.S. should argue more ardent the case for Worker Rights group as part of the WTO, since it is a necessary precondition to a serious discussion of how core international worker rights could be incorporated into the international trading system.

The original proposal for an International Trade Organization, which placed employment issues and corporate behavior on the agenda, should be reconsidered.

Key Recommendations

- The U.S. should re-examine its support for expansion of WTO powers into the investment realm.
- The U.S. should argue more ardent the case for Worker Rights group as part of the WTO, since it is a necessary precondition to a serious discussion of how core international worker rights could be incorporated into the international trading system.
- The original proposal for a International Trade Organization, which placed employment issues and corporate behavior on the agenda, should be reconsidered.

and replacing it with a more effective environmental review process.

As criticism against the WTO rises among citizen groups in North and South and among a number of governments in the South, there is the longer-term challenge of posing an alternative to this institution that would better serve the needs of the majority in the world. Most governments and citizen groups agree that there is a need for a global trading body that has the authority to enforce the trade rules that are agreed upon among nations.

A more just and sustainable trade and investment order would be governed by a body that is more open and transparent, more democratic, is built upon a different set of rules, and is rooted in a different set of principles. The core principles of GATT—“national treatment” and nondiscrimination—work well only when all nations’ level of development is equal.

In today’s unequal world, nations must be given leeway to protect domestic industries and laws. For both the low-income countries of the South and U.S. communities concerned about maintaining and improving social and economic standards, a global trading body should allow governments to subsidize, favor, and protect local industries. Countries should be able to set domestic content levels to encourage local production, a practice now prohibited by the WTO. Communities should be able to protect seeds and homeopathic medicines from the “intellectual property” incursions of large seed and pharmaceutical companies.

Likewise, no global body should be able to challenge any nation’s health, safety, environmental, or other laws as being too stringent; it is up to each nation to determine how high standards should go. At the same time, no nation should be allowed to gain unfair advantage in international trade through the denial of emerging international worker rights and other standards, and a new global trading body should have the power to enforce this. As the debate emerges over what form a replacement of the WTO should assume, it is useful to put the old blueprints of the International Trade Organization on the table. While the world has changed markedly in four decades, the original architecture which placed employment issues and corporate behavior on the agenda may be applicable to today.

Written by Sarah Anderson and John Cavanagh of the Institute for Policy Studies.
sources for more information

Organizations

Council of Canadians
904-251 Laurier Avenue W
Ottawa, Ontario,
K1P 5J6 Canada
Contact: Maude Barlow

Institute for Agriculture and Trade Policy
1313 5th Street, Ste. 303
Minneapolis, MN 55414
Voice: (612) 379-5980
Fax: (612) 870-4846
Email: mritchie@iatp.org
Contact: Mark Ritchie

People-Centered Development Forum
14 E 17th Street, Ste. 5
New York City, NY 10003
Voice: (212) 620-7137
Fax: (212) 242-1901
Email: pcdf@igc.org
Contact: David Korten

Public Citizen’s Global Trade Watch
Global Trade Watch Campaign
215 Pennsylvania Avenue SE
Washington, DC 20003
Voice: (202) 546-4996
Fax: (202) 547-7392
Contact: Lori Wallach

Research Foundation for Science, Technology and Natural Resource Policy
A-60 Haus Khas
New Delhi, India 110016
Contact: Vandana Shiva

Third World Network
228 Macalister Road
Penang, Malaysia
Contact: Martin Khor

Transnational Institute
Paulus Potterstraat 20
1071 DA Amsterdam, Netherlands
Contact: Myriam Vander Stichele

Global Trade Watch
http://www.igc.apc.org/iatp/trade.html

Contact: Myriam Vander Stichele
1071 DA Amsterdam, Netherlands
Paulus Potterstraat 20

Contact: Martin Khor
1071 DA Amsterdam, Netherlands
Paulus Potterstraat 20

People-Centered Development Forum
14 E 17th Street, Ste. 5
New York City, NY 10003
Voice: (212) 620-7137
Fax: (212) 242-1901
Email: pcdf@igc.org
Contact: David Korten

Public Citizen’s Global Trade Watch
Global Trade Watch Campaign
215 Pennsylvania Avenue SE
Washington, DC 20003
Voice: (202) 546-4996
Fax: (202) 547-7392
Contact: Lori Wallach

Research Foundation for Science, Technology and Natural Resource Policy
A-60 Haus Khas
New Delhi, India 110016
Contact: Vandana Shiva

Third World Network
228 Macalister Road
Penang, Malaysia
Contact: Martin Khor

Transnational Institute
Paulus Potterstraat 20
1071 DA Amsterdam, Netherlands
Contact: Myriam Vander Stichele

People-Centered Development Forum
14 E 17th Street, Ste. 5
New York City, NY 10003
Voice: (212) 620-7137
Fax: (212) 242-1901
Email: pcdf@igc.org
Contact: David Korten

Public Citizen’s Global Trade Watch
Global Trade Watch Campaign
215 Pennsylvania Avenue SE
Washington, DC 20003
Voice: (202) 546-4996
Fax: (202) 547-7392
Contact: Lori Wallach

Research Foundation for Science, Technology and Natural Resource Policy
A-60 Haus Khas
New Delhi, India 110016
Contact: Vandana Shiva

Third World Network
228 Macalister Road
Penang, Malaysia
Contact: Martin Khor

Transnational Institute
Paulus Potterstraat 20
1071 DA Amsterdam, Netherlands
Contact: Myriam Vander Stichele

Publications


Jerry Mander and Edward Goldsmith, eds., The Case Against the Global Economy: And For a Turn to the Local (Sierra Club Books, 1996).


World Wide Web

GATT 94
http://anaserve.irvuit.no/trade law/gatt/nave/toc.html

GATT Text on Line
http://farnsworth.mit.edu/dig/NII_info/gatt.html

Global Trade Watch
http://essential.org/public_citizen/pctrade

Institute for Agriculture and Trade Policy
http://www.igc.apc.org/iatp/trade.html

International Trade Law Monitor
http://ltl.irvuit.no/trade_law

National Law Center for Inter-American Free Trade
http://www.natlaw.com/treaties/gatt.htm

World Trade Organization
http://www.unncc.org

WTO Homepage
http://www.wto.org/Welcome.html

WTO Ministerial Conference 1996, Singapore
http://www.wto96.org