Online Course Of
Introduction to the WTO

WTO E-Learning
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Module 1
The WTO and the Multilateral Trading System (MTS)

What is the WTO?
- Trade Negotiations
- WTO Agreements
- Monitoring and Surveillance
- Settling Disputes
- Capacity Building
- Cooperating with other international organizations

Why do governments join the WTO?
- History matters: International trade cooperation and the creation of the WTO
- Get your economics right: Basic international trade theory
- Main features of the MTS

How does the WTO work?
- The institutional structure of the WTO
- Decision-making

How to join the WTO?
- Who can apply for WTO Membership?
- The Process of Accession
- Technical Assistance for acceding governments

What are the WTO Agreements?
- The basic structure of the WTO Agreements
- Multilateral Agreements

Summary
What is the WTO?

The WTO is an inter-governmental organization for progressively liberalizing trade. Trade liberalization is the main approach that WTO Member governments have adopted to promote economic growth and development. The WTO has almost a global Membership. More than 150 governments are Members of the WTO.

There are a number of ways of looking at the WTO. It is an organization for governments to negotiate global trade agreements. The WTO operates a system of trade rules that apply to all its members. The WTO is also a place for Member governments to settle their trade disputes. In this module, we will explain what the WTO is and what it does (including its objectives and main functions), the reasons why governments join the WTO and how the WTO is organized.
Objectives of the WTO

In the preamble to the WTO Agreement, the parties to the Agreement recognize the objectives they wish to attain through the multilateral trading system:

- raise living standards;
- ensure full employment;
- ensure a large and steadily growing volume of real income and effective demand; and
- expand the production of and trade in, goods and services, while allowing for the optimal use of the world’s resources in accordance with the objective of sustainable development.

The Agreement also recognizes the need for "positive efforts to ensure that developing countries, and especially the least-developed among them, secure a share in the growth in international trade commensurate with ... their economic development".

Background information and materials

Legal documents:
- The Preamble of the Marrakesh Agreement Establishing the WTO: http://www.wto.org/english/docs_e/legal_e/04-wto_e.htm

Introductory videos:
- The WTO in brief (video): http://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr00_e.htm
- WTO at fifteen (video): http://www.wto.org/english/res_e/webcas_e/webcas_e.htm#video
- A virtual tour of the WTO (video): http://www.wto.org/english/forums_e/students_e/students_e.htm

Supplementary information:
- In brief - The WTO: past, present and future: http://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr01_e.htm
- Understanding the WTO – Basics: http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact1_e.htm
WTO Members

WTO Member governments are generally grouped as “developed Members” or “developing Members”, according to their level of development. More than two thirds of the WTO Members are developing countries.

There is no agreed definition of what is a “developed” or a “developing” Member in the WTO. It is up to each Member to decide if it is to be considered “developing Member” (this is known as the principle of self-selection). This being said, other Members can challenge the decision of a Member to be considered as a developing Member.

The distinction between “developed” and “developing” Members is important insofar as developing Members enjoy special rights in the WTO. Some developing countries are considered least developed countries (LDCs). The United Nations Economic and Social Council (ECOSOC) maintains a list of the countries that are considered LDCs. Least-developed country Members (LDCs) enjoy additional rights in the WTO.

In this course you will also find references to other groups of Members that receive special attention in the WTO according to their particular situation. That is the case, for example, of "small economies"(*). These groups do not create a sub-category of WTO Members.

(*) Note: See paras. 35 of Doha Declaration.

WTO FACT FILE

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<td>Around 700</td>
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<td>Official languages</td>
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Background information and materials

- See list of WTO Members: [http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm)
- Who are the developing countries in the WTO?: [http://www.wto.org/english/tratop_e/devel_e/d1whodevel_e.htm](http://www.wto.org/english/tratop_e/devel_e/d1whodevel_e.htm)
- Link to Understanding the WTO – developing countries: [http://www.wto.org/english/thewto_e/whatis_e/tif_e/dev1_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/dev1_e.htm)
- List of LDC Members: [http://www.wto.org/english/thewto_e/whatis_e/tif_e/org7_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/org7_e.htm)
- Work programme on small economies: [http://www.wto.org/english/tratop_e/devel_e/dev_wkprog_smalleco_e.htm](http://www.wto.org/english/tratop_e/devel_e/dev_wkprog_smalleco_e.htm)
The WTO provides to its Member governments a forum for negotiating global trade rules. When countries have faced trade barriers and wanted them lowered, the negotiations have helped them to open markets for trade.

Negotiations in the WTO are conducted directly and exclusively by the Member governments. The WTO was born out of negotiations and everything it does is the result of negotiations among its Members. The purpose is to reduce trade barriers for the benefit of producers, exporters, importers and consumers, while allowing governments to meet legitimate policy objectives.

The bulk of the WTO's current work comes from the 1986-94 negotiations called the Uruguay Round and earlier negotiations under the General Agreement on Tariffs and Trade (GATT).

The WTO is currently hosting negotiations under the Doha Development Agenda (DDA) launched in 2001.

Background information and materials

Legal documents:
- The Marrakesh Agreement Establishing the WTO (Article III:2): http://www.wto.org/english/docs_e/legal_e/04-wto_e.htm#articleIII

Introductory videos:
- What is the Doha Round (video): http://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr00_e.htm

Supplementary information:
- Understanding the WTO – Basics: http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact1_e.htm
- Understanding the WTO – The Doha Agenda: http://www.wto.org/english/thewto_e/whatis_e/tif_e/doha1_e.htm
- Doha Development Agenda (DDA) main page: http://www.wto.org/english/tratop_e/dda_e/dda_e.htm
The WTO is a system of international trade rules: The WTO Agreements

International trade rules, concluded as a result of WTO negotiations, are contained in the WTO Agreements. They are essentially contracts binding Member governments to keep their trade policies within agreed limits. The WTO Agreements contain the global rules for trade in goods, services and trade-related aspects of intellectual property rights.

The WTO Agreements recognise that, in certain circumstances, Members may need to apply trade restrictions to meet certain policy objectives, such as the protection of human health or the environment. In those cases, Members are allowed to depart from the basic principles, but subject to specific conditions.

The WTO Agreements are based on a number of simple and fundamental principles:

- **Non-discrimination**: Members shall not discriminate between their trading partners (most-favoured nation principle); or between national and foreign like products, services or nationals (national treatment principle).
- **More open trade**: reducing or eliminating obstacles to trade.
- **Transparency and predictability**: traders and Members need to know what are the trade rules around the world (transparency) and that trade measures will not be raised arbitrarily (predictability).
- **Special treatment for less developed Members**: least developed Members face particular challenges when benefiting from trade liberalization therefore, they have more time to adjust to the rules, greater flexibility and other special rights.

Background information and materials

Supplementary information:
- See video - What do countries negotiate at the WTO: [http://www.wto.org/english/forums_e/students_e/students_e.htm](http://www.wto.org/english/forums_e/students_e/students_e.htm)
- To find out more about the WTO main principles: [http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm)
The WTO administers and monitors the WTO Agreements

The WTO facilitates the administration of the WTO Agreements. To this end, WTO Member governments meet regularly in the various WTO councils and committees to monitor the implementation of the Agreements.

Monitoring is one of the most intense areas of work in the WTO. WTO councils and committees consider information provided by the Members regarding their trade regulations and measures.

They also serve as a forum for discussions on various WTO-related issues.

WTO Members also review periodically each Member's trade policies and practices under the Trade Policy Review Mechanism (TPRM). These reviews allow the evaluation of individual Members' trade policies and practices and their impact on the multilateral trading system (MTS).

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**Background information and materials**

**Legal documents:**
- The Marrakesh Agreement Establishing the WTO (Article III:1, III:4):
  
  [http://www.wto.org/english/docs_e/legal_e/04-wto_e.htm#articleIII](http://www.wto.org/english/docs_e/legal_e/04-wto_e.htm#articleIII)

**Supplementary information:**
- Understanding the WTO – Basics: [http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact1_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact1_e.htm)
- The WTO in brief – Part 3: The WTO Agreements: [http://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr03_e.htm](http://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr03_e.htm)
- Understanding the WTO: The Agreements: [http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm1_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm1_e.htm)
The WTO is also a place for Member governments to settle their trade disputes. The WTO's procedure for settling disputes is vital for enforcing the rules.

A dispute commonly arises when a Member adopts a trade measure that one or more Members consider to be contrary to the obligations under the WTO Agreements. When Members are unable to agree on a solution, they can request a panel of independent experts to rule on the dispute.

The procedure for settling disputes is based on the rules contained in the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU).

**Background information and materials**

**Legal documents:**
- The Marrakesh Agreement Establishing the WTO (Article III:3): [http://www.wto.org/english/docs_e/legal_e/04-wto_e.htm#articleIII](http://www.wto.org/english/docs_e/legal_e/04-wto_e.htm#articleIII)

**Supplementary information:**
- Link to Understanding the WTO – Settling disputes:
  - More on dispute settlement: [http://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm](http://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm)
  - The WTO dispute settlement system training module: [http://www.wto.org/english/tratop_e/dispu_e/disp_settlement_cbt_e/signin_e.htm](http://www.wto.org/english/tratop_e/dispu_e/disp_settlement_cbt_e/signin_e.htm)
  - Map of disputes between WTO Members: [http://www.wto.org/english/tratop_e/dispu_e/dispu_map_e.htm](http://www.wto.org/english/tratop_e/dispu_e/dispu_map_e.htm)
Technical assistance and capacity building are core elements of WTO's work. More than two thirds of WTO Members are developing countries. The WTO helps these Members to fully benefit of the multilateral trading system (MTS) in various ways.

The WTO Agreements contain special provisions for developing countries, including longer periods to implement their obligations and measures to increase their trading opportunities. The WTO also organizes hundreds of technical assistance activities to help developing Members to better understand and implement WTO rules, as well as to participate more effectively in its work. Capacity building also involves providing assistance to build the supply-side capacity and infrastructure needed in these countries to expand their trade.

Background information and materials

Legal documents:
• Doha Declaration (para.38):
  http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm#cooperation

Supplementary information:
• More on building trade capacity:
  http://www.wto.org/english/tratop_e/devel_e/build_tr_capa_e.htm
• More on the Doha Declaration and development issues:
  http://www.wto.org/english/tratop_e/dda_e/dda_e.htm
• More on trade and development in general:
  http://www.wto.org/english/tratop_e/devel_e/devel_e.htm
The WTO cooperates with other international institutions to achieve greater coherence in global economic policy-making. The WTO is only one part of a broader set of international organizations. Coherence is essential for Members to design a harmonious international regulatory framework and in increasing the effectiveness of their policies at the national level.

The WTO cooperates with the International Monetary Fund and the World Bank to achieve more coherent and complementary international economic policies. The WTO also maintains institutional relations with other organizations in diverse trade-related matters. Although the extent of such cooperation varies, coordination between the work of the WTO and that of other international organizations continues to evolve so as to assist Members in the operation of their economic policies.

Background information and materials

Legal documents:
- The Marrakesh Agreement Establishing the WTO (Article III:5): http://www.wto.org/english/docs_e/legal_e/04-wto_e.htm#articleIII
- Decision on achieving greater coherence in global economic policy-making: http://www.wto.org/english/docs_e/legal_e/32-dchor_e.htm

Supplementary information:
- More on the WTo and other organizations: http://www.wto.org/english/thewto_e/coher_e/coher_e.htm
- More on the "coherence mandate": http://www.swisslearn.org/wto/module10/e/start.htm
- More on the Decision on achieving greater coherence in global economic policy-making: http://www.wto.org/english/docs_e/legal_e/ursum_e.htm#Achieving
Why governments join the WTO?

Governments pursue international trade cooperation driven by diverse political economy considerations, including both external and internal, such as the promotion of peace and stability, avoiding protectionism, increasing market size and insurance against unfavourable trade policies in other countries.

Background information and materials

Supplementary information:

Introductory videos:
• The WTO in brief (video): http://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr00_e.htm
History matters: International trade cooperation and the creation of the WTO

Governments pursue international trade cooperation driven by diverse political economy considerations, including both external and internal, such as the promotion of peace and stability, avoiding protectionism, increasing market size and insurance against unfavourable trade policies in other countries.

The period between the World Wars was characterized by instability with respect to trade policy, deteriorating economic conditions and flagging cooperation, which created the conditions for war. Trade policy remained in disorderly limbo until the post-War birth of the modern multilateral trading system (MTS). A lesson from the first half of the 20th century is surely that effective and sustainable international trade cooperation requires a predictable and rule-based institutional framework. This section constitutes a brief historical journey from the birth of the GATT to the establishment of the WTO.

Background information and materials

Supplementary information:

Introductory videos:
• The WTO in brief (video): [http://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr00_e.htm](http://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr00_e.htm)
From GATT to WTO: the building of an institution

THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

The history of the WTO begins with the signing of the General Agreement on Tariffs and Trade (GATT) in 1947. From 1948 to 1994, before the WTO was created, the GATT provided the rules for the bulk of world trade and presided over periods that saw some of the highest growth rates in international trade. The initial objective was to create an International Trade Organization (ITO) to handle the trade side of international economic cooperation, joining the two “Bretton Woods” institutions, the World Bank and the International Monetary Fund.

The efforts to establish the ITO failed and the GATT served for several years as an organization, taking some of the functions originally intended for the ITO.

Background information and materials

Introductory videos:
• From GATT to WTO: http://www.wto.org/english/res_e/webcas_e/webcas_e.htm#video

Supplementary information:
• Link to Understanding the DDA – the GATT years: http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact4_e.htm
THE GATT ROUNDS OF NEGOTIATIONS

The GATT developed rules for the MTS through eight rounds of trade negotiations. In the early years, the GATT trade rounds focused on reducing tariffs. Following GATT trade rounds covered not only tariffs, but also other trade barriers.

During the GATT rounds, substantial liberalization for international trade in goods was achieved and fundamental rules were established on the basis of an open and non-discriminatory trading system. The arrival of new Members, in particular developing countries, during the last years of the GATT, shows that the MTS was recognized as an instrument for economic and trade reform. The eighth round, known as the Uruguay Round, was the most comprehensive round and led to the creation of the WTO and a new set of agreements (the current WTO Agreements).

Background information and materials

Introductory videos:
• From GATT to WTO: http://www.wto.org/english/res_e/webcas_e/webcas_e.htm#video

Supplementary information:
• Link to Understanding the DDA – the GATT years: http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact4_e.htm
### GATT rounds of trade negotiations

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<td>1960-1961</td>
<td>Dillon Round</td>
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<td>1964-1967</td>
<td>Kennedy Round</td>
<td>Tariffs and anti-dumping measures. Section on trade and development.</td>
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<td>1986-1994</td>
<td>Uruguay Round</td>
<td>Creation of WTO. Tariffs, non-tariff measures, rules, services, intellectual property, dispute settlement, textiles, agriculture, etc.</td>
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### Background information and materials

**Introductory videos:**
- From GATT to WTO: [http://www.wto.org/english/res_e/webcas_e/webcas_e.htm#video](http://www.wto.org/english/res_e/webcas_e/webcas_e.htm#video)

**Supplementary information:**
- Link to Understanding the DDA – the GATT years: [http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact4_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact4_e.htm)
The WTO’s creation on 1 January 1995, as a result of the Uruguay Round, marked the biggest reform of international trade since after the World War II.

The GATT seemed well established, but it was a provisional agreement and organization. Instead, the WTO constitutes an international organization with a more comprehensive mandate and a solid institutional base. The WTO has also expanded both in terms of Membership and substantive coverage.

The WTO Agreements cover not only trade in goods, but also trade in services and trade-related aspects of intellectual property rights. The original GATT still exists as the WTO’s general agreement on trade in goods.

The common goal of multilateral trade liberalization in the context of a rules-based system resulted in the continuous accession of new countries to the organization, adding to the heterogeneity of the Membership. The ability of the GATT/WTO system to accommodate the different needs of its Members has been an important factor in its success (*).

(*): Note: World Trade Report 2007

Background information and materials

Introductory videos:
- From GATT to WTO: http://www.wto.org/english/res_e/webcas_e/webcas_e.htm#video

Supplementary information:
- Link to Understanding the DDA- the Uruguay Round: http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact5_e.htm
- The WTO in brief - history: http://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr01_e.htm
The economic case for an open trading system based on globally agreed rules is simple enough and rests largely on commercial common sense. But it is also supported by evidence: the experience of world trade and economic growth since the Second World War. During the first 25 years after the War, world economic growth averaged about 5% per year, a high rate that was partly the result of lower trade barriers.

The data show a definite link between freer trade and economic growth. Economic theory points to strong reasons for the link. All countries, including the poorest, have assets - human, natural, financial - which they can employ to produce goods and services for their domestic markets or to compete overseas. Economics tells us that countries can benefit when these goods and services are traded.

This Module will introduce basic international trade theory, including what are the gains from trade, how trade can be driven by differences among countries and how trade allows countries to gain from specialization. It will also introduce the link between trade and economic growth.

(*) Note: This section is largely based on the WTO learning module "The WTO: Economic Underpinnings", Roberta Piermartini, Economic Research and Statistics Division, WTO, March 2007. It is also partially based on "Overview of Economics of International Trade", Marc Bacchetta, Economic Research and Analysis Division, WTO, May 2001.
Why do countries trade?

Countries trade because they are different. They have different technologies or have a different amount of capital and labour, or they trade because they produce different varieties of the same good.

In the first case, trade generates gains because it allows countries to specialize in the production of the good they can produce relatively more efficiently or that uses intensively the factor that they are more endowed with.

In the second case, trade generates gains because consumers like variety and trade provides access to different varieties of goods produced all over the world. By increasing the variety of goods consumers can access and buy, trade makes consumers better off.

What are the gains from trade?

Economic theory has identified several sources of gains from trade:

- **Gains from better utilization of resources**
  - Gains from specialization and from exploitation of economies of scale (producing on a larger scale).

- **Gains from increased competition**
  - Foreign competition has an effect on firms' pricing decisions. Overall, the opening up to trade reduces mark-ups of price over costs (the difference between the cost of production of a good and its selling price).

- **Gains from access to a broader variety of goods and services**
  - Consumers benefit from the access to a broader variety of goods and services. They have available not only the varieties of goods produced in their own country, but also those produced abroad.

- **Gains from innovation and technology transfer**
  - Trade enhances the incentive to innovate. The larger size of the market and competition from abroad increase the incentive of a firm to invest in research and development. Trade also favours technology transfer.

The next section will introduce the gains from specialization and, to a lesser extent, the gains from exploitation of economies of scale.
Gains from specialization

Specialization is the most important source of gains from trade. How does it work?

Trade allows countries to specialize in the production of the goods that they can produce relatively MORE efficiently and import the goods that they produce relatively LESS efficiently. The exchange of these goods benefits both countries.

This is known in economic theory as **absolute advantage**. Adam Smith described how absolute advantage applies in the context of international trade. To illustrate this, let’s look at the following example:

Suppose country A is better than country B in producing roses, and country B is better than country A in producing computers. This is because country A can produce more roses than Country B with the same number of employees per hour, while country B can produce more computers than country A under the same conditions. Then, it will be an obvious case that each country will specialize in the product that it can produce most efficiently and then trade their products: country A will export roses and import computers from B, while country B will export computers and import roses from A.
Can a country with no absolute advantage gain from trade?

The answer is YES. There are potential gains from trade for all trading partners, regardless how countries compare absolutely.

A country does not have to be better at producing something than its trading partners to benefit from trade (absolute advantage). It is sufficient that it is relatively more efficient than its trading partners (comparative advantage).

The **theory of comparative advantage** states that when two countries specialize in producing the good in which they have a comparative advantage, BOTH economies gain from trade, even if one country is more efficient in producing both goods. Each country will export the good for which it has a comparative advantage.

A model of comparative advantage based on differences in labour productivity, which results from differences in technology, was first introduced in the early 19th century by the economist David Ricardo.

But first:

What does "comparative advantage" mean?

A country has a comparative advantage in producing a certain good, if the **opportunity costs** of producing that good in terms of other goods, is lower in that country than it is in another country (see also Example 1 – below).

What is "opportunity cost"?

The opportunity cost of a certain good, e.g. roses, in terms of another goods, e.g. computers, is the number of roses that could have been produced with the resources used to produce a given number of computers (see also Example 1 – below). Opportunities costs differ across countries because of differences in technologies.
SPECIALIZATION FROM DIFFERENCES IN TECHNOLOGIES: THE RICARDIAN MODEL

The Ricardian Model shows how there is scope for mutual gains when each country specializes its production towards products for which it has low opportunity costs relative to other products. It is based on differences in technologies among countries.

In the Ricardian Model there is only one factor of production: labour. Therefore, comparative advantages only arise because of differences in labour productivity, which result from differences in technology.

FACT FILE

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<tr>
<th>Name</th>
<th>David Ricardo</th>
</tr>
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<tbody>
<tr>
<td>Born</td>
<td>19 April 1772</td>
</tr>
<tr>
<td>Died</td>
<td>11 September 1823</td>
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<td>Nationality</td>
<td>British</td>
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</table>
Example 1 – comparative advantage and opportunity costs

Suppose that there are only two countries in the world, Country A and Country B – and two sectors – roses and computers. A worker employed in the roses sector would produce five million roses in Country A, and eight million roses in Country B. Another worker employed in the computer sector would produce 200 computers in Country A and one thousand computers in Country B.

One worker's output:

<table>
<thead>
<tr>
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<th>Roses</th>
<th>Computers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country A</td>
<td>5 million</td>
<td>200</td>
</tr>
<tr>
<td>Country B</td>
<td>8 million</td>
<td>1,000</td>
</tr>
</tbody>
</table>

In this case, Country B has an absolute advantage in the production of both goods (whatever the sector, one worker would produce more units of each good when employed in Country B).

What about comparative advantage?

For Country B the opportunity costs, in terms of roses, of producing one thousand computers less, is eight million roses. What about Country A? If Country A had to produce one thousand computers, it would have to employ five people in the computer sector (5 workers x 200 computers), because each employee produces only two hundred computers in Country A. In terms of roses, this would imply a cost of 25 million roses (5 workers x 5 million).

To sum up, while in Country B the opportunity costs of one thousand computers is eight million roses, in Country A the opportunity costs of one thousand computers is 25 million roses. Since the opportunity costs, in terms of roses, of producing computers are lower in Country B, Country B has a comparative advantage in computers, while Country A has a comparative advantage in roses. The theory of comparative advantage tells us that if Country A and B open up to trade, then Country A will specialize in the production of roses and Country B will specialize in the production of computers.
Example 2 – specialization from differences in technology

Suppose now that in Country A two workers are moved from the production of computers to the production of roses. This implies that Country A would produce four hundred computers less (each worker in A produces 200 computers), and will produce ten million roses more (each worker in A produced 5 million roses). Suppose also that at the same time, Country B will move one worker from the production of roses to the production of computers. Therefore, Country B would produce eight million roses less (each worker in B produces 8 million roses) and one thousand computers more (each worker in B produces 1,000 computers).

<table>
<thead>
<tr>
<th></th>
<th>Roses</th>
<th>Computers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country A</td>
<td>+ 10 million</td>
<td>- 400</td>
</tr>
<tr>
<td>Country B</td>
<td>- 8 million</td>
<td>+ 1,000</td>
</tr>
<tr>
<td>Total</td>
<td>+ 2 million</td>
<td>+ 600</td>
</tr>
</tbody>
</table>

Overall the global production of roses will increase by two million units. This is because there will be an increase of ten million roses in Country A and a reduction of eight million in Country B. In the computer sector there would be six hundred computers more produced globally. One thousand computer more produced by Country B and four hundred computers less produced by Country A. Since specialization increases the global production of both goods (i.e. trade makes available to each country a higher quantity of each of the goods), all countries can gain from trade.
SPECIALIZATION FROM DIFFERENCES IN ENDOWMENTS: FACTOR PROPORTION THEORY - THE HECKSCHER-OHLIN MODEL

In reality, trade is not just determined by technological differences, but it also reflects differences in factor endowments across countries. For example, Canada exports forestry products to the United States not because its workers are more efficient in forestry, but because Canada is more endowed with forests.

To explain the importance of resources in trade two economists, Heckscher and Ohlin, have developed a theory known as the "factor proportion theory". This theory essentially says that countries will export products that use their abundant and low-cost factors of production, and import products that use the countries' scarce factors.

For example, in a capital abundant country, the cost of capital will tend to be relatively low. As a consequence, the cost of production of the capital intensive product, and its price, will tend to be relatively low. The opposite will occur in a labour abundant country – wages will tend to be relatively low and the cost of the labour intensive products will be relatively low. Differences in relative prices of the two goods will lead to trade.

Both countries will produce more of the good on which they have a comparative advantage. The capital abundant country will tend to specialize in the production of the capital intensive goods and export this product, while the labour abundant country will tend to specialize in the labour intensive good and export that product.

Like in the case of the Ricardian Model, also in the Heckscher and Ohlin model, it is possible that the global production of both goods may increase with trade. It is therefore possible for both trading economies to consume more of both goods than in the absence of trade and therefore, both countries gain from trade.

**FACT FILE**

<table>
<thead>
<tr>
<th>Name</th>
<th>Eli Heckscher</th>
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<tbody>
<tr>
<td>Born</td>
<td>24 November 1879</td>
</tr>
<tr>
<td>Died</td>
<td>23 December 1952</td>
</tr>
<tr>
<td>Nationality</td>
<td>Swedish</td>
</tr>
</tbody>
</table>

**FACT FILE**

<table>
<thead>
<tr>
<th>Name</th>
<th>Bertil Gotthard Ohlin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Born</td>
<td>23 April 1899</td>
</tr>
<tr>
<td>Died</td>
<td>3 August 1979</td>
</tr>
<tr>
<td>Nationality</td>
<td>Swedish</td>
</tr>
</tbody>
</table>
An important point to bear in mind is that the Ricardian Model and the Heckscher-Ohlin Model explain trade between different countries and different goods. In both models countries trade because they are different – they are different in terms of their technological level or in terms of factor endowments. Countries specialize in the production of the good for which they have a comparative advantage and export that product. However, in reality most of trade occurs between similar countries. Furthermore, between one quarter and one half of world trade is intra-industry trade, that is, trade between goods that fall in the same industrial classification. The Heckscher-Ohlin and the Ricardian Model do not explain intra-industry trade.

Intra-industry trade relies on economies of scale. In many industries, the larger the scale of production, the more efficient the production.

**FACT FILE**

**Economies of scale**
Is a term that refers to the reduction of per-unit costs through an increase in production volume.
Example - Gains from economies of scale

Suppose there are two countries: Country A and Country B, and two goods: video cameras and bicycles. Suppose that both the production of video cameras and the production of bicycles are subject to economies of scale, so that doubling the number of workers employed in each sector, more than doubles the output of the sector. Assume that the two countries are identical, that is, they have the same technologies and same endowment of resources, and that labour is the only endowment.

Country A employs 10 workers in the video camera sector, and produces 10 video cameras, and employs 10 workers in the production of bicycles and produces 5 bicycles. The situation is identical in Country B – so that overall the world will produce 20 video cameras and 10 bicycles. The table below shows the production before and after trade.

<table>
<thead>
<tr>
<th></th>
<th>Without trade</th>
<th>With trade</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>Video-cameras</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Bicycles</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

Because of economies of scales, the use of twice as many workers as before in the production of video cameras will more than double the output of video cameras produced in Country A. For example, the production of video cameras in Country A will increases to 25. Similarly, in Country B, the production of bicycles will rise to 15. Since all workers have been moved to the other sector, no bicycles will be produced in Country A, and no video cameras will be produced in Country B.

WHAT HAPPENS TO WORLD PRODUCTION?

Overall the world will gain. There will be 25 video cameras available and 15 bicycles available. Therefore, the potential exists for both countries to be better off with trade than without trade.
Summary – Gains from trade

Between different countries – gains stem from specialization based on:

- Differences in technologies among countries (The Ricardian Model)
- Differences in relative endowments of factors of production (The Heckscher-Ohlin Model)

Between similar countries:

- The existence of economies of scale
Who gains from trade?

Example - Income distribution effects of trade:

In a capital abundant country, trade induces a reallocation of resources towards the capital intensive goods – therefore more capital will be demanded and this will increase the domestic price of capital. Owners of the capital will therefore gain more because returns to capital increase. What will happen to the demand of labour in this country? – This is the relatively scarce factor, where the country has not got a comparative advantage. The demand for labour will go down and wages will go down. To sum up, in the capital abundant country, owners of capital will gain and owners of labour will lose.

A consequence of these redistributive effects is likely to be that owners of the relatively abundant factor (exporters) will support trade, while owners of the relatively scarce factor will oppose free trade.

It is important to bear in mind that despite income distribution effects, the country overall gains – that is gains outweigh losses. In other words, the gains from better utilization of resources (specialization), access to a broader variety of goods and increased competition, are higher than the costs derived from the redistributive effects of trade.

Even though each country gains overall, trade generates income distribution effects, so there will be groups in a country who will gain and groups who will lose.

The Stolper-Samuelson Theorem helps us to identify winners and losers. Two economists, Stopler and Samuelson, showed that free trade raises the earnings of the country’s relatively abundant factor and lowers the earnings of the relatively scarce factor.
Trade liberalization and adjustment costs

Understanding the potential distributive effects of trade may help to anticipate and minimize the adjustment costs derived from trade liberalization. Adjustment costs are the costs incurred, for example, by displaced workers (e.g. in the import-competing sector) that have to look for another job. Adjustment costs are also the costs of a firm that needs to invest in order to adjust to the new market conditions.

Although these costs are unavoidable, as they are a direct consequence of the reallocation effect of trade liberalization, the size of these costs depends on a number of characteristics of the domestic market (e.g. functioning of credit and labour markets, quality of infrastructure and quality of domestic institutions).

The fact that there is additional income as a result of trade means that resources are available for governments to redistribute the benefits from those who gain from trade to those who lose (e.g. supplying social safety nets or through appropriate redistributive tax systems).

Free trade vs. Protectionist policies

International trade theory asserts the benefits of free trade. In reality, however, many countries adopt protectionist policies.

As explained above, when a country liberalizes trade, some people gain and others lose. In particular, the export sector is likely to gain from opening up to trade, while the import competing sector is likely to lose. Therefore, in most cases protectionist policies are the consequence of the lobbying activity of industries in the import-competing sectors that wish to be protected against competition from the rest of the world.

There are theoretical arguments aimed at justifying the use of protection, such as the infant industry argument for protection. The argument is that the country may have a potential comparative advantage in the manufacturing sector, but the industry is too young and too little developed to compete at the international level. Although at first sight reasonable, this theory is not without drawbacks. The evidence shows that even when the protected sector did develop, it needed continued government intervention to stay in the market. In other words, infant industry protection did not lead to the development of a competitive industry that eventually could face its competition in the international market. That is because the expected results would be dependent on the ability of a government to identify which industries have a potential comparative advantage.
Trade liberalization and development

So far, we have been looking at the reasons why countries trade, and at the gains and the costs associated with trade liberalization. But, what is the linkage between trade and development?

Development is a process in which people through their work – investing and trading with other countries are able to secure their basic needs – for example food, education, health, comfortable living standards and freedom. In order to obtain all this, people need an adequate level of income.

Trade liberalization can help countries to better utilize their resources through specialization. It is a more efficient use of resources that provides the potential for a higher level of income and therefore, a higher level of development. The impact of trade on growth, however, is conditional upon other policies being sound.

There is generally a positive relationship between openness to trade and economic performance, which – depending on the pace and pattern of growth – is important for achieving economic growth, employment and poverty reduction. This is shown by the experience of developing countries that have succeeded in benefiting from the expansion of global markets (*).

(*) Note: Openness to trade is believed to have been an important factor in alleviating poverty, as shown for example by the experience of the East Asian countries (see World Trade Report 2008, p. xxiii - xxiv).

Background information and materials

Supplementary information:
• Understanding the WTO: the case for open trade: http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact3_e.htm
• See also self-training course - The WTO: economic underpinning: http://www.swisslearn.org/wto/module4/e/start.htm
Main features of the WTO

This section highlights some of the main features of the WTO’s trading system. It also explains some of the reasons why governments join the WTO.

As you will study in this course, the WTO provides to its Member governments, amongst others:

- Predictable and transparent rules for the trade of goods and services
- Enhanced market access opportunities and equal treatment
- It helps to promote peace, by avoiding trade wars and retaliation
- An opportunity to participate in the shaping of global trade rules
- To deal with pressures for protectionism
Member governments and more particularly, private economic operators, need to have a stable and transparent framework of rules for their commercial activities. The WTO provides a predictable system of multilateral trade rules, which are contained in the WTO Agreements. This system is based on a number of basic and fundamental principles that apply to all Members: non-discrimination, more open trade, transparency and predictability, and special treatment for developing countries.

At the same time, the WTO Agreements give policy space to the Members in order to protect legitimate policy objectives, such as the protection of consumers or to prevent the spread of diseases. In those cases, Members are allowed to depart from the basic principles, but subject to certain conditions. The aim is to strike a balance between trade liberalization and the flexibility Members need to pursue their policy objectives.

**Predictable and transparent rules for the trade of goods and services**

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**Background information and materials**

**Supplementary information:**
- See video - What do countries negotiate at the WTO: [http://www.wto.org/english/forums_e/students_e/students_e.htm](http://www.wto.org/english/forums_e/students_e/students_e.htm)
- To find out more about the WTO main principles: [http://www.wto.org/english/thewto_e/whatis_e/whatis_e/fact2_e.htm](http://www.wto.org/english/thewto_e/whatis_e/whatis_e/fact2_e.htm)
**Enhanced market access opportunities and equal treatment**

When a Member lowers a trade barrier or opens up a market at the multilateral level, at the same time, it accesses more freely the markets of other Members. The reduction of trade barriers allows Members to gain from increased market access opportunities in other Members' markets and therefore, to improve welfare by expanding export volumes and revenues.

Furthermore, the most-favoured nation (MFN) principle ensures that every time a WTO Member lowers a trade barrier or opens up a market, it has to do so for the similar goods or services from all Members. That means that all WTO Members - regardless their economic size or level of development - benefit from the best possible treatment given by each WTO Member.
Dealing with domestic pressures for protectionism

As explained in the previous section, trade liberalization generates income distribution effects, so there will be groups who will gain and groups who will lose. The import competing sector is likely to lose from opening up to trade, while the export sector is likely to gain.

The outcome of a trade negotiation has to be a balance of interests. Governments can counterbalance the lobbying pressure of the import-competing sector against liberalization by arguing that the overall package goes in the interests of the country as a whole.

Furthermore, by "tying the hands" of a government, an international trade agreement may help to make credible policy commitments affecting the private sector that it would not be able to maintain without the agreement.

Avoid trade wars and retaliation

The WTO promotes peace by providing a stable and predictable system of rules and an efficient mechanism for dealing with trade disputes among its Members. If trade flows smoothly and countries enjoy a healthy commercial relationship, conflicts are less likely. Moreover, smoothly-flowing trade stimulates economic growth, which in turn reduces the possibility of conflicts.

The trade wars in the 1930s are proof of how protectionism can easily plunge countries into a situation where no one wins and everyone loses. By coordinating multilateral trade rules with other countries, Members are able to avoid tit-for-tat trade restrictions or trade retaliation.

The WTO dispute settlement system plays a key role in avoiding trade conflicts and unilateral retaliation. It provides a system where trade conflicts among Members are solved on the basis of rules rather than wars.
The WTO Agreements are the result of negotiations among all Members and therefore, Membership means a balance of rights and obligations.

Without a multilateral trading system such as the WTO, smaller countries would have to deal with each of the major economic powers individually. The more powerful countries would be free to impose their trade policies on their small trading partners.

Furthermore, multilateral trade negotiations provide Members with an opportunity to increase their bargaining power by forming alliances or coalitions with other countries that have common interests and, in that way, participate more effectively in the shaping of global trade rules.

Background information and materials

Supplementary information:
• Understanding the WTO – the WTO, Membership, alliances
  [Link](http://www.wto.org/english/thewto_e/what_is_e/tif_e/org3_e.htm)
EXAMPLE: THE LDC CONSULTATIVE GROUP

The WTO’s LDC Consultative Group was established in 2001 to coordinate LDC issues across the WTO. It provides a forum for LDC delegations to articulate their positions and to pursue common interests. The group, which brings together all LDC members and observers in the WTO, has a coordinator elected on a rotating basis from among its members. The coordinator advances LDC interests in the negotiations as well as in the regular work of the WTO and also represents the group in key negotiating processes.

Today the LDC Group is one of the more active groups in the WTO. Most of the LDC proposals submitted in the negotiations have emerged from the work of this group, which also plays a leading role in preparing the LDC trade ministers meetings that set out the broad parameters for LDCs’ participation in the WTO. This increased level of participation of the LDCs in the WTO bodes well for further integration of LDCs into the multilateral trading system.

Source: Harnessing trade for development in LDCs, WTO, 2011, p. 3. (*)
How does the WTO work?

The WTO is a Member-driven international organization. All decisions in the WTO are taken by its Member governments, normally by consensus of all the Members. Therefore, WTO rules imposing disciplines on Members’ policies are the outcome of negotiations among WTO Members.

In the WTO, the Members take decisions through various councils and committees integrated by the whole WTO Membership. WTO committees meet regularly to administer and monitor the implementation and functioning of the WTO Agreements. The WTO has also a Secretariat composed of international officers who provide support to the WTO bodies.
The institutional structure of the WTO

To see a more detailed WTO organizational chart: [http://www.wto.org/english/thewto_e/whatis_e/tif_e/org2_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/org2_e.htm)
Ministerial Conference - Top most decision making body

The Ministerial Conference is integrated by representatives of all WTO Members, and shall meet at least once every two years. It can take decisions on all matters under any of the multilateral trade agreements, in accordance with the decision-making procedures contained in the WTO Agreement Establishing the WTO.

As of December 2011, eight Ministerial Conferences have been held under the auspices of the WTO. The following chart contains basic information on each Ministerial Conference.

Background information and materials

Supplementary information:
- Legal basis – Marrakesh Agreement Establishing the WTO (Article IV.1): [http://www.wto.org/english/docs_e/legal_e/04-wto_e.htm#articleIV](http://www.wto.org/english/docs_e/legal_e/04-wto_e.htm#articleIV)
- To find more about WTO Ministerial Conferences: [http://www.wto.org/english/thewto_e/minist_e/minist_e.htm](http://www.wto.org/english/thewto_e/minist_e/minist_e.htm)
- Ministerial declarations and decisions: [http://www.wto.org/english/thewto_e/minist_e/min_declaration_e.htm](http://www.wto.org/english/thewto_e/minist_e/min_declaration_e.htm)
- Doha Ministerial Declaration: [http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm](http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm)
<table>
<thead>
<tr>
<th>Month/Year</th>
<th>Place/Name</th>
<th>Main Decisions/Declarations</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 1996</td>
<td>Singapore</td>
<td><strong>Singapore Ministerial Declaration</strong> (WT/MIN(96)/DEC) Small Economies Declaration on Global Electronic Commerce (WT/MIN(96)/16) aimed at eliminating all duties in six categories of IT products (referred to as the &quot;ITA initiative&quot;)</td>
</tr>
<tr>
<td>May 1998</td>
<td>Geneva</td>
<td><strong>Ministerial Declaration</strong> (WT/MIN(98)/DEC), that underlined the importance of the multilateral rule-based trading system, celebrated the 50th Anniversary of the GATT and reaffirmed the commitments and assessments made in Singapore Declaration on Global Electronic Commerce (WT/MIN(98)/DEC/2)</td>
</tr>
<tr>
<td>November - December 1999</td>
<td>Seattle</td>
<td>Ministers did not reach an agreement to adopt any Decision or Declaration</td>
</tr>
<tr>
<td>November 2001</td>
<td>Doha</td>
<td><strong>Ministerial Declaration</strong> (WT/MIN(01)/DEC/1 &quot;Doha Declaration&quot;), which launched the &quot;Doha Development Agenda&quot; (DDA). Declaration on Implementation-Related Issues and Concerns (WT/MIN(01)/17). Declaration on the Agreement on Trade-Related Aspects of Intellectual Property Rights and Public Health (WT/MIN(01)/DEC/2).</td>
</tr>
<tr>
<td>September 2003</td>
<td>Cancun</td>
<td>Ministers adopted a statement in which they reaffirmed their commitments to complete the negotiations under the DDA.</td>
</tr>
<tr>
<td>December 2005</td>
<td>Hong Kong</td>
<td><strong>Ministerial Declaration</strong> (WT/MIN(05)/DEC &quot;Hong Kong Declaration&quot;) reaffirming the Ministerial Declarations and Decisions adopted at Doha and the General Council Decision of 1 August 2004 - the &quot;July 2004 Framework&quot;-WT/L/579.</td>
</tr>
<tr>
<td>November-December 2009</td>
<td>Geneva</td>
<td>The general theme for discussion was the WTO, the MTS and the global economic environment. Ministers reviewed the functioning of the WTO, including the Doha Round of negotiations.</td>
</tr>
<tr>
<td>December 2011</td>
<td>Geneva</td>
<td>In parallel to the Plenary Session, where Ministers made statements, three Working Sessions took place with the following themes: “Importance of the Multilateral Trading System and the WTO”, “Trade and Development” and “Doha Development Agenda”. The Conference approved the accessions of Russia, Samoa and Montenegro. In the final session, Ministers adopted a number of decisions including on intellectual property, electronic commerce, small economies, least developed countries’ accession and a services waiver for least developed countries. The Chair concluded with a consensus statement on “elements for political guidance”. For more information, please refer to: <a href="http://www.wto.org/english/thewto_e/minist_e/min11_e/min11_e.htm">http://www.wto.org/english/thewto_e/minist_e/min11_e/min11_e.htm</a></td>
</tr>
</tbody>
</table>
General Council - Second tier in WTO structure

The General Council is also formed by representatives of all WTO Members, usually Ambassadors or Permanent Representatives, based in Geneva. It acts on behalf of the Ministerial Conference on all WTO affairs, when the Conference is not in sessions.

The General Council meets regularly to carry out all the functions of the WTO. It has a Chairperson (a Member's representative, normally an Ambassador), who is elected by all the Members, every year, to organise the work of the General Council.

The General Council also meets as the Dispute Settlement Body (DSB) and as the Trade Policy Review Body (TPRB).

Background information and materials

Supplementary information:
• Legal basis – Marrakesh Agreement Establishing the WTO (Articles IV.2, IV.3 and IV.4): http://www.wto.org/english/docs_e/legal_e/04-wto_e.htm#articleIV
• To find out more about the General Council: http://www.wto.org/english/thewto_e/gcounc_e/gcounc_e.htm
AS THE DISPUTE SETTLEMENT BODY (DSB)

As introduced above, the WTO acts as a forum for settling trade disputes among its Members in accordance to the procedures elaborated in the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU).

The settlement of disputes in the WTO is administered by the Dispute Settlement Body (DSB). The DSB, among others, establishes panels of independent experts to resolve the disputes, adopts the rulings of the panels, and oversees the implementation of those rulings.

AS THE TRADE POLICY REVIEW BODY (TPRB)

WTO Members meet regularly to review each Member's national trade policies under the Trade Policy Review Mechanism (TPRM). The TPRM is administered by the Trade Policy Review Body (TPRB). The surveillance of national trade policies through the TPRB provides a means of encouraging transparency both domestically and at the multilateral level.

TRADE NEGOTIATIONS COMMITTEE (TNC)

The Trade Negotiations Committee (TNC) was set up by the Doha Ministerial Declaration to oversee the negotiations mandated under the Doha Development Agenda (DDA). The TNC is chaired by the Director-General of the WTO.

The TNC created a number of subsidiary negotiating bodies to handle different subjects that form part of the DDA, including the Special Sessions of various Committees or Councils that have a mandate to negotiate.
COUNCILS FOR GOODS, SERVICES AND INTELLECTUAL PROPERTY

The three Councils operate under the guidance of the General Council and are also open to all WTO Members.

- Council for Trade in Goods: it oversees all the issues related to the WTO Agreements on trade in goods. It supervises the work of Committees responsible for specific subjects (e.g. agriculture, market access, customs valuations, rules of origin, sanitary and phytosanitary measures, etc).
- Council for Trade in Services: it oversees all issues related to the General Agreement on Trade in Services (GATS). It has also subsidiary bodies.
- Council for Trade - Related Aspects of Intellectual Property Rights (TRIPS): oversees all issues related to the TRIPS Agreement.

SUBSIDIARY BODIES

Several other subsidiary bodies, which focus on horizontal issues, report to the General Council directly. They cover issues such as trade and environment, trade and development, regional trading arrangements and accessions of new Members. They are open to all WTO Members. The bodies that are of a permanent nature are normally called "Committees" or "Working Groups", while those established on a temporary basis are called "Working Parties".

Background information and materials

Supplementary information:
- Legal basis – Marrakesh Agreement Establishing the WTO (Articles IV.7): [http://www.wto.org/english/docs_e/legal_e/04-wto_e.htm#articleIV_7](http://www.wto.org/english/docs_e/legal_e/04-wto_e.htm#articleIV_7)
WTO Secretariat

The Secretariat is headed by a Director-General, appointed by the Ministerial Conference. Since decisions are taken by Members only, the Secretariat has no decision-making powers.

The Secretariat is located in Geneva and has around 700 staff who are nationals from WTO Members and cannot seek or accept instructions from any government or any other authority external to the WTO in the discharge of their duties. Its main duties include supplying technical support for the various councils and committees, providing technical assistance for developing countries, and proving information to the public. The Secretariat also provides legal assistance in the dispute settlement process and advises governments wishing to become Members of the WTO.

WTO FACT FILE

Location: Geneva, Switzerland  
Established: 1 January 1995  
Membership: 153 Member governments (as of November 2011)  
Budget: 194 million Swiss francs (2010)  
Secretariat staff: Around 700  
Head: Pascal Lamy (Director-General)  
Official languages: English, French and Spanish
Decision-making

The WTO continues GATT’s tradition of making decisions not by voting but by consensus (*). Where consensus is not possible, the WTO agreement allows for voting - a vote being won with a majority of the votes cast, unless otherwise provided in the WTO Agreement. At meetings of the Ministerial Conference and the General Council, each WTO Member shall have one vote.

Decisions in the WTO are taken through its councils and committees, whose Membership consist of all WTO Members. As explained above, the top-most decision making body is the Ministerial Conference.

(*) Note: The body concerned shall be deemed to have decided by consensus on a matter submitted for its consideration, if no Member, present at the meeting when the decision is taken, formally objects to the proposed decision.

Background information and materials

Supplementary information:
- Legal basis – Marrakesh Agreement Establishing the WTO (Articles IX):
  http://www.wto.org/english/docs_e/legal_e/04-wto_e.htm#articleIX
Informal consultations play a vital role

Since generally decisions are made by consensus, without voting, informal consultations within the WTO play a vital role in bringing a diverse Membership to an agreement. More difficult issues may be addressed in smaller groups. A common recent practice is for the chairperson of a negotiating group to attempt to forge a compromise by holding consultations with delegations individually, in twos or threes, or in groups of 20-30 of the most interested delegations.

These smaller meetings have to be handled with sensitivity. The key is to ensure that everyone is kept informed about what is going on (the process must be “transparent”) even if they are not in a particular consultation or meeting, and that they have an opportunity to participate or provide input (it must be “inclusive”).

Informal consultations in various forms play a vital role in allowing consensus to be reached. At the end, decisions are taken by all Members and by consensus.
How to join the WTO?

Before we said that the WTO has almost a global Membership. More than 150 governments are Members of the WTO. Since the WTO came into force on 1 January 1995, around 30 governments have joined the organization.

Any government wishing to become a Member of the WTO has to go through an accession process, which involves negotiating with the WTO Members. The accession process is one of learning and preparation for WTO Membership. Each accession is unique and negotiated on a case-by-case basis, taking into account the particular situation of the acceding country.

Background information and materials

- More on accessions (including case studies): [http://www.wto.org/english/thewto_e/acc_e/acc_e.htm](http://www.wto.org/english/thewto_e/acc_e/acc_e.htm)
- Summary table of on-going accessions: [http://www.wto.org/english/thewto_e/acc_e/status_e.htm](http://www.wto.org/english/thewto_e/acc_e/status_e.htm)
Who can apply for WTO Membership?

Intergovernmental organizations, such as the WTO, are normally made up of states. The vast majority of WTO Members are states. However, besides states, also a separate customs territory which possesses full autonomy in the conduct of its external commercial relations can become Member of the WTO. Examples of separate customs territories that became WTO Members are Macao, China and Hong Kong, China.

Background information and materials

Legal documents:
• The Marrakesh Agreement Establishing the WTO (Article XII):
  http://www.wto.org/english/docs_e/legal_e/04-wto_e.htm#articleXII
• More on who can be a Member of the WTO:
  http://www.wto.org/english/tratop_e/devel_e/d1who_e.htm
The Process of Accession

The process of accession starts with a written request from the acceding government indicating its wish to join the organization. This request is considered by the General Council, which establishes a working party - open to all interested WTO Members - to examine the application. After the working party is established, the government negotiating accession becomes an observer to the General Council.

The government applying for Membership has to submit a memorandum covering all aspects of its trade regime, which is examined by the working party. The acceding government has to engage in multilateral negotiations on the general terms and conditions of accession including transitional periods to implement its commitments. At the same time, the applicant government engages in bilateral negotiations with interested Members on concessions and commitments on market access for goods and services. The results of both multilateral and bilateral negotiations are consolidated into a document which is part of the final “accession package”. Since 1995 decisions on accessions are taken by consensus in accordance with WTO practice.
Acceding governments benefit from WTO technical assistance, which plays a key role in helping them face the challenges of the accession process.

The special position of LDCs is acknowledged. WTO Members have adopted guidelines for the accession of LDCs in order to facilitate their accession. The implementation of the guidelines is reviewed on a regular basis.

WTO website - includes basic information, news, list of Members in process of accession and case studies of Members that successfully acceded to the WTO.

### Background information and materials

**Legal documents:**
- The Marrakesh Agreement Establishing the WTO (Article XII):
  [http://www.wto.org/english/docs_e/legal_e/04-wto_e.htm#articleXII](http://www.wto.org/english/docs_e/legal_e/04-wto_e.htm#articleXII)
- Relevant WTO provisions:
  [http://www.wto.org/english/thewto_e/acc_e/acc7_3_e.htm](http://www.wto.org/english/thewto_e/acc_e/acc7_3_e.htm)

**Supplementary information:**
- WTO website:
  [http://www.wto.org/english/thewto_e/acc_e/acc_e.htm](http://www.wto.org/english/thewto_e/acc_e/acc_e.htm)
- Accession Procedure (WT/ACC/1):
- Guidelines – LDCs:
- Handbook on accessions:
  [http://www.wto.org/english/thewto_e/acc_e/cbt_course_e/signin_e.htm](http://www.wto.org/english/thewto_e/acc_e/cbt_course_e/signin_e.htm)

**E-Learning courses:**
- Self-training course on accessions:
  [http://etraining.wto.org/default.asp](http://etraining.wto.org/default.asp)

**Introductory videos:**
- Accessions (video):
  [http://www.wto.org/english/res_e/webcas_e/older_videos_e.htm](http://www.wto.org/english/res_e/webcas_e/older_videos_e.htm)
What are the WTO Agreements?

In previous pages you have seen references to the WTO Agreements. What are these agreements?

Most of the WTO Agreements were negotiated during the Uruguay Round. This "package" includes about 60 agreements and Decisions totalling 550 pages, as well as the original GATT 1947. Since 1994, negotiations have produced additional legal texts which have focused on market access commitments (*).

The conceptual structure is reflected in the way the legal texts are organized. The short Marrakesh Agreement Establishing the WTO, which serves as an "umbrella agreement", sets up the legal and institutional foundations of the WTO.

(*)Note: They include decisions on financial services, basic telecommunications, and maritime transport (under GATS), and information technology products (under GATT).
The Marrakesh Agreement Establishing the WTO (called in this course "Agreement Establishing the WTO") includes four Annexes:

**Annex 1 is divided into three sections**

- Annex 1A, containing the revised General Agreement on Tariffs and Trade (GATT), the other agreements governing trade in goods, and a protocol which ties in individual countries’ concessions on goods (schedules on goods).
- Annex 1B, the General Agreement on Trade in Services (GATS), texts on specific services sectors, and individual countries’ specific commitments (schedules on services) and exemptions.
- Annex 1C, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement).

**Annex 2**

- Sets the rules and procedures for dispute settlement contained in the "Understanding on Rules and Procedures Governing the Settlement of Disputes" (DSU).

**Annex 3**

- Provides for regular reviews of developments and trends in national and international trade policy under the "Trade Policy Review Mechanism" (TPRM).

**Annex 4**

- Covers the Plurilateral Trade Agreements which are within the WTO framework but have a limited Membership (i.e. they only apply to those WTO Members that have accepted them).
Collectively, the agreements included in **Annexes 1, 2 and 3** are referred to as the "Multilateral Trade Agreements", since they comprise the substantive trade policy obligations which ALL the Members of the WTO have accepted. They form part of the "**single undertaking**" applied in the Uruguay Round. That is, all agreements form part of a single package that was accepted by the Members as a whole (or as negotiators like to say "noting is agreed until everything is agreed").

Finally, the Marrakesh texts include a number of decisions and declarations on a wide variety of matters that were adopted at the same time as the WTO Agreement itself.
### In a nutshell: the basic structure of the WTO Agreements

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<th>Umbrella</th>
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<td>Multilateral trade agreements apply to all members (part of &quot;single undertaking&quot;)</td>
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<td>Plurilateral Commitments</td>
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The WTO is an international organization for progressively liberalizing trade. The objective of the WTO is to improve the welfare of the peoples of its Members by expanding the production of, and trade in, goods and services; in accordance with the objective of sustainable development in a manner consistent with the different levels of economic development.

### The main functions of the WTO include:

- to serve as a forum for Members to negotiate the global rules of trade;
- to facilitate the implementation and administration of the WTO Agreements through its bodies and committees;
- to serve as a forum for Members to settle their trade disputes;
- to provide technical assistance to developing and LDC Members; and,
- to cooperate with other international organizations.

### The current WTO Agreements

- The current WTO Agreements are a result of the Uruguay Round of negotiations. They provide the legal ground-rules for international trade in goods, trade in services and trade-related aspects of intellectual property rights. In that way, the WTO provides to its Members a predictable and transparent framework of international trade rules, as well as enhanced and equal market access opportunities.

### The WTO has an institutional structure

- The WTO has an institutional structure of its own integrated by various bodies and organs composed by representatives of its Members. In the WTO, all decisions are taken by its Members normally on the basis of consensus.