



# Trade Basics

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## An Overview of the World Trade Organization

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The World Trade Organization (WTO) is an international organization with the primary purpose of opening trade for the benefit of all. The WTO was established on January 1, 1995, following the ratification of the Uruguay Round agreement. There have been 164 member-countries in the WTO since July 29, 2016.

### *What is the WTO?*

The heart of the WTO is its agreements – negotiated and signed by the WTO members themselves, accounting for 98 percent of global trade. The organization provides a forum for negotiating agreements aimed at reducing obstacles to international trade and ensuring a level playing field for all, thus contributing to economic growth and development. The agreements cover goods, services, and intellectual property and include individual countries' commitments to lower tariffs and other trade barriers and to open and maintain services markets.

The WTO agreements provide the legal ground rules for international trade; they are essentially contracts that bind governments to keep their trade

practices (including policies and tariffs) within agreed limits. The agreements require governments to make their trade policies transparent, by notifying the WTO about their national policies and practices. All WTO members must undergo regular scrutiny of their trade policies and practices. The WTO also provides a legal and institutional framework for the implementation and monitoring of these agreements, as well as for settling disputes arising from their interpretation and application.

The current body of trade agreements comprising the WTO consists of 16 different multilateral

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There are a number of ways of looking at the World Trade Organization. It is an organization for trade opening. It is a forum for governments to negotiate trade agreements. It is a place for them to settle trade disputes. It operates a system of trade rules. Essentially, the WTO is a place where member governments try to sort out the trade problems they face with each other.

– *the WTO*

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agreements (to which all WTO members are parties) and two different plurilateral agreements (to which only some WTO members are parties).

### *History of the WTO*

Trade and foreign policy have been intertwined throughout history, with foreign policy often

tailored to promote trade interests. Over the past 60 years, the WTO, which was established in 1995, and its predecessor organization the General Agreement on Tariffs and Trade (GATT) have helped to create a strong and prosperous

international trading system, thereby contributing to unprecedented global economic growth.

Following World War II (WWII) and hoping to avoid another economic debacle like the 1930s isolationist economic policies that contributed to that conflict, in 1944, 730 delegates representing all 44 Allied nations met in Bretton Woods, New Hampshire, to design rules and institutions to govern global financial and commercial relations. Ultimately, the conference recommended the creation of three new international institutions – the International Monetary Fund (IMF) to oversee balance of payments relations; the International Bank for Reconstruction and Development (IBRD, now known as the World Bank) to finance the reconstruction of Europe (and later to finance economic development in low income countries); and the International Trade Organization (ITO) to regulate trade.

At the same time, global leaders recognized the need for a rules-based international trading system after the collapse in world trade following the competitive increases in protectionism. With the objective of increasing international trade by reducing tariffs and other trade barriers as a part of the post-WWII effort to build a stable, open international economic framework, 15 countries, including the United States, started meeting in Geneva, Switzerland, in 1945. The final agreement, concluded in 1947 and including 23 countries, reduced and bound import tariffs and became known as the General Agreement on Tariffs and Trade. The GATT provided a code of conduct for international commerce and a framework for periodic multilateral negotiations on trade liberalization and expansion.

Those 23 countries were also part of the larger group negotiating the ITO Charter, following the Bretton Woods agreement. The draft charter was ambitious – it extended beyond world trade disciplines to include rules on employment, commodity agreements, restrictive business

practices, international investment, and services. The goal was to create the ITO at a United Nations Conference on Trade and Employment in Havana, Cuba, in 1947. The UN conference began less than one month after GATT was signed. The ITO Charter was finally agreed upon in 1948, but ratification in some national legislatures proved impossible. The most serious opposition was in the U.S. Congress, even though the United States had been one of the driving forces behind the creation of the ITO. In 1950, the United States government announced that it would not seek congressional ratification of the Havana Charter and the ITO was effectively dead. So, the GATT became the only multilateral instrument governing international trade.

From 1948 to 1994, the GATT provided the rules for much of world trade and presided over periods that saw some of the highest growth rates in international commerce. It seemed well-established, but throughout those 47 years, it remained a provisional agreement and organization. Efforts to reduce tariffs and ease global commerce continued, mostly achieved through a series of multilateral negotiations known as “trade rounds.”

The eighth of these rounds, the Uruguay Round of 1986-1994, was the last round of GATT negotiations and the most extensive of all – it led to the creation of the WTO. The WTO replaced GATT as an international organization, but the General Agreement still exists as the WTO’s umbrella treaty for trade in goods, updated as a result of the Uruguay Round negotiations.

### *Rounds of the WTO*

These GATT and later WTO agreements were never meant to be static. Instead, the drafters intended for these agreements to be renegotiated from time to time – to make updates and improvements. Eight rounds have been completed since the GATT was established in 1947, each more ambitious than the previous. (See Table 1 for a more detailed summary.)

**Table 1: Rounds of the WTO**

<i>Year</i>	<i>Place/Name</i>	<i>Subject</i>	<i># Countries</i>
1947	Geneva, Switzerland	Creation of GATT; tariffs reductions	23
1949	Annecy, France	Tariff reductions; new members	13
1951	Torquay, England	Tariff reductions; new members	38
1956	Geneva, Switzerland (Geneva II)	Tariff reductions; new members	26
1960-1961	Dillon Round	Tariff reductions and anti-dumping measures; new members	26
1964-1967	Kennedy Round	Tariff reductions with a hybrid of earlier product-by-product negotiations and a new formula tariff reduction approach with across- the-board tariff reductions	62
1973-1979	Tokyo Round	Tariff reductions; agreements governing use of non-tariff measures	102
1986-1994	Uruguay Round	Creation of WTO; tariff reductions; expanding disciplines to new areas, including agriculture, services, intellectual property, and dispute settlement	123
2001-Present	Doha Round	Launched as the “Development Round,” but plagued by major differences between some developed and developing countries on several major issues, including agriculture	164

### ***Benefits of the WTO***

With 164 countries as members of the organization, the WTO must offer some benefits to its members. The WTO itself identifies five key benefits it offers to its member countries and to global trade.

1. *Promotes peace.* History is full of examples of trade disputes turning into war. One of the most vivid examples of this is the trade war that took place during the 1930s, when countries competed to raise trade barriers in order to protect their domestic producers and retaliate against each other’s barriers to trade. This worsened the Great Depression and eventually played a part in the outbreak of World War II. With a global trading system and rules in place, now countries can settle disputes in world trade courts, rather than on battlefields.
2. *Global rules.* The WTO provides a single forum for nations to negotiate with all (or at least most) of their trading partners at the same

time. This makes international commerce much simpler for the bigger trading countries, especially the United States. The alternative would be continuous and complicated bilateral negotiations with dozens of countries simultaneously. In the end, each country could feasibly end up with different conditions for trading with each of its trading partners, making commercial transactions extremely complicated for its importers and exporters.

3. *More choice and better qualities of products.* Imports allow more choices in both goods and services, and a wider range of qualities. Even the quality of locally-produced goods can improve because of the competition from imports.
4. *Raises incomes.* Trade boosts incomes and consumption. While trade can also pose challenges, as domestic producers face competition from imports, the fact that there is additional income means that resources are

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available for governments to redistribute the benefits from those who gain the most.

5. *Good government.* Under WTO rules, once a commitment has been made to liberalize a sector of trade, it is difficult to reverse. These rules also discourage a range of unwise policies. For businesses, rules to ensure a more open market mean greater certainty and clarity about trading conditions; for governments, they can often mean good discipline.

### ***Criticisms of the WTO***

However, the WTO is not without its critics and criticisms, as well. Here are five of the most common criticism of the organization.

1. *Free trade vs. free market.* The WTO does not claim to be a free market organization, striving toward a global system in which the prices for goods and services are determined by the open market and by consumers. Rather, the WTO focuses on free trade, striving toward opening the avenues of global commerce.
2. *Labor and the environment.* A number of critics of the WTO have claimed that the issue of labor has been largely ignored by the organization. Free trade has enabled trade from countries with the lowest level of protections for workers. Labor unions in developed countries, in particular, have condemned the labor rights records of developing countries. Similarly, critics claim that free trade has enabled trade from countries

with the least environmental protections in place.

3. *Lack of transparency.* Some critics and members have complained that negotiations in the WTO are secretive and not transparent, especially for smaller countries without the resources to have fulltime negotiating staff. The WTO Secretariat has nearly 700 staff to support member governments on all of the activities carried out by the organization.
4. *Consensus-based organization.* The WTO is a consensus-based organization; in other words, a WTO body “shall be deemed to have decided by consensus . . . if *no* Member, present at the meeting when the decision is taken, formally objects.” This means that just one member, out of all of the 164 member-countries, can derail negotiations or reject an agreement.
5. *Slow progress.* As noted above, some of the trade rounds, in both the GATT and the WTO, have been notoriously slow and it can be difficult to reach an agreement. In addition, when disputes arise, the dispute settlement process can take years to complete. These long delays can challenge international commerce.

The world trading environment is complex, unpredictable, and far from perfect. If trade was not contentious, perhaps there would be no use for a global trading system like the WTO and no need for the trading system to evolve and reform continually.

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*Notes from the Author: For more information on the benefits of the WTO, please visit its website at [www.wto.org](http://www.wto.org). Or see its brochure titled “[10 Benefits of the WTO Trading System](#).”*