WTO 101: Debunking Myths About the World Trading System

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Before November 1999, few Americans knew what "WTO" meant, much less understood its workings. The World Trade Organization evolved from the General Agreement on Tariffs and Trade (GATT) and was officially created in 1995. Membership has now reached 135 nations and another 32 have applied for accession, including China and the former Soviet Republics. Current members span the spectrum of the world-economy--from the poorest (Sierra Leone at per capita GNP of around $140 in 1998) to the wealthiest (Switzerland at $40,080)--from the largest democracy on Earth (India) to the smallest dictatorship (Cuba).

The initial concern was tariff reduction. But lately the system has expanded to include governments' uses of "non-tariff barriers to trade," including anti-dumping measures, environmental and safety regulations, humanitarian sanctions against a country's products, and restrictions on foreign investment. What distinguishes the WTO among international agreements is its Dispute Resolution Panel. The Panel possesses far-reaching sanctioning powers over member countries, which it uses to ensure compliance with WTO commitments. No other international body has such strong enforcement capabilities.

The Seattle meetings were intended to produce an agenda for a new "Millennial Round" of negotiations. The aim was to expand the WTO's mandate to cover a wider range of goods and services, including financial investments, education, and health care. The protests successfully derailed (at least temporarily) the next Round, and the WTO and its supporters have been practicing serious spin control ever since. In the U.S., trade officials now talk of "educating constituents" on the benefits of free trade. Within a week of the Seattle meetings, the WTO completely overhauled its web site, incorporating a new "global town hall" and Letterman-like "Top 10 Lists" extolling the "benefits" and de-fogging the "common misunderstandings" of the WTO. The twin themes being advanced by the newly image-conscious WTO are global economic successes, combined with assurances of newfound transparency.

The Seattle events pushed open the closed doors of global trade negotiations. For the first time, people around the world have the chance to become better informed about WTO-style globalization, and to demand more democratic participation and accountability in future negotiations. In the pages to follow, we look critically at some of the claims and assumptions made by the WTO and its supporters--ideas presented by the WTO as accepted knowledge when in fact deep polemics surround these issues. For many of these claims, the best evidence is contradictory; for others, it's simply non-existent. We consider them as six key myths of the multilateral trading system.

<u>Myth #1: It's about free trade</u>

One of the greatest economic illusions, proclaimed since Adam Smith, is that capitalism works best (i.e. profits are highest) when markets are free and fair. Indeed the WTO proudly proclaims that the central purpose of the multilateral trading system is to ensure that "trade flows as smoothly, predictably, and as freely as possible." In the real world though competition is not conducive to profit, and capitalists (and the governments representing them) know this.

Countries and their corporations (especially the rich and powerful of each) do not want to liberalize markets so much as selectively protect them. In practice, the WTO and its member countries adhere to a policy of lopsided liberalization-- easily infringing on the ideology of openness to protect their markets or their products. The game is called “free trade.” But the winners are those who can conceal (or create) monopoly price situations, maintain comparative advantages, and deflect competitive pressures. This is why “strategic trade policy” and “free trade policy” are largely synonyms--everyone knows the latter exists only in theory.

This finicky relationship the WTO and its members have with trade liberalization has come under increasing scrutiny, particularly as trade critics have exposed the implications of the agreements for particular industries and countries. Critics of the 1994 Uruguay Round argue that many of those agreements liberalized trade only when that was in the interest of Industrialized Countries (ICs). Sectors important to the Southern Countries (SCs) remained selectively more protected, especially with regard to agricultural products and other commodities.

More blatant corporate protectionism is evidenced in efforts of the ICs to regulate trade related to intellectual property rights, or “TRIPs.” TRIPs protect holders of recognized copyrights and patents, allowing them to reap economic rewards for intellectual property in all member countries. WTO members are required to standardize their patent laws “upward” to ensure that patent-holders can recoup their investments in research and development (even if such R&D involves collecting and patenting plant specimens indigenous to developing countries). Patent-holders are guaranteed a minimum of a 20-year monopoly on the marketing of their product.

Is <u>this</u> free trade? Hardly. In practice, the corporate monopolies protected by TRIPs have, for example, undermined South Africa□s efforts to make low-cost AIDS medications available to its people. Thus on behalf of its powerful pharmaceutical industry, the U.S. has challenged South Africa’s Medicines Law, which promotes the importation and licensing of lower-priced generic versions of these and other life-saving drugs.

In short, the “liberalization” promoted under the WTO is highly skewed to the advantage of the ICs and the transnational corporations based in these countries. WTO rules run interference for multinational corporations against the potential obstacles of national and local laws and competition. Inequities inherent in the WTO’s regulation of North-South trade are readily apparent in the organization’s dense and convoluted rules and procedures. Indeed, if it□s just about free trade, why did it take so many years to <u>negotiate</u> the rules of the system, and a more than 900 page treaty to define it?

<u>Myth #2: It promotes equitable access to a rule-based trading system</u>

Many developing countries have looked to the WTO to facilitate greater access to IC markets, since the system (in theory) prohibits unfair restrictions on trade such as high tariffs or quotas. In practice, WTO rules have allowed ICs to restrict imports from developing countries while they force the latter to accept market liberalization rules that primarily benefit Western corporations.

WTO rules, for instance, restrict tariffs on manufactured goods, but they allow higher tariffs on many commodities that developing countries export. So the U.S. tariff on orange juice is 31%, while the average for industrial tariffs is below 5%. ICs have also maintained quotas on imports of developing country products such as textiles and clothing. In addition, the WTO

Agreement on Agriculture instructs ICs to merely reduce their historically heavy agricultural subsidies by 20%. At the same time, developing countries that largely lacked such subsidies are prohibited from establishing them. As a result, unprotected farmers in the South are forced to sell their goods in "free markets" where prices are distorted by dominant, heavily subsidized Western agricultural firms.

The Dispute Settlement Process within the WTO gives it the strongest enforcement capacity of all international organizations. Unlike many agreements in the United Nations, WTO provisions are binding on governments, and States that fail to bring their national laws into compliance with WTO provisions face a wide range of trade sanctions.

In theory, any member state can bring a dispute to the WTO, but in reality the vast majority of challenges have come from wealthy nations. The United States alone initiated more than 50 of the 117 challenges brought by late 1999. Defendants in WTO disputes, moreover, must face a panel of trade bureaucrats and corporate lawyers who are assigned *without regard to potential conflicts of interest* and who deliberate in secret. Unlike judicial systems in most democratic institutions, access to evidence on the case is strictly limited, and amicus briefs from stakeholders are only allowed at the discretion of government parties to the case. Limited in their ability to maintain vigilant teams of skilled legal advisors, poor countries typically abandon laws that might be considered WTO-illegal rather than risk costly legal battles.

Myth #3: It's democratic

> "When I see [the WTO] being told it's undemocratic, I think of the ambassador of India, the greatest democracy on earth. I think of small island states that have to form governments for a few thousand people. This is their institution. It's as democratic as it gets." (Michael Moore, Director-General of the WTO, September 1999)

In theory, the WTO was to promote greater democracy and transparency in global trade negotiations by allowing each member country a single vote— in contrast to the financially weighted voting systems used in the World Bank and IMF. In practice, however, there is little evidence of democracy within the WTO operations. The U.S., European Union, Canada and Japan (dubbed "the Quad") have routinely hammered out agreements in informal, "green room" meetings, named after the site of these secret conferences at the WTO's Geneva headquarters. The Quad then uses its considerable economic and political influence to build "consensus" around these decisions made without participation from the full WTO membership. In the course of talks in Seattle, representatives from developing countries grumbled about the lack of democracy in the WTO negotiating process, contributing to the breakdown of negotiations.

Even if one accepts the 135 governments in the WTO as legitimate representatives of the people within their borders, can we then assume that the trade policies pursued by most governments are products of democratic participation and deliberation? Even in established democracies, there is little role for public debate about international trade. In the U.S., "iron-triangle" politics has meant that industry trade groups enjoy direct and often uncontested access to trade officials. More than 500 corporation and business representatives were officially credentialed as "trade advisors" to the U.S. delegation in Seattle. In contrast, environmental advocates had to sue the federal government to enforce a U.S. law requiring that all stake-holders be represented on federal advisory panels.

And how is this for democracy? The much discussed 1999 “banana war” between the E.U. and the U.S. (not one banana grown for export between them) was brought to the WTO almost single handedly by Carl Linder, top man at the world’s largest banana distributor, Chiquita. A big donor to both political parties, according to *The Economist*, he “lobbied the Clinton administration assiduously” to stop the E.U.’s practice of favoring bananas from ex-colonies in the Caribbean, effectively assuring monopoly rights for his company in Europe.

But maybe we’re dealing with a fundamental misunderstanding about what democracy actually is. In a *Financial Times* interview, Mike Moore registered his irritation with the fact that NGOs, which “never [sell] a product, never [get] a vote and [don't] actually do anything can come out and attack [the WTO for being undemocratic].” Apparently un-elected, non-profit, do-nothing advocacy groups have no role in the democracy defined by the WTO’s new world order.

Myth #4: It's good for the world's poor

“The longer we delay launching the [next round of] negotiations, the more the poorest among us lose.” (Michael Moore, December 1999)

The WTO claims to “help the poor” on two levels. On the international level, trade is supposed to spur economic growth (thus helping poor nations). On the national level, it is alleged that trade raises incomes and cuts living costs (thus helping poor people). But among specialists, connections between trade liberalization, economic growth, and poverty reduction are much more hotly disputed than free-trade advocates would have us believe. Wide and growing disparities in economic growth rates, and the distribution of income between nations, have caused many analysts to become skeptical of the links between import liberalization and economic performance. At the very least, the WTO’s simple assumption that openness is superior to any alternative is hasty, if not simply wrong. After all, a country’s wealth depends much less on ease of trade then it does on what is actually traded. The idea is not to merely be integrated into global commodity chains; it is to extract profit from your particular location in them.

Then there’s the question of trade’s relationship to poverty reduction. In many ICs global trade is certainly raising incomes, but mostly at the top, generating unprecedented polarization. As the returns to skill and education continue to increase, and high wage manufacturing jobs shift to the South, countries like the U.S. and Great Britain are becoming bi-polar societies with respect to work and wages. Across the developed world, and especially in Latin America, persistent poverty remains an intractable problem despite a remarkable wave of economic liberalization since 1980. Despite the rush of poor countries to radically open their economies, it’s far from clear that their poor citizens will benefit. Some commentators would go farther. In a recent editorial in *World Development*, Michael Lipton concludes, “there is strong evidence for the consensus view that (the fate of a) country’s poor is not systematically affected by either its growth rate or its pace of liberalization.” In other words, the assumed links between liberalization, distribution, and growth may exist for particular countries in particular times. But to presume that these relationships hold universally represents a giant leap of faith in the face of mounting evidence to the contrary.

Myth #5: Labor and Environmental "Side Agreements" Can Solve the Current Crisis

Clinton's response to protests against the WTO both before and during the Seattle meeting has been to push for a labor working group within the framework of the WTO. While this strategy might appease big labor at home, it is unlikely to bear any fruit in multilateral negotiations--given resistance from the majority of developing country members who claim that their "comparative advantage" is in cheap labor. Even advocates of labor rights and the environment should oppose the “side-agreement” approach to "fixing" the WTO. It would bring new issues under the same fundamentally flawed and yet powerful Dispute Settlement Process and further reinforce the power of rich countries over poor ones. A more productive approach to promoting labor rights and the environment would be to make global trade law subordinate to the United Nations and International Labor Organization. That way, already established international human rights and environmental agreements could not be "trumped" by WTO rules.

Myth #6: There is no Alternative--It's Necessary and Inevitable

As the above discussion shows, the definition of “free trade” promoted by the WTO consists of selective protection of ICs’ special interests--like Florida orange growers and large pharmaceutical companies--coupled with a radical and quick opening of developing economies to global markets. What makes this so inevitable? As the Seattle protest took shape, and it became clear that the ceremonial unveiling of an enlarged WTO mandate was far from a done deal, the *Economist* was forced to admit that “globalization is not irreversible.” It’s clearly not inevitable, either. The success of Seattle protests in derailing negotiations to expand the WTO generated hope that the “end of history” might have to be delayed. The protests created new political space for citizens to expand their economic literacy and demand a voice in decisions regarding the alternatives for the future of economic development.

It is vitally important that we expand that space. Contrary to WTO and USTR propaganda, these issues are far from resolved. Our job on the left is to project a critique of WTO-style trade liberalization and economic liberalization more broadly. We need to incorporate these issues into research agendas, classroom curricula, and popular discourse. Efforts to construct a world based on social justice and ecological sustainability depend on democratic participation. Cultivating the public awareness and civic skills for such democratic participation is a fundamental challenge for the left at the beginning of the 21st century.

Author Bios

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