

# How the WTO Fights Protectionism

Carla A. Hills

*The World Trade Organization (WTO) fights protectionism in a number of ways. Member countries agree to abide by WTO trade rules aimed against protectionism. From time to time, they try to negotiate more agreements and rules, eroding even further protectionist barriers to trade. They use the WTO dispute settlement system in enforcing those agreements and rules. And they make sure new members start with commitments to shed protection.*

*Carla A. Hills is chairman and chief executive officer of Hills & Company, International Consultants. She served as U.S. trade representative from 1989 to 1993.*



Japanese Agriculture Minister Shoichi Nakagawa clasps the hand of WTO Director-General Pascal Lamy at a meeting in Brazil aimed at breaking the impasse in the long-stalled Doha Round of negotiations.

**T**he World Trade Organization does much more than simply regulate global trade. It encourages trade liberalization and fights against protectionism through:

- principles and rules
- ongoing rounds of trade negotiations
- dispute settlement
- accession process.

Together, these four elements make the WTO the most successful of the postwar multilateral institutions and our greatest bulwark against trade protection.

## TRADE RULES

Today, the WTO manages trade through its 400 pages of detailed trade agreements, including the General Agreement on Tariffs and Trade (GATT) and the General Agreement on Trade in Services (GATS), supplemented by 22,000 pages of schedules of commitments agreed to by its 150 members.

When the GATT was negotiated in the late 1940s, it set out various rules and principles for governing international trade. At its heart were two fundamental principles of nondiscrimination—national treatment and most-favored-nation (MFN) treatment.

- National treatment requires WTO members to treat the goods and services of other WTO members as favorably as similar goods and services produced domestically.
- Most-favored-nation treatment says that WTO members must grant the same advantage (such as a lower tariff) to all members as that given to other WTO members.

Commitment to these central principles helps to keep global markets open. National treatment means that a country cannot block the import of a product if it allows the production and sale of the same product domestically. And MFN means that when a World Trade Organization member agrees to lower its tariffs on imports from one WTO member, it must do so for all WTO members.

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## TRADE ROUNDS

The GATT's founders agreed not only to certain rules for conducting global trade, but also to progressive trade liberalization through what has become a series of multilateral trade negotiating "rounds." The current round—the Doha Development Agenda—is the ninth.

Since the GATT was established in 1947, membership has broadened from 23 member governments discussing tariffs on industrial goods to today's 150 members negotiating rules covering agricultural trade, industrial goods, nontariff trade barriers, services, subsidies, and intellectual property rights.

When nations agree to reduce their tariffs, they also commit not to raise them above that agreed, or "bound," level on pain of paying compensation to an affected exporting country or facing retaliation from that country. To date, developed countries have bound 99 percent of their tariffs, and developing countries 73 percent. The result creates a bulwark against protection through tariff increases.

Commitments to adhere to rules covering an expanding universe of trade by most of the world's trading nations have enhanced clarity and predictability in international commerce, enabling global exports to rise from \$58 billion in 1948 to \$8.9 trillion in 2004. World trade volume today is more than 23 times that of 1948. This opening of global markets has boosted standards of living worldwide.

## DISPUTE SETTLEMENT

Even with clear trade rules, protectionist pressures may arise in disagreements over whether certain actions violate the agreed rules. Hence, there also must be a fair, timely, and effective mechanism for settling trade disputes.

For much of the postwar period, dispute settlement was a weak link in the GATT system. The GATT dispute resolution system permitted a party to a dispute to block indefinitely the adoption of a final determination in the case. As a result, disputes could remain unresolved for years, generating protectionist sentiment as countries grew frustrated over the system's failure to resolve trade disagreements.

In a particularly egregious case, the United States complained for more than a decade that subsidies provided by the European Community (EC) to its oilseed processors encouraging their use of domestic seeds nullified the EC's zero tariff commitment on imported oilseeds made in the 1961 Dillon Round. The EC

repeatedly blocked formation of a GATT panel. Finally, the U.S. Congress passed a provision in the Omnibus Trade and Competitiveness Act of 1988 requiring that the U.S. trade representative take unilateral action under section 301 of the act to raise U.S. tariffs on an equivalent amount of EC exports if the case were not resolved by 1989. A trade war was avoided when the EC agreed to a panel that ruled for the United States.

In January 1995, when the WTO came into being, members strengthened the dispute settlement mechanism by removing the right to block the formation of a panel. Under the new rules, if a dispute cannot be resolved through the required consultations, a WTO panel will hear the case and a final ruling will be issued within 12 to 15 months of the formal case filing (including time for a possible appeal). A member found to be in violation of its WTO obligations is required to bring itself into compliance, generally within 18 months after a final ruling.

The improved system has encouraged WTO members—both developed and developing countries—to use the dispute settlement system to resolve differences. Since 1995, more than 55 countries have initiated cases and more than 120 dispute settlement panels have been formed. Because the process begins with mandatory consultation, hundreds of disputes have been settled before a panel is established. In addition, this stronger WTO dispute settlement system has helped members to manage domestic anger about perceived unfair trade practices by other members and to use WTO panel findings as reason for bringing their own nonconforming practices into line with their WTO obligations.

## ACCESSION

Another way the WTO has helped limit protection is through accession agreements. When a nonmember country applies for WTO membership, there is a rigorous examination of that country's trade regime, followed by bilateral negotiations with WTO members in areas of their interest. The process can take years. For example, China spent 15 years in negotiating bilaterally the terms of its accession prior to becoming a WTO member in 2001. Vietnam, the WTO's newest entrant, just completed 11 years of bilateral negotiations.

After the bilateral negotiations, an agreement is drawn up stating what the applicant commits to do when it joins the WTO. In China's case, it agreed to phase out all quantitative restrictions on industrial products; remove such mandates on foreign investors as requiring

their production to be exported; enforce property rights for intellectual property; and open a range of services, including telecommunications and financial services, to foreign providers. Vietnam has agreed to cut tariffs, quotas, and agricultural subsidies and to open up a range of services to foreign providers.

Finally, the entire WTO membership must approve the package of market-opening commitments, typically covering hundreds of pages, which constitutes the country's accession agreement. Failure of the new member to abide by its commitments can become the basis for bringing a WTO case against it. In 2006, the United States, joined by six other members, brought a case against China charging that fees it applied to imported auto parts violated its accession agreement.



The WTO's Pascal Lamy (right) meets with Foreign Minister Pham Gia Khiem of Vietnam, which in 2007 joined the organization dedicated to opening markets.

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subsidies or tariff rate quotas—in which prohibitive tariffs are imposed on imports exceeding a quota—in agricultural trade.

Every new round of multilateral trade negotiations aims to expand members' commitment to open their markets and to improve the functioning of the trading system. Experts calculate that the last round—the Uruguay Round—created hundreds of billions of dollars of new economic opportunity.

A successful Doha Round, launched

in 2001, could do the same, for it seeks to reduce or eliminate agricultural subsidies, cut tariffs on goods, expand market openings in services, and increase transparency within the WTO system (including dispute settlement). Experts predict that such an agreement could lift millions of people out of poverty, contribute hundreds of billions of dollars annually to global growth, and correct some egregious inequities in our trading system. It is something we should all strive to achieve. ■

## THE DOHA ROUND

Through negotiations, rules, dispute settlement, and accession, the WTO has fought off protectionism. The system is not perfect. Agreements have not been reached in key areas where they are sorely needed. For example, there is no international agreement outlawing export

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