The world is complex. The World Trade Organization is complex. This booklet is brief, but it tries to reflect the complex and dynamic nature of trade and the WTO's trade rules. It highlights benefits of the trading system, but it doesn't claim that everything is perfect. Were it a perfect system, there would be no need for further negotiations and for the system to evolve and reform continually.

Nor does this booklet claim that everyone agrees about everything in the WTO. That's one of the most important reasons for having the system: it's a forum for countries to thrash out their differences on trade issues.

That said, there are a number of reasons why we're better off with the system than without it.

10 things the WTO can do

The WTO can...

1 … cut living costs and raise living standards

Protectionism is expensive: it raises prices. The WTO's global system lowers trade barriers through negotiation and operates under the principle of non-discrimination.

The result is reduced costs of production (because imports used in production are cheaper), reduced prices of finished goods and services, more choice and ultimately a lower cost of living.

Elsewhere, we look at the challenges that imports can present. Here the focus is on the impact on us, as consumers.

Overall incomes can rise. Trade opening since 1945 has boosted US annual incomes by $1 trillion, or $9,000 per household, according to the US government . Two major trade agreements of the 1990s — the WTO Uruguay Round and the North American Free Trade Agreement between the US, Canada, and Mexico — generate increased purchasing power of $1,300 to $2,000 per year for the average American family of four, it says.

The European Union, which, through the creation of its single market undertook the third major liberalization at the turn of the century, says the gains from the wider variety of goods and services available to the average European consumer are in the range of €600 a year, in addition to the gains from lower prices.

Food is cheaper if protection is reduced. When you protect your agriculture, food is artificially expensive. When protection is particularly high — as when market prices are naturally low — the impact can be huge.

Protecting agriculture raised food prices by an estimated $1,500 per year for a family of four in the European Union in 1997 and by the equivalent of a 51% tax on food in Japan (1995). In just one year (1988), US consumers had $3 billion added to their grocery bills just to support sugar.

But there is also a paradox. Protection and subsidies in rich markets raise prices domestically but force down prices externally in world markets and particularly in poorer countries. If reform in the developed world raises world prices, consumers in the poorer countries may suffer, but their farmers receive more realistic prices, encouraging them to produce more and improving supplies within the country.

Negotiating agricultural trade reform is therefore a complex undertaking. Governments are still debating the roles agricultural policies play in a range of issues from food security to environmental protection.

But WTO members are now reducing the subsidies and the trade barriers that are the worst offenders. And they are negotiating to continue the reform in agriculture.

The same goes for other goods…
For example, it is estimated that at their peak in the early 1980s, quotas on cars imported into the US were transferring $5 billion a year in additional profits to Japanese car makers (and additional costs to consumers), who could sell their quota-limited cars at a premium.

Despite this protection, the US car industry continued to lose market share. Foreign producers simply jumped over the trade barrier and began manufacturing cars in the US.

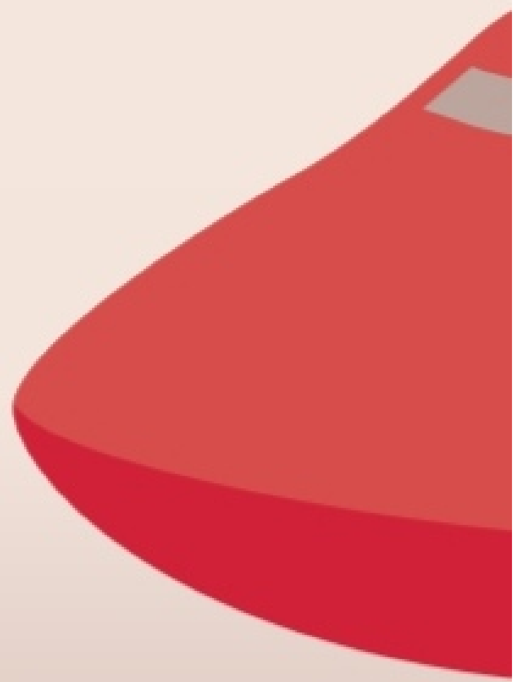
Many other countries have also protected their car industries. In the Republic of Korea, for example, the combination of an 8% tariff and taxes on engine size add about $9,000 to the price tag of a $30,000 imported car.

… and services. In Africa, Tanzania, Uganda and Mozambique were among the countries with the highest price drops for telephone, Internet and other forms of communications services in 2008-10. So were Bhutan and Bangladesh in Asia, according to calculations by the International Telecommunications Union (ITU). Recent market opening in least-developed countries is beginning to show dividends.

From 2008 to 2010, Internet broadband prices in developing countries (as a proportion of gross domestic product or GDP) declined much more rapidly, by 52%, than in rich countries, at 35%. Today, hardly any countries still allow Internet services to be provided under monopoly rights.

More broadly, according to ITU data, regions that have liberalized telecoms more slowly and less fully — the Middle East and Africa — show higher average price levels than regions such as Europe, the Americas and Asia, which embraced reform earlier.

And businesses as well as citizens benefit. Price reductions and affordability resulting from market opening around the world mean that telecoms services reach more small and medium-sized enterprises too.



2 … settle disputes and reduce trade tensions

Closer relationships have huge benefits but they can also bring friction: more trade increases the possibility of disputes. In the past, such disputes have erupted into serious conflict. But today, international trade tension is reduced because countries can turn to organizations, in particular the WTO, to settle their trade disputes.

Before World War II, there was no forum for global trade negotiations, and no legal procedure for settling disputes.

After the war, the world's community of trading nations negotiated trade rules which are now entrusted to the WTO. Settling their differences by talking and by agreeing on rules is vital for reducing tension.

Those rules also include an obligation for members to bring their disputes to the WTO and not to act unilaterally.

Dispute settlement is sometimes described as the jewel in the WTO's crown. It's the central pillar of the multilateral trading system, and the WTO's unique contribution to the stability of the global economy.

WTO dispute settlement focuses countries' attention on the rules. Once a verdict has been announced, countries concentrate on complying with the rules, and perhaps later renegotiating them — rather than declaring war on each other.

Well over 400 disputes have been brought to the WTO since it was set up in 1995. Without a means of tackling these constructively and harmoniously, some could have spiralled into more serious political conflict.

The fact that the disputes are based on WTO agreements means that there is a clear basis for judging who is right or wrong. Once the judgement has been made, the agreements provide the focus for any further actions that need to be taken.

The increasing number of disputes brought to the WTO does not reflect increasing tension in the world. Rather, it reflects the closer economic ties throughout the world, the WTO's expanding membership and the fact that countries have faith in the system to solve their differences.

Sometimes the exchanges between the countries in conflict can be acrimonious, but they always aim to conform to the agreements and commitments that they themselves negotiated.

… were brought to the WTO from 1995 to 2011.

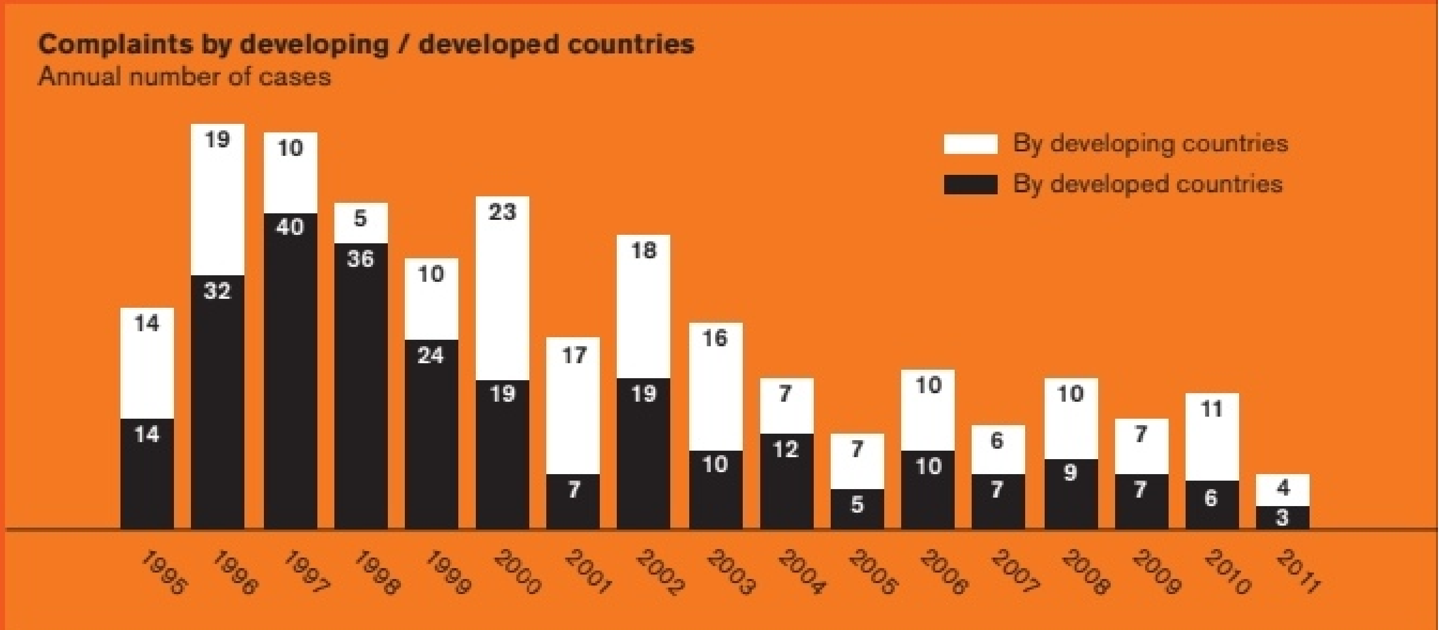
Less than half resulted in the establishment of dispute panels. A large number were resolved through discussions between the parties and never reached the panel stage.

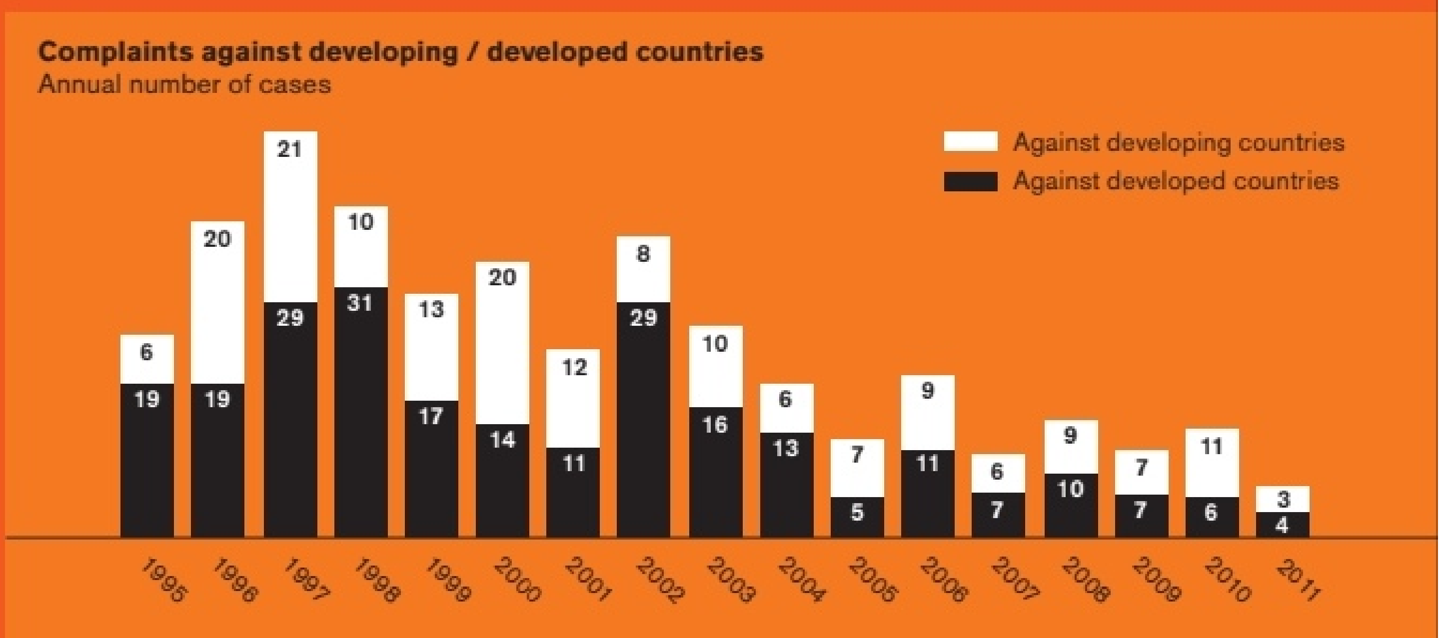
More than 90% of rulings have been complied with by the responding countries, less than 4% resulted in sanctions by the complaining countries.

The average time taken in panel proceedings is **10 months**. In other international organizations or even national courts, the time taken can be two to five years.

Developing countries are more active in WTO disputes

The annual number of disputes has declined overall. Developing countries are active, reflecting their increasing participation in trade. However, their share of disputes – either in initiating complaints or being complained against – has fluctuated over the years.





3 … stimulate economic growth and employment

Achieving higher living standards, full employment and sustainable development is the aim of the WTO's member governments, as expressed in the WTO's founding Marrakesh Agreement. The means for achieving this include the "substantial reduction of tariffs and other obstacles to trade".

This process of trade opening takes place in the framework of WTO rules, which take into account the fact that some countries are better equipped than others to open their markets widely. Some countries, for instance, have a more advanced legal, regulatory and physical infrastructure than others. Generally speaking, it is easier for developed countries to open their markets than for many developing countries. As a result, average tariffs (import duties) in developed countries, at least for manufactured goods, are much lower than in developing countries — although this is not true in every case or for every product.

Open economies tend to grow faster and more steadily than closed economies and economic growth is an important factor in job creation. Profitable companies tend to hire more workers than those posting a loss. Trade can also be a catalyst for greater efficiency and productivity. This is because companies have access to a wider range of high-quality, affordable inputs. They also have access to technology and know-how they could not obtain in a closed economy. Access to technology and quality inputs can boost innovation and creativity in the workplace.

Moreover, competition in the marketplace can be a powerful stimulus to companies seeking new ways of making things better and more cheaply. An infusion of new ideas from other countries can make companies more productive. So can enhanced access to export markets. But doing things more productively often means doing more with less and that can mean using fewer workers. Inevitably, this means that some workers in some industries will lose their jobs.

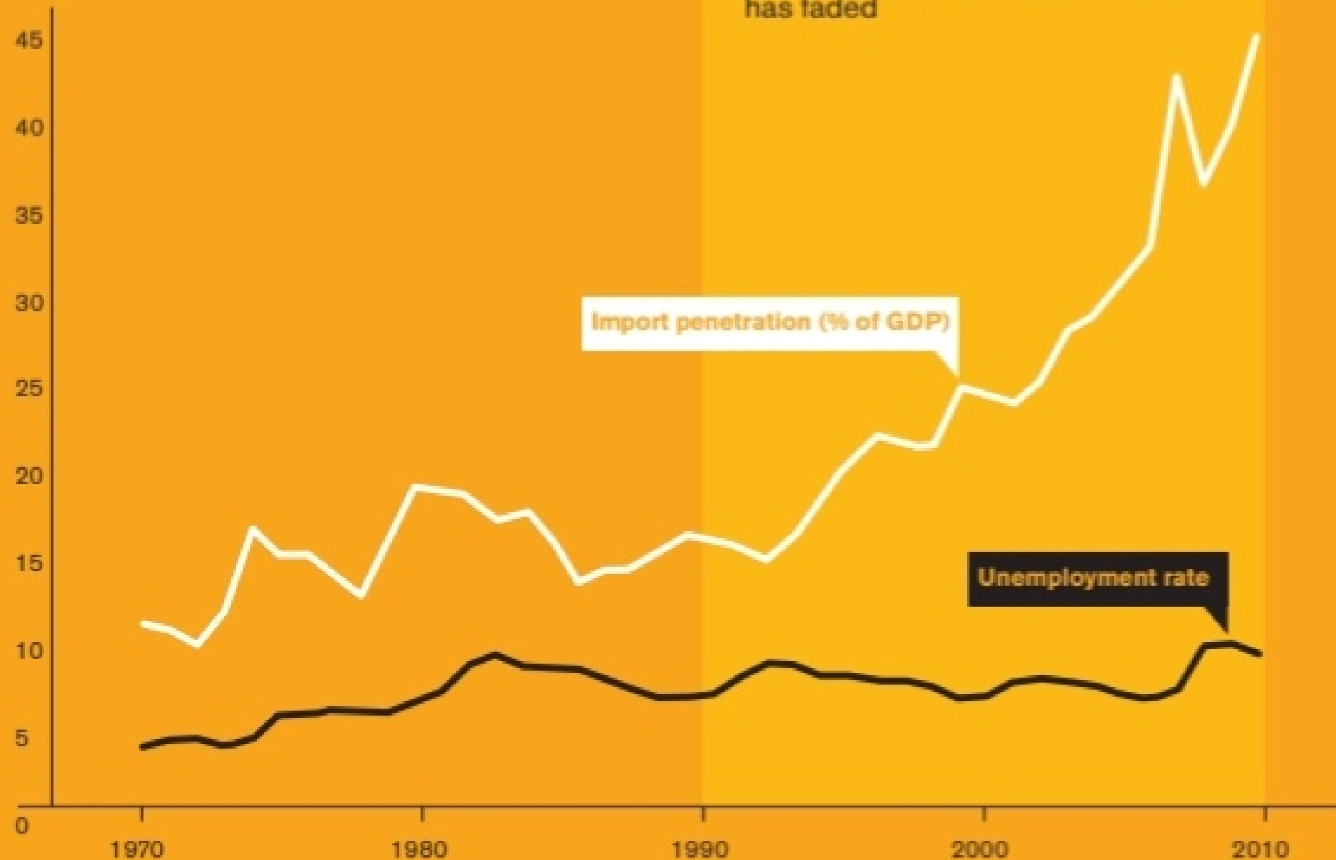
This is part of what economists call "churn" and what the Austrian-American economist Joseph Schumpeter termed "creative destruction". It has been part of economic life for centuries and it can bring pain. But history tells us that countries seeking to block incoming goods, services or ideas often find their economies stagnating.

It is important to acknowledge that while trade holds real benefits for most people, most of the time — consumers as well as producers — there are people who are hurt by trade. Recognizing that trade can be a threat is important socially and politically. Workers who have lost their jobs need support and polls strongly suggest that people are far more likely to favour trade opening if they know that such support will be available.

This is why governments need to maintain effective social programmes that can protect workers who lose their jobs through trade and help train them to find new jobs.

Imports are no longer linked to job losses

The chart below suggests that imports and the jobless rate might have been linked from 1970 to 1990. But since 1990, these lines have diverged sharply and 20 years later any linkage between the two has faded



The 23 countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany and West Germany (until 1991), Iceland, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, UK, US.

But if the link between trade and jobs is complex, one thing is straightforward: protectionism does not protect jobs, or does so at a very high cost which can adversely impact employment elsewhere in an economy. This is particularly true today in our ever more interconnected global economy.

The proliferation of global value chains means that production and sourcing now take place across many frontiers. Products are rarely made in a single country but rather are assembled using parts and services from many countries.

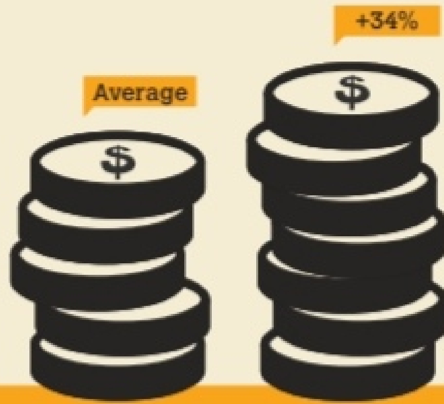
Participation in these chains would be seriously undermined if the goods and services needed to make these products were rendered more expensive or harder to find.

Moreover, there are many jobs in all countries that are directly related to imports, particularly in industries like retail, shipping, express delivery and logistics. The adage that exports are good and imports are bad has always been a dubious one and today this is more clear-cut than ever before.

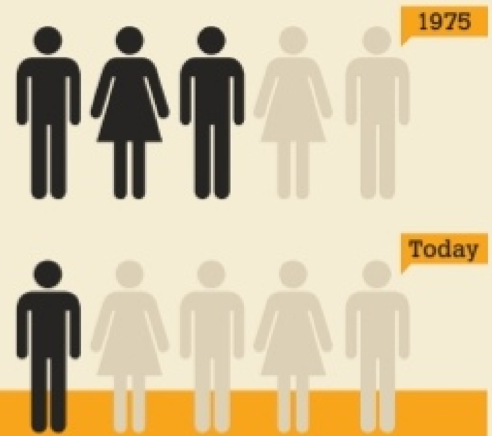
In the information and communications technology sector, developing countries such as Malaysia, Mauritius and Egypt have benefited enormously from opening their markets, achieving high levels of employment in this area. Developed countries such as Finland, Sweden and Ireland have followed a similar approach, leading to economic growth and new job opportunities.

While trade can put some jobs under threat, most economists believe technological advances contribute far more than trade to job loss, particularly for low-skill jobs. When the automobile was invented, it was bad news for blacksmiths and horse breeders. The electric light was problematic for candle makers. But of course these innovations created millions of jobs in the automobile and lighting sectors.

The OECD has charted the impact of imports on the jobless rate in 23 countries. While the correlation between the rate of import penetration and unemployment may have suggested a linkage between the two during the period 1970-90, the last 20 years have been a different story. Beginning in 1990, these lines diverged sharply and today any linkage between the two has faded.



In Sub-Saharan Africa, those working in export-oriented companies collect a 34% wage premium over the average wage.



In 1975, 60% of the people in Asia lived in absolute poverty. Today, that number is less than 20%.

Jobs that are tied to trade tend to pay better than those that are not. In Western Europe, those working in export-oriented companies collect a 10%-20% wage premium over the average wage. In the United States, the premium is 6% and in Sub-Saharan Africa the figure is 34%.

Overall, wages in economies that are open are higher than in closed economies. Workers in the manufacturing sector in open economies earn three to nine times more than those in closed economies.

But as with most things, the picture is neither all black nor all white. Trade promotes greater productivity, and higher productivity leads to larger salaries. But there is also strong evidence suggesting that wages in some sectors in advanced countries are suppressed when those sectors are exposed to competition from lower-wage countries. There is research that shows, as well, that in some cases trade can contribute to greater income inequality in some sectors.

As we said at the beginning, the relationship between trade and employment is complex and the impact of trade on employment cannot be assessed in a vacuum. Many other factors are tied to sustainable job creation. In some cases, rapid opening of trade may be the wrong policy. Without adequate physical, institutional and legal infrastructure, the benefits of more open trade can be lost.

And yet greater openness has helped many countries in reducing poverty. In Asia today, less than 20% of the people live in absolute poverty. In 1975, it was 60%. In Africa today, for the first time, fewer than half the people live in such poverty. Trade has been an important component in the development and poverty alleviation in both regions.

Trade is an important tool and we know that without it, growth, job creation and development are more difficult to attain. But trade is not a panacea.