

CHAPTER I

Globalization and the WTO - the case for liberalizing trade

1. The creation of the World Trade Organization (WTO) in 1995 was the most dramatic advance in multilateralism since the inspired period of institution building of the late 1940s. The Uruguay Round of negotiations had taken over four years to prepare and seven more years to complete. It was the most ambitious worldwide trade negotiation ever attempted. As the official history¹ of the Round suggests, it might well be viewed as the most far-reaching negotiation ever on any economic subject.

2. In the mid-1980s, when the crucial decisions were taken to launch the eighth set of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT), few participants had envisaged the dimensions of the final agreement that they would reach, or that a new international organization would be a major part of the result.

3. At their conclusion, the negotiations involved over 120 governments and their results are contained in 26,000 pages of legal texts and national commitments. Why were so many countries prepared to take on such an extraordinary range and depth of obligations? The consensus amongst the contracting parties² of the GATT, at the time, was clearly that, even if there were imperfections in the finally agreed text, it was in their vital national interests to be part of a new trading system and its institutional structure, the WTO, and to commit to the contractual requirements of membership.

4. Before the Uruguay Round was launched, in November 1983, the then Director-General of the GATT Arthur Dunkel had established an expert Group under Fritz Leutwiler, Chairman of the Swiss National Bank and the Bank for International Settlements, to look at the state of the international trading system and to try to understand and provide pointers to solutions to the challenges then being faced in global commerce.

5. The task of the Leutwiler Group was different from ours but it started from a position that we share. The Group agreed that fundamental economic changes were taking place in the world and that these changes were not only inevitable but to be welcomed as a motor for economic growth and development. Open international trade was in their view a key to sustained growth. On the other hand, trade restrictions and protectionism acted only as a brake on the ability of economies to take advantage of new technology and to grow. That diagnosis was in no way controversial. If not then, it has become controversial in more recent times.

6. In fact, we believe that these conclusions are, if anything, even more pertinent and correct today. The global economy has been developing rapidly since the WTO was established and is likely to continue to do so, even if it experiences some hesitations. The essential purpose of this Report is to examine the functioning of the institution that is often placed at the centre of the debate on globalization - the WTO - and to consider how well equipped it is to meet the demands that will inevitably weigh on its future. While we appreciate the importance of the current trade round, we are required to look beyond the Doha Development Agenda.

7. It is worth noting the evolution of the acceptance of the benefits of being part of this system. When the GATT came into force on 1st January 1948 it had only 23 contracting parties - almost half of them, developing countries. The number of WTO Members has now increased to nearly 150. That enormous increase in membership demonstrates what the world community really thinks of the value of the institution and is the most eloquent riposte to its detractors. The WTO is after all the only multilateral institution created recently and explicitly for a global and wholly interdependent economy. That China is one of the most recent new Members - and is being followed by Russia, Vietnam

¹“Reshaping the World Trading System”, John Croome. Published by the World Trade Organization, 1995.

² Participants in the GATT (1948-1995) were known as contracting parties.

and others - only highlights that fact, and the unique and central role played by the WTO in the economic and development ambitions of its Members.

8. Since the creation of the GATT, in 1948, there have been great changes in the political and economic condition of the world; of these, the most momentous political event was the collapse of the Iron Curtain. This, along with major technological innovations, has generated almost unprecedented potential for a truly interdependent world. Globalization has become part of the lexicon of modern discourse on world affairs. The supposed flaws in the process have given rise to much popular debate - some of it well informed. It is undeniable that there are concerns and anxieties about globalization. It is not the purpose of the Report to deal with these in any detail. However, if we are to look at the potential of the WTO to develop as a major institution assisting in the process of global governance, we cannot ignore the unease with which many people associate the institution and the sometimes severe and disturbing global economic phenomenon of change.

9. It is correct to say that freer trade has been a key element in the intensification of globalization over the past few decades. This perhaps explains why some who attack globalization have equated it almost solely with the WTO. Yet other factors, such as the increased movement of capital and people have had a significant role in the process, as have technology and the lower cost of freight and passenger transportation. It is not our intention here to engage in the debate as to whether the WTO drives globalization or responds to it; the reality is probably a mixture of both.

10. **In the end, the underlying rationale of a WTO that oversees increased liberalization of trade has to be that trade is conducive to pros-**

perity. Plainly a WTO, dedicated to the freeing of trade among its principal objectives, would merit inclusion in an international institutional architecture that is designed to enhance the welfare of humanity only if the liberalization of trade were indeed a beneficial policy. **Hence, it is necessary to address the criticisms of freer trade that have arisen recently.**

A. GLOBALIZATION - RESPONDING TO THE CRITICS

Is open trade a threat to human rights?

11. It is argued by some that freer trade is being pursued for its own sake and, instead, should be judged in terms of its impact on the quality of human life. **In fact, the case for freeing trade is made very definitely in terms of enhancing human welfare - nowhere better than in the preamble to the Marrakesh Agreement that established the WTO.** It is true, however, that the broad objectives of opening markets to competition - and not least their impact on poverty in reducing the prices of basic consumer goods - are seldom mentioned by the proponents of such policies or negotiations. It is assumed - often wrongly - that we all understand trade is a means to an end, not an end in itself.

12. As we discuss elsewhere, the notion that trade, investment and the growth of business detracts from non-economic facets of human rights is the contrary of the truth. Generally, the marks of closed economies are lack of democracy and a free media, political repression and the absence of opportunity for individuals to improve their lives through education, innovation, honest hard work and commitment. In the end - and we accept it may take time - the exposure of governments and their citizens to an international institutional framework dedicated to openness will have its effects on much more than commerce.

Is freer trade driven by corporate interest only?

13. A common complaint is that open trade is pursued by corporations and, therefore, serves their special, not the general, interest. Yet, corporations are owned by people, employ people and pay taxes for the benefit of yet other people. Their interest is, therefore, not necessarily a special interest that is harmful to social good. Indeed, the fact that corporations are among the lobbies that push for trade does not imply that trade therefore is not conducive to human welfare. **It might better be argued that it is precisely when corporations act against open trade - a not uncommon situation - that they are attacking the widest social interests. And that is precisely when the WTO's rules act to restrain governments from acting against the wider social good.** At the same time, there is nothing about freeing trade that removes or minimizes society's right to oversee and regulate corporations. Open markets are not markets devoid of appropriate regulation; far from it.

Does trade liberalization impose "one size fits all" solutions?

14. Open trade is also condemned as a prescription that ignores the maxim that "one [shoe] size does not fit all" - that not every country is at the optimal point in its development or has the necessary capacity and resources to pursue liberal trade and economic policies. **Yet there is a fundamental decision to be made by governments on whether to go barefoot or wear shoes at all. The approach to freer trade will inevitably lead to adjustments that reflect economic and political realities, so that the shoe size will indeed vary - again, the WTO's rules reflect that reality.** However, it is for the policy-makers and governments to decide whether to head in the direction of freeing, or restricting, trade. Both theory and experience strongly suggest that the former is the better option.

Are the benefits of open trade exaggerated?

15. Some critics argue that the proponents of open trade exaggerate the good that trade liberalization will bring. Whether the gains from freer trade are "large" or "small" will, for the most part, reflect the specific circumstances of each country. Much remains in the hands of individual governments: if policies tend to shelter entrenched interests, including import-competing industries, at the expense of firms with export potential then the gains will tend to be lower. Where resources can move more freely, the gains will be greater.

16. It must be accepted, however, that the gains from trade and open trade policies may look "small" when measured against national income, as is often the case for other essentially beneficial policies. In any event, even if gains from trade are "small" and limited downsides are possible, this does not translate into a conclusion that trade will typically be harmful. **Generally, it is difficult to escape the conclusion that those countries that have chosen to make trade a pillar of economic growth have, indeed, grown more strongly and become more wealthy than those which have chosen a reliance on domestic markets behind protective walls.**

Does freer trade hit the interests of the poor?

17. One of the more serious critiques is that freer trade harms the fight against poverty. Sometimes, the argument is based on the attribution of causality where there is only unrelated sequencing. The allegation that the North American Free Trade Agreement (NAFTA) depressed Mexican wages and hence increased poverty is a good example of this fallacy. In the Mexican case, the pressure on real wages came not from trade liberalization under NAFTA, but because of the stabilization that had to be carried out as a result of the peso crisis in November 1994. In fact, the political bonds established by NAFTA led the US Treasury to extend extraordinary support to Mexico to cope with the macro-crisis. Without such support,

the effects on real wages and hence poverty in the aftermath of the crisis would have been significantly more severe.

18. But what does the evidence show more generally in regard to the link between trade and poverty reduction in the absence of any other overriding phenomenon like a dramatic financial crisis? **The proponents of a favourable link have a two-step argument: that trade promotes growth, and that growth reduces poverty. As illustrated by the work of several economists³, the evidence for both these propositions as dominant tendencies is very strong in our post-Second World War experience.**

19. Consider the two largest countries - China and India - with a big share of the world's poor on every definition of poverty. Until the mid-1980s, these two nations pursued (for different reasons) inward-looking policies on trade and investment and turned away from exploiting the opportunity that the world economy provides for faster growth. As a consequence, they registered low growth rates of exports and hence also of income. In turn, these low growth rates failed predictably to make an impact on poverty. **While economists can produce paradoxical outcomes, it makes sense that stagnant economies cannot pull up masses of unemployed and underemployed poor into sustained, gainful employment and out of poverty.** The experiences of India and China since the mid-1980s, and the onset of economic liberalization policies, demonstrate adequately, though to different degrees, the other side of the coin.

20. Can we say something about whether inequality among nations has worsened or improved as trade and globalization have moved ahead? The analysts of convergence among nations have looked at both the general trends in international inequality, measured in alternative ways, and also at the direct association between trade and convergence of per capita incomes. As regards the former, recent expert

work shows that, according to many measures, world inequality has diminished, not increased. The work of economist Sala-i-Martin⁴ shows that international inequality, using several alternative measures, has declined in the last two decades.

21. So there are issues on poverty alleviation that must be faced. **Yet the basic equation seems to us to stand: trade does inspire growth and growth, to a greater or lesser degree and given time, will combat poverty.** We have to accept that the story may not always be as clear-cut for small and vulnerable economies - especially those that have become dependent on trade preferences. We shall return to this issue. But it is clear that preferences offer no long-term solution to development handicaps.

So, does trade damage the interests of the poor in developed countries?

22. But then there are critics, particularly within some labour organizations, who charge that trade is responsible for producing more poor people in the rich countries as well. The main argument is that trade with poor countries depresses the prices of labour-intensive goods such as shoes and textiles. This in turn leads to lower real wages for the unskilled workers competing in the same industries in the rich countries. The general stagnation of the real wages of unskilled workers for long periods in the last three decades has lent teeth to this hypothesis. **Yet the general consensus among researchers in this area is that technical change, not trade with poor countries, has driven the overwhelming bulk of the pressure on the unskilled.**⁵

23. Besides, while imports of manufactures from developing countries have been growing, they still constitute a small fraction of such imports into developed markets. Moreover, there is evidence that manufacturing jobs in many developed countries, regardless of their

³ See the extensive review of the considerable evidence in Jagdish Bhagwati, "In Defense of Globalization", Oxford University Press, 2004; Chapter 5 "Poverty: Enhanced or Diminished?".

⁴ See Xavier Sala-i-Martin, "The World Distribution of Income Estimated from Individual Country Distributions", National Bureau of Economic Research Working Paper No. 8933, Cambridge, Mass., May 2002, page 31.

⁵ This conclusion has been reached by many economists, including Robert Lawrence, Paul Krugman, Arvind Panagariya and Alan Krueger. Also see Bhagwati, Chapter 10, *ibid*. The conclusion relates to the question of absolute real wages, not to wage inequality between the skilled and the unskilled, which is generally a different issue.

trade volume and pattern, have fallen, suggesting strongly that the underlying cause is technical change in manufacturing. The real wages in many skilled occupations have also risen worldwide, also suggesting that skills-biased technical change, rather than trade, is the principal factor at play.

What about the race to the bottom?

24. The next argument is that trade with the poor countries, and outward investment from the rich countries, will produce a “race to the bottom” in labour standards. On the face of it, this fear sounds plausible, but the evidence for it is negligible. **On the contrary, there is more reason to suggest pressures for a “race to the top”. These take the form of political demands from the rich countries that poor nations upgrade their standards and raise their production costs as the price for trade advantages.** That approach is supposed to subdue competition and allow firms in rich countries to avoid lowering their own standards or becoming more competitive in general. It is more than debatable whether this is a wise or effective stance. Experience suggests that eventually economic growth naturally stimulates pressure for decent wages and working conditions. Increasingly also, consumers have choices in deciding whether to purchase the products of countries known to be denying basic employment rights to their workers.

25. In any event, many cross-industry and cross-country analyses underline indirectly the robustness of labour and environmental standards to international trade and even direct equity investment.⁶ They do this by showing, for example, that the choice of investment location, or even of techniques of production (whether they are environment-friendly or pollution-intensive) is sensitive, not to lack of standards or lower standards abroad, but to a host of other factors. In short, investors and importers need much more than the dubious - and

probably temporary - denial of labour standards to do business.

Outsourcing - a new focus for protectionism?

26. The worry about the adverse wage effects of trade with the poor countries has now been extended to skilled and semi-skilled jobs with the recent concerns over outsourcing of services from the rich countries. In the United States there have been calls for the exclusion of developing countries such as India from government procurement contracts and the denunciation of firms that outsource. A similar outcry has been heard in some European countries.

27. Having been told that they must see manufacturing jobs go overseas but that services employment will expand as a replacement, it is not surprising that workers in industrial countries are shocked to see even relatively high-paid services tasks moved elsewhere. Of course, any expansion of a country's trade opportunities, whether in agriculture, manufactures or services, is only welfare-enhancing in the aggregate. Looking more broadly at cross-border trade in services it is apparent that the rich nations are, in fact, importing largely lower-end services such as call-answering and financial back-office services from the poor countries while they export higher-value professional services such as medical, architectural, teaching, legal and other services. The trade balance in such services remains very much in the rich countries' favour. In effect, the wealthier economies are tending to specialize, in the main, in high-wage services while importing low-wage services - as has become the case for much of the industrial sector.

28. Besides, studies show that, in the United States, the substantially reduced prices of IT hardware in the 1990s fed a big spurt in investment and technical change. This fed into the huge rise in productivity and growth of the US economy. Similar surges in income expansion

⁶ Among the many such studies, see in particular Beata Smarzyska and Shang-jin Wei, “Pollution Havens and Foreign Direct Investment: Dirty Secret or Popular Myth?”, World Bank Policy Research Working Paper No.2673, 2001.

due to cheaper services can also throw up associated growth of new skilled jobs. **Companies that can reduce costs in one area through outsourcing may thereby be able to invest in others and create new jobs. So, the case for protection or penalties against outsourcing lacks plausibility much as that relating to the loss of unskilled jobs in manufacturing. Long-term it would be counterproductive.**

29. We should also keep in mind just how modest this “problem” really is. When the jobs that have been outsourced are aggregated, the largest estimates in the US run between 100,000 annually for 1999-2002 to projections of 225,000 annually in the next 15 years. These must be compared against the Bureau of Labour Statistics estimates of a stock of IT-related jobs estimated at over 17 million in 2002. The outward flow of jobs in the future will be less than 1.5% of the total job stock. The picture in Europe is little different.

Can trade and environmental protection co-exist?

30. Serious criticism has also been levelled at trade liberalization on the ground that it is at odds with the objective of environmental protection. This critique has been notably pointed in Europe where agricultural protection has been defended on the ground that agriculture has multiple facets and hence cannot be liberalized on the ground of economic efficiency alone. Maintenance of the countryside and rural communities, for example, must be put alongside achievement of economic efficiency.

31. Two remarks are in order. If, for example, the countryside must be valued, then it is true that free trade, even though it maximizes or advances economic efficiency and prosperity, may damage the countryside. However, environmentalists should not assume that just because free trade may occur without an optimal environmental policy in place, the environment would suffer.

32. A 1991 GATT⁷ report illustrated, with two examples, how both income and environment could improve with trade liberalization and be damaged by trade protection. One was a study of what happened in the 1970s and 1980s as a result of the imposition of voluntary export restraints (in effect, quotas) on Japanese car imports into the US to protect American manufacturers. To maximize benefits from a now limited market, Japanese producers moved to exporting larger, high-priced, gas-guzzlers because they carried more profit per unit. So, protection damaged economic efficiency, increased petrol consumption and exacerbated pollution. Another study showed that agricultural liberalization would both enhance efficiency and reduce environmental damage from pesticide use as production shifted from pesticide-intensive European farming habits to suppliers using environment-friendly techniques.

33. **It is old wisdom in many cultures that you cannot kill two birds with one stone. Modern commercial policy theory today also argues persuasively that if there are two objectives, income and the environment, then generally two policies will help governments attain them both to the best advantage. So, the correct policy solution is to fix the environment through an appropriate environmental policy and to maintain open trade to maximize the gains from trade and hence economic prosperity.** This is one rationale for the “delinking” of domestic support for farmers from agricultural production. The most recent reform of the Common Agricultural Policy (CAP) of the European Union (EU) allows for farmers’ incomes to be supported from public funds, for the countryside to be maintained and protected while, at the same time, ensuring that the support so given distorts international trade less than under previous arrangements.

⁷ International Trade 1990-1991, GATT publication, 1992.

B. FROM GLOBALIZATION TO A FULLY-EFFECTIVE WTO

Avoiding the mistakes of the past

34. The inception of the WTO reflected a recognition by the overwhelming majority of states that exist today that the process of trade liberalization and increasing economic interdependence required an institutional and constitutional base going beyond that provided imperfectly by the GATT. This was particularly necessary because the Uruguay Round had greatly expanded the ambit of traditional trade negotiations into new and sensitive areas of domestic economic policy-making.

35. The GATT had been created, in significant respects, as a consequence of a recognition that previous attempts at liberalizing trade and opening markets had not been sustained. What had been lacking was an effective rules-based system to maintain the value of tariff concessions. Rapid tariff increases, unimpeded by multilateral obligations, had been the response to market penetration from imports into developed countries, largely from developing ones, during the period between 1860 and 1914.

36. More pertinent for those who sought to construct a new world order after 1945, had been the experience between the two World Wars. The 1930 passage of the "Smoot-Hawley" Tariff Act in the United States effectively closed the world's biggest market. That provoked widespread protectionist reactions elsewhere and competitive currency devaluations on top of tariff hikes. The economic recession of the late 1920s was turned into the Great Depression. It is generally accepted that the experience was a contributing factor for the Second World War and took 20 years to put right.

37. The multilateral trading system has developed continually since 1948. The GATT itself was amended and supplemented pro-

gressively. However, it took a complete restructuring, through the Uruguay Round, to make the system truly relevant to the latter part of the twentieth century and the beginning of the twenty-first. By providing a rules-based system, with an effective adjudicating process for disputes, the WTO has allowed states to enter binding and durable commitments in the economic sphere because of the overall benefit of the reciprocal rights and opportunities afforded them.

38. Paradoxically, in a global economy that may sometimes appear out of the control of individual government actions the acceptance of global rules has had the effect of enhancing rather than reducing the real freedom of action of WTO Members. It has also provided positive evidence that multilateralism can enhance security and progress and reduce political conflict - often, itself, fundamentally a reflection of contrasting commercial interests. It is worth recalling that fundamental purpose of the system. As Montesquieu put it: "Peace is the natural effect of trade".

39. **It is important to grasp the central role of the WTO's rules. Neither the WTO nor the GATT was ever an unrestrained free trade charter. In fact, both were and are intended to provide a structured and functionally effective way to harness the value of open trade to principle and fairness.** In so doing they offer the security and predictability of market access advantages that are sought by traders and investors. But the rules provide checks and balances including mechanisms that reflect political realism as well as free trade doctrine. It is not that the WTO disallows market protection, only that it sets some strict disciplines under which governments may choose to respond to special interests.

40. The WTO provides a level playing field with a credible referee dealing even-handedly with the players. It is a playing field on which

only governments participate in the game. Business and other interest groups have the right to seek to influence the players - but only governments play. That is another aspect of fairness. It is difficult to conceive of a different system that in its essence could be fairer or provide a more level playing field.

Trade liberalization sometimes needs safety nets

41. That freer trade is desirable is a sound prescription and the WTO, building on an impressive record of the GATT, need make no apology for overseeing the liberalization of trade. But this does not mean that having opened their markets governments can sit back while prosperity ensues. Newly open economies invariably face adjustment problems. Import-competing industries may lay off workers. The social strains on individual communities can be intense.

42. It is true that the WTO's Safeguards Agreement allows governments, under some very stringent conditions, to put in place time-limited protective measures where particular imports have led to disruption that cannot be managed politically. However, **such situations require the provision of adjustment assistance to facilitate the acceptance of liberal trade. Without it the benefits of trade liberalization may be renounced and policies reversed.** Unfortunately, while WTO addresses orderly withdrawal of trade concessions, it says practically nothing, even by way of exhortations, to WTO Members and to aid-giving institutions, on adjustment assistance.

43. For over forty years, the US has had adjustment assistance programmes that have been continually revised with virtually every major piece of trade legislation. The European Union (EU) has its regional development aid and individual member states have their own social security safety nets. Whether such programmes are efficient or are implemented effectively, are matters over which there has been continuing

debate and experimentation. But there is wide agreement, if not consensus, that such programmes are necessary as advanced economies have further opened up to trade - and, have wound back subsidies.

44. As developing countries - which generally have higher tariffs than developed nations on industrial products - increasingly turn to trade liberalization they frequently lack adjustment mechanisms. Often, of course, it is simply a question of budgetary constraints. It has been argued for some time that international development agencies, chiefly the World Bank, should fund such programmes to cope with the occasional downside for specific import-competing industries. Moreover, they might even assist export industries that suddenly face an unanticipated downturn in world markets. The World Bank has recently announced that it will devise such a programme. This is a move to be welcomed.

The WTO cannot guarantee success in trade

45. We hear about the losers from world trade and there are indeed numerous examples of states where the often-repeated benefits of a global economy are clearly absent. However, to argue that this is a failure of the WTO is to aim at the wrong target. **The WTO is about providing opportunities - it does not provide guarantees nor does it provide all the conditions for participation in the global economy.** In essence it says to governments: here are a set of market opportunities that your local firms or individuals, if they are competitive, could benefit from; here also are the rules under which they will operate in foreign markets and under which others must be allowed to operate in your market.

46. It has to be recognised by both sides of the poverty debate that the mere provision of this system cannot be a panacea for all economic ills. Many such problems are the consequence of problems or handicaps in other

areas. Let us name just a few: debt burdens; failed education, training and health systems; inadequate infrastructure; corrupt administration; inefficient customs management; smuggling; uncompetitive financial services and so on. The WTO cannot supply a response in most of these areas; although, working in cooperation with other agencies it can certainly help build capacity in some.

47. There are some developing countries that have not benefited from globalization largely because they do not have the capacity to participate in it. Many countries in sub-Saharan Africa are at war or recovering from it. Others have failed to put in place an environment offering security, institutional integrity and administrative efficiency without which their exporters can never be competitive and investors will never show interest. There are others still that have not benefited because they have failed to respond to the challenge of WTO membership, spending decades firmly entrenched behind protective barriers. Such countries will never succeed as trading nations simply by calling on the rest of the world to open up to their goods while they themselves persist in the failed policies of the past. On the other hand, as we have seen, where political leadership has responded to the opportunities presented by the WTO, freer trade has enabled some populous low-income countries to grow significantly faster than high-income countries generally.

48. **The position of the poorest Members of the WTO, the least-developed countries (LDCs), has been and should be an issue of increasing concern. If they do not receive real benefit from membership there can be little point in their remaining part of the organization and the moral case for the WTO as a source of good is diminished.**

49. **The time and effort that has been expended over recent years in the WTO and associated agencies in addressing the needs and**

handicaps of the world's smallest and poorest countries in the trading system is remarkable, by any standards. As we have already emphasized, the advantages the WTO can endow on chronically poor countries is limited. But at least it cannot be argued that their voices have not been heard. Moreover, it is now easier for least-developed countries to have recourse to the dispute settlement system and to have their specific market concerns addressed. Very poor countries are beginning to win cases brought against some very large WTO Members.

Certainly they are better off as Members of the WTO.

The system has its own safety net - consensus decision-making

50. Lost within the rhetoric about "losers" in the system is the simple fact that every WTO Member has a right to influence and even to block WTO decisions. The practice of consensus within the institution has never been broken - even if the Marrakesh Agreement that established the WTO permits voting and, as we shall discuss, consensus is not invariably the best approach to decision-making. Poor nations have demonstrated their ability to block and influence decisions in the Doha Round.

51. However, it is clear that there is a need to continue creating and legitimising structures that influence globalization and that is the role for the WTO that we seek to improve. The WTO system is a significantly more complicated system than was the GATT. **At the same time, principles like non-discrimination through the most-favoured-nation (MFN) rule are now replete with so many exceptions and derivations that there is a need to stand back to review where we have reached (see Chapter II).**

The WTO now provides so many examples of instruments that can be used to accelerate or brake the process of market opening that there is a clear need to assess them and to ensure that they are appropriate, necessary and effective.

The WTO constrains the powerful

52. **We should not forget that the WTO is as much about shaping policy - and the administration of policy - in the large economies as in the small.** At that end of the scale, the GATT and the WTO have consistently pulled the major players towards multilateral solutions to trade issues. As we shall discuss later, it is certainly true that these powerful WTO Members have also recently turned towards regional and bilateral options. But that, in a sense, is why we have been asked to look at the functioning of the WTO: to ensure the organization achieves results that will obviate any need among its Members to seek alternatives to multilateralism.

53. For the most part, the US, the EU and other major economies have recognized their interests - and those of their exporters - in seeking to make the multilateral system deliver. The effort is frustrating sometimes. We shall examine whether decision-making should be made easier. But all **WTO Members must keep in mind that simply by virtue of their market power, the giants of the system have options in the manner in which they conduct trade relations. For as long as they choose to exert that market power in a multilateral context, under rules agreed by everyone, the poor and the weak need not fear a return to the law of the jungle. Everyone has an interest in the continued success of the WTO as an institution but no group has a greater interest than the weak and poor.**

54. The notions of “fairness” and “a level playing field” are subject to much abuse for domestic political purposes. Fairness and evenness tend to be in the eye of the beholder, especially when commercial interests are at stake. However, the WTO is the only global institution that has attempted (with reasonable success) to create a set of rules for trade that have reflected concern for the interests of the poor countries; the rules reflecting the eco-

economic understandings of the time. True, there are still tasks to be accomplished, such as the removal of agricultural subsidies in the rich countries and the lowering of industrial tariffs in the poor countries. But these have been very much on the agenda of successive multilateral trade negotiations - not least, the Doha Round.

55. However, in the final analysis, the WTO only makes sense if its rules and negotiations lead to firms across the world making decisions to trade and invest. There is little other practical output: all the growth, development, employment, social and other benefits that can stem from trade, all depend on individuals or undertakings participating in the global economy. It is not governments that create wealth but global firms, small and medium-sized enterprises and individuals participating in markets. All play their part in translating the activities of the WTO into a better life for the many.

56. A key for business is the transparency and predictability of the markets. While it is as a negotiating platform that the WTO can generate market access opportunities, it is as a “rules-based” treaty institution that it can provide security and predictability. Traders, producers, and other market participants can rely on the binding rules. Where those rules are being breached, complainants can go to their governments to seek redress under the WTO dispute settlement system.

57. Although the security and predictability of the conditions needed by entrepreneurs to trade and invest can never be perfect, the higher they are the more they will reduce the “risk premiums” of ventures considered or undertaken. As such risk-lowering becomes more established and widespread, world economic activity becomes more productive and welfare enhancing.