

# Part I

## The foundations of the WTO

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# 1 The theory and practice of the multilateral trading system

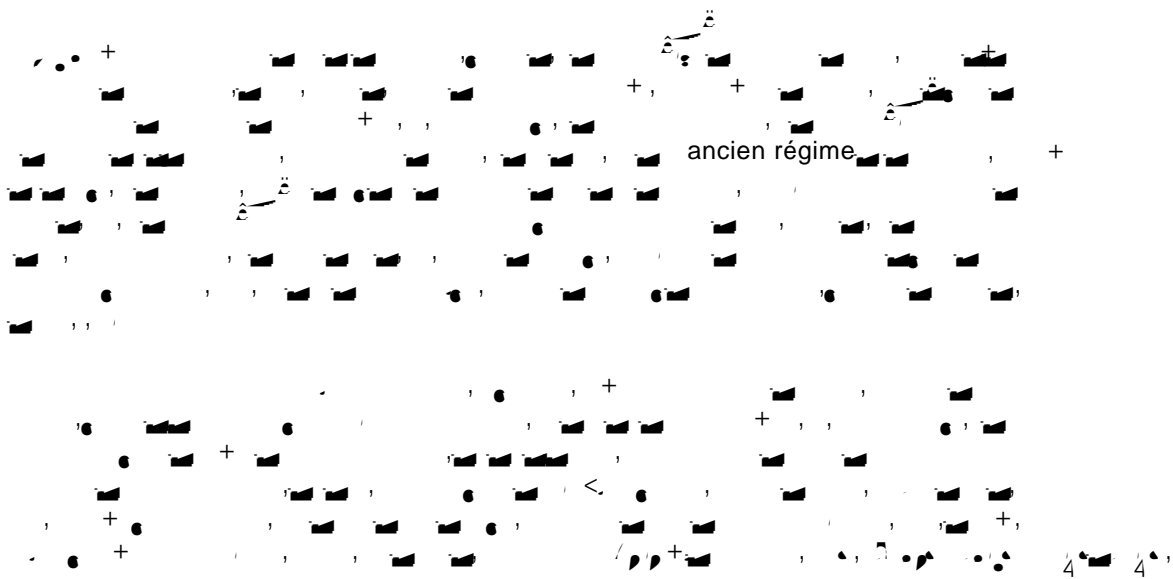
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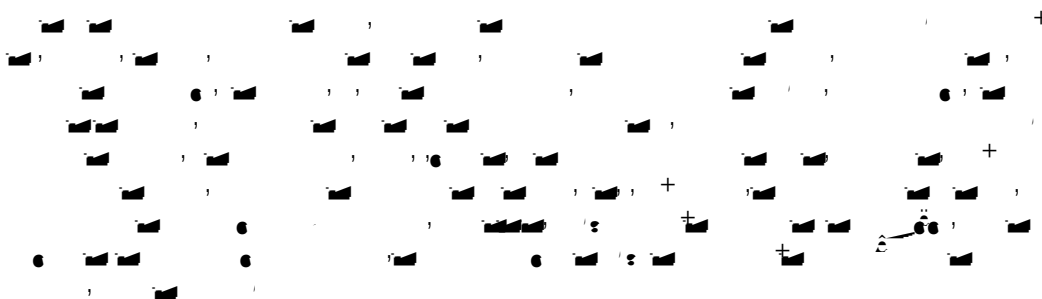


An Investigation of the Laws of Thought, 4 •

## Introduction









status quo ante bellum ,

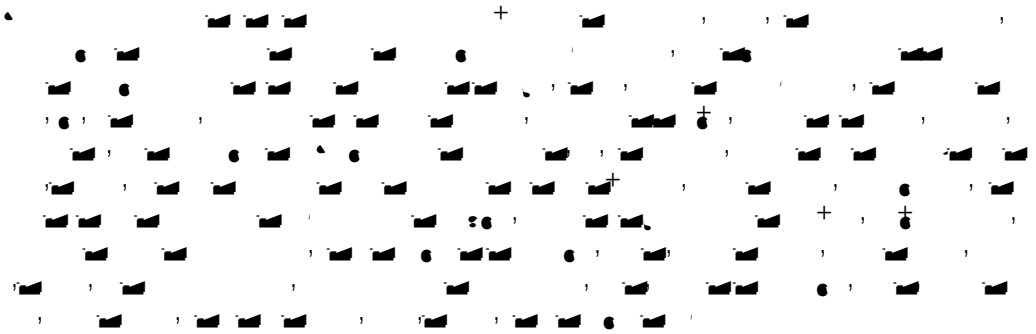
Le droit

des gens, ou Principes de la loi naturelle The Law of Nations,

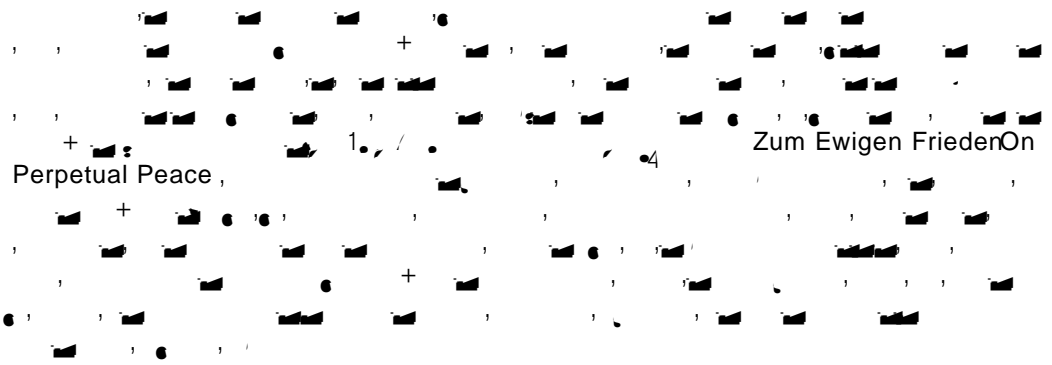
Inquiry into the

Nature and Causes of the Wealth of Nations



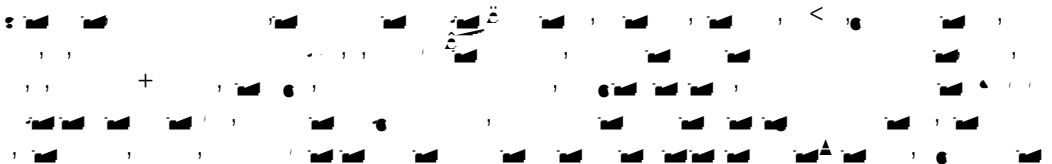
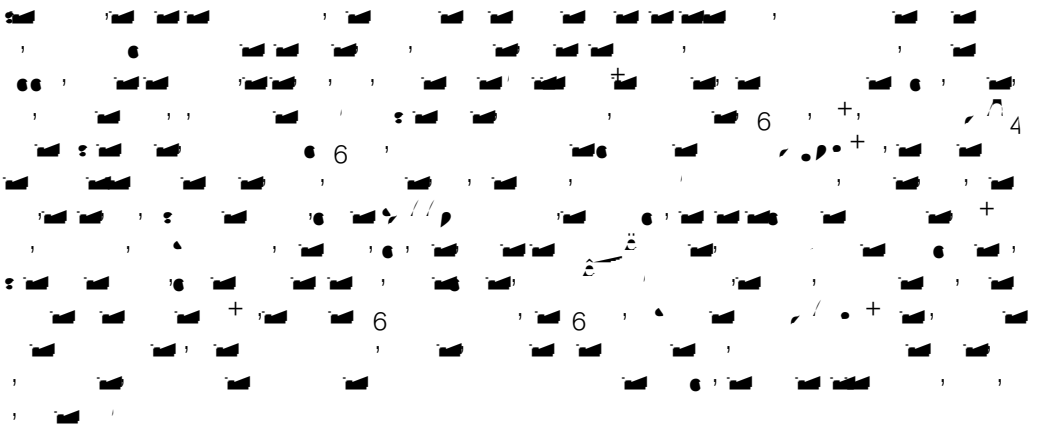


*The creation of international organizations*



Perpetual Peace,

Zum Ewigen Frieden



1987, the World Trade Organization (WTO) was established as the successor to the General Agreement on Tariffs and Trade (GATT). The WTO's primary objective is to ensure that trade flows as smoothly, predictably, and freely as possible. It does this by administering trade agreements, settling trade disputes, monitoring national trade policies, and providing a forum for trade negotiations.

The WTO's membership is open to all countries, and it currently has 164 member states. The organization's headquarters are located in Geneva, Switzerland. The WTO's work is organized into several areas, including trade in goods, trade in services, and trade in intellectual property. The organization also plays a key role in monitoring the implementation of trade agreements and providing technical assistance to developing countries.

Over the past few decades, the WTO has played a central role in the liberalization of international trade. It has been instrumental in the negotiation and implementation of several major trade agreements, including the Uruguay Round Agreements, which established the WTO itself. The organization has also been a key player in the ongoing negotiations on the Doha Development Agenda, which aims to reduce trade barriers and promote economic growth in developing countries.

Despite its success, the WTO has also faced several challenges in recent years. One of the most significant challenges is the increasing protectionism of some major trading partners, which has led to a decline in global trade growth. The organization has also been criticized for its perceived bias in favor of developed countries and for its slow decision-making process. However, the WTO remains an important institution in the global trading system, and it is expected to continue to play a central role in the future of international trade.



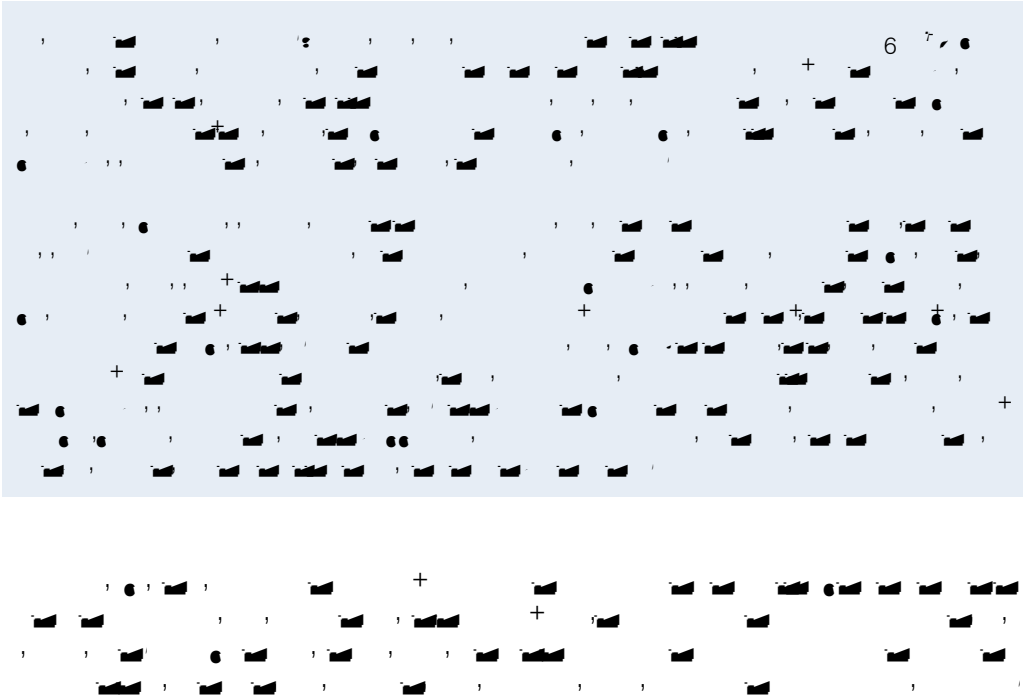
**Box 1.1.** The WTO and public goods: the legal, economic and political dimensions

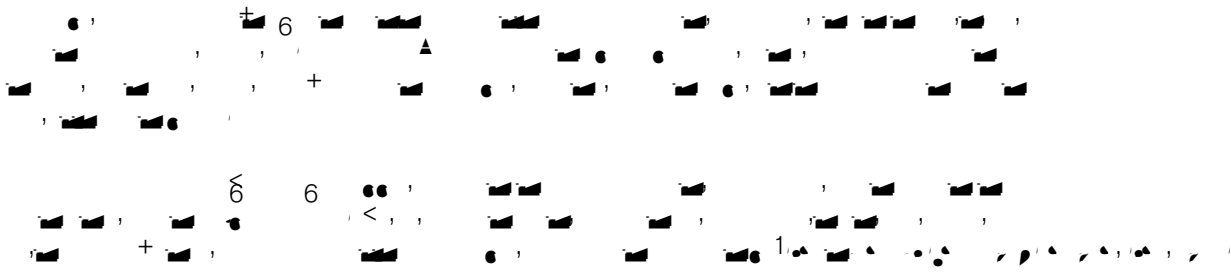
The World Trade Organization (WTO) is a global international organization that regulates trade between nations. It was established in 1995, following the dissolution of the General Agreement on Tariffs and Trade (GATT) in 1994. The WTO's primary objective is to ensure that trade flows as smoothly, predictably, and freely as possible. It achieves this through a series of trade agreements, including the General Agreement on Trade and Tariffs (GATT), the General Agreement on Trade in Services (GATS), and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The WTO also provides a forum for trade negotiations and dispute resolution between its member states.

The WTO's legal dimension is rooted in the principle of non-discrimination, which is enshrined in the most-favoured-nation (MFN) clause and the national treatment principle. These principles ensure that trade is conducted on a level playing field, without unjustified barriers or discrimination against foreign goods and services. The WTO's legal framework is also based on the principle of reciprocity, which encourages member states to open their markets to trade in exchange for reciprocal trade liberalization from other member states.

The economic dimension of the WTO is centered on the concept of comparative advantage, which suggests that countries should specialize in producing goods and services in which they have a relative advantage. By doing so, countries can benefit from trade, as they can acquire goods and services from other countries at a lower cost than if they produced them themselves. The WTO's legal and economic dimensions are closely intertwined, as the organization's legal framework is designed to facilitate trade and promote economic growth and development.

The political dimension of the WTO is reflected in the organization's role as a platform for trade negotiations and dispute resolution. The WTO's member states meet regularly to discuss trade issues and negotiate new trade agreements. The organization also provides a forum for resolving trade disputes between member states, which helps to maintain stability and predictability in the global trading system. The WTO's political dimension is also shaped by the interests of its member states, which include both developed and developing countries. The organization's legal and economic dimensions are designed to address the needs and interests of all member states, while its political dimension provides a mechanism for resolving disputes and promoting trade liberalization.





## THE THEORY

**Box 1.2. Ricardo's illustration of comparative advantage: trading wine and cloth**

From David Ricardo's *Principles of Political Economy and Social Theory*, third edition (1821)

Suppose that Portugal can produce 100 units of wine and 20 units of cloth, while England can produce 20 units of wine and 100 units of cloth. Portugal has an absolute advantage in wine, while England has an absolute advantage in cloth. If Portugal exports wine to England and imports cloth, and England exports cloth to Portugal and imports wine, both countries can consume more of both goods than if they were self-sufficient. This is the principle of comparative advantage: each country specializes in the good in which it has a relative advantage, and they both benefit from trade.

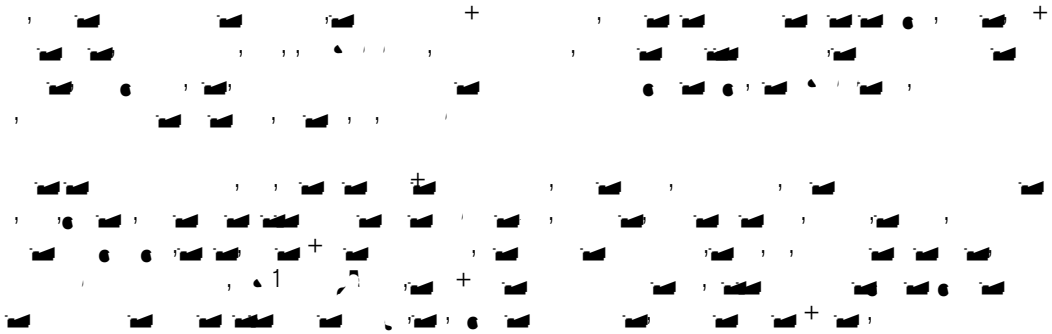
Let us suppose that Portugal has 100 acres of land and England has 100 acres of land. Portugal can produce 100 units of wine and 20 units of cloth per acre, while England can produce 20 units of wine and 100 units of cloth per acre. Portugal has an absolute advantage in wine, while England has an absolute advantage in cloth. If Portugal exports wine to England and imports cloth, and England exports cloth to Portugal and imports wine, both countries can consume more of both goods than if they were self-sufficient. This is the principle of comparative advantage: each country specializes in the good in which it has a relative advantage, and they both benefit from trade.

*Objections to materialism and the market*

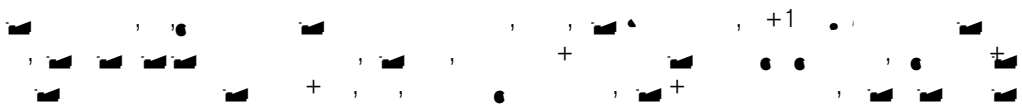
Materialism is the belief that the only things that exist are matter and energy, and that all phenomena can be explained in terms of physical processes. The market is the system of exchange between buyers and sellers, where prices are determined by supply and demand. Materialism and the market are often seen as conflicting concepts, as materialism suggests that human behavior is determined by physical processes, while the market suggests that human behavior is determined by economic incentives.









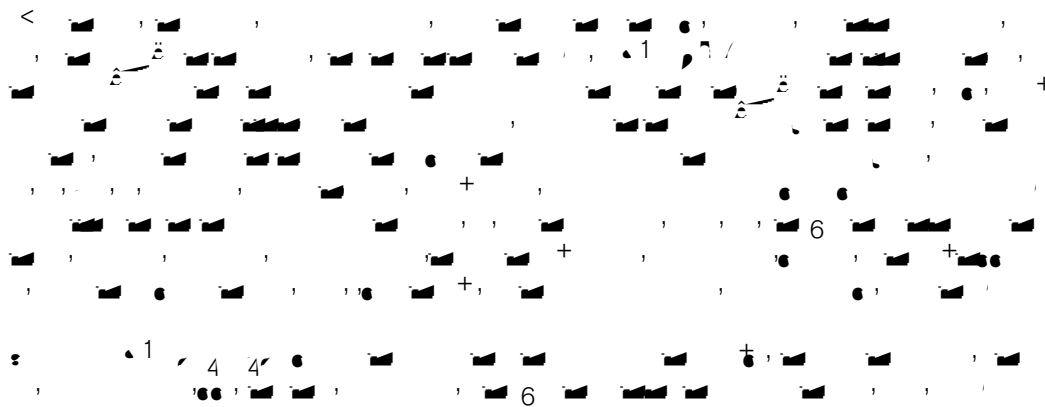








*Power and politics in GATT and the WTO*

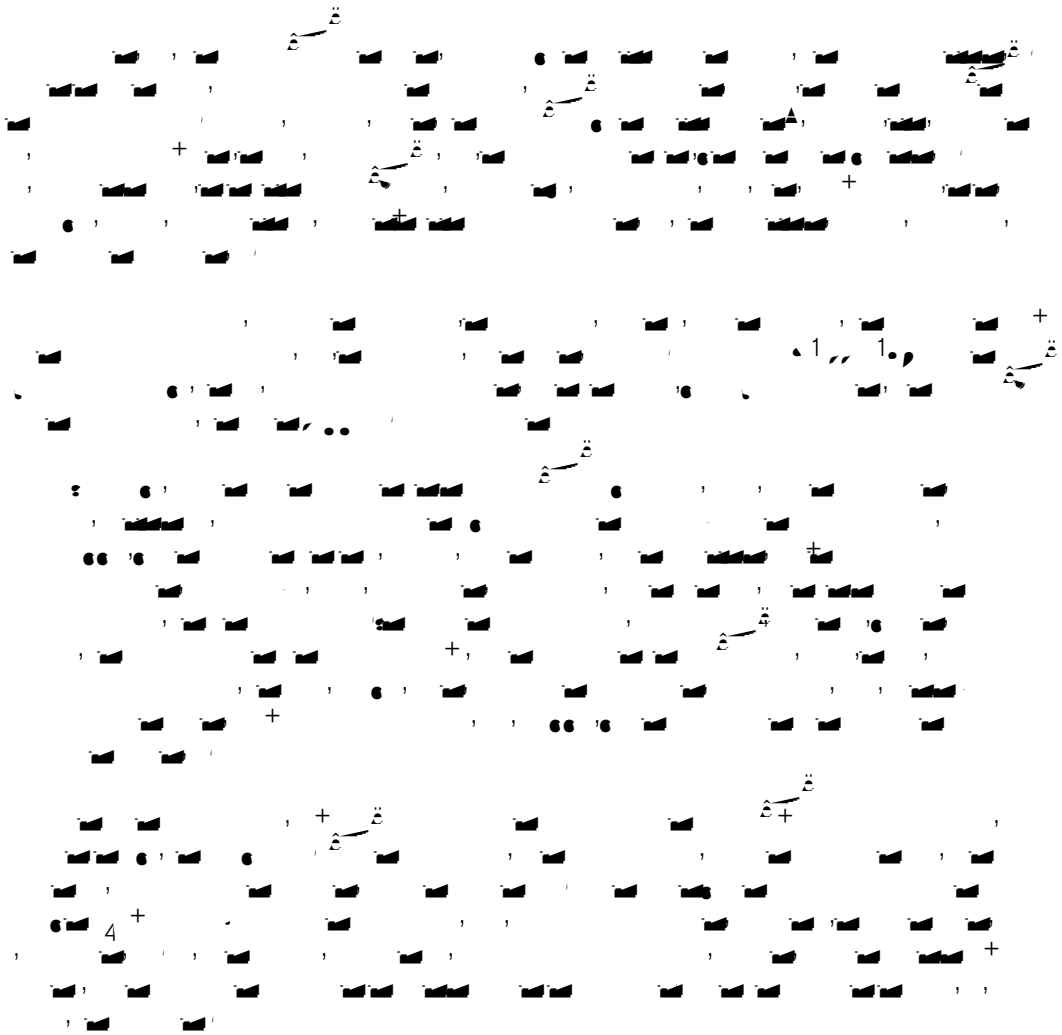




THE







*The economic challenge*



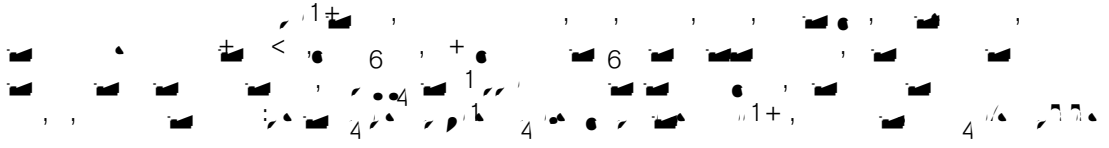
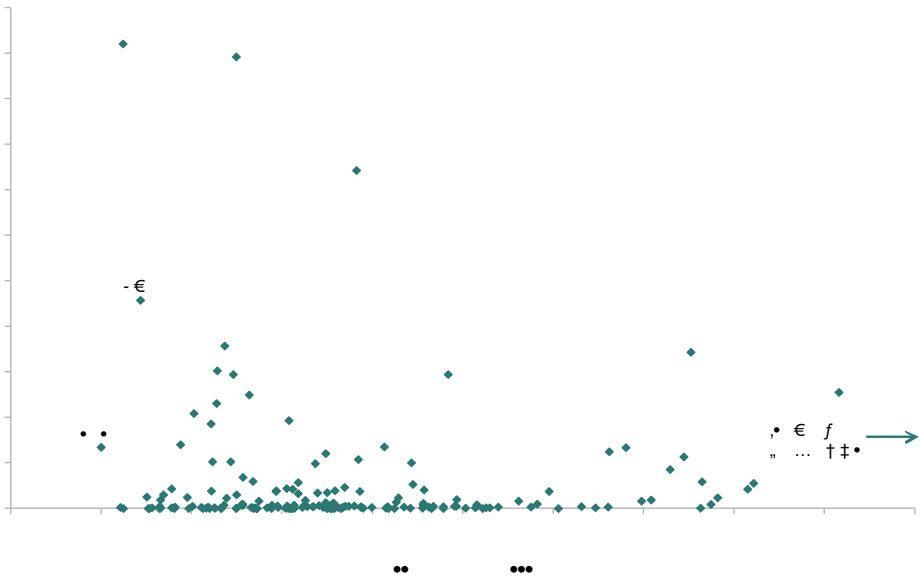
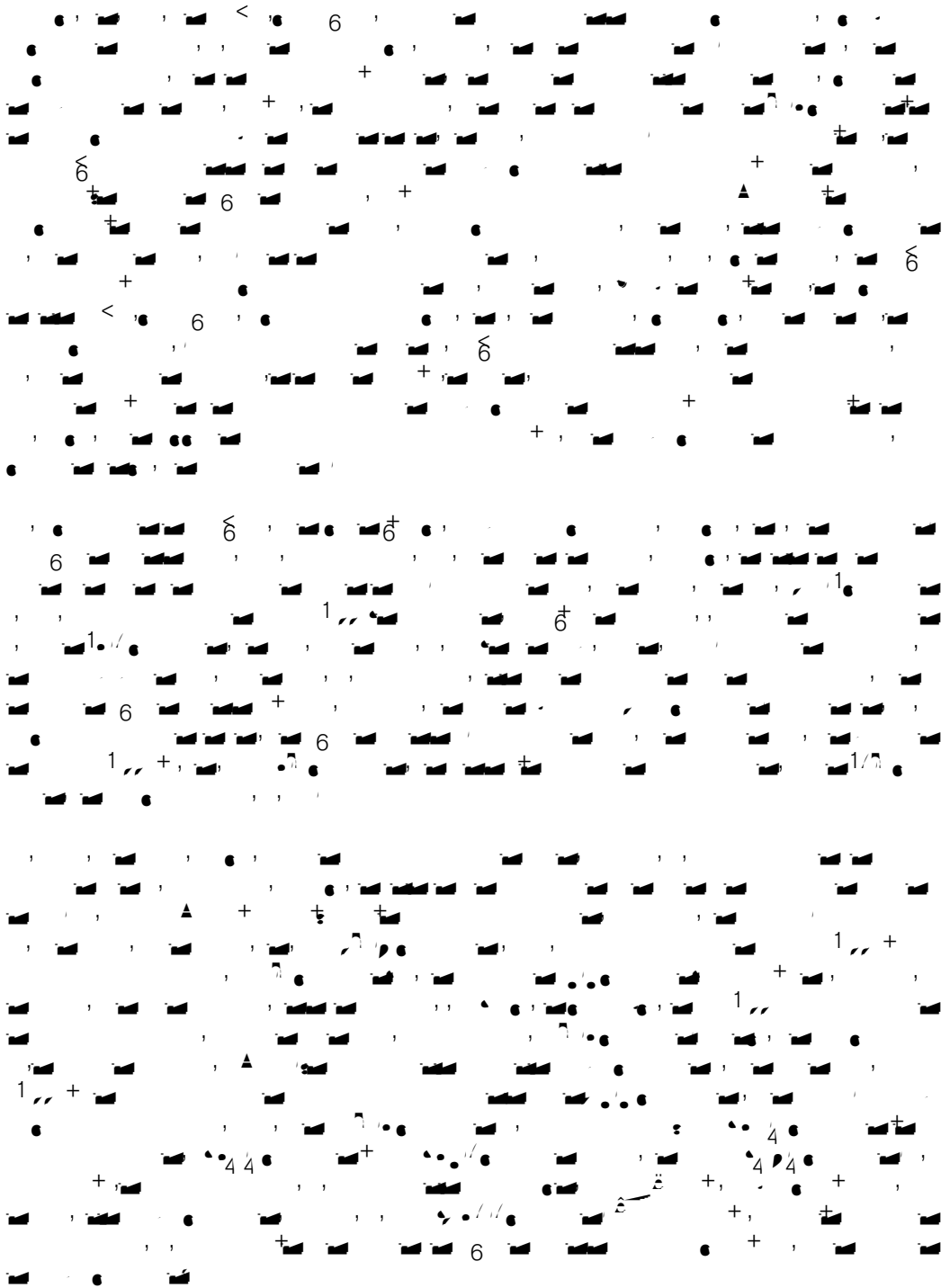




Figure 1.2. Relative values of countries' merchandise trade, 2011





desiderata

*The political challenge*



