



International Journal of Sciences: Basic and Applied Research (IJSBAR)

ISSN 2307-4531
(Print & Online)

<http://gssrr.org/index.php?journal=JournalOfBasicAndApplied>



The Role and Functions of the International Trade Organization (ITO) and the World Trade Organization (WTO): The Major Differences and Similarities

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Abstract

The International Trade Organization (ITO) and the World Trade Organization (WTO) are both trade organizations whose functions are geared towards regulating trade among nations. The ITO was proposed to be the international organization in charge of international trade regulation among nations even before the coming into being of the WTO. The ITO never had the chance to materialise due to the refusal of the United States' Congress to ratify the Havana Charter. Nevertheless, the ITO operated through the General Agreement on Tariffs and Trade (GATT) which incidentally brought to being the WTO. Technically, because the WTO came from GATT and the ITO, the functions of the WTO and the ITO are very similar. The two bodies were purposefully established to regulate international trade amongst nations. However, these two organisations have their differences because the WTO uses a negotiation approach to regulate international trade whilst the ITO at the time it was established, there was nothing like the most-favoured-nation (MFN) principle but rather, some countries were considered to have more power (Hegemonic power) than others. This study explores the similarities and the differences between the roles and functions of the WTO and the ITO.

Keywords: World Trade Organization; International Trade Organization; most-favoured-nation (MFN); Hegemonic power

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1. Introduction

The International Trade Organization (ITO) and the World Trade Organization (WTO) are both trade organizations whose functions are geared towards regulating trade among nations. The ITO was proposed to be the international organization in charge of international trade regulation among nations even before the coming into being of the WTO. The idea of an International Trade Organization was developed in discussions during World War II on planning for reconstruction of the world trading system in the postwar period. This led to fifty-three (53) countries in the world signing a charter which was meant to be the defunct international trade organization, called the Havana Charter. The ITO could not come to being due to US Congress' refusal to pass the Havana Charter in the 1940s. As a result, the ITO existed through GATT.

The WTO on the other hand was born at the end of the Uruguay Round of Trade Talks in 1994 where all the member states accepted for the WTO to act as a supervisory body for world trade through the use of liberalized rules and disputes settlement. WTO functions purely through negotiations, and everything the WTO does is as a result of negotiations as observed by authors in [18]. The WTO is the central institution of international law and international economic relations in the present day. This status, author in [6] asserts, might not be so surprising to the officials who drafted the Charter of the International Trade Organization (ITO) in 1946.–1948. Nevertheless, the successful transformation of the General Agreement on Tariffs and Trade (GATT) into the WTO was not the exact expectation of the trade experts of the 1970s and early 1980s.

The creation of an effective and respected WTO was hardly inevitable. That it happened, shows a triumph of an internationalist legal vision and effective political leadership.

It is often wondered if there are any differences between these two organizations since they all sought to achieve the same purpose. Thus, this paper compares and contrasts the role and functions of the International Trade Organization with the role and functions of the World Trade Organization, bringing to bare, the major differences and similarities between them. The study starts by looking at the historical developments of WTO and ITO, then continues with the roles and functions of the WTO and ITO, move on to the comparisons and the contrasts of the ITO and the WTO's functions, consider the differences and the similarities of their functions and then concludes by summing up all the salient points already captured by the paper.

1.1. Significance of study

This study is significant in the sense that the roles of the WTO and the ITO are most often confused as one by many in both academia and public. As a result, it is very important for the clear distinction between their roles to be drawn so that it will help the people in academia, especially, to be well abreast with the differences and the similarities between these international organizations.

2. Historical developments of the ITO and the WTO

2.1. History of the ITO

The International Trade Organization was the proposed name for an international institution for the regulation of trade which never had the chance to come into existence. After the World War II, members of GATT made extensive efforts to bring into being the ITO through the passing of the Havana Charter in 1947–1948. However, the Havana Charter was never ratified due to the failure of the US Congress in passing the Charter, mainly because of domestic opposition within the United States by the end of 1950. Even though the attempt to create the ITO was never a reality, it was however significant due to the fact that the effort to establish the ITO brought the General Agreement on Tariffs and Trade into being, and this in turn had consequences for the eventual creation of the WTO.

Also the idea of the ITO marks an important staging post in the shift between two contrasting types of trade liberalism: moral internationalism and institutional internationalism. According to author in [18], the draft ITO Charter was ambitious as it extended beyond world trade disciplines, to include rules on employment, commodity agreements, restrictive business practices, international investment, and services. The aim was to create the ITO at a UN Conference on Trade and Employment in Havana, Cuba in 1947.

2.2. *History of the WTO*

The WTO was born at the end of the 1994 Uruguay Round of Trade Talks. It came to replace the General Agreement on Tariffs and Trade (GATT), which had been in force since the 1940s after the Second World War. The main objective of World Trade Organization (WTO) was to serve as a global organization that helps countries and producers of goods to deal fairly and smoothly in conducting their business across international borders. This was mainly designed to be made possible through WTO agreements, which are negotiated and signed by a large majority of the trading nations in the world. These documents act as contracts that provide the legal framework for conducting business among nations.

In the 1980s, as the world economies became more global in trade and business, it became evident that GATT was not built or structured to address many of the new global trading challenges that were arising. As a result, the biggest trade negotiating event on record began in 1986 as professed by authors in [17].

Authors in [18] proclaims that the WTO's creation in 1 January 1995 marked the biggest reform of international trade after the Second World War. To these authors, the WTO's creation also brought to reality the failed attempt in 1948 to create an International Trade Organization. Majority of the history of those 47 years was written in Geneva but it also traces a journey that spanned the continents, from that hesitant start in 1948 in Havana (Cuba), via Annecy (France), Torquay (UK), Tokyo (Japan), Punta del Este (Uruguay), Montreal (Canada), Brussels (Belgium) and finally to Marrakesh (Morocco) in 1994. During that period, the trading system came under GATT, salvaged from the aborted attempt to create the ITO. GATT helped establish a strong and prosperous multilateral trading system that became more and more liberal through rounds of trade negotiations. By the 1980s the trading system needed a thorough overhaul and that led to the Uruguay Round, and ultimately to the WTO.

3. Roles and functions of WTO and ITO

The World Trade Organisation (WTO) was established in 1995 as a development to the previous General Agreement on Tariffs and Trade (GATT) which was established in 1947 after failed attempts to establish an International Trade Organisation that would regulate trade [19]. The idea of the ITO was discussed at the Bretton Woods Conference as necessary to complement the International Bank for Development and Reconstruction (IBDR) and the International Monetary Fund (IMF). Due to the nature of the policies of the ITO, the US was not willing to commit itself to trade policies where each member state had the same voting power hence efforts to establish the ITO failed.

The WTO's function is to promote free and fair trade between member states with a view of promoting economic prosperity and contributing to international peace. This achieved through the administration of trade agreements and acting a forum for trade negotiations, helping to settle trade disputes, reviewing national trade policies, providing assistance to developing countries in trade policy issues through technical assistance and training programmes and cooperating with other international organizations such as the IMF and the World Bank, (www.wto.org). The details of those functions has been provided below.

3.1. Roles and functions of the WTO

The WTO has numerous functions but the primary purpose of the WTO was to resolve the prisoner's dilemma. It provides as a framework within which members could come and negotiate the schedule of list of items so that it will help promote trading and communication in order to resolve conflicts. This study discusses some of the notable functions of the WTO.

- **Administration of agreements:** - the WTO looks after the administration of the 29 agreements (signed at the conclusion of Uruguay Round in 1994), plus a number of other agreements, entered into after the Uruguay Round. The WTO plays a role in running the agreement and their sub agreements like the committee on tariffs and the committee on market access, which meets on regular basis in Geneva. These committees compliments the General Council of the WTO.
- **Implementation of reduction of trade barriers:** -The WTO checks the implementation of tariff cuts and reduction of non-tariff measures agreed upon by the member nation at the conclusion of the Uruguay Round.
- **Examination of member's trade policies:** -The WTO regularly examines the foreign trade policies of the member nations, to see that such policies are in line with WTO's guidelines. The Uruguay Round was seen as a single undertaking. That is, all the side agreement between nations would have to be agreed by all members at the round of trade talks. This is as a result of the fact that whatever is agreed upon during a round of trade talk is binding on all members but at the end of the Uruguay round, the side agreement became problematic so new set of agreements were created. These agreements were referred to as Plurilateral agreement. That is, they were allowed to be carried on by only the countries concerned. These agreements include trade in civil air craft, agreement on government procurement, agreement on dairy products and agreement on cattle products.
- **Collection of foreign trade information:** - The WTO collects information in respect of export-import

trade, various trade measures and other trade statistics of member nations.

- **Settlement of disputes:** - The WTO provides conciliation mechanism for arriving at an amicable solution to trade conflicts among member nations. There are three main types of disputes that the WTO normally encounters. They are the violation dispute, non-violation disputes and a situation dispute or complaints. All these disputes are resolved by the WTO through the two main approaches to disputes settlement which are the power based system and the rule based system.
- **Consultancy services:** - The WTO keeps a watch on the development in the World economy and it provides consultancy services to its member nations.
- **Forum for negotiation:** - The WTO is a forum where member nations continuously negotiate the exchange of trade concessions. That is, the WTO provides a framework for the exchange of concessions and commitment through round of trade talks. The member nations also discuss trade restrictions in areas of goods, services, intellectual property, among others.
- **Assistance of IMF and IBRD:** - The WTO also assists IMF and IBRD for establishing coherence in universal economic policy administration.
- **Code of conduct** - The WTO functions as a code of conduct for international trade.

The goals behind these functions are set out in the preamble to the Marrakech Agreement. These include:

- Raising standards of living;
- Ensuring full employment;
- Ensuring large and steadily growing real incomes and demand; and
- Expanding the production of and trade in goods and services.

These objectives are to be achieved while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, and while seeking to protect and preserve the environment. The preamble also specifically mentions the need to assist developing countries, especially the least developed countries, secure a growing share of international trade.

3.2. Roles and functions of the ITO

According to Article 72 of the Charter of International Trade Organizations, the Organization shall perform the functions attributed to it elsewhere in this Charter. In addition, the Organization shall have the following functions:

- (a) to collect, analyze and publish information relating to international trade, including information relating to commercial policy, business practices, commodity problems and industrial and general economic development;
- (b) to encourage and facilitate consultation among Members on all questions relating to the provisions of this Charter;
- (c) to undertake studies, and, having due regard to the objectives of this Charter and the constitutional and legal

systems of Members, make recommendations, and promote bilateral or multilateral agreements concerning, measures designed

(i) to assure just and equitable treatment for foreign nationals and enterprises;

(ii) to expand the volume and to improve the bases of international trade, including measures designed to facilitate commercial arbitration and the avoidance of double taxation;

(iii) to carry out, on a regional or other basis, having due regard to the activities of existing regional or other intergovernmental organizations, the functions specified in paragraph 2 of Article 10;

(iv) to promote and encourage establishments for the technical training that is necessary for progressive industrial and economic development; and,

(v) generally, to achieve any of the objectives set forth in Article 1;

(d) in collaboration with the Economic and Social Council of the United Nations and with such inter-governmental organizations as may be appropriate, to undertake studies on the relationship between world prices of primary commodities and manufactured products, to consider and, where appropriate, to recommend international agreements on, measures designed to reduce progressively any unwarranted disparity in those prices;

(e) generally, to consult with and make recommendations to the Members and, as necessary, furnish advice and assistance to them regarding any matter relating to the operation of this Charter, and to take any other action necessary and appropriate to carry out the provisions of the Charter;

(f) to co-operate with the United Nations and other intergovernmental organizations in furthering the achievement of the economic and social objectives of the United Nations and the maintenance or restoration of international peace and security.

Section 72 (2) states that in the exercise of the ITO's functions the Organization shall have due regard to the economic circumstances of Members, to the factors affecting these circumstances and to the consequences of its determinations upon the interests of the Member or Members concerned.

4. Comparison and contrasts of the functions of ITO and WTO

The WTO provides a permanent arena for member governments to address international trade issues and it oversees the implementation of the trade agreements negotiated in the Uruguay Round of Trade Talks. The WTO is not simply GATT transformed into a formal international organization. It covers a much broader purview, including subsidies, intellectual property, food safety and other policies that were once solely the subject of national governments. The WTO also has strong dispute settlement mechanisms. As under GATT, panels weigh trade disputes, but these panels have to adhere to a strict time schedule. Moreover, in contrast

WTO's procedure with GATT's procedure, no country can veto or delay panel decisions. If US laws protecting the environment (such as laws requiring gas mileage standards) were found to be de facto trade impediments, the US must take action. It can either change its law, do nothing and face retaliation, or compensate the other party for lost trade if it keeps such a law as emphasized by author [13]

The ITO, in contrast, set up a code of world trade principles and a formal international institution. The ITO's architects were greatly influenced by John Maynard Keynes, the British economist. The ITO represented an internationalization of the view that governments could play a positive role in encouraging international economic growth. It was incredibly comprehensive: including chapters on commercial policy, investment, employment and even business practices (what we call antitrust or competition policies today). The ITO also included a secretariat with the power to arbitrate trade disputes but it was not popular. It also took a long time to negotiate. Its final charter was signed by fifty four (54) nations at the UN Conference on Trade and Employment in Havana in March 1948, but this was too late. The ITO missed the flurry of support for internationalism that accompanied the end of World War II and which led to the establishment of agencies such as the UN, the IMF and the World Bank. The US Congress never brought membership in the ITO to a vote, and when the president announced that he would not seek ratification of the Havana Charter, the ITO effectively died. Consequently the provisional GATT (which was not a formal international organization) governed world trade until 1994 as assumed by authors [1, 2].

5. Similarities and differences in ITO and WTO functions

5.1. Similarities

Looking at the functions as well as the comparisons and the contrasts presented above, the following similarities between the ITO and the WTO's functions can be deduced:

1. The WTO checks the implementation of tariff cuts and reduction of non-tariff measures agreed upon by the member nation at the conclusion of the Uruguay Round. Similarly to this function of the WTO, the ITO was to collect, analyze and publish information relating to international trade, including information relating to commercial policy, business practices, commodity problems and industrial and general economic development
2. The ITO and the WTO are similar in the sense that they both conduct consultancy services to member states regarding the development in the World economy
3. The ITO and the WTO both function to promote multilateral and bilateral agreements among member states.
4. The ITO and the WTO all functions to regulate unwarranted disparities in tariffs and prices of goods among member nations.
5. The ITO and the WTO all provides limited roles for non-governmental agencies.
6. The ITO and the WTO both dwells on Keynes' ideas of post-war international economic governance (avoid economic conflicts)
7. The WTO and the ITO both functions as a code of conduct for international trade.

5.2. Differences

Even though there seem to be a great number of similarities between the ITO and the WTO, which is not surprising since the ITO functioned through the GATT, which gave birth to the WTO, one cannot rule out the fact that the two organizations do not have their differences. The notable differences per comparison of the functions of the two bodies are as follows:

1. The ITO functions to co-operate with the United Nations and other intergovernmental organizations in furthering the achievement of the economic and social objectives of the United Nations and the maintenance or restoration of international peace and security whilst the WTO functions outside the UN system.
2. The WTO has as part of its functions, settlement of disputes, which enables it to follow the laid down procedures to settle all disputes that arises amongst member states whilst the ITO was not mandated to settle disputes among member states.
3. The WTO is a forum where member nations continuously negotiate the exchange of trade concessions whilst the ITO was set up to regulate trade.
4. The WTO provides assistance to other recognised international agencies like the IMF and the IBRD whilst the ITO was established without being given the mandate to perform that function.

6. Conclusion

In conclusion, the ITO and the WTO/GATT are all international trade regulatory bodies which sought to regulate and liberalized trade systems in the world economy. The ITO as seen earlier, could not come into existence as a result of the US Congress' failure to ratify the Havana Charter in the year 1948. Even though the ITO could not exist and operate on its own, it functioned through GATT which later gave birth to the WTO. In effects, the two regulatory bodies have a lot of similar functions since they were all geared towards regulating the international trade amongst member states in order to ensure fair pricing and competition in international trade. Notwithstanding this, they have their differences as well and notable among the differences as stated earlier is the fact that the WTO is purely based on negotiation whilst the ITO is only based on regulating trade but not through negotiation per se.

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