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## Economics focus

### Is there any point to the WTO?

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#### Does the World Trade Organisation promote trade? A reprise

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SUPACHAI PANITCHPAKDI, the softly spoken director-general of the World Trade Organisation (WTO), steps down this month with precious little to shout about. Not so long ago, he was hoping to announce a breakthrough in the Doha round of trade talks, which must agree on a template for cutting tariffs and subsidies at a big ministerial meeting in Hong Kong this December. But instead of ending on a high, Mr Panitchpakdi's watch closed with kerfuffles over bananas and ball-bearings.



On August 1st, the WTO rejected the European Union's (EU) proposed reform of its banana policy, which favours growers in its former colonies over cheaper plantations in Latin America. On the same day, Japan, traditionally a pacifist in trade wars, said it would retaliate against America's abuse of the WTO's anti-dumping rules. Japan will put an extra 15% duty on 15 American products, including forklift trucks and ball-bearings. With litigation and retaliation overshadowing negotiation, the high hopes invested in the Doha round look increasingly vain.

Were those hopes misplaced from the start? Perhaps so, according to Andrew Rose, of the University of California, Berkeley. In a much-debated paper\*, first circulated in 2002 and published last year in the *American Economic Review*, Mr Rose failed to find any compelling evidence that the WTO or its predecessor, the General Agreement on Tariffs and Trade (GATT), promoted trade. Yes, trade has bloomed since the GATT was founded in 1948. But it has flowered for the system's members and non-members alike. By this reckoning, the "hoopla" and "hype" that surrounds the WTO's successes, failures and admissions of new members are just that: hoopla and hype.

Needless to say, Mr Rose's results have generated much puzzlement and discussion, in this column ("[Weighing up the WTO](#)", November 23rd 2002) and elsewhere. So which stands up better to scrutiny? Mr Rose's results, or the WTO's record?

One of the more interesting questions is also the most basic: who is in and who is out? A recent working paper† by three political scientists at Stanford University points out that perhaps as many

as 78 countries were members of the post-war GATT in all but name. Counting these countries as members overturns Mr Rose's damning verdict on the system, they claim. By contrast, another critique<sup>††</sup>, by Arvind Subramanian and Shang-Jin Wei of the IMF, argues that many countries are members of the WTO in name only. Discounting them also changes Mr Rose's results.

The Stanford authors show that many colonies took on the rights and responsibilities of GATT membership, even if their names did not appear on the organisation's roster. For example, all of France's territories, except Morocco, had the agreement accepted on their behalf by the "mother country". When they won their independence, many colonies remained de facto members for a twilight period, while they decided whether to sign up in their own right. They were joined by another group of countries, such as Switzerland and Israel, that became "provisional" GATT members for years before they were accepted as fully fledged insiders. If all of these dependants, wannabes and hangers-on are counted as members, the authors find that trade between GATT insiders is 72% higher than trade between outsiders.

## A poor showing

Messrs Subramanian and Wei take a different tack. They argue that poorer countries, even founding members of the GATT such as India, have not been true protagonists in the system. These countries enjoy "special and differential treatment", which exempts them from any great obligation to liberalise. By the late 1980s, for example, developing countries had agreed to set ceilings on less than a third of their tariffs. And because the few ceilings they had established were typically higher than existing tariffs, they were not meaningful.

Exempted from so much, developing countries have had little to offer fellow members. They have a seat at the negotiations, but nothing much on the table. As a result, many of the sectors in which they enjoy a comparative advantage, such as agriculture, textiles and clothing, were neglected by successive trade rounds.

Messrs Subramanian and Wei hope that this is changing. They show that developing countries, such as China, which joined the WTO more recently have been asked to open up much more as the price of entry. Nonetheless, the WTO and the GATT appear much more successful if developing countries are left out of the picture. Membership boosts the imports of rich countries by 175%, the Fund economists reckon. The WTO and its predecessor have done a "splendid job of promoting trade".

Some of the other differences between their calculations and Mr Rose's are more subtle and methodological. They look only at a country's imports, not its exports. They also quarrel with Mr Rose's treatment of regional trade agreements, such as the North American Free Trade Agreement. If two countries are members of such a pact, WTO membership adds little, if anything, to their trade with each other. Mr Rose holds this against the WTO. The two Fund economists think it is wrong to expect otherwise.

But in the end, their disagreement is more apparent than real. Though they are fans of the WTO, Messrs Subramanian and Wei concede that it demands too little of its poorer members, is often superseded by regional trade agreements (where they exist), and has historically neglected agriculture, textiles and clothing. Aside from that, the two economists liked the play. Or, as Mr Rose wryly puts it, "if you ignore its many failures, the GATT/WTO has been successful."

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\*"Do We Really Know that the WTO Increases Trade?". *American Economic Review*, March 2004

†“Membership has its Privileges”, by Michael Tomz, Judith Goldstein and Douglas Rivers. Working paper, February 2005

††“The WTO Promotes Trade Strongly but Unevenly”, CEPR Discussion Paper 5122. July 2005

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