

## **How successful has the WTO been in achieving it's objectives? / Ben Weland / 13/10/2002**

The World Trade Organisation (WTO) was founded in 1995 and resulted from a series of General Agreements on Tariffs and Trade, which started after the Second World War in 1947. The WTO is the first global, constantly operating organisation responsible for the promotion of free trade and the settlement of possible trade disputes through independent disputes panels. A WTO ruling has to be accepted by a member state, otherwise the respective country may face trade sanctions. Major decisions are made on a basis of unanimity in the trade rounds, the most recent one happening in Doha, Qatar. This essay should clarify what the WTO's five main objectives are and to what extent they have been achieved in recent years.

Establishing and promoting free global trade is seen by many as the main objective of the WTO. It is the orthodoxy of the time that free trade is the economic policy most economic thinkers believe in, especially because empirical evidence seems to support the argument. Mercantilism, with it's main idea that wealth is finite and should therefore be kept in the country by encouraging exports and stopping imports, has long gone out of fashion. The argument goes that free trade is the way to optimise world output and income levels in the long run. The problem is that it is possible that individual countries may still gain from protectionism of some sort, the government protects it's own industry through tariffs, the firms can then compete at a lower price in foreign markets and the government earns a handsome revenue from increased corporate profits and the tariffs on foreign goods in general. Even the USA are not immune to this temptation, the recent steel tariffs of 30% on foreign steel are a proof of that (though some tariffs have already been reduced again, thanks to WTO mediation) The issue evolves around the prisoner's dilemma, with individual incentives for nations to restrict trade, but a collective interest that all nations should pursue it. In general, tariffs may only further protect inefficient firms or even whole industries, countries may be better off to let those firms go bust and redeploy their resources. Also, there is the infant-industry argument, newly developed industries have to be protected initially against foreign competitors with higher economies of scale, until a certain size has been reached. The problem is to remove tariffs after they have been put into place, as it is likely that the industry will resist any such attempts. Some industries may also argue that they want to preserve a certain way of life, but it may be better to support such an industry through subsidies rather than through tariffs (if that should be necessary at all). Overall, therefore, tariffs are likely to harm not only the global economy as a whole, but may also stop structural reform in a country from happening. Though some countries may resist freer trade because of the stated reasons, the overall trend should be towards free trade, the WTO should be able to use that movement. So how has the objective been achieved? Tariffs overall have decreased substantially, in the years 1973-1979 alone the tariff reduction amounted to \$300 billion. This would support the argument that the free trade promotion of the WTO was successful, despite understandable resistance by individual countries, and therefore even more admirable considering the circumstances under which the WTO had to operate.

The problem with this overly optimistic view links however with the next big WTO objective, the equal expansion of trade concessions to all member countries. A good thing is that WTO membership has increased hugely over the years, there are now 144 countries in the WTO and around 25 still waiting to join. However, the problem is that though tariffs have decreased, this is also due to an increase in trading pacts. In these trading agreements like the Andean Pact, NAFTA, Mercosur, the EU or the Asia Pacific Economic Cooperation, tariffs are

lowered whilst all trade barriers against the rest of the world are kept up. Therefore, though tariffs overall have fallen, there are now trade barriers between different trading blocks instead of different countries, which is not necessarily much better than the previous situation. Now, as soon as there is a trading conflict between two blocks, it may directly affect dozens of countries instead of only two, therefore negative effects are likely to be exacerbated. On the other hand, the pressure to avoid trade wars has increased, as politicians try to avoid these potentially more harming wars at all cost. Therefore, in conclusion, the WTO has not yet reached the objective of equal expansion of trade concessions to all countries, as concessions now mainly happen within the major trading blocks. However, it could save administrative cost if the WTO managed to convince a whole block to lower its tariffs to the outside world, but the problem is that individual countries still retain a lot of independence within a trading area, therefore the theoretical block acting may actually not happen in reality. However, if a block is as strongly linked as for instance the EU, it may be difficult for a single country to make independent decisions. In conclusion, this objective is far from fulfilled, especially developing countries outside major trading blocks are discriminated against.

The issue of developing economies is a crucial one in the WTO anyway. Another objective, making trade fair by establishing rules which count for everyone is especially related to that. Developing economies often have the fear of being exploited, partly due to their experience from colonial days. An often voiced criticism of the WTO says that there is not enough emphasis on helping the developing economies, but there is little evidence of that. Naturally, bigger economies will have more economical power and therefore potential influence in the WTO, but small countries have the best chance to cooperate through the WTO to get what they could not achieve on their own. Every country signs up under the same laws, it makes no difference whether you have a GDP of only some millions or several billions. Therefore, the objective of fair trade between countries of different power is mainly fulfilled, the fact that in recent years, developing countries have become considerably more active in WTO negotiations, submitting an unprecedented number of proposals in the agriculture talks, and working actively on the ministerial declarations and decisions issued in Doha is a further proof of that.

The promotion of competition through the removal of subsidies is linked to all points above and is a further objective of the WTO. Competition improves efficiency and leads to a better allocation of resources, costs and prices may fall which would leave people better off. Subsidies however distort competition as competitors in one country may gain an unfair advantage over other due to government help. International competitors may be forced out of business due to dumping prices; furthermore subsidies are a barrier to entry into a market. Subsidies are still broadly used, especially in industries which are seen by the government as indispensable, for instance agriculture and coal. However, these subsidies lead to inefficiency, overproduction (for instance the CAP) and are especially harming developing countries which have to rely on low skill exports to the Western world. In conclusion, even though the reduction of subsidies may actually help developing countries more than direct aid, Western politicians are still reluctant to cut subsidies, partly due to the fear of lobbying. A further proof of that is that for sugar alone, the EU puts 140% tariffs on many imports from Africa, supports its own sugar-beet farmers to the tune of \$1.6 billion a year, and adds insult to injury by dumping surpluses in overseas markets. Therefore, though subsidies have fallen somewhat, they are still alarmingly high, therefore this objective has not been achieved yet.

The Marrakesh Agreement establishing the WTO includes among its objectives, optimal use of the world's resources, sustainable development and environmental protection. For example,  
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negotiations have led to reductions in industrial and agricultural subsidies, which in turn reduce wasteful over-production. As a further example, a WTO dispute ruling justified a ban on asbestos products on the grounds that WTO agreements do give priority to health and safety over trade. It can be seen that the WTO does not necessarily support free trade at all costs. Though the environment may be one of the WTO's objectives, it is clear that the focus lies elsewhere, therefore it cannot be counted for or against the WTO's achievements so far, as not enough data is available on that issue.

In conclusion, the WTO has been fairly successful in achieving its main objective, the promotion of free trade, as the current popularity of the WTO shows (many countries want to join). However, though a lot has been achieved, the fight for free trade is far from over. Developing economies complained that subsidies and tariffs were not reduced enough in the Uruguay round, whilst that was demanded from them. There is still the danger of exploitation of developing countries, this has to be prevented. Also, there is the danger of complacency, as much has been achieved, politicians do not see the need for further reductions or they fear employment losses, therefore there are already signs of some reversal of tariff reduction policies (the USA has just passed a farm bill supporting its farmers, though still within WTO regulations a harming measure to free trade). The WTO must not stop its reforms, a lot of problems for the developing countries result from high tariffs, only if tariffs and subsidies are reduced everywhere in the world, not only within trading blocks, can the WTO's objectives be considered as sufficiently fulfilled.

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