

Advantages and disadvantages of WTO

Ms. Sweety Sinha

Readers Question: What are the advantages and disadvantages of the WTO formally the GATT?

The WTO is a body designed to promote free trade through organizing trade negotiations and act as an independent arbiter in settling trade disputes. To some extent the WTO has been successful in promoting greater free trade. The principles of the WTO are

1. Promote free trade through gradual reduction of tariffs
2. Provide legal framework for negotiation of trade disputes. This aims to provide greater stability and predictability in trade.
3. Trade without discrimination - avoiding preferential trade agreements.
4. WTO is not a completely free trade body. It allows tariffs and trade restrictions under certain conditions, e.g. protection against 'dumping' of cheap surplus goods.
5. WTO is committed to protecting fair competition. There are rules on subsidies, dumping
6. WTO is committed to economic development. For example, recent rounds have put pressure on developed countries to accelerate restrictions on imports from the least-developing countries.

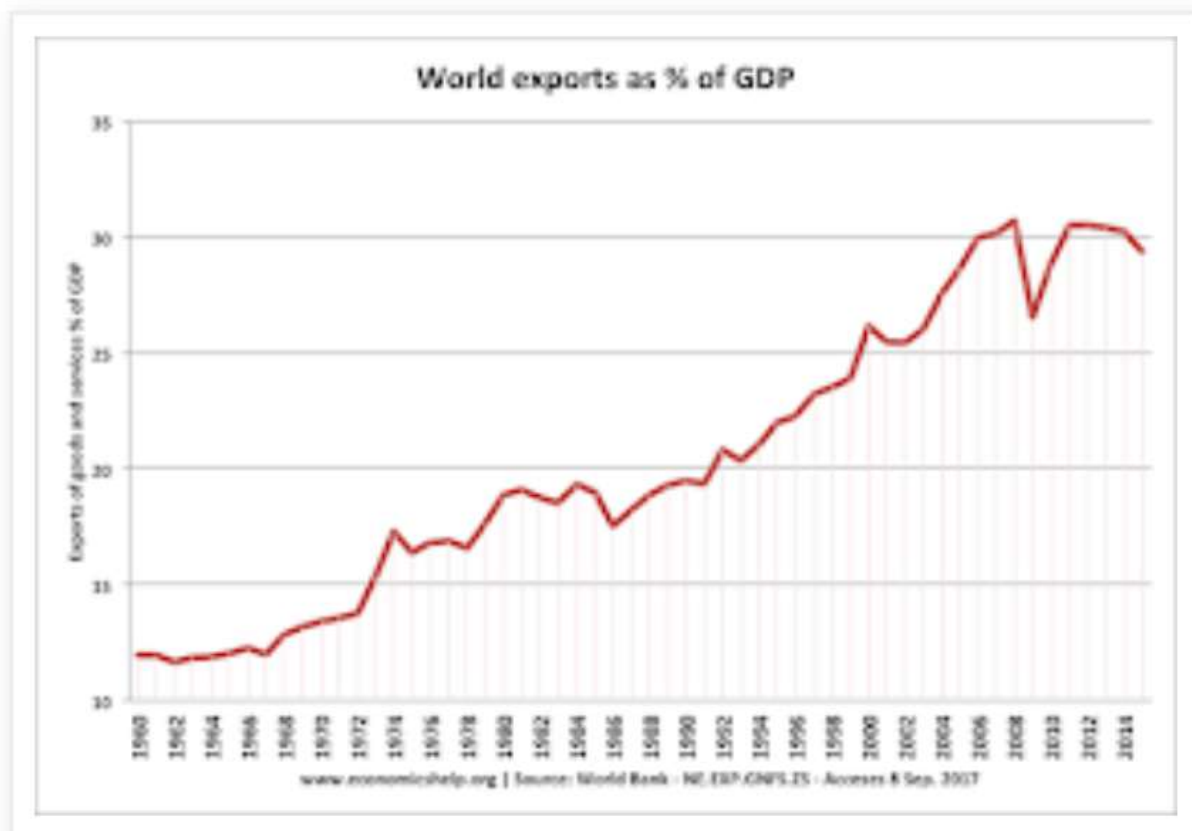
Advantages of promoting free trade

1. **Lower prices for consumers.** Removing tariffs enables us to buy cheaper imports
2. **Free trade encourages greater competitiveness.** Through free trade, firms face a higher incentive to cut costs. For example, a domestic monopoly may now face competition from foreign firms.
3. **The law of comparative advantage** states that free trade will enable an increase in economic welfare. This is because countries can specialise in producing goods where they have a lower opportunity cost.
4. **Economies of scale.** By encouraging free trade, firms can specialise and produce a higher quantity. This enables more economies of scale, this is important for industries with high fixed costs, such as car and aeroplane manufacture. In [new trade theory](#), it is this specialisation and exploitation of economies of scale that is most important factor in improving economic welfare. See also: [Advantages of Free Trade](#)

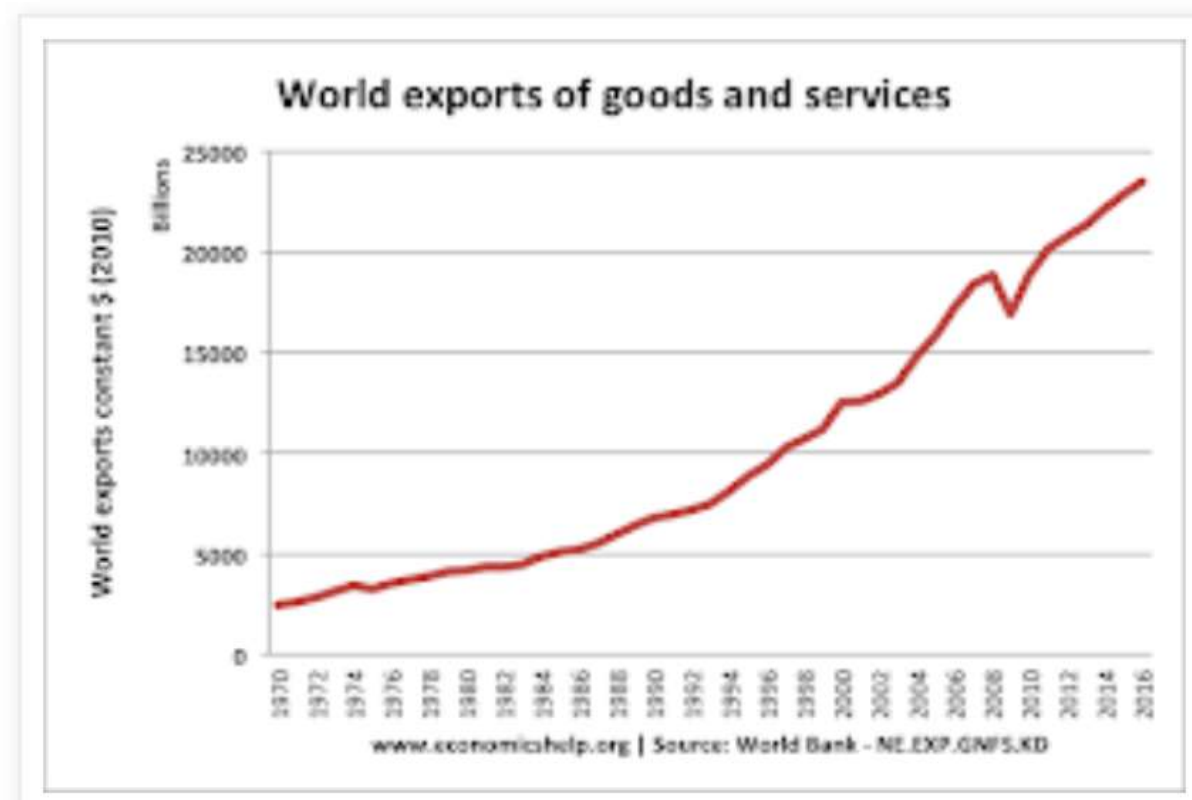
Successes of WTO

To what extent has the WTO being able to promote free trade?

- The WTO has over 160 members representing 98 per cent of world trade. Over 20 countries are seeking to join the WTO.
- An increased number of trade disputes have been brought to the WTO, showing the WTO is a forum for helping to solve disputes.
- WTO regulations and co-operation helped avoid a major trade war; this was significant during 2008/09 global recession. We could compare this to 1930s, where trade wars broke out causing a fall in global trade. According to (Bagwell and Staiger 2002) the average tariff in 1930s was 50%. In 2000s, average tariff is 9% ([VOX](#))
- According to **Ralph Ossa**, "[WTO success: No trade agreement but no trade war](#)"
VOX.eu 11 June 2015. the value of WTO in preventing trade wars could be estimated at up to \$340 billion per year.



World exports as a % of GDP have increased from 22% of GDP in 1995 (when WTO formed to just under 30% in 2015. Indicating importance of trade to global economy.



Disadvantages of WTO

- However, the WTO has often been criticised for trade rules which are still unfavourable towards developing countries. Many developed countries went through a period of tariff protection; this enabled them to protect new, emerging domestic industries. Ha Joon Chang argues WTO trade rules are like 'pulling away the ladder they used themselves to climb up' ([Kicking away the ladder](#) at Amazon)
- Free trade may prevent developing economies develop their [infant industries](#). For example, if a developing economy was trying to diversify their economy to develop a new manufacturing industry, they may be unable to do it without some tariff protection.
- WTO is being overshadowed by new TPP trade deals. These deals are negotiated away from WTO and focuses mainly on US and EU. It excludes China, Russia, India, Brazil and South Africa. It threatens to diminish the global importance of WTO

- Difficulty of making progress. WTO trade deals have been quite difficult to form consensus. Various rounds have taken many years to slowly progress. It results in countries seeking alternatives such as TPP or local bilateral deals.
- WTO trade deals still encompass a lot of protectionism in areas like agriculture. Protectionist tariffs which primarily benefit richer nations, such as the EU and US.
- WTO has implemented strong defense of TRIPs 'Trade Related Intellectual Property' rights These allow firms to implement patents and copyrights. In areas, such as life-saving drugs, it has raised the price and made it less affordable for developing countries.
- WTO has rules which favour multinationals. For example, 'most favoured nation' principle means countries should trade without discrimination. This has advantages but can mean developing countries cannot give preference to local contractors, but may have to choose foreign multinationals - whatever their history in repatriation of profit, investment in area.

Evaluation

- In response to this the WTO may say that free trade has been an important engine of growth for developing countries in Asia. Although there may be some short term pain, it is worth it in the long run.
- Also the WTO has sought to give exemptions for developing countries; enabling in principle the idea developing countries should be allowed to limit imports more than developed countries.