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### Analysis

## Does the GATT/WTO Increase Trade in the Asia-Pacific Region?

Will Martin, Kym Anderson and Cong S. Pham \*

The overarching objective of the WTO is “to help trade flow smoothly, freely, fairly and predictably”. It seeks to do this through a combination of rules and trade negotiations. Key rules include the Most-Favored-Nation principle requiring that countries must not discriminate between their trading partners, and the National Treatment principle that they must treat imported and domestic goods equally once any tariffs have been paid. Also important is the rule that prohibits the use of quantitative restrictions. Through eight past rounds of trade negotiations and the ongoing Doha Agenda negotiations, the WTO has sought to reduce trade barriers by reducing the maximum levels of tariffs that members may apply.

Empirical evidence about whether the organization has succeeded in reducing trade barriers and expanding trade is, however, somewhat mixed. Using a gravity model approach, Rose (2004) found no significant positive impact of GATT/WTO on the trade of its members. Subramanian and Wei (2007) found positive effects only for some members and sectors. By contrast, Tomz, Goldstein and Rivers (2007) concluded that a broader definition of participation in the GATT/WTO—including those covered by the provisional application provisions of the GATT prior to the existence of the WTO—suggested a positive overall impact on trade.

Whatever the impact of the WTO on its members' trade in general, there are reasons to suspect it may be greater between Asia-Pacific economies in particular. Exports from the region<sup>a</sup> to the world and to regional trading partners have been growing particularly rapidly. Rapid trade expansion typically generates trade frictions which the rules-based WTO system is probably useful in managing—a factor that was important in the decisions by countries like China and Vietnam to accede to the WTO after long and difficult negotiations. Even if the effectiveness of the WTO in promoting trade has been difficult to quantify, policy makers have viewed managing the conflicts inevitable during rapid export growth and with the aid of WTO rules and processes as much preferable to managing them without access to the WTO.

In new econometric work based on the gravity equation Martin, Anderson and Pham (2007) find that the GATT/WTO has had a substantial positive impact on the Asia Pacific economies that are also GATT/WTO members. Specifically, between 1950 and 2000, pairs of Asia-Pacific economies that were also GATT/WTO members were estimated to trade 380 percent more than otherwise. Pairs of GATT/WTO members with one in the Asia Pacific and one outside were found likely to trade 30 percent more with each other than if both were non-members. Being in the Asia Pacific alone was not found to stimulate trade, other things equal.

One important feature of WTO membership is the use of tariff bindings to restrict future increases in protection. In the past, this was not generally used to effectively restrain the growth of agricultural protection. Had Japan and South Korea, for instance, bound agricultural

### Paper of the Month

The paper of the month for March 2008 was **Measuring Tariff Equivalents in Cross-Border Trade in Services** by Soon-Chan Park.

### Latest News

The next phase of work on Institutional Foundations for Microeconomic and Structural Reform in Asia and the Pacific began with a workshop in Sydney 28-29 January, with expert participation from EABER Institutes around the region and APEC officials responsible for hosting the special APEC Ministerial Meeting on Structural Reform in Melbourne in August 2008.

EABER is pleased to announce that the book, titled *The institutional foundations of structural reform in the Asia-Pacific region* edited by Dr. Philippa Dee, has been produced following the completion of the first stage of the Public Sector Linkages Project: The institutional foundations of structural reform in the Asia-Pacific region. The book can be downloaded from the EABER website.

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tariffs at applied rates on their entry to the GATT in 1955 and 1967, respectively, their applied agricultural tariffs today would be less than 20 percent instead of more than 100 percent. In recent accessions, and also no doubt in future negotiations, many agricultural tariff bindings are likely to be set at levels that are more likely to effectively restrain future levels of applied protection (Ianchovichina and Martin 2004; Laborde, Martin and van der Mensbrugge 2008). The value of such bindings is frequently underestimated in studies of the impact of WTO accession, which typically assume that current applied tariffs in non-member countries will remain unchanged in the absence of accession to WTO.

A great deal of research suggests that agricultural protection in developing countries increases for political-economy reasons as economies grow (e.g. Anderson, Hayami, and Others 1986; Anderson 2008). To the extent that WTO bindings can effectively restrain the growth of this protection, their potential value will be much greater than is suggested by standard economic analyses based on past experience.

Thus, despite the political difficulties WTO members are having in finalizing the Doha round of multilateral trade negotiations, and the fact that economists do not find it easy to quantify all the various benefits of the rules-based multilateral trading system, our new econometric evidence and an examination of the likely policies emerging from the Doha Agenda negotiations does suggest that the region's trade has benefited and will continue to benefit from participation in the WTO system of rules and trade negotiations.

"The countries of the Asia Pacific region included here are Australia, Canada, Chile, China (including Hong Kong and Macau), Indonesia, Japan, South Korea, Malaysia, Mexico, New Zealand, Peru, the Philippines, Singapore, Thailand, the United States and Vietnam.

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