

THE ADVANTAGES OF WTO COMMERCIAL SYSTEM

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Abstract: *The WTO was created in 1995 with the propose to encourage and regulate trade between its member states. The primary objective of the WTO was and still is to create economic growth and encourage free trade among nations. This aspect was disputed between specialists: some say that the WTO creates economic opportunities and that its positive impact extends beyond just economic benefits by creating an international framework of political stability, offering a solid foundation for promoting international peace by encouraging good political relations among member nations and providing a solid dispute resolution process, while others say it is disfavors lower class citizens, limiting their opportunities for social and economic mobility, is only widening the global income gap between the wealthy and poor: as the rich get richer, the poor get poorer and it favors prosperous countries and multinational corporations, while preventing smaller and poorer countries from having a fair shot of engaging in open market trades and exchanges.*

In this paper we will stop only to emphasize the advantages of the WTO commercial system, following that in a future work to approach also the disadvantages of this commercial system.

Keywords: *trade, trade policy, agreements, international organizations, negotiations*

JEL Classification Codes : F53, F59, O19

1. INTRODUCTION

World Trade Organization (WTO) is an international organization that oversees a large number of agreements defining the "rules of trade" between Member States.

WTO is the successor to the General Agreement on Tariffs and Trade (GATT) and operate in the reduction of barriers to international trade. World Trade Organization came into being on 1 January 1995, after almost 50 years of trade between nations have operated in an institutional framework that had no "de jure" the state of international organization.

WTO is the only global international organization, with universal vocation, which establishes rules of trade between countries. These rules are contained in the WTO agreements, negotiated, signed and ratified by parliaments of members, the main purpose of these agreements being to support producers of goods and services, exporters and importers to achieve commercial operations, as well as offering a coherent and effective multilateral framework that assist members in identifying and harnessing the benefits required of growth. All these rules are multilateral (for multilateral agreements), with some flexibility for developing countries.

Members of the WTO enjoy the benefits conferred by any trade agreement. However, since the WTO has so many members, its benefits are really global. The WTO helps trade throughout the world to flow smoothly through its trade agreements. This provides its members with a fair method to resolve trade disputes without resorting to violence or even war.

Membership in the WTO also has responsibilities. Members agree to avoid erecting trade barriers, instead abiding by the WTO's resolution of the dispute. This prevents the escalation of trade restrictions that could help the individual country temporarily, but hurt world trade overall. In fact, it was just this type of retaliatory trade warfare that worsened the Great Depression of 1929. As global trade slowed, countries sought to protect domestic industries. Trade barriers were erected, creating a downward spiral. As a result, global trade shrank by 25%.

Members of the WTO know what the rules are, the penalties for breaking the rules, and how to play the global trade game. This certainty creates a safer trading arena for everyone. It also lowers the costs of doing business just by removing volatility. These general benefits extend to all members. Since the membership is so large, many of these benefits are also felt by the entire world.

2. MATERIALS AND METHODS

The research was accomplished from a triple perspective, in which the conceptual methodological approach is correlated to the empirical study and to a variety of references to practical actions aiming the activity of the World Trade Organization, based on the current knowledge in the field.

The results expressed in this paper were the result of a qualitative analysis of the characteristics and the evolution of the World Trade Organization trade system in order to establish its most important advantages.

3. THE BENEFITS OF THE WTO TRADE SYSTEM

The main benefits of the WTO trading system are:

1. The system helps promote peace;
2. Litigations are handled constructively;
3. Rules make life easier for everyone;
4. Freer trade reduces the cost of living;
5. Offers more choices of products and qualities;
6. Trade increase revenue;
7. Trade stimulates economic growth;
8. Basic principles make life more efficient;
9. Governments are protected by lobby;
10. The system encourages good governance;

1. The system helps promote peace

Peace is partly a result of the two fundamental principles of the commercial system helping trade to flow smooth, and giving the country a constructive and fair openness for the treatment in matters of trade disputes. It is also a result of trust and international cooperation that the system creates and reinforces.

History is full of commercial disputes turned into war. One of the most vivid is the commercial war of the 1930s when countries competed to raise trade barriers to protect domestic producers. This has exacerbated the Great Depression and has played an important role in the outbreak of the Second World War.

Two developments, immediately after the Second World War helped to avoid trade tensions before the war. In Europe, commercial development has developed in the coal, iron and steel field. It was created global General Agreement on Tariffs and Trade (GATT). [Andronic, 2007]

Both proved to be successful, so are now considerably expanded: one became the European Union and other World Trade Organization (WTO).

Rough, sales people are usually reluctant to fight their customers. In other words, if trade flows smoothly and both sides enjoy a healthy commercial relationship, political conflict is unlikely. Moreover, fluent trade helps people around the world to get better.

Trade wars of the 1930s are the evidence that protectionism can easily throw the country into a situation where no one wins and everyone loses.

Narrow protectionist view is that defending some particular sectors against imports is beneficial. But this view ignores how other countries are going to respond. Long term reality is that a protectionist step by a country can easily lead to repressions from another country, a loss of confidence in free trade and a sliding in serious economic problems for all - including initially protected areas. Everyone loses.

Trust is the key to avoid this kind of unsuccessful scenario. When governments are confident that others will raise their trade barriers, they will not be tempted to do so. Will also be in a better mood to work together.

WTO trading system plays a vital role in creating and building trust. Particularly important are the negotiations that led to an agreement by consensus, and focus on the rules.

2. Litigations are handled constructively

It could be a disadvantage for the liberalization and expansion of trade. More trade means opportunities for the emergence of disputes. Left alone these disputes can lead to serious conflicts. But in reality a lot of tension in international trade is reduced because countries can turn to organizations, especially WTO to resolve trade disputes.

Before World War II this option was not available. After World War II the community of world nations negotiated trade rules that are now entrusted WTO. These rules include the members obligation to bring their disputes to the WTO and not act unilaterally.

When are brought disputes to the WTO, the WTO procedure focuses on the rules. Once a rule has been established, countries focus on trying to follow the rules, and perhaps later on renegotiation of rules, not on declaring war on each other.

Around 300 disputes were brought to the WTO since was established in 1995. Without a means to combat them in a constructive and harmonious way, some of them could lead to a serious political conflict. The fact that disputes are based on WTO agreements means that there is a clear basis for judging who is good or bad. Once the decision was taken, the agreements provide future focus on other actions to be taken.

Increasing the number of disputes brought to GATT and its successor, the WTO, does not reflect increasing tension in the world. Rather, it reflects the world closer economic ties, expansion of GATT/WTO members and that countries trust the system to resolve their differences. Sometimes trade between countries in conflict can be lit, but always aim to comply with the agreements and commitments that have been negotiated.

3. Rules make life easier for everyone

WTO decisions are taken by consensus. Agreements apply to everyone. Rich and poor countries alike have an equal right to challenge each other in the dispute settlement procedures of the WTO.

This makes life easier for everyone. Smaller countries can enjoy greater bargaining power. Without a multilateral regime, such as the WTO, the most powerful countries would be free to impose their will unilaterally on smaller trading partners. Smaller countries should deal with each of the major economic powers individually, and would be much less able to resist unwanted pressures.

There are benefits suitable for large countries. Major economic powers can use a single forum of the WTO to negotiate with all or most trading partners simultaneously. This makes life simpler for major trading countries.

The alternative would be continuous and complicated bilateral negotiations with dozens of countries simultaneously. And every country could end up with different trading conditions with each of its trading partners, making life extremely complicated for its importers and exporters.

Discrimination principle built into the WTO agreements avoids this complexity. The fact that there is one set of rules that apply to all members greatly simplifies the entire trade regime. And these agreed rules give governments a clearer image of trade policies that are acceptable.

4. Freer trade reduces the cost of living

Protectionism is expensive: prices raise. The WTO global system reduce trade barriers through negotiation and applies the principle of non-discrimination. Results are lower costs of production (because imports in production are cheaper) and reduced prices of finished goods and services, and ultimately a lower cost of living.

There are plenty of studies showing the effects of protectionism and free trade. These are just a few numbers.

Food is cheaper

When protecting agricultural, your food costs increase by an estimated \$ 1,500 per year in the EU, equivalent to a tax of 51% on food in Japan (1995), with \$ 3 billion a year added to American grocery consumer bills just to support sugar in one year (1988), according to World Trade Report 2014.

Negotiating agricultural trade reform is a complex process. Governments still debate the role of agricultural policies played in a number of issues from food security to environmental protection.

But WTO members now reduce subsidies and trade barriers that are the worst offenders. And in 2000, began fresh talks on further agricultural reform. These were incorporated into a larger work program, the Doha Development Agenda launched at the fourth WTO Ministerial Conference in Doha, Qatar, in November 2001.

Clothes are cheaper.

Import restrictions and high tariffs combined to increase the price of textiles in U.S. by 58% in the late 1980s. UK consumers paid about 500 million pounds per year for their clothes due to restrictions. For Canadian the law project is approximately of \$ 780 million. For Australians would average \$ 300 per family annually if Australian customs duties were not reduced at the end of 1980s and early 1990s, according to World Trade Report, 2008.

Trade in textiles and clothing was going through a major reform in the WTO, which was completed in 2005. [Andronic, 2007] The program included eliminating restrictions on quantities of imports.

According to World Trade Report 2011, if duties were also eliminated, economists calculate the result as being good for the world for about 23 billion dollars, including \$ 12.3 billion for the United States, \$ 0.8 billion for Canada, \$ 2.2 billion EU and about 8 billion dollars for developing countries.

The same is true for other goods.

When the United States has limited car imports from Japan in the early 1980s, the price of cars increased by 41% between 1981 and 1984, almost double the average for all consumer products. The objective was to save American jobs, but high prices have been a major reason why more than a million new cars were sold leading to more job losses.

If Australia would have kept prices in 1998, customers in Australia would have paid on average \$ 2,900 more per car today. In 1995 aluminum users in EU paid 472 million dollars extra because of tariff barriers. [Rose, 2005]

One of the search base to the Doha Development Agenda (ADA) was another round of cuts in tariffs on industrial products, for example, manufactured and mined. Some economists (Robert Stern, Alan Deardorff and Drusilla Brown), predict that reducing them by one third would raise developing countries' income of about \$ 52 billion.

Similar French restrictions added an estimated 33% of the French car prices. Televisions, radios, videos are, or were all more expensive in protectionism.

Liberalization of telephony means cheaper phone calls - in 1990 to 4% per year in developing countries and 2% per year in industrial countries, taking into account inflation.

In China, the competition from the second mobile company was at least part of the reason why was reduced with 30% the price of a call. In Ghana the reduction was 50%. [Tomz, Goldstein and Rivers, 2007]

And so it goes on. The system now entrusted to WTO runs over 50 years. During this time there have been eight major rounds of trade negotiations. Trade barriers around the world are lower than they have ever been in modern trading history.

5. Offers more choices of products and qualities

Let's think about things that people in other countries can have, because are buying exports from us and elsewhere. Look around and consider all the things that could disappear if all our imports would be taken from us. Imports allow us more options, more goods and services to choose from, as well as a wider range of skills. Even the quality of goods produced locally can improve because of competition from imports.

The choice is not simply a matter of consumers buying foreign finished products. Imports are used as materials, components and equipment for local production. This extends the range of final goods and services that are made by producers, and increase the range of technologies that we can use. When mobile equipment became available, services rose sharply.

Sometimes the success of a product or service imported on domestic market also can encourage new local producers to compete, increasing the choice of brands available to consumers, and increasing the range of goods and services produced locally.

If trade allows us to import more, it also allows others to buy more of our imports.

6. Trade increase revenue

WTO's own estimations for business impact of the Uruguay Round in 1994 was between 109 billion and 510 billion added to world income (depending on the assumptions for calculating and allow margins of error).

More recent studies have shown similar figures. Economists estimate that reducing with a third barriers to trade in agriculture, industry and services would boost world economy with 613 billion, equivalent to adding an economy the size of Canada in the world economy.

In Europe, the European Commission calculates that EU income during 1989-1993 grew by 1.1-1.5% more than they would have without the single market.

So clearly trade increase revenue. Also, trade poses challenges for local producers to compete with imports. But the fact that there is additional income means that resources are available to governments to redistribute benefits to those who gain the most for example, to help companies and workers adapt by becoming more productive and more competitive in what they already were doing, or switching to new activities.

7. Trade stimulates economic growth and these can be a good news for the labor force employment.

Trade clearly has the potential to create jobs. In practice, there is often evidence that lower trade barriers have been beneficial for employment. But the picture is complicated by a number of factors. However, alternative, protectionism is not the approach to employment issues.

There is clear evidence that trade stimulates economic growth and that the economic growth means more jobs. It is also true that some jobs are lost even when trade expands. But its reliable analysis raises at least two problems.

First, there are other factors in play. For example, technological progress has also a strong impact on employment and productivity, helping some jobs, damaging others.

Second, while trade clearly boosts national income (and wealth), this is not always translated into jobs for workers who lost their jobs due to competition from imports.

The picture is not the same everywhere. The average length of time that a worker needs to find a new job may be higher in one country than for a similar worker in another country facing similar circumstances.

In other words, some countries are better than the others to make adjustments. This is partly because some countries have more effective adjustment policies. Those without effective policies are missing an opportunity.

There are many cases where the facts show that the possibility was understood where trade liberalization has been beneficial for employment. EU Commission considers that the establishment of the single market means that there is somewhere in the range of 300.000 to 900.000 more jobs than would have been without the single market creation.

Often, the job prospects are better in companies involved in trade. [Bari, 1997]

In the United States, 12 million people owe their jobs to exports, 1.3 million of those jobs were created between 1994 and 1998 and these jobs tend to be better paid, with better security. In Mexico, the best jobs are those related to export activities: sectors that export 60 percent or more of their production, pay salaries 39% higher than in the rest of the economy. [Rose, 2005]

The facts also show how much protectionism is affecting employment. The example of the automobile industry in the United States has already been mentioned: trade barriers to protect jobs in the United States, by restricting imports from Japan ended up by making cars more expensive in the USA, so fewer cars sold and jobs were lost.

In other words, an attempt to address a problem in the short term by restricting trade has turned into a bigger problem in the long term. Even when a country has difficulty making adjustments, the alternative of protectionism would simply make matters worse.

8. Basic principles make the system more efficient from the economic point of view and reduce costs

Many of the benefits of trading system are difficult to summarize, but are very important. They are the result of core principles at the heart of the system, and make life simpler for businesses directly involved in trade and for producers of goods and services.

Trade allows a division of labor between countries. This allows resources to be actually used for production. But trading system offers more than that. This helps increase efficiency and reduce costs further because important principles are enshrined in the system. Let us imagine a situation in which each country sets different rules and different levels of customs duties on imports from different trading partners. Imagine that a company in a country wants to import raw materials or components or printed circuit copper cable for electrical goods, for example for own production.

It would not be enough for the company to look at prices offered by suppliers around the world. The company should also make separate calculations with respect to different levels of tax that would be levied on imports (which would depend on where imports originate), and

should consider each of the rules applicable to products in each country. Buying copper or circuit boards become very complicated. This, in simple terms, is one of the problems of discrimination. Imagine now that the government announced that it would charge the same duty rates on imports from all countries, and will use the same rules for all products, regardless of where they come from, whether imported or locally produced. Life would be simpler for society. Supply components would become more efficient and would cost less.

Non-discrimination is one of the key principles of the WTO trading system. These include:

- transparency (clear information about policies, rules and regulations);
- increased certainty about trading conditions (commitments to reduce trade barriers and increase access other markets in other countries are required);
- simplifying and standardizing customs procedures, eliminate bureaucracy, centralized database of information, and other measures to simplify trade that is called "trade facilitation".

Together, they make trade easier, reducing costs and increasing confidence in the future companies. This in turn also means more jobs, better goods and services for consumers.

9. Governments are protected by lobby

The GATT - WTO system, which has evolved in the second half of the 20th century helps governments to take a more balanced view on trade policy. Governments are better placed to defend against lobbying coming from interest groups limited by focusing on trade-offs that are made in the interest of everyone in the economy.

One of the lessons of protectionism that dominated the first decades of the 20th century was the damage that can be caused if narrow sectoral interests lopsided wins a share of political influence. The result was a policy of increasingly restrictive that turned into a trade war that nobody won and everyone lost.

Superficially, restricting imports looks like an effective way to support the economic sector. But pushing the economy against other sectors should not be penalized if you protect clothing industry, everyone has to pay for expensive clothes, fact that put pressure on wages in all sectors.

Protectionism can also escalate other countries can retaliate by increasing their trade barriers. That's exactly what happened in the 1920s and 30s, with disastrous effects. Even sectors that demanded protection ended up losing. Governments should be armed against pressure from interest groups limited and the WTO system can help.

The GATT – WTO system covers a wide range of sectors. So if during a GATT- WTO trade negotiations a pressure group makes lobbying for its government can be considered special case in need of protection, the government may reject protectionist pressures arguing that it needs agreement ranged wide, which will benefit all sectors of the economy.

10. The system encourages good governance

Under WTO rules, once a commitment has been made to trade liberalization, it is very difficult to be canceled. These rules also discourage a range of unwise policies. For businesses, this means greater certainty and clarity about trading conditions.

Rules include commitments not to backslide into unwise policies. Protectionism is generally, is unwise because of the damage it causes domestically and internationally, as we have already seen.

Particular types of trade barriers cause additional damage because they provide opportunities for corruption and other forms of bad governance.

A kind of trade barrier that WTO rules seek to address is the rate, for example, limiting imports or exports to no more than a certain amount each year. Because quotas limit supply, they

raise prices artificially creating abnormally high profits (economists talk about "quota rent"). That profit can be used to influence policies that more money is available for the lobby.

It can also provide opportunities for corruption, for example, in the allocation of quotas between traders. There are many cases in the world where this has happened.

In other words, quotas are a particularly negative limiting trade. Governments have agreed through WTO rules that their use should be discouraged.

However, the odds of various types remain in use in most countries and governments strongly support that they are needed. But they are controlled by the WTO agreements and there are commitments to reduce or eliminate many of them, especially in the textile industry.

Many other areas of WTO agreements can also help to reduce corruption. Transparency (such as making available all information on trade regulations), other aspects of "trade facilitation", clearer criteria for regulations dealing with product safety standards, and non-discrimination also helps by reducing the possibilities of making arbitrary decisions and by deception.

4. CONCLUSIONS

World Trade Organization serves as the forum for further negotiations on liberalization of trade in services by abolishing barriers and the development of rules in new areas related to trade. In addition, it performs the following functions: to facilitate the implementation, administration and application of the Uruguay Round and of any new agreements to be negotiated in the future; resolving commercial disputes; examination of national trade policies; cooperation with other international institutions in global economic policy making. Thus, in order to ensure greater coherence in global economic policy-making, the WTO shall cooperate, as appropriate, with the IMF and the World Bank.

Through its location outside the United Nations, the WTO managed to preserve within its domestic activity, the character of "political neutrality" and the essence of its role, a role for which it was set up, of strict settlement for commercial activity on international plan.

Supporters of the WTO argue that its success is self-evident: it has increased global trade and continues to fulfill its mission. Detractors say that the WTO's approach helps rich countries at the expense of poor countries. An influential 2002 paper declared that any benefits from the WTO were an illusion since the trading volume between members and nonmembers differed little. Professor Shang-Jin Wei, working with Arvind Subramanian of the Peterson Institute for International Economics and Johns Hopkins University challenged this finding in a recent paper.

Wei and Subramanian found that the WTO has an enormous effect on member countries — world imports were higher in those countries by roughly 120 percent, or about 8 trillion dollars in 2000 alone, thanks to its provisions. But the researchers found that these benefits were not distributed evenly. "The WTO makes a huge difference," Wei says, "but not in a symmetrical pattern — and that's intentional. It has always been non uniform, by design." [Subramanian and Wei, 2007]

The researchers discovered several key differences in how the WTO functions for developed and developing nations. One key difference they found is that the WTO does boost trade more for rich countries than for poor countries. Although this may seem unfair, it follows directly from the GATT's structure. "During much of GATT's history, developing countries were given a free pass. ...They didn't have to do much to reduce their trade barriers. It was the principle of 'special and differential treatment...So it's no surprise that you don't see much of an effect on developing countries' trade volume." [Subramanian and Wei, 2007]

Things are different for developing nations that joined the GATT later or joined once the WTO had replaced the GATT, and the researchers argue that such countries have gained the

most. “In the latest round of negotiations, members tightened up the ascension criteria, countries that joined the GATT after 1990 or joined the WTO had to implement more reforms, and these nations have seen faster growth in their international trading volume.” [Subramanian and Wei, 2007]

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