

Do We Really Know that the WTO Increases Trade?

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Summary

There is much ado about the World Trade Organization (WTO) these days. Much of the radical left broadly thinks that the WTO is the source of much evil since, by liberalizing trade, the WTO degrades the environment, perpetuates poverty, increases inequality, and much else. Much of the right uses the same premise to conclude that the WTO does just the opposite. In this paper I ask: what is the antecedent itself right? Do we really know that the WTO and its predecessor the General Agreement on Tariffs and Trade (GATT) have actually promoted trade?

In this paper, I provide the first comprehensive econometric study of the effect of the postwar multilateral agreements on trade. I use a standard “gravity” model of international trade and find that once gravity effects have been taken into account, bilateral trade cannot be dependably linked to membership in the WTO or its predecessor the GATT. To be more precise, countries acceding or belonging to the GATT/WTO do not have significantly different trade patterns than non-members. Not all multilateral institutions have been ineffectual; I find that the Generalized System of Preferences (GSP) extended from the North to developing countries approximately doubles trade. Thus the data and methodology clearly can deliver strong results. I conclude that we currently do not have strong empirical evidence that the GATT/WTO has systematically played a strong role in encouraging trade.