

## **THE UNDERAPPRECIATED BENEFITS OF MULTILATERAL RULES-BASED TRADE**

Multilateral rules-based trade, championed by the World Trade Organization (WTO) and its predecessor, the General Agreement on Tariffs and Trade (GATT), refers to the system where international trade is conducted according to agreed-upon transparent, non-discriminatory and impartial rules, negotiated by all its members, rather than being subject to the whims of individual governments.

While there are multiple impacts of such trade, we choose to single out five underappreciated benefits. These are not exhaustive, but they summarize important gains for all segments of society when trade is conducted by these non-discriminatory and transparent rules.

### **1. Open and fair multilateral trade provides a level playing field for all economies**

The multilateral trade system is composed of 164 economies, with differing levels of development. They set the rules of engagement among all through negotiations and acceptance of the rules by consensus. The principles of non-discrimination, reciprocity, transparency and special and differential treatment allow a fair trade system in which developing economies have a voice. Each member can contribute to the construction of system that creates value for itself and for the world as a whole through trade. Differences with other countries are solved peacefully, using a trusted and enforceable mechanism of dispute settlements. The multilateral system shows that collaboration among nations is not only possible but the key for sustainable and inclusive development.

### **2. Open and fair multilateral trade lowers costs of goods and services for consumers, whether they are individuals, households or purchasers of inputs**

Open multilateral trade has a potential to lower the prices of both imported and domestically produced goods and services by: 1) removing or reducing border taxes or barriers which increase costs of getting goods to markets; 2) allowing producers to increase the scale of production resulting in lower costs and prices; 3) creating more competition leading to lower prices; and 4) resulting in better quality and a larger variety of products. At the level of the global economy, these benefits result from the consistent and non-discriminatory application of agreed rules creating more certain and predictable business environment required for long-term decisions underpinning stability of prices, as demonstrated by the long period of low inflation linked to the “goldenera” of the multilateral trade system

### **3. Open and fair multilateral trade increases the possibility for small and medium-sized firms to participate in the global economy**

Small businesses need similar rules across the globe so they can design goods and services from the beginning for the largest possible set of customers. Multilateral trade rules provide critical consistency, helping support even the smallest firms to buy and sell across borders. Without a functioning multilateral system, businesses have to navigate a thicket of new rules, regulations and laws across multiple markets which dampens their ability to compete and dramatically raises the costs of doing business. Even domestic companies operating in local markets will be affected by a reduction in quality and quantity of goods and services that are available and the loss of potential foreign markets.

**4. Open and fair multilateral trade stimulates economic growth and provides higher-paid jobs**

Open, multilateral rules-based trade can stimulate economic growth, create better jobs, promote development and decrease poverty for all WTO members. At the individual country level, relatively open economies grow faster than relatively closed ones. Evidence shows that an improvement in the real income of the poorest segments of the population in developing countries has been strongly aligned with greater trade openness, bolstered by the existence of stable and non-discriminatory WTO rules. Trade has also been shown to provide higher-paid jobs, as exporting firms tend to pay higher wages and provide generally better working conditions on average than non-exporters. It has a proven record of promoting women's economic empowerment compared to non-trade activities.

**5. Open and fair multilateral trade makes producers more efficient and increases productivity**

Exporting firms tend to be more productive than others. This is because openness to international trade gives producers access to bigger markets, encouraging competition and innovation. Open markets in the context of the multilateral trading system also provide access to more advanced technologies which tend to increase productivity. These benefits spillover to other firms in the local market. The more a country trades, the more technology and knowhow spreads, and the resulting higher productivity can lead to overall better economic performance. These benefits are guaranteed in a transparent and predictable framework by the non-discriminatory, rules-based multilateral trade system.

**Two caveats:**

1. It's essential to recognize, however, that while the multilateral rules-based system has many advantages, it's not without weaknesses. It is important to address these criticisms and accordingly fine-tune the multilateral rules because the overall benefits of the system in promoting open multilateral trade and underlying cooperation are irreplaceable. A path chosen by some to instead abandon the multilateral rules and "do it their way" is short-sighted and costly in economic, social, environmental and security dimensions.
2. Second, the full benefits of open trade for growth, employment and poverty reduction can only be achieved when governments also adopt complementary policies to support trade openness. These include flexible labour market policies, adequate social safety nets for those workers who are displaced by trade, and a positive investment climate.

**See also:**

OECD, [\*Why Open Markets Matter\*](#)

UNCTAD, [\*Trade and Development Report 2022\*](#)

World Bank blog, [\*More Trade is Better for Jobs\*](#)

WTO, [\*10 Benefits of the WTO Trading System\*](#)

IMF, World Bank and WTO, [\*Making Trade an Engine of Growth for All\*](#)

**Note:**

1. This paper doesn't necessarily represent the views of all FMG members.
2. Please stay tuned for a FMG brainstorming session later on to discuss the worrisome trends around the world undermining the principles of the WTO.