

IMPACT OF WTO ACCESSION (SPEAKING NOTES)



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What do I set to do?

⌘ **Aim:** A discussion of the effects of WTO on countries acceding to the WTO

⌘ **Approach** : a brief review of literature

⌘ **Caveats:**

☑ Only a review

☑ No deep assessments of WTO rules (e.g. for development)

Classification of Effects of WTO



⌘ Two different types:

⌘ 1. Effects on *Policy Making*

⌘ 2. Effects on Economic *Performance*



Introduction

⌘ Reminder on *Accession Rules*

⌘ **Pre 1994**

- ☑ GATT Art. XXXIII – 2/3 majority
- ☑ GATT Art. XXVI 5 (c) – customs territories
- ☑ Czechoslovakia – original Member and Founder
- ☑ Hungary and Poland and Romania – later and special conditions applied

⌘ **Post 1994** – Article XII of the Marrakech Agreement

- ☑ The feature – the conditions are an *outcome of negotiations*



Introduction (Cont'd)

⌘ Reminder on *Agreement on Agriculture (AoA)*

- ☑ Quantitative restrictions permitted
- ☑ Export subsidies permitted
- ☑ Domestic support permitted
- ☑ Heavy border restrictions tolerated until now



Introduction (Cont'd)

⌘ Reminder on *Agreement on Services (GATS)*

- ☑ Ambitious set of rules but
- ☑ Very liberal modalities – request and offer!
- ☑ Outcome – modest commitments

General Implications of WTO Membership



- ⌘ No WTO rules on “entry” conditions
- ⌘ Once accession is completed general WTO rules apply
- ⌘ Existing Rules in Agriculture – remain trade restrictive
- ⌘ Negotiating modalities in services permitted *modest* commitments

General Implications of WTO Membership



- ⌘ **Exceptions** to the general principles possible for LLDC and under the *Enabling Clause* (Tokyo Round)
- ⌘ **Emphasis on market instruments**
 - ☑ Tariff, not quotas (China!)
 - ☑ But many exceptions (e.g. AoA, BOP safeguards)

General Implications of WTO Membership



⌘ **Other exceptions** are defined in, e.g.,

- ☒ GATT Art. XVIII (govt. assistance to development)
- ☒ GATT Art. XXIV (RTA)
- ☒ GATT Art. XIV (related currency restrictions)
- ☒ GATT Art. I/4 (Monopolies permitted)
- ☒ GATT Art XX (General exceptions) etc.
- ☒ Annex 2 of the Agricultural Agreement (Govt. Service Programs)
- ☒ Art. XIV and XIV bis of GATS

General Implications of WTO Membership



⌘ **Safeguards** – allow additional protection in industry (Art. VI – AD, Art. XII - BOP) , agriculture (Art. V) and services (Art. X) and Agreements on Safeguards and SCM



Preliminary conclusions

- ⌘ A considerable room for flexibility of trade policy making remains in place
- ⌘ Many rules remain highly trade limited in scope
- ⌘ Negotiating modalities permit further flexibility
- ⌘ Even when rules are “binding” the possibility of safeguards exists
- ⌘ “Entry” conditions reflect bargaining and negotiating powers rather than WTO rules

I. Evidence: Effects on Policy Making



⌘ *Trade policy*

- ☒ No free trade required but
- ☒ “Reasonable” trade protection
- ☒ Evidence on EM: a little effect for most CIT
 - ☒ unilateral libs (e.g. Baltics),
 - ☒ low tariffs in many CITs, e.g. CR and HG, PL
 - ☒ “ambitious” (zealous?) governments (e.g. Montenegro)



Effects on Policy Making (2)

⌘ *Foreign direct investment*

- ☒ Access to the *service* sector
- ☒ Typically through the *right of establishment* (financial services, distribution)
- ☒ *FDI Incentives* - to some extent disciplined already (viz. Canada –US dispute) but very limited
- ☒ Role of trade policy: Tariff “jumping” or low protection?
- ☒ *Evidence in CIT* :
 - ☒ Competition through incentives!!
 - ☒ FDI attracted to both high and low tariff countries. Other factors also important



Effects on Policy Making (3)

⌘ *Privatizations* (?)

- ☒ "*Commercial considerations*" (GATT Art. XVII - STE) – a critical but vague rule
- ☒ Also, prohibition of *quotas* (GATT Art. III/5)
- ☒ Existence of *public enterprises* recognized, tolerated but not regulated
 - ☒ Viz. ongoing negotiations on STE
- ☒ Evidence on CIT: some privatizations are mentioned in recent accessions



Effects on Policy Making (4)

⌘ *Subsidies*

- ☑ WTO rules restricting the use of subsidies
- ☑ Specifics of CIT:
 - ☑ price interventions (only covered by AoA!!)
 - ☑ Frequent use of other subsidies
- ☑ Evidence: a major issue for CIT in negotiations (e.g. Russia)



Effects on Policy Making (5)

⌘ ***Explicit Restrictions on policy flexibility***

- ☑ Bindings
- ☑ Strict rules on safeguards
- ☑ Evidence for CIT: High level of bindings but often with “gaps”



Speed of Negotiations

⌘ Fast accession:

- ☑ LDC pre 1994
- ☑ Romania – another historical example
- ☑ Kyrgyz Republic
- ☑ Baltics
- ☑ Montenegro – almost done

⌘ Slow negotiations

- ☑ Most other countries



Speed of Negotiations

⌘ Politics – a critical factor

- ☑ Often both domestic and international

⌘ Examples of external political factors:

- ☑ Vietnam – normalization of diplomatic relations with the US

- ☑ Russia – Georgia? Etc.

- ☑ The Ukraine – Moldova

⌘ Examples of domestic politics

- ☑ Turkmenistan, Uzbekistan



II. Economic Performance

⌘ Three (3) Main Areas of Empirical Work

- ☑ Trade flows
- ☑ Government budgets
- ☑ Impact on Governance (corruption)

⌘ Areas of other studies

- ☑ Country studies
- ☑ Approach based CGE modeling
- ☑ Effects on agricultural employment, on prices, domestic growth, trade



My Approach

- ⌘ Focus on more general studies
- ⌘ Not dealing with country experiences



Impact of WTO on Trade

- ⌘ None – says A. Rose (2004 and ff.)
- ⌘ Controversy – Frankel, Subramanian, Wei etc.
- ⌘ Mang –Keung Tang and Shang-Jin Wei (2006)
 - ☑ Pre 1994 Accession rule XXVI 5 (c) – no reform required (customs territories)
 - ☑ Post 1994 rule The Marakesh Agreement, Art. XII (negotiations)



Government budgets

⌘ Government budgets

⌘

⌘ Impact on revenues: Tariff revenues - Drabek and Bacchetta (2003)

⌘ Impact on expenditures :
Implementation costs - Drabek and Wing Woo(2008)

⌘



Effects on Governance

- ⌘ Effects on the State of Corruption
- ⌘ Policy “anchoring”
- ⌘ “Policy Space” (Amsden, Martin, Rodrik)
- ⌘ Protection or Market Power? (Motivation for international negotiations – Regan 2008)



Conclusions

- ⌘ General: WTO affects policy making (some loss of sovereignty but a considerable flexibility exists)

- ⌘ CIT Experience: *How much liberalization and how fast?*
 - ☒ Great deal of *unilateral* country measures
 - ☒ Much agreement on market orientation, market opening, on less flexibility
 - ☒ The speed determined mainly by politics
 - ☒ Effects on domestic incentives (fairly minor effects on relative prices of goods and services since most changes are unilateral)
 - ☒ Effects on foreign incentives (too eager to provide incentives)



Conclusions

⌘ Effects on Performance

- ☑ Controversial effects on trade
- ☑ Effects on government budgets – small on revenues, larger on expenditures
- ☑ Some evidence on the effects on governance



References

- ⌘ Drabek, Z. (2008): 'Is World Trade Organization Attractive Enough for Emerging Economies'?, forthcoming
- ⌘ Mang –Keung Tang and Shang-Jin Wei (2006): Is Bitter medicine Good for You? The Economic Consequences of WTO/GATT Accession; Washington, DC:IMF. *Mimeo*, 2006