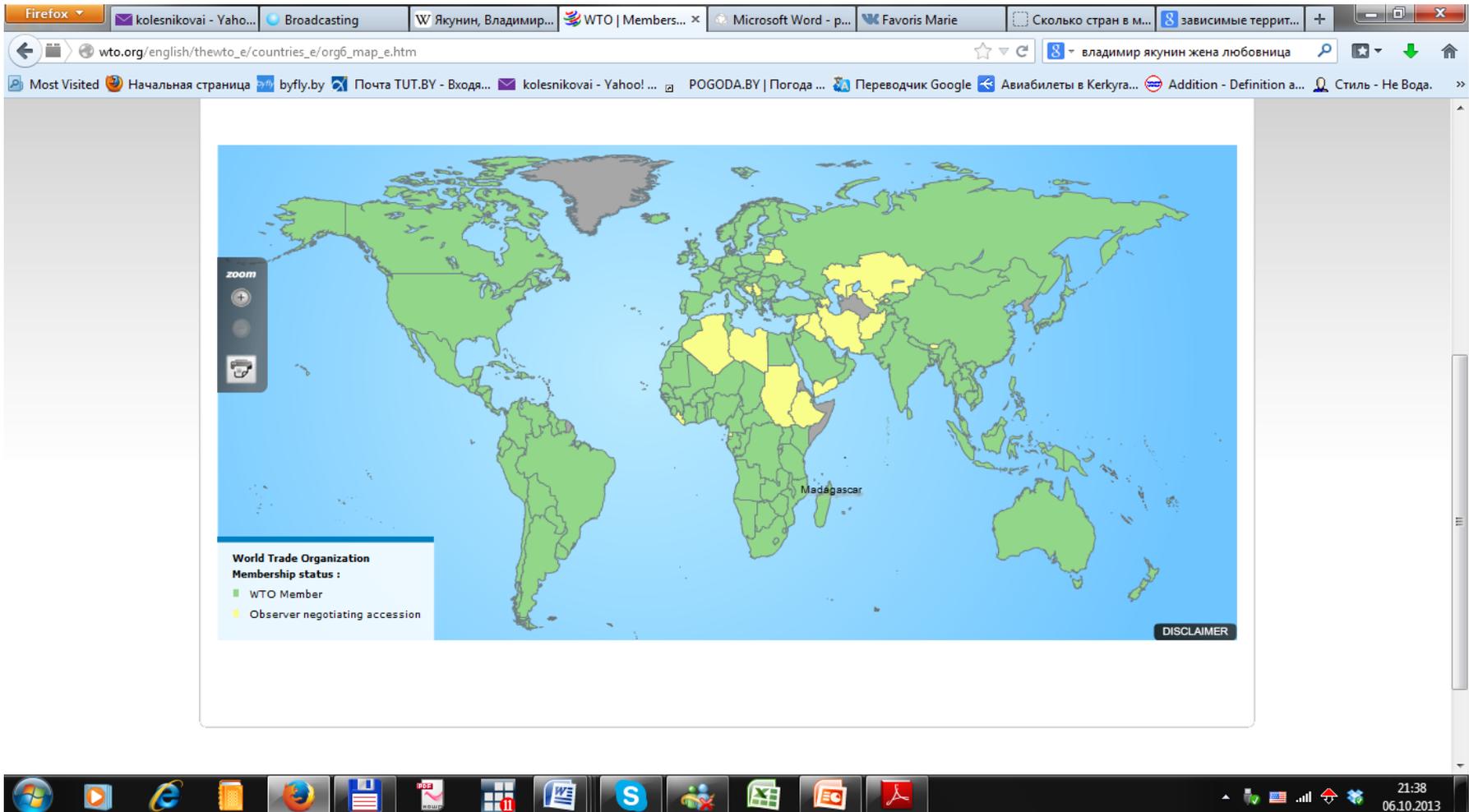


# **WTO Accession and Economic Development: Experience of Newly Acceded Countries and Implications for Belarus**

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# WTO on the world map: Why do some countries benefit from WTO accession, while others do not?



# WTO accession: benefits

## **Expected benefits:**

- the growth of trade →  
increase the rate of economic growth →  
growth of aggregate welfare

## **Because of**

- Reduction of trade barriers (the end of discrimination on foreign markets)
- the use of a special mechanism for dispute resolution.

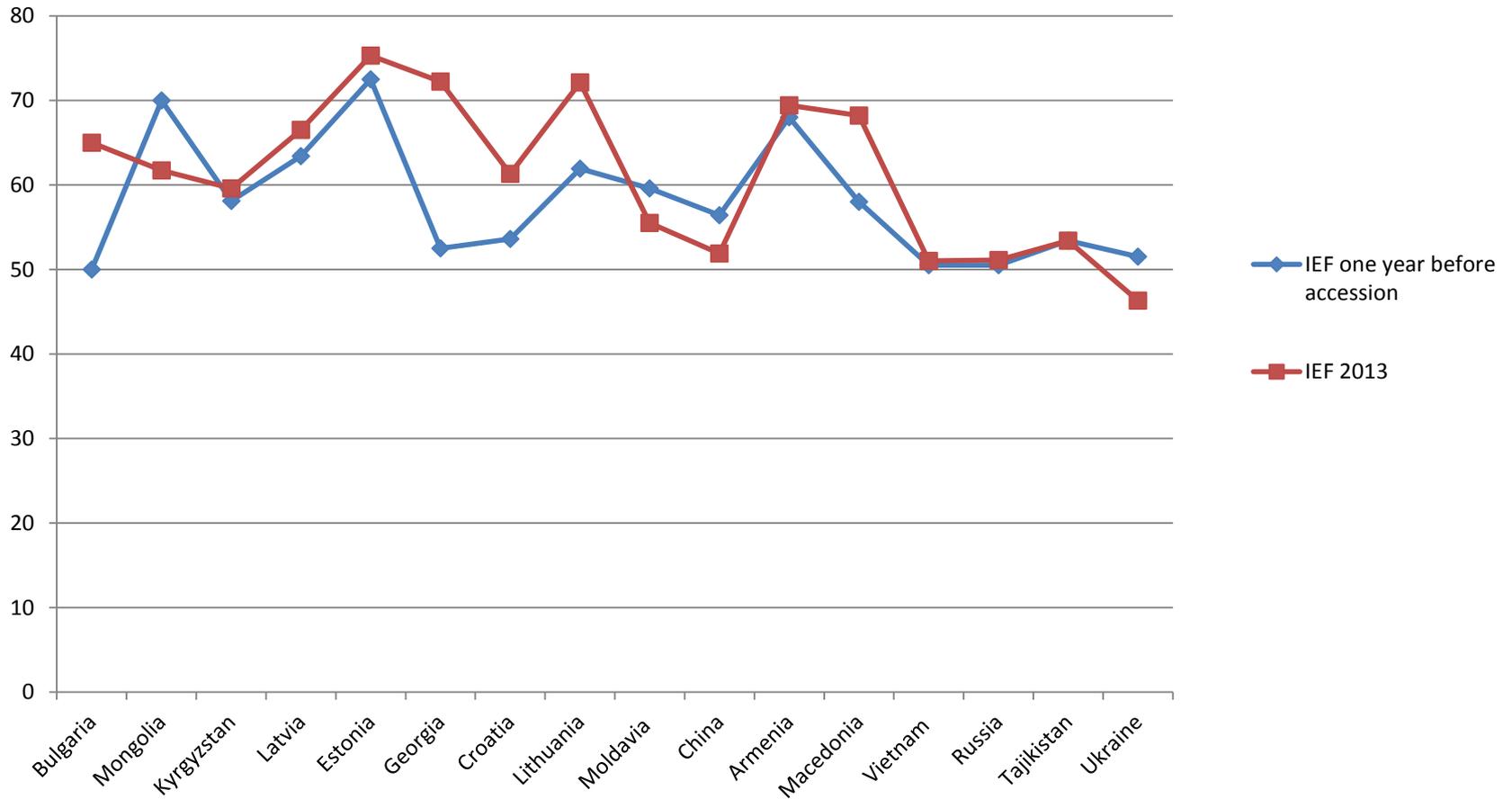
# WTO accession: cost

1. Significant institutional changes in the country that are time and resource consuming
  - (the accession process lasted 7 years on average, max -19 year, Russia;
  - According Finger (1999) estimations compliance with the WTO rules for an average country may cost 150 million dollars.
2. Opening of the domestic market (domestic producers are often unable to compete with foreign

# Tariffs - only part of the story (world trade indicators 1995-2009 (trade weighted,%))

	$\frac{\text{MFN applied tariff (AV+AVE)} - \text{Trade Weighted Average - All Goods (\%)}}{\text{MFN applied tariff) - All Goods}}$	$\frac{\text{TTRI (MFN applied tariff) - All Goods}}{\text{OTRI (MFN applied tariff+NTMs) - All Goods}}$	$\frac{\text{MA-TTRI (applied tariff incl. prefs.) - All Goods}}{\text{MA-OTRI (applied tariff incl. prefs.+NTMs) - All Goods}}$		
Low Income trade weighted average	13.15	11.59	20.72	6.31	26.11
Upper Middle Income trade weighted average	9.62	8.44	19.47	2.80	9.94
Belarus	8.67	9.01	17.10	0.92	2.25
High Income trade weighted average	5.20	3.99	9.46	4.22	12.16

# WTO entail reforms that go trade liberalization (Index of Economic Freedom before and after WTO accession)

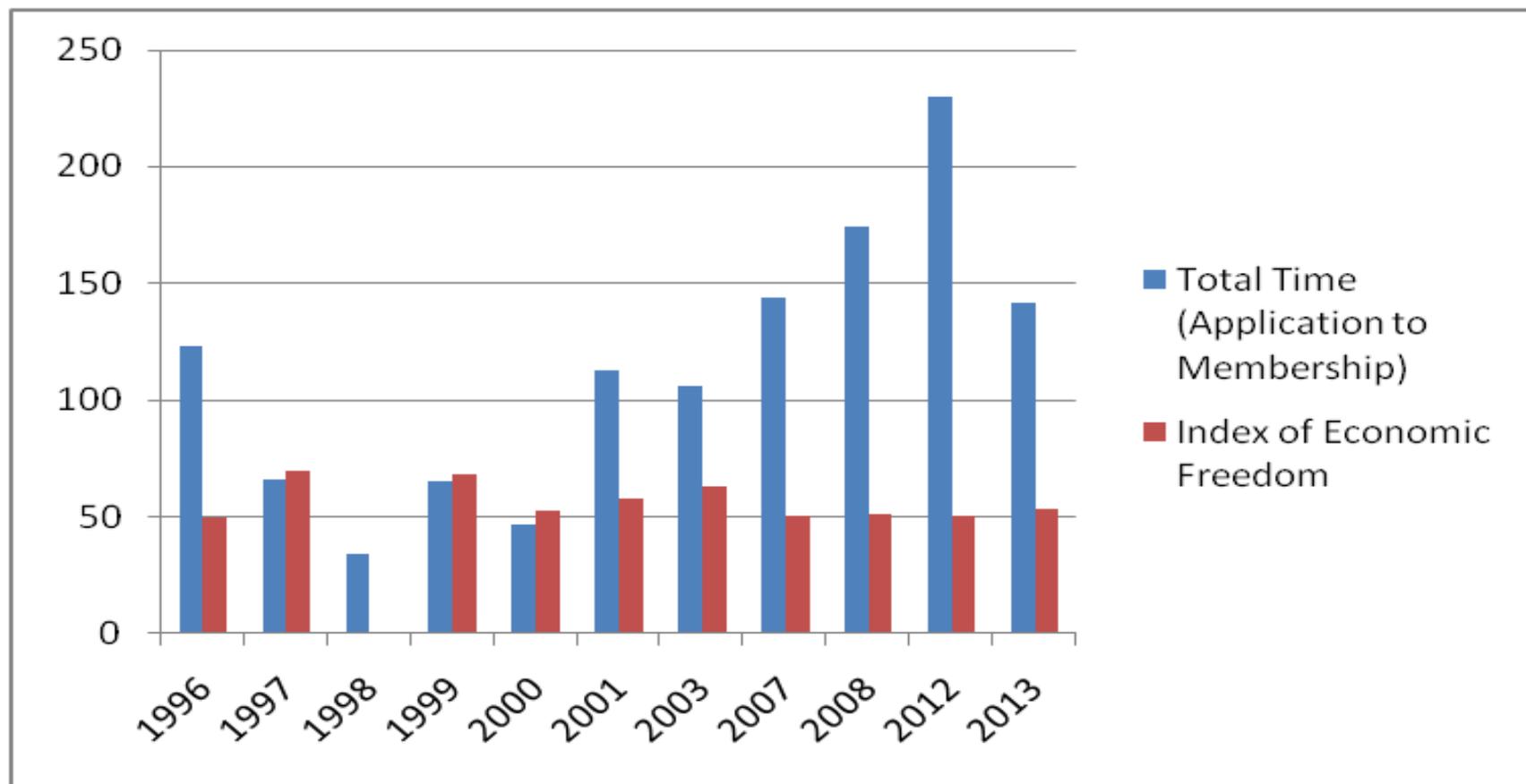


# ***Accession to the WTO: what determines the depth of commitments and the duration of the procedure***

- Objectively:

the less the system of foreign trade regulation complies with WTO rules, the longer negotiation period will be and the more commitments the country will have to undertake.

# The duration of WTO accession and the quality of institutions



Source: Own calculations based on WTO data

# The increasing complexity and lengthening of the procedure

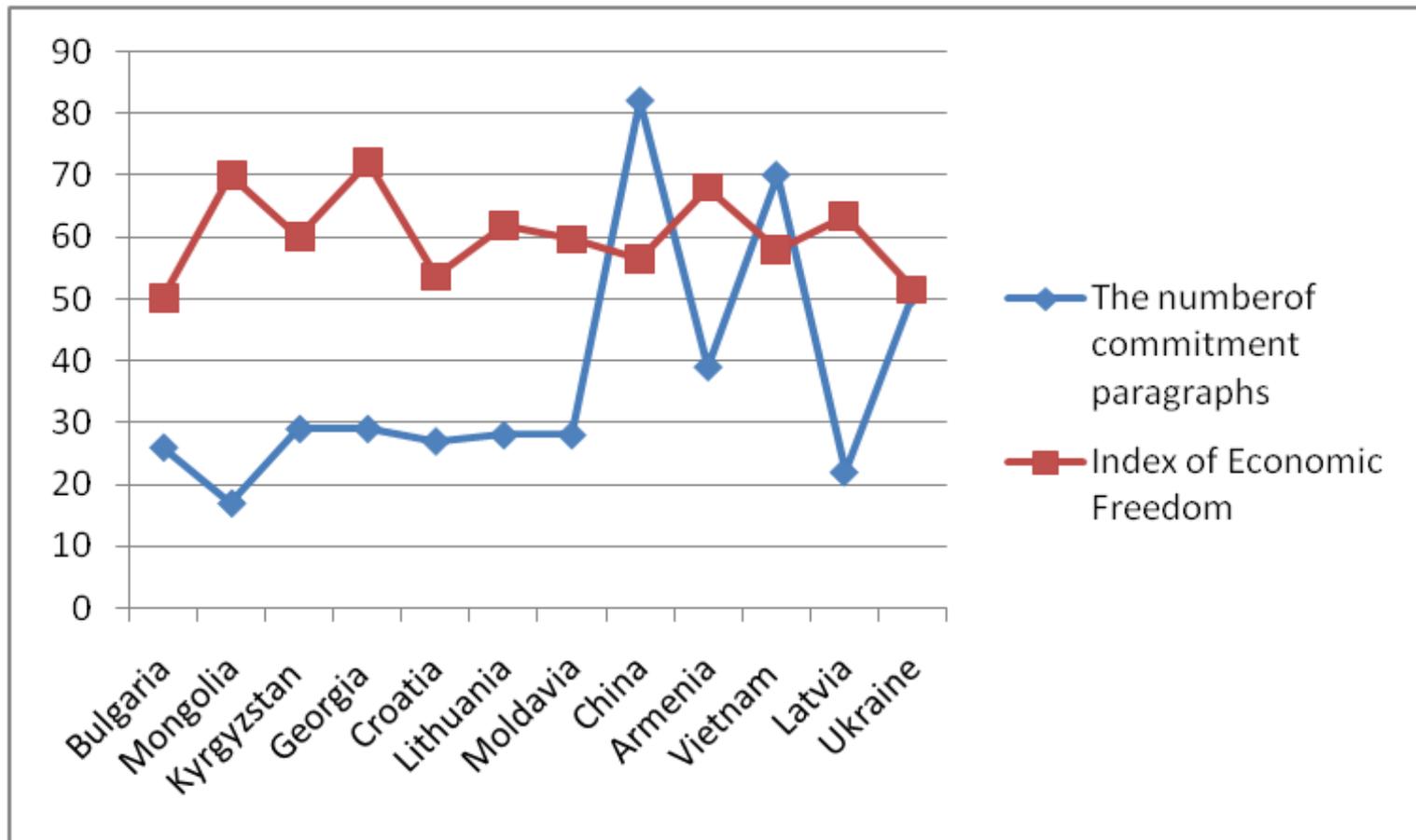
- Increase in the number of members of the WTO, as each new member has a right to impose additional restrictions on prospective member-states
- Increase in the number of WTO rules, due to increase in the number of agreements
- Unwritten rule : member countries seek to impose more commitments on new members than they took upon themselves (Bacchetta et al, 2002). E.g. , binding all tariffs on agricultural products, while many developing country members of the WTO have unbound tariffs on many agricultural products)

# The duration of the accession process in reality

Depends on

- **the political regime:** the more democratic the regime and the system of regulation of the economy are, the shorter the time of accession is. (Davis & Wilf, 2011, Copelovitch and Ohls (2012) .
- the **size** of the economy and the pace of economic growth: larger and faster-growing economies go through the period faster. (Wong and Yu, 2008)
- Exchange-rate regime: this period is shorter in the countries with a fixed exchange-rate system.
- the proximity of trade relations of the country to the members (direct relationship).
- the existing preferential trade agreements (inverse relationship).( Copelovitch and Ohls ,2012)

# The depth of the terms of WTO accession and the quality of institutions



# The number of the country's WTO commitments

- **Not depends on**
- Income. (the commitments of Cambodia, (LDCs), were the same as Jordan, with GDP per capita 5 times higher. Nepal had the same quality of commitments as Estonia and Panama, almost twenty times richer.
- There is no clear relationship between the quality of institution as measured by the (IEF) and the number of commitments .
- **Depends on**
- the share in the world trade: the higher the share is, the more complaints the WTO members have and the more commitments the country is made.

# So, the scope and depth of commitments are determined

- by specific commercial interests,
- by the size of the market
- by political interests.

All this has caused criticism and serious doubts about the fairness of the procedure for accepting new members and has become one of the main manifestations of the crisis of the WTO legitimacy (Bienen and Mihretu ,2010)

# WTO accessions: lessons for Belarus,

- The political of Belarus is not recognized as democratic enough:
- Index of Economic Freedom for Belarus in 2013 is 48, ( 154<sup>th</sup> rank out of 177 countries)
- Belarus does not have a large market.
- This implies that the negotiations will not be easy and short.

# Why do some countries benefits from WTO, but other not? 1

- Growing pessimism about the positive impact of WTO membership on the economic and social development of developing countries.
- Impact of WTO membership on growth had a vast difference between developed and developing countries: positive in developed countries and negligible in developing countries (Rose, 2009, Tang and Wei, 2009, Subramanian and Wei ,2007)

# The role of institutions and institutional reforms in the success or failure of countries

## WTO membership had a positive impact on growth only

if the country really performed all commitments and enjoyed all the benefits of its membership, (not using opt-out clauses) (Goldstein et al., 2007)

- only if countries went through a rigorous procedure of accession and implemented sweeping reforms : (Tang, и Wei (2006, 2009), Rodrik (2002)

# Trade reform and institutions

- The effect of trade reforms on institutional development and the effectiveness of domestic policy is strictly positive and brings about a higher level of institutional quality in the new member country and, ultimately, higher rates of economic growth (quantitative assessment in Basu et al., 2009)

# The reasons for the failure

- Developing countries tend to ask for more concessions than developed ones.
- And the more of these concessions are provided, the smaller the effect of accession to the WTO is. 9 (Goldstein et al., 2007) )

Trade regime and WTO rules are the tools  
institutional development, not vice versa

- Reform should be well-designed and consistent with the institutional needs of the economy. Otherwise, it can result in a stagnation.
- The most important criterion of reforms is the contribution of trade reform in the creation of a high-quality institutional environment.
- The best results have been achieved with gradualist, two-track modes of institutional reform (Rodrik, 2000).

*China: WTO accession as well-thought-out strategic stage of development.*

- **Objectives:** To gain access to the markets of WTO members under MFN (more than 90% of China's exports were exported to WTO member countries, however, on more severe conditions than for members of the WTO).

### **Reforms:**

The accession to the WTO created external incentives to accelerate national reforms aimed at restructuring of the public sector, optimization of inefficient government agencies and a weak financial sector.

# China :unprecedented concessions (the opening of the domestic market, but gradually ).

- 1. Reduction of tariff barriers. Gradual abolition of non-tariff measures.
- 2. Granting the right to all Chinese companies to engage in foreign trade for 3 years.
- 3. Granting the right to export to China without investment presence in the country.
- 4. Abandoning provision of export subsidies.
- 5. Liberalization of most segments of the service sector, including banking.
- 6. Abolition of permits for investment (including technology transfer and the mandatory use of local resources).

# China: impressive results

- 1. Accelerated economic growth: GDP grew by 4.3 times from 2001 to 2012.
- 2. A rapid growth of foreign trade: from 2001 to 2012, China's exports grew 6.5 times, and imports – nearly six times. However, exports grew faster than imports.
- 3. The transformation into a major recipient of FDI / exporter of capital, although there are difficulties in the sectoral distribution of FDI (they flow into industries with low added value).
- 4. China came in first in the world ranking of exporters and second as the importer of goods.

## ***Bulgaria: lessons of failures.***

- Accession to the WTO at this point was more a political act rather than a step driven by reforms and aimed at promoting economic development.
- Deplorable state of institutions (the composite index of institutional quality in 1998 was negative (-2.7), while the level of corruption (3.3) was extremely high). The government was unable to carry out adequate reforms.

# Results

- De-industrialization of the economy: the share of production equipment in exports country reduced most significantly from 50% in 1990 to 14% in 2003.
- Due to the low competitiveness, trade balance became negative (-13.1% of GDP).
- domination of foreign capital in the financial sector and the competitive tourism industry.
- The growth in the economy began only after 2003, largely due to the support of the European Union.

# ***Georgia: a liberal model of accession***

- 1) binding of the majority of tariffs at a low current level
- 2) the agreement to liberalize the trade regime in agriculture and the service sector,
- 3) Signing agreements on Government Procurement, which increase competition and transparency in the functioning of national markets.

country benefits of the liberal trade and investment regime.

# Results

- In 3 years after the accession to the WTO, Georgia started to grow faster (an average of 6% per year in 2003-2011).
- However, the abrupt trade liberalization did not become the engine of economic growth: recent diagnostic study of growth (Babych & Fuenfzig, 2012) shows that the main obstacle to economic growth in Georgia is the low quality of institutions, (i.e. property rights in the broadest sense of the term)

So: simple trade liberalization can give impetus to economic growth only if they are complemented by strong and high-quality institutions.

# ***Ukraine. Preliminary evaluation.***

## **Reforms:**

- Adoption of strong legislative framework to protect intellectual property rights,
- streamlining the system of standardization and conformity assessment.
- Adoption of new Customs Code.

## **Results:**

- the expected growth has not been achieved yet.
- increased competition on the domestic market (negative balance of trade )

# **Experience of newly acceded countries: lessons for Belarus.**

- The effect of WTO accession is positive only for the countries that implemented radical reforms of the regulation of the economy and improved its effectiveness.

However

- Trade reform is only a catalyst for improving the institutional environment and, therefore, it gives impetus to economic growth.

# **Experience of newly acceded countries: lessons for Belarus.**

- The reforms should be well-designed, consistent, gradual, and meet the real needs of the economy.
- The experience of China in the restructuring of the inefficient state enterprises sector is of particular relevance for Belarus.
- A preliminary assessment of the situation in Ukraine has shown that in addition to trade liberalization targeted steps to improve the competitiveness of the economy should be taken.