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WTO accession issues

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WTO ACCESSION ISSUES

by

Rolf J. Langhammer and Matthias Lücke

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WTO Accession Issues

ABSTRACT

For many applicant countries, accession to the WTO has been, and still is, a frustratingly slow process. In this paper, we discuss the substantial, contentious issues that are slowing down progress in accession negotiations. We contrast these with the benefits of WTO accession not only to the applicant countries, but also to the multilateral trading system as a whole and, hence, to current members. Against this background, we suggest a strategy to accelerate accession without diluting the ground rules of the multilateral trading system.

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WTO Accession Issues*

1. INTRODUCTION

For many applicant countries, accession to the WTO has been, and still is, a frustratingly slow process. In this paper, we discuss the substantial, contentious issues that are slowing down progress in accession negotiations. We contrast these with the benefits of WTO accession not only to the applicant countries, but also to the multilateral trading system as a whole and, hence, to current members. Against this background, we suggest a strategy to accelerate accession without diluting the ground rules of the multilateral trading system.

From the entry into force of the WTO agreements on 1 January 1995 until the end of 1998, six countries that were not previously members of GATT 1947 joined the WTO (in chronological order, Ecuador, Bulgaria, Mongolia, Panama, Kyrgyzstan, Latvia). Another 30 countries have applied for WTO membership and are now at various stages of negotiating the terms of their accession with current members. Some of these applicants, such as Algeria and China, first applied to become a contracting party to GATT 1947 more than 10 years ago.

By its very nature, the multilateral trading system aims to be universal, and the accession of new members is therefore welcomed in principle by all current members. Nevertheless, accession negotiations have become protracted for all applicant countries, and excessively slow for some. With approximately three accessions per year, the processing of the remaining applications would take more than a decade. However, such a long-drawn-out process would be undesirable as it would deny the full benefits of WTO membership to most applicants for many years to come.¹

* *This paper has been written for THE WORLD ECONOMY Global Trade Policy Review 1999. We thank Peter Lloyd for instructive comments, but remain responsible for all errors.*

¹ Section 4 discusses in detail the likely improvements in market access for the exports of applicant countries as well as other benefits of WTO membership.

Previous studies have identified several reasons for the slow pace of accessions. Michalopoulos (1998) argues, *inter alia*, that the administrative resources available to deal with accession issues are insufficient not only in the (mostly poor) applicant countries, but also in the WTO Secretariat and on the part of current WTO members. A modest increase in funding for training and human resource development on the part of applicant countries, along with a (temporary) increase in staff at the WTO Secretariat, would go a long way towards alleviating the shortage.²

Beyond insufficient administrative capacity, a variety of substantial, contentious issues are slowing down progress on accession. A discussion of these issues forms the core of this paper. Most previous studies have been limited to China, which hardly comes as a surprise because China has actively negotiated for the last ten years.³ A few recent studies deal with various CIS countries (Buchalova, 1998; Michalopoulos, 1998; Lücke, 1995 and 1996). To provide a fuller view, we begin our paper by reviewing the weight of the applicant countries in world trade as well as their relative importance as trading partners to the US, the European Union, and Japan (Section 2).

Most substantial issues that slow down accession negotiations arise from several crucial differences between the current situation and accession to GATT 1947. First, WTO rules are far more complex than those of GATT 1947 as they apply not only to border measures, but also to a much wider variety of domestic policies (for example, export subsidies for industry and agriculture, intellectual property rights). Furthermore, the WTO agreements integrate a number of previously neglected sectors into the rules-based system (agriculture, textiles and clothing, services). Negotiations tend to become protracted whenever these additional areas are particularly sensitive, such as in the case of Chinese textiles and clothing exports to high-income countries or in the case of access to the Chinese service sector.

² Michalopoulos (1998) also describes in detail the various stages of accession negotiations and discusses possible procedural reforms. This paper can be downloaded: www.worldbank.org/html/iecit/wp1934.htm.

³ See for recent literature on China's long march to WTO membership Anderson (1997a and 1997b), Corbet (1996), Fukasaku et al. (1998), Gertler (1998), Hilf and Feddersen (1998), Keidel III (1996), Kim (1996), Montgomery (1996), Tsai (1996), van der Geest (1996), Wei (1998), Wu (1996).

Second, acceding countries under GATT 1947 were mostly developing countries that enjoyed considerable discretion in the conduct of their foreign trade policies under Article XVIII of GATT 1947. By contrast, today's candidates are mostly transition economies that will be subject to more or less the same WTO rules as current high-income WTO members.⁴ Of the 30 applicant countries at the end of 1998, approximately 20 can be characterised as transition countries, including China, Russia along with most other CIS countries, the Baltic countries, and former centrally-planned economies in Indochina (Cambodia, Lao PDR, and Vietnam). The remaining candidates are several least developed countries, oil producers and island states.⁵ Since the functioning of WTO rules depends on members being market economies, the whole transition process in the applicant countries necessarily comes under close scrutiny in accession negotiations. As yet, very few applicant countries have in place the full set of institutions and policies required for the functioning of a market economy, Taiwan being the main exception.⁶

Third, while these difficulties go some way towards explaining the slow pace of negotiations, the situation is further complicated as several important WTO members (particularly the US, the EU, and Japan) are using their leverage in accession negotiations to extract commitments from applicant countries that go considerably further than commitments by current members. While commitments to liberalise trade are in principle in the long-term economic interest of acceding countries, the multilateral trading system does permit members to pursue different policies in accordance with their political preferences (within the agreed framework for liberalisation). To force acceding countries to adopt very liberal policies where these are not required by binding WTO rules and hence are not applied by all incumbent members is neither consistent with the spirit of the multilateral trading system nor does it serve to expedite accession negotiations.

⁴ Section 3g discusses in detail the possibility of extending developing country status to poor new members.

⁵ The full list of applicant countries is included in Table 1.

⁶ Furthermore, some applicant countries are politically fragile or even in political turmoil, or do not have full command on WTO-relevant policies on their entire territory.

We discuss these issues in Section 3 where we review the state of negotiations in the most important areas (trade in industrial goods, agriculture, TRIPs, privatisation and industrial subsidies, developing country status and transition periods). Particular attention is paid to the commitments made by transition countries that have recently acceded to the WTO (Bulgaria, Mongolia, Kyrgyzstan, Latvia, Slovenia which acceded to GATT 1947 in late 1994). Similarly, the experiences of several other transition economies that were members of GATT 1947 as centrally planned economies and renegotiated their membership protocols in the early 1990s will be drawn upon (Poland, former Czechoslovakia, Romania). In these countries, domestic conditions were typically relatively favourable in that the political legacy of the former regime was not very strong and systemic transformation enjoyed wide-spread support. Hence, these countries were willing to accept fairly liberal commitments as required by incumbent WTO members. We explore some implications of applying similar terms of accession to current applicant countries, particularly China and Russia.

Section 4 discusses the prospective benefits of WTO accession for the applicant countries. In particular, we investigate whether not being a WTO member has put those countries at a disadvantage, compared with similar WTO members, in terms of market access for their exports. While MFN treatment was often conceded to non-members on a bilateral basis, these concessions were non-binding, and therefore essentially uncertain. Particular attention is paid to the treatment of non-members in anti-dumping investigations by current members.

Section 5 discusses the effects of accession by the applicant countries on the current WTO members and on the entire trading system. Section 6 concludes with proposals to accelerate accession, particularly by defining minimum commitments for acceding countries that are similar to commitments undertaken by current members, and by allowing difficult but necessary policy changes to be phased in over time, rather than requiring all reforms to be in place at the time of accession.

2. WTO MEMBERSHIP, CANDIDATES FOR ACCESSION, AND NON-MEMBERS: OVERVIEW

By the end of 1998, 134 countries were WTO members, including Latvia and Kyrgyzstan which joined in late 1998.⁷ Another 30 countries (which are individually listed in Table 1) had formally applied to join the WTO and together accounted for 8.9 per cent of world merchandise exports and 7.4 per cent of world merchandise imports.⁸ In terms of their shares in world trade, the most important individual applicants are China, Taiwan, Russia, and Saudi-Arabia. All these applicant countries currently have observer status with the WTO, along with Bhutan, Cape Verde, Ethiopia, and the Holy See (Vatican) which have not (yet) applied for membership.

Once these countries join the WTO, the coverage of the multilateral trading system will be close to universal. This becomes clear by recalling which countries and territories have neither applied for membership nor are currently observers. These include Middle East countries (Iran, Iraq, Lebanon, Libya, Syria, Yemen)⁹, European and Asian transition economies (Bosnia and Herzegovina, Federal Republic of Yugoslavia (Serbia and Montenegro), Tajikistan, Turkmenistan), a few low-income African countries (Equatorial Guinea, Eritrea, Liberia, Somalia), Afghanistan, North Korea, West Bank and Gaza, and several mostly small island economies (Bahamas, Bermuda, Cayman Islands, Comoros, Federated States of Micronesia, Kiribati, Marshall Islands, Sao Tome and Principe).¹⁰ These countries combined accounted for

⁷ For up-to-date information on membership, including the date of accession to the WTO, readers should consult the WTO web pages (www.wto.org). For simplicity, this overview lists only accession candidates and current non-members, so that all countries not listed individually in Table 1 are WTO members.

⁸ Their combined shares in world exports and imports of services are somewhat lower; however, data on trade in services are not available for Algeria and Taiwan.

⁹ Iran formally applied for WTO membership in 1996. However, this application has not led to further action as Iran is not currently an observer to the WTO, nor has an accession working party been established.

¹⁰ It is not entirely clear to what extent WTO rules apply to dependent territories of various European countries and the US, such as French overseas departments and dependent territories, British Crown and UK dependencies (Channel Islands, Isle of Man; Falkland Islands/ Malvinas), Greenland and Faroe Islands.

approximately 1 per cent of world merchandise trade and 0.5 per cent of world trade in services.

Many of these non-members may not expect to gain much from WTO membership because of their economic backwardness. Others are politically unsettled or have strained political relations with important current WTO members, especially with the OECD countries that exert a strong influence on accession negotiations. The dependent territories of European countries are associated with, and thereby enjoy free market access to, the European Union which is often their most important trading partner. Hence only few of these countries and territories are likely to apply for WTO membership in the near future. Once the current jam of applications is removed, WTO accession will become an issue of secondary importance for the evolution of the world trading system.

The importance of applicant countries as trading partners varies substantially across commodities, and also across the major WTO members that are the main actors in accession negotiations apart from the applicant countries themselves (Table 2). Of the CIS countries, Russia is an important supplier of metallurgical products to the US, the EU, and Japan, and of energy products to the EU. China is an important supplier of textiles and clothing to the US and the EU, and of a wide variety of goods to Japan. China is also an important export market for Japan and, to a somewhat lesser extent, for the US. Saudi Arabia is an important supplier of energy materials to all three areas, while Algerian energy exports are destined mostly for Europe and the US. Taiwan is both an important supplier of manufactures and an important export market for the US and for Japan.

The US, the EU, and Japan, along with Australia and Switzerland, are represented in all accession working parties. Other WTO members participate only in the working parties for those applicant countries that are of particular interest to them.¹¹ The presence of a core group of negotiating WTO members tends to ensure a minimum degree of consistency across applicant countries in the negotiated terms of accession. Nevertheless, progress in negotiations may depend crucially on sectoral

¹¹ See Michalopoulos (1998) for a more detailed description of the procedural issues.

issues that are specific not only to individual applicant countries, but also to major individual incumbent WTO members.

This problem is compounded because accession working parties function on the basis of consensus decisions by the major actors. As every incumbent member may opt not to apply the provisions of the multilateral trade agreements to an acceding member (non-application clause of Art. XIII of the WTO Agreement), the benefits of WTO membership could be eroded if a protocol of accession was approved by a majority vote over resistance by important incumbent members. The need for consensus, combined with the diversity both of applicant countries and of incumbent members' interests, has played a large role in slowing down the accession process. The streamlining that is required to speed up accession negotiations therefore needs to involve establishing criteria for minimum commitments and concessions that are both appropriate for the diverse applicant countries and take into account the legitimate interests of incumbent members.

3. KEY ISSUES IN ACCESSION NEGOTIATIONS

Accession negotiations deal with two broad types of issues. First, current members seek assurances that the acceding country will fully apply all binding WTO rules. Typically, this involves checking existing legislation for consistency with the various WTO agreements and identifying required changes that the applicant country then commits itself to implementing. While many technical issues, for example, customs user fees or rules for customs valuation, are relatively straightforward, other WTO rules leave much more room for interpretation. For example, the implicit assumption that WTO members are market economies does not translate easily into specific commitments on privatisation that could be required of applicant countries.

Second, negotiations deal with market access in the applicant countries for WTO members.¹² New members are required to bind policy instruments (for example, tariffs on merchandise imports, agricultural production subsidies, regulations on

¹² In principle, improvements in market access for exports from acceding countries to WTO members could also be negotiated; in practice, however, such demands have not played an important role.

market access in services) to levels agreed with current members.¹³ The following sections discuss some particularly salient issues.¹⁴

a. Tariffs on Industrial Goods

Acceding countries are required to bind their import tariffs, i.e. to commit themselves to not setting tariffs above specified levels. Typically, they also commit themselves to reducing bound tariff levels over an implementation period of mostly seven years from their accession to the WTO. Negotiations between applicants and incumbent members focus on the import-weighted average tariff level, the dispersion of tariff rates across products, the number of zero-rated products, and the number of tariff lines for which rates are not to be bound (normally very few).

The key demand by current WTO members has been that the major acceding economies (including China and Russia) bind their tariffs for industrial goods at roughly double the average rate for OECD countries (Anderson, 1997: 766; van der Geest, 1998: 104). This would imply an import-weighted average of bound rates of no more than 10 per cent.

The tariff bindings offered so far by many applicant countries are considerably higher. A provisional calculation for Belarus, based on its initial offer submitted to the accession working party, puts the average proposed bound rate at about 15 per cent after an implementation period of seven to ten years (Lücke, 1998). Since the initial offer of Belarus diverges only little from Russia's because of the two countries' customs union agreement, the proposed average for Russia is probably very similar.

¹³ In procedural terms, the commitments on the implementation of WTO rules are described in the report of the accession working party to the General Council, which decides on the admission of new members with a two thirds majority. Market access commitments, including bound levels of tariffs and other policy instruments, are set out in detail in two appendices to the working party report (on trade in goods and in services) that become the acceding country's schedules of concessions and commitments. For more detailed information, readers should refer to the relevant WTO documents many of which can be downloaded from the WTO website, e.g. for Bulgaria: WT/ACC/BGR/5 (working party report), WT/ACC/BGR/5/Add.1 and WT/ACC/BGR/5/Add.2 (Schedule CXXXIX, Part I – goods – and Part II – services), WT/ACC/BGR/6 (General Council decision), WT/ACC/BGR/7 (protocol of accession).

¹⁴ For a survey of the state of accession negotiations for each applicant see WTO document WT/GC/W/100 (Accession to the WTO - State of play) of 30 September 1998 (can be downloaded from the WTO website).

China initially offered an average bound level of 18 per cent, but has recently reduced that to 10 per cent, to be achieved by the year 2005 (WTO, Focus, 1998). Only a few small countries among applicants and recent entrants have readily accepted low tariff bindings, such as Estonia which has applied zero tariffs to all industrial imports for several years, and Kyrgyzstan which has committed itself to reducing its tariffs to below 10 per cent on all items within a few years.

The demand by current WTO members for a bound average tariff level of no more than 10 per cent lacks both good arguments and analytical rigour. First, many developing country members still impose higher tariffs even after implementing the Uruguay Round liberalisation. Finger et al. (1996) estimate the post-Uruguay Round trade-weighted applied average tariff on industrial goods for 26 developing countries at 13 per cent; the corresponding average bound rate is 20 per cent. The applied average industrial tariff for India (which might be regarded as a point of reference for China) is even higher at 29 per cent, with the average bound rate at 34 per cent. Thus it appears that incumbent members apply double standards in demanding more stringent liberalisation from applicants than has been accepted by members at a similar stage of economic development. This position is bound to weaken the credibility of current members as they proclaim the universal character of the WTO.

Second, most applicants lack a strong domestic tax base and efficient tax administration. As cross-border transactions are often easier to tax than domestic transactions, import tariffs (as well as export taxes on natural resources), often contribute between 10 and 20 per cent of government revenue. Such an important fiscal role of tariffs militates against their rapid reduction upon accession to the WTO.

Third, the emphasis in negotiations should not be on the average tariff as such but on tariff escalation, exemptions, and transparency in general. Many WTO applicants are low-income economies with a few finished goods industries but no domestic production of intermediate or capital goods. If they were to reduce their average tariffs by cutting rates predominantly on intermediate or capital goods, effective protection for domestic industries would in fact rise. Vietnam, for instance, levies tariffs of up to 60 per cent on finished goods while more than half of all tariff lines range between 0 per cent and 5 per cent. In this case, the import-weighted

average tariff grossly underestimates the true extent of protection for existing domestic industries.¹⁵ Trade policy reform should concentrate on reducing distortions by cutting the highest tariff rates first; however, this may have little effect on the import-weighted average because there are few imports in these categories.

A further complication arises because discretionary tariff exemptions and „porous“ tariff collection practices in some applicant countries lead to low tariff collection rates. For instance, in the case of China, Fukasaku et al. (1998) report a tariff collection rate of only 6 per cent of import value in 1994, compared to an unweighted average nominal rate of 36 per cent. For Vietnam, the average tariff on major imports was 33.5 per cent while the collection rate was about 19 per cent (WTO, 1996b: 35).¹⁶ By comparison, developed countries have both one-digit nominal tariff and collection rates. In some countries, low tariff collection rates result in part from the existence of special economic zones and tariff exemptions for inputs that are processed into exports. A weak customs administration, combined with high tariff rates on imports for domestic use, renders restrictions on the use of duty-free inputs very difficult to enforce. Thus, the reduction of trade-policy-induced distortions is less a matter of cutting the average tariff but of increasing transparency in the regime of exemptions and in the enforcement of tariff regulations in general.

In conclusion, a strategy to streamline accession negotiations could consist of two elements: First, acceding countries should be free to bind their import tariffs at average levels similar to those of current members at a similar stage of economic development. Hence tariffs could still contribute substantially to government revenue.

Second, acceding countries should accept the need to reduce trade-policy-induced distortions that arise from widely differentiated tariffs or extensive, and frequently nontransparent, tariff exemptions. Hence, tariff reductions should be targeted towards the highest rates across tariff lines while tariff collection should be

¹⁵ A similar, though less pronounced, pattern of tariff rates across commodity groups has been found for Belarus (WTO, 1996a).

¹⁶ For Belarus, Lücke (1998, footnote 28) estimates a collection rate of 11 per cent in 1996 (relating to taxes on international trade, which in that year were mostly import tariffs; the applied import-weighted average tariff in 1997 was also about 11 per cent).

strengthened where necessary.¹⁷ Where collection has been particularly porous, tighter administration may even permit a reduction of nominal tariff rates without a loss of government revenue. Such a strategy may encounter resistance from hitherto privileged groups that have appropriated the monopoly rents arising from the lack of transparency. However, it would bring direct benefits to the acceding country as a whole, and it would also demonstrate to current WTO members that acceding countries are serious about liberalising their trade regimes even if there is no large reduction in import-weighted average tariffs.

b. Agriculture

The WTO Agreement on Agriculture has brought that sector back into the discipline of the multilateral trading system. Essentially, members' commitments under the agreement are in three broad areas: First, quantitative import restrictions are to be replaced by tariffs that are bound and subsequently reduced. Second, domestic production subsidies that strongly impact upon trade ("yellow" subsidies) are to be bound and reduced over time. Certain other production subsidies that do not strongly affect trade ("green" subsidies) are exempt from this. Third, export subsidies, while not outlawed as for industrial goods (Agreement on Subsidies and Countervailing Measures), are also to be bound and reduced. Here, the Cairns Group countries (mainly exporters of temperate-zone agricultural products, prominently including Australia) have gone further in committing themselves to the abolition of agricultural export subsidies.

With respect to the tariffification of quantitative restrictions, applicant countries are in practice free to abolish these and propose "target bindings" for their tariffs on agricultural imports that need not be based on an exact calculation of the tariff equivalent of the quantitative restrictions. This procedure avoids the difficulties that most applicant countries would face in quantifying the effects of policy instruments based on weak data in the context of a rapidly evolving systemic transformation.

¹⁷ Tarr (1998) proposes a strategy along similar lines for Russia.

By contrast, the binding of production subsidies does entail the calculation of the Aggregate Measurement of Support (AMS) for each basic agricultural commodity in accordance with Annex 3 of the WTO Agreement on Agriculture. This raises a variety of technical problems, such as the choice of a representative reference period for which sufficient data is available (1986 through 1988 as prescribed in Annex 3 is impractical for most applicants). Furthermore, AMS is calculated in terms of monetary units at current prices; in a context of rapid inflation as in some applicant countries, the bound level of AMS needs to be indexed to some measure of inflation for which there is, as yet, no universally agreed procedure.

The only alternative to this technically difficult calculation is for acceding countries to make a *de minimis* commitment in accordance with Article 6.4 of the Agreement on Agriculture, i.e. to restrict "yellow" domestic subsidies for a basic agricultural commodity to 5 per cent of its value of production (10 per cent in the case of developing country members). However, this amount of subsidy is fairly low compared with the subsidisation of many agricultural products in the EU and other OECD countries, and might require applicant countries to adjust their support for agriculture much more rapidly than incumbent members have been willing to do, e.g. in the Uruguay Round negotiations.

Member countries of the Cairns Group of agricultural exporters, particularly Australia, have requested that applicant countries commit themselves to abolishing agricultural export subsidies. While Australia and New Zealand have themselves abolished both agricultural export and production subsidies,, such a commitment would again go further than most other OECD countries have been willing to go in restricting their own export subsidies.

A strategy to streamline accession negotiations in the area of agriculture could involve, first, significant flexibility on the part of incumbent members with respect to the calculation and binding of domestic subsidies by acceding countries, especially as regards the choice of the reference period and making allowance for inflation. Also, there is no justification on the basis of the Agreement on Agriculture for demanding an abolition of export subsidies where only a binding and reduction are required by the Agreement. Second, applicant countries need to accept the need for transparency and

for significant reductions in domestic support and export subsidies. Since many of the poorer applicant countries probably tax, rather than subsidise their agricultural sectors, they may well consider taking *de minimis* commitments for many commodities while, perhaps, shifting some support from "yellow" onto "green" subsidies.

c. Non-Tariff Measures Affecting Trade in Goods

In this section, non-tariff measures (NTMs) are defined broadly to include not only quantitative restrictions but also other potential trade barriers such as sanitary and phyto-sanitary measures, product standards, trade-related investment measures, rules for customs valuation, preshipment inspection, rules of origin, and import licensing. Quantitative restrictions are outlawed, except under specified circumstances, by Article XI of GATT 1994. The application of other non-tariff measures is subject to the various multilateral agreements on trade in goods (Annex 1A of the WTO Agreement). Thus, non-tariff measures are comprehensively covered by binding WTO rules, which means that accession negotiations need to deal only with the correspondence between applicant countries' national legislation and these rules.

In some applicant countries, non-tariff measures that do not conform to binding WTO rules are still wide-spread. In the transition economies, they are often part of the legacy of the central planning system with its paradigm of setting plans in volume terms under a tight foreign exchange constraint. For example, Vietnam, has sought to defend its policy of allocating foreign exchange by limiting imports of finished consumer goods to no more than 20 per cent of total export value; at the same time imports of „great demand“ which are relevant to the „general equilibrium of the national economy“, such as petroleum, fertiliser, sugar, construction steel and cement are subject to an annual import quota (WTO, 1996b: 36-39).¹⁸ In principle, this policy could be justified under Article XII of GATT 1994 which permits quantitative restrictions that differentiate between essential and other imports during a balance of payments crisis. However, a permanent policy along these lines would undermine the

¹⁸ In this context, Vietnam has also underlined its status as a low-income country. See Subsection g. below for a discussion of developing country status under the WTO agreements and the implications for accession negotiations.

logic of the multilateral trading system, which stipulates that trade protection should take the form of import tariffs that are bound and therefore no longer subject to discretionary controls to maintain the import value for a certain commodity group at a given level.

The magnitude of imports subject to licensing is quite substantial in some applicant countries. In China, for instance, approximately 40 per cent of imports was under government control – including quotas and licensing – at the beginning of 1996. Reportedly, the Chinese government planned to halve this share and to relax licensing procedures by introducing non-quota licence management and competitive bidding for quota allocation (Fukasaku, Ma, Yang, 1998). In other cases, pervasive import licensing raises questions of transparency. Saudi Arabia, for instance, claims that its licensing system serves the purpose of quality supervision (WTO, 1996c: 13-21), which is difficult to justify under WTO rules as a policy that applies not only to closely defined commodity groups such as dangerous materials etc.

A crucial issue in accession negotiations has been the time-frame of reforms to bring national legislation on non-tariff measures into conformity with WTO rules. In some cases, including Bulgaria, incumbent WTO members have apparently been prepared to let a country accede on the basis of commitments that legislation would be amended and WTO-inconsistent practices would be eliminated as from the date of accession to the WTO.¹⁹ Some commitments by Bulgaria provide for reforms to be implemented by 31 December 1997, while Bulgaria became a WTO member on 1 December 1996. However, in other cases, including China, some incumbent members have insisted that national legislation and practice be brought into conformity with binding WTO rules *before* the WTO General Council votes on accession. At the same time, these incumbent members have not been ready to agree on a comprehensive list of changes that they want to see being implemented, but have reserved the right to bring up new issues as negotiations evolve.

This latter approach impedes the streamlining of accession negotiations. Negotiations provide extensive opportunities for clarifying all relevant aspects of an

¹⁹ See, for example, many of the commitments undertaken by Bulgaria.

applicant country's policies and practices. Applicant countries can legitimately expect that incumbent members, at some point, present a comprehensive list of changes in legislation and practice that they consider necessary for accession. On that basis, a detailed timetable for the implementation of changes can be agreed between applicants and incumbent members. For some applicants, there may well be a large number of necessary changes, many of which, however, may not affect trade very strongly. In that case, priorities may be set and less important changes may be implemented after the acceding country has become a WTO member. Such specific commitments could be supplemented by an umbrella commitment that the acceding country will fully apply all relevant WTO upon accession unless specified otherwise. Disputes arising from any presumed failure of the new member to fulfil its obligations can be resolved through the Dispute Settlement Mechanism.

Applicant countries, in turn, should fully accept the need for transparency and a rules-based trade regime. This is not self-evident since, for example, many CIS countries appear to experience discrepancies between formal rules and actual practice. Transparent rules may be difficult to implement because nontransparency, discretionism and arbitrary administrative decisions produce economic rents, and change will therefore be resisted by hitherto privileged groups. Further complications may arise if administrative responsibility for certain non-tariff measures rests, either officially or *de facto* with government agencies at different regional levels (for example, central and provincial governments).²⁰ Nevertheless, the clarification of responsibilities across government agencies as well as the effective implementation of a rules-based regime are necessary conditions for full WTO membership.²¹

d. State Trading and Systemic Transformation

The multilateral trade agreements assume implicitly that WTO members are market economies where economic agents are free to act according to commercial

²⁰ Reportedly, this is a central demand of current WTO members (Gertler, 1998).

²¹ The implied push for reforms and towards a rules-based system, as a precondition for WTO membership, may itself be looked upon as one important benefit of membership; see Section 4 for a more detailed discussion.

considerations. This is clear from Article XVII of GATT 1994 which stipulates that state enterprises, as well as enterprises with exclusive or special privileges, should be notified to the WTO and, furthermore, should be run solely in accordance with commercial considerations. The logic behind this provision is that enterprises directed by the state, or endowed with exclusive or privileged trading rights, could undermine a member's market access commitments if they acted on any other than a strictly commercial basis. Furthermore, the centrally planned economies that were members of GATT 1947 (Poland, Czechoslovakia, Romania) had special membership protocols that stipulated, *inter alia*, mandatory rates of import growth from GATT 1947 contracting parties; tariff bindings or similar commitments would have been meaningless in centrally planned economies.

State trading companies and exclusive trading rights are wide-spread in many applicant countries. Some transition economies among the applicants have made only limited progress in privatisation so that a large share of GDP is still produced by state-owned enterprises. In many countries, access to natural resources and the distribution of strategic commodities such as mineral ores or fuel are traditionally a domain of the state. In the case of Saudi Arabia, state-trading companies are instrumental in enforcing government controls on domestic sales of food and fuel products and setting domestic below international prices (WTO, 1996c: 28-33).²²

There may also be a regional dimension to the state trading issue if individual regions within a country influence the pace of systemic transformation and, hence, privatisation. For instance, Berkowitz and DeJong (1998) compare prices for identical products across Russian cities and find an internal border separating the so-called Red Belt (characterised by the continuing rule of the former Communist nomenclature and, hence, hostility toward reforms) and the rest of the country. The Red Belt exhibits large price dispersion not explained by transport costs and thus seems isolated from international prices, unlike other Russian regions. This finding probably reflects monopolistic practices by state trading enterprises in the Red Belt. Similarly, in China,

²² This is in addition to the licensing of imports on the basis of mandatory certification by a single company (Subsection c.). For the role of state trading enterprises in Russia, see Drebensav and Michalopoulos (1998).

economic reforms have progressed at an uneven pace across regions; at the same time, the number of state-owned production enterprises (SOEs) enjoying special trading rights is still high (Wang, Zhang, Zuo, 1997: 6). This situation could be exacerbated if the responsibility for restructuring state-owned enterprises is further transferred from the central to provincial governments.

From the point of view of streamlining accession negotiations, it is helpful to note that the crucial criterion for the compatibility of a given enterprise structure with WTO rules is not ownership, but the actual behaviour of enterprises. Transition countries among the applicants, in particular, need to demonstrate that even if state ownership is still wide-spread, enterprises now effect their purchases and sales solely on commercial grounds. In spite of some evidence of restrictive practices such as in the Russian "Red Belt", international trade has been one area of systemic reform where, in all transition economies, progress has not only been relatively rapid, but has also been sustained in the face of macroeconomic and institutional crises. As a result, goods markets in transition economies have become more contestable, and the behaviour of existing enterprises is subject to continuously hardening budget constraints and, hence, is based more and more on commercial grounds.

One indication of further progress in this direction is an active programme of enterprise privatisation. Typically, therefore, applicants have provided detailed information on their privatisation programmes during accession negotiations. Besides notifying state trading enterprises and those with exclusive rights or privileges, transition economies acceding to the WTO have committed themselves to reporting regularly on progress in privatisation (for example, annually in the case of Kyrgyzstan). While there are no well-defined criteria that a privatisation programme needs to meet in order to be considered in conformity with WTO rules, a regular reporting requirement improves the transparency of the incentive systems under which enterprises operate.

e. Services: Accession Countries Plead for Infant-Industry Protection

The General Agreement on Trade in Services (GATS) represents a first step towards liberalising international trade in services. The agreement defines four potential modes of international service supply,²³ lists the general obligations of members (such as MFN treatment, transparency, due process in domestic regulation, conditions for economic integration agreements), describes in detail the measures that are subject to members' market access commitments (such as limitations on the number of service suppliers or on the types of legal entities that may provide a service), and lists various exceptions to GATS obligations (such as MFN exceptions, subsidies, public procurement, balance of payments restrictions, national security) (Smith, 1998). Accordingly, WTO members' Schedules of Specific Commitments on Services consist of three parts: first, horizontal commitments that affect all sectors, for example with respect to the movement of natural persons or payments abroad; second, sector-specific commitments, which may be differentiated by the four modes of supply; third, exemptions from MFN treatment. While the GATS represents the general framework for liberalisation in services, negotiations since the Uruguay Round on financial services and particularly on telecommunication have led to substantial further liberalisation in these sectors.

Particularly in the transition economies among the applicants, the service sector currently suffers from a double handicap: First, under the central planning system, resources tended to be allocated to the production of physical goods so that, when systemic transformation started, the economies were overindustrialised and their service sectors underdeveloped. This was true especially for financial and business services that are crucial for the functioning of a market economy. Second, the services that were provided were usually produced under state monopolies. Hence, the opening

²³ First, from the territory of one WTO member into the territory of another member (*cross-border supply*); second, in the territory of one member to the service consumer of another member (*consumption abroad*); third, by a service supplier of one member, through *commercial presence* in the territory of another member; fourth, by a service supplier of one member, through *presence of natural persons* of a member in the territory of another member (GATS Article I, para. 2).

of service sectors to international competition, particularly through direct investment by foreign suppliers (commercial presence), has met powerful resistance.

China exemplifies the problems that arise in accession negotiations on services. In general, China aims to provide infant industry protection to its service sector (van der Geest, 1998). This involves phasing in liberalisation sector by sector, with distribution and professional services to be liberalised early on and financial services at a later date (Gertler, 1998); restricting the legal form of establishment by foreign companies to joint ventures with a maximum foreign equity share²⁴; incomplete coverage of key service sectors, such as the exclusion of foreign suppliers from retail or mass consumer services. Within individual sectors, access would be restricted to selected areas like cities and relatively developed regions where modernisation is already advanced and the potential for supply expansion is therefore limited.²⁵ Further problems arise because service liberalisation relates to a wide variety of domestic regulations, some of which are currently under the responsibility of regional or municipal units.

Incumbent WTO members expect applicant countries, as a precondition for WTO membership, to offer economically meaningful commitments at least for a limited number of important service sectors. Across service sectors, access to financial services and telecommunication are of particular interest, not least because WTO members have themselves negotiated further liberalisation in these fields after the conclusion of the Uruguay Round. From this point of view, the exclusion of selected regions from liberalisation commitments is unacceptable because the supply of many services is characterised by technical indivisibilities as well as economies of scale and of scope. To restrict the activities of foreign suppliers to particular regions or service subsectors would therefore put them at a significant competitive disadvantage, quite

²⁴ Limitations on the participation of foreign capital also exist in other applicant countries such as Vietnam (WTO, 1996b: 66) and Belarus which applies a 49 per cent ceiling of foreign participation in insurance companies (WTO, 1997: 85) .

²⁵ Such geographical fragmentation seems to be a Chinese speciality, as has been witnessed by the spatial patterns of developments plans („along the rivers“, „along the coast“, „along the railways“) and by the zoning of economic activities (cities, special economic zones).

apart from being difficult to reconcile with the WTO principle that customs territories are indivisible.

From the point of view of streamlining accession negotiations, the possible involvement of regional and local government authorities represents a serious obstacle. This is often compounded by the role of non-governmental associations in the licensing of service suppliers. While the division of responsibilities across regional tiers of government is a well-known problem even in fully established federal systems such as Germany, the situation in countries such as Russia with essentially unsettled constitutional systems is more difficult by an order of magnitude. The GATS recognises this difficulty when Article I para. 3(a) states only that "each Member shall take such reasonable measures as may be available to it to ensure ... (the) observance (of obligations and commitments) by regional and local governments and authorities and non-governmental bodies within its territory".

Against this background, it would be helpful for applicant countries to be free to make specific commitments only in those areas where central authorities have full control of relevant policies. No one will be helped by incumbent WTO members demanding commitments whose implementation may not be practically possible in large countries where political preferences typically differ across regions. In turn, applicant countries should note that the internationally competitiveness of their tradable goods sectors depends increasingly on the domestic availability of high-quality services. Hence it is in their national interest (whatever resistance may be articulated by sectoral lobbies) to make economically significant commitments on service liberalisation, and also to ensure, as far as possible, that regional authorities do not erect barriers to the free supply of services across regions within each country.

f. Trade-Related Intellectual Property Rights (TRIPs)

The TRIPS Agreement mainly obliges WTO members to implement certain specified procedures for the effective enforcement of a wide range of intellectual property rights: copyright and related rights; trademarks; geographical indications; industrial designs; patents; layout-designs of integrated circuits. The Agreement builds upon, and extends

the provisions of the relevant international conventions (Berne, Rome, Paris conventions; Treaty on Intellectual Property in Respect of Integrated Circuits).

The effective implementation of the TRIPs Agreement encounters problems in both former socialist and in developing countries because both (though for different reasons) traditionally tended to view intellectual property as a public, or partly public, rather than a private good. This is in contrast to the position of industrialised countries, which is closely reflected in the TRIPs Agreement, that intellectual property is a private good to be protected through appropriate legislation.

In socialist countries, new knowledge was perceived as belonging to the whole of society which had, after all, paid for the research that produced the new knowledge in the first place. Therefore, all legislation on intellectual property rights in transition economies is of very recent vintage. Extensive advice received from the World Intellectual Property Organization (WIPO) has normally ensured that the new legal texts correspond to the provisions of the relevant international conventions as well as the TRIPs Agreement. However, effective enforcement, which is central to the TRIPs Agreement, depends on effective institution-building in the legal system as a whole which, in turn, is part and parcel of the difficult process of systemic transformation.

Many developing countries have traditionally been reluctant to extend full protection to intellectual property created mainly by firms in high-income countries, particularly if this would have enabled those firms to extract monopoly rents on the use of technologies deemed crucial for development (such as pharmaceuticals to combat diseases).²⁶

Problems in accession negotiations have arisen both from a reluctance of some applicants to fully account for the private good character of intellectual property rights in their legislation and from difficulties with enforcement. Vietnam, for instance, commits patent owners to use the invention in conformity with the requirements of the socio-economic development of the country. In addition, the public may claim for annulment of the protection certificate; urgent needs of society (such as prevention and

²⁶ Thailand, for instance, stated in its Trade Policy Review that the TRIPs agreement takes insufficient account of developing countries' interests, especially in areas such as computer software and pharmaceutical products (WTO, 1995b: 66).

treatment of diseases) should be taken into consideration, and failure to use the invention may lead to the loss of patent protection (WTO, 1996b: 59). The TRIPs issue has also played a major role in accession negotiations with China which has only recently made widely acknowledged progress in enforcing copyright laws and persecuting trademark faking (Fu, Zhang, Zheng, 1997). In some cases, regional trade agreements such as among CIS member countries may also involve TRIPs issues, for example when enforcement is uneven across countries.

Once applicant countries fully accept the need to bring their legislation and law enforcement into line with the provisions of the TRIPs Agreement, TRIPs issues need not represent a major obstacle to progress in accession negotiations. Furthermore, under the TRIPs Agreement, national legislation may permit the use of intellectual property by third parties without the owner's consent under special circumstances, for example for public non-commercial purposes (Articles 30 and 31 on exceptions to the rights conferred by a patent and on other use of patents without owners' authorisation). Thus, applicant countries may preserve the view of intellectual property as a partly public good and still remain in conformity with the TRIPs Agreement.

g. Developing Country Status and Implementation Periods

The WTO agreements acknowledge that developing countries may find it particularly difficult to fully meet WTO obligations with respect to trade liberalisation and may therefore require greater freedom to restrict trade in exceptional situations (such as in the presence of balance of payments problems - Art. XII of GATT 1994), to withdraw previous commitments such as tariff bindings in order to protect infant industries (Art. XVIII of GATT 1994), or to provide domestic subsidies to agriculture (such as *de minimis* permissible subsidies of 10 per cent of the value of production instead of 5 per cent under Article 6, para. 4.(a)(ii)(b) of the Agreement on Agriculture). Other special provisions for developing countries relate to extended implementation periods for various obligations under the WTO agreements, such as under Article 15 of the Agreement on Agriculture, Article 10 of the SPS Agreement, Article 12 of the TBT Agreement, Article 27 of the SCM Agreement, etc. In addition, the "Enabling Clause"

negotiated during the Tokyo Round²⁷ permits WTO members to grant developing countries „special and differential“ treatment with respect to tariff preferences under the Generalized System of Preferences, non-tariff measures, and regional preferential trading arrangements which fall short of the stringent requirements of Article XXIV of GATT 1994.²⁸ Further special provisions are made in favour of least developed countries.

All these provisions raise the obvious question of which countries should be considered "developing" and thus be allowed to benefit from more favourable treatment. Remarkably, such criteria have never been established either by the Contracting Parties to GATT 1947 or by WTO members. Whether a country is considered "developing" depends on a unilateral decision of the country granting tariff preferences under the GSP (the US procedure), or on membership in the Group of 77 (the EU procedure for GSP tariff concessions) or on self-selection for other WTO purposes. Only the term "least developed country" is clearly defined in the WTO context in accordance with the list drawn up by the United Nations.

In accession negotiations, China, in particular, has sought to obtain developing country privileges such as under Articles XII and XVIII of GATT 1994. This has been strongly resisted by incumbent WTO members. As Anderson (1997: 764-765) correctly argues, resorting to these privileges could render Chinese market-opening commitments meaningless by introducing a large amount of discretion, policy manoeuvring and uncertainty. In addition, the economic arguments in favour of the measures permitted to developing countries under Articles XII and XVIII of GATT 1994 appear much weaker today than at the time when these provisions were designed. Few economists would argue today that trade restrictions are a sensible solution to balance of payments problems (even on a temporary basis), or that tariff protection of infant industries represents an efficient industrial policy. Therefore,

²⁷ Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries, 28 November 1979.

²⁸ Art XXIV requires liberalization of virtually all trade within free trade areas and customs unions, to be achieved within a reasonable time. Non-member countries must not incur nullification or impairment of WTO benefits because of the formation of a free trade area or customs union.

applicant countries stand to lose little by not insisting to be allowed to use such measures, whereas accession negotiations would certainly be expedited.

The issue of extended implementation periods for developing countries is more complicated. As developing countries (however defined) tend to possess limited administrative capacity, the full implementation of all WTO rules into national legislation places a particular burden on them. Extended implementation periods therefore appear justified. However, this issue will gradually go away with time because for recently acceded WTO members, all implementation periods are calculated from the entry into force of the WTO Agreement, not from the date of their accession to the WTO. This is now established practice and will also apply to future accessions. In practice, therefore, all extensions to implementation periods will need to be negotiated and listed individually in the protocols of accession. Given the complexity of many WTO rules, current WTO members should tolerate such extensions where they can plausibly be justified by the particular circumstances of the applicant country.

With respect to the specific provisions of the Enabling Clause, there is no reason why new developing country WTO members should not continue to benefit from the GSP even if they do not claim developing country privileges in other areas. In fact, China is already the largest beneficiary of unilateral tariff reductions for semi-manufactures and manufactures under the Generalised System of Preferences (GSP) offered by the OECD countries.

In the past, many regional preferential trading arrangements (RPTAs) among developing countries were notified under the Enabling Clause, rather than under Article XXIV of GATT 1994 with its more stringent conditions (WTO, 1995a). This approach conflicts somewhat with recent attempts by the WTO to contain the mushrooming of discriminatory RPTAs. It would be desirable, therefore, that new WTO members ensure that their RPTAs meet the main provisions of Article XXIV of GATT 1994, particularly that they cover substantially all trade among member countries. The various bilateral free trade areas among CIS countries as well as the customs union agreement between Kazakhstan, Russia, and Belarus appear to conform

substantially to these provisions (cf. WTO, 1997: 88-89).²⁹ For the time being, there is nothing that could prevent new (or current) developing country WTO members from notifying existing or new RPTAs under the Enabling Clause.

4. EFFECTS OF WTO MEMBERSHIP ON ACCESSION COUNTRIES

a. Improved Market Access

Improvements in market access for the exports of acceding countries will be obtained mainly in three respects. First, acceding countries will be guaranteed full and permanent MFN treatment by current WTO members. This represents a significant improvement although many applicants already receive (and grant) MFN treatment on a provisional basis. WTO membership will mark the transition from a trade policy environment characterised by unilateralism and discretion, where abuse of economic leverage by large countries is a constant threat, towards a rules-based system where trade disputes are resolved in a transparent manner in the framework of the Dispute Settlement Mechanism.

Beyond the immediate effects of providing greater security of market access, the transition towards a rules-based system may contribute significantly to dissipating lingering export pessimism in applicant countries. Export pessimism became deeply rooted during the post-war period, particularly in Latin America, when the industrialised countries began to erect protective barriers against developing country exports of agricultural products and labour-intensive manufactures. Many developing countries, in their turn, provided excessively high protection to their own manufacturing industries as part of a policy of forced import substitution on a national and regional scale. The Uruguay Round has brought significant improvements, both on

²⁹ Officially, Kyrgyzstan is also a party to the customs union agreement. However, the tariff bindings contained in the Accession Protocol for Kyrgyzstan are far more stringent than anything proposed by the remaining members of the customs union. It is not clear at this stage whether actual tariffs in a customs union (when it is finally established) will be in accordance with the Kyrgyz tariff bindings. If not, Kyrgyzstan could enter into a free trade agreement with the remaining countries in order not to breach its WTO obligations. For a more detailed discussion of regional integration arguments among all CIS countries („multilateral“) or involving only a subset of CIS countries („plurilateral“), see OECD (1997, Ch. VI).

the part of industrialised countries where the Agreements on Agriculture and on Textiles and Clothing improve market access for developing country exports, and on the part of many developing countries that liberalised their imports regime substantially either unilaterally and as part of the Uruguay Round. As many applicant countries, particularly transition economies, now set about defining their industrial policies, it is crucial that they are offered secure market access that is a precondition of successful export expansion.

Second, the full application of the Agreement on Textiles and Clothing represents a large, quantifiable improvement for acceding countries; only as WTO members will they fully benefit from the phasing out of the former quota regime for textile and clothing imports into most OECD countries. China will be one of the main beneficiaries. Other quantitative restrictions will also be abolished, such as EU quotas on consumer goods imported from China, as well as iron and steel products from Mongolia, Vietnam and CIS countries (WTO, 1995b: 57).

Third, anti-dumping measures by current WTO members against applicant countries, particularly those considered non-market economies, will be subject to far tighter disciplines. The resulting benefits may be considerable because, first, exports by non-market economies are more likely to face AD measures than exports by market economies; and second, measures against non-market economy exports are also, on average, more restrictive.

The first point is demonstrated by a comparison of the share of non-market economies in AD measures by major OECD economies, compared with their share in imports by these economies. By the end of 1997, 41 per cent of EU anti-dumping measures were imposed on non-market economies, all of which have applied for WTO membership, although these economies accounted for less than one tenth of EU imports. Of these 41 per cent, 55 per cent fell on China and 24 per cent on the Russian Federation [EU, 1998: 5]. In the US, by the end of 1995, 18 per cent of all anti-dumping measures were imposed upon non-market economies [CBO, 1998: 18-19]. Again, more than half were directed at China (62 per cent) with the successor states of the former USSR accounting for the remainder.

The second point is demonstrated by a CBO survey of anti-dumping duties levied by ten WTO member states. In each country, mean and median AD duties applied against non-market economies exceeded those applied against market economies (Table 3). Of the four largest users of AD measures (US, EU, Australia, Canada), the difference between duties on non-market economy exports and duties on market economy exports was largest in the US. The US also had the longest-lasting AD measures with more than seven years on average, compared with about four years for the EU [ibid: 26].

It is often argued that pricing by firms in non-market economies has little relation to the actual cost of production. This is one possible reason why the exports of non-market economies are more susceptible to AD measures than exports by market economies, and why dumping margins found for non-market economies are typically higher (ibid: 53-54). Another possible reason for relatively high duties against non-market economies is that, in AD investigations, WTO members are free to approximate the domestic price of a product originating in a non-market economy by the „normal“ price of a similar good in a reference market economy. The more input costs in the reference country differ from the producer country, the less appropriate is the use of reference country cost structures.³⁰

The impact of WTO membership on AD investigations against applicants depends on which effect dominates: If pricing decisions are truly more distorted in (non-market economy) applicant countries, then WTO membership may not have a large effect beyond leading to more market-based pricing behaviour by firms in the medium to long run. However, if the choice of reference countries unfairly distorts the picture, acceding countries will benefit when current WTO members are obliged to use producer country price or cost data in AD investigations.

Table 4 presents an overview of the reference countries chosen by the EU in AD investigations against non-market economy accession countries in 1997. Interestingly, reference countries were frequently part of the same AD investigations.

³⁰ China strongly opposes the use of third country reference prices on these grounds. It claims that the size of its economy and its abundant labour supply create conditions that differ entirely from any reference country (van der Geest, 1998: 195).

Hence, it is likely that they were chosen for convenience (the "normal value" of the exported good is determined anyway) rather than for the similarity of input costs to the non-market economy in question. Reportedly, unequal treatment emerges even more clearly when companies in non-market economies refuse to cooperate in AD investigations with EU authorities.

Hence it appears that the large number of anti-dumping duties against applicant country exports and the relatively high duty rates imposed are at least in part the result of discriminating practices. Acceding countries will therefore benefit when AD investigations against their exports become subject to tighter disciplines, particularly when price and cost data from producer rather than reference countries must be used. Among the applicant countries, the largest beneficiary will probably be China as its exports have triggered a particularly large share of AD duties, especially in the US.

b. Effects on Domestic Policymaking in Acceding Countries

Accession to the WTO is an international commitment with far-reaching implications for a wide variety of trade-related policies. As many applicant countries are undergoing a systemic transformation of their economies, they can look towards the WTO agreements to provide, ready for implementation, a fully developed and well-established set of norms. Above all else, these norms ensure the effective opening of the economy, which is in itself a crucial element of systemic transformation. The need for transparency and for the effective implementation of written norms, which are enforced by the scrutiny of current WTO members, promote the rule of law and the evolution of an independent judicial system.

Three specific effects of WTO membership are worth emphasising. First, WTO membership will help to reduce discrimination in favour of individual sectors within countries. Uniformity of policies across sectors has been a long-standing target of tariff liberalisation during the successive GATT rounds; uniform tariffs reduce the difference between nominal and effective rates of protection and thereby improve allocative efficiency. Given the wide scope of WTO rules, discrimination across sectors through (trade-related) domestic policy measures will also be reduced. This is particularly relevant in transition economies whose political systems are still unsettled

so that, if unchecked, political lobbying could offer larger and faster profits than investment in productive activities.

Second, where there are strong regionalist and or even separatist tendencies within an applicant country, the position of the central government will be strengthened. WTO membership requires trade-related policies (which are broadly defined) to be identical across regions and thus ensures that both producers and consumers can enjoy the scale economies of an undivided economy. Even if countries remain economically segmented because of transport costs, persistent skill differentials with limited migration, etc., WTO membership ensures that domestic and foreign suppliers enjoy equal market access in all regions within the a country.

Third, WTO membership helps to reconcile regional integration among applicant countries with the norms of the multilateral trading systems. This is particularly important in the case of the CIS Agreement and the proposed customs union between Russia, Belarus, Kazakhstan, and Kyrgyzstan. Both agreements, at times, have been promoted by Russia as political and economic groupings in opposition to the Eastern enlargements of NATO and the EU. For those CIS countries that do not share Russia's geopolitical objectives, WTO membership provides a useful check on the compatibility of the regional agreements with overall liberalisation. This may help them to collect the expected efficiency gains from continuing deep integration in the CIS or a sub-regional context without losing the benefits of full integration into the multilateral trading system. Such complementarity between regional and global integration is best achieved if members of a regional integration scheme adopt a „convoi“ approach in acceding to the WTO simultaneously.³¹

While it would be possible, in principle, for applicant countries to implement WTO rules in national legislation one by one on a unilateral basis, to do so in the framework of WTO accession has several distinct advantages. First, improved market access abroad and international recognition that come with WTO membership may help governments to overcome internal resistance to market-oriented reforms by

³¹ Kyrgyzstan recently joined the WTO ahead of the remaining CIS countries, and under very liberal commitments that the latter may not find acceptable. This suggests that the Kyrgyz government (implicitly) gave priority to global over regional integration.

sectoral interest groups. With the prospect of WTO membership, resistance to a particular policy measure automatically calls all potential benefits of WTO membership into question, which may make it easier for governments to find sufficient political support for the implementation of the required reforms.

Second, the credibility of a reform-minded government may itself be enhanced if the government can „tie its hands“ through WTO membership. The international implications of renegeing on promised reforms may represent a political cost to the government that makes it more likely that it will stick to its announced policies. This aspect is more important today under WTO rules than under GATT 1947 because commitments now cover a wider range of policies. Furthermore, if policy coherence between the IMF, the World Bank, and the WTO is improved, as agreed in the Uruguay Round, commitments by acceding countries under WTO membership may reinforce similar provisions in adjustment programmes funded by the IMF or the World Bank, for example in the areas of macroeconomic stabilisation, the balance of payment, privatisation, or subsidies.

c. Quantitative Estimates

While it is possible to estimate the GDP and welfare effects of improved market access abroad for applicant country exports, the effects of greater transparency and the promotion of a rules-based system in domestic policy-making escape formal quantification. Quantitative estimates of WTO membership effects therefore focus on welfare gains due to implementing the Uruguay Round trade liberalisation.

Using a standard global computable general equilibrium model (GTAP) and incorporating price and volume effects of the Uruguay Round at a commodity level, Anderson et al. (1997) find that welfare gains for China and Taiwan will be twenty times higher under WTO membership than without it. This study assumes that if China and Taiwan remained outside the WTO, WTO members would reduce their barriers against textile and clothing imports (MFA products) from China and Taiwan only at the same pace as in the past. As WTO members, however, China and Taiwan would benefit fully from import liberalisation under the Agreement on Textiles and Clothing, i.e. the abolition of all MFA-related import restrictions by 2005.

The study assumes further that China will not liberalise its own trade regime unless it joins the WTO. As the model attaches a high weight to the efficiency-increasing effects of domestic liberalisation, compared with improvements in market access abroad, this explains why welfare gains with WTO membership are so much larger than without it. Phrased in terms of the politics of accession negotiations, China's frustration with the lack of a clearly defined perspective for accession after ten years of negotiations is becoming a serious impediment to an otherwise feasible liberalisation of China's import regime which, incidentally, would benefit potential exporters world-wide. This observation underlines the importance of streamlining accession negotiations in order to ensure that gains from trade liberalisation in applicant as well as current WTO member countries can materialise.

5. THE EFFECTS OF ACCESSION ON INCUMBENT WTO MEMBERS AND THE TRADING SYSTEM

The GDP and welfare effects of WTO accession on current members will be related, first, to enhanced export opportunities as acceding countries liberalise their import regimes and (hopefully) experience economic growth as a result of improved domestic policies. Second, high-income WTO members will probably benefit from terms of trade improvements as the global supply of their import goods increases by more than the global supply of their export goods; however, some developing country WTO members whose exports compete directly with applicant country exports may suffer from corresponding terms of trade losses. Third, efficiency gains will be derived from the reduction of members' own barriers against imports from applicant countries (particularly for textiles and clothing).

On the first point, except for China, Taiwan, and Vietnam, most applicant countries have experienced relatively low rates of economic growth in the recent past. Transition economies went through a steep output decline as the central planning system collapsed while the institutions necessary for market transactions were not yet in place. Only in a few CIS countries has the output decline bottomed out as yet, and all CIS countries are far below their per-capita output levels of the late 1980s. Oil-rich Gulf states among the applicant countries have traditionally suffered from a Dutch

disease problem; recent attempts to diversify production and exports into basic chemicals have been discouraged by relatively high import barriers in industrialised countries.

WTO accession can lead to economic growth in the applicant countries through improvements in domestic policies, higher private capital inflows into sectors newly opened to foreign investment, improved access to state-of-the-art machinery imports and subsequent productivity increases, as well as more competition and lower prices in the domestic markets of applicant countries. In the CIS countries, whose highly qualified labour force could support a far higher level of per-capita output than at present, the prospects for economic growth along these lines are particularly promising once the necessary policy reforms are in place. Economic growth in accession countries will be transmitted to incumbent members through greater export opportunities.

On the second issue of terms of trade effects, detailed studies that focus on competition between exports from China, on the one hand, and from South Asia and Thailand, on the other hand, find only a modest negative welfare effect for the latter (Arndt et al., 1997: 524). Even these losses must be qualified somewhat because their size depends crucially on the elasticity of substitution between exports from the two groups of countries. The more heterogeneous they are, the more South Asia and Thailand may be able to decouple from negative terms of trade effects. All other countries are expected to benefit from improved terms of trade.

These findings raise the question of whether similar conflicts of interests can be expected over the exports of other applicant countries, particularly the CIS states. Raw material exports from these countries could expand substantially if the capital stock of their resource extraction sectors were modernised with the help of foreign investors. Downstream resource-processing industries could also grow rapidly, particularly if WTO accession reigns in unilateral contingent protection against these exports by the major high-income economies.³² Other manufacturing industries (machinery, light

³² The processing of ferrous and non-ferrous metals in CIS countries is a good example of mass production with a standardised technique which has often been subject to anti-dumping procedures in WTO members. Such protection has delayed the necessary downward adjustment of production in

industry) would probably need more time to restructure, although here resource-poor countries like Belarus and Ukraine could make faster progress than Russia with its lingering Dutch-disease problem. All in all, potential growth in export supply is distributed across a relatively wide range of commodities, compared with the dramatic effect that China's WTO accession would have on the world markets for labour-intensive manufactures. It is therefore likely that both negative and positive terms of trade effects on current WTO members will be small, and any negative terms-of-trade effects may be compensated for by positive income effects.

Apart from these income and terms-of-trade effects, the accession of present applicants to the WTO will substantially affect the institutional development of the multilateral trading system. For the first time, the system would be truly universal, for most practical purposes. Unilateral contingent protection with its inherent lack of transparency, which is still directed against exports from many applicant countries, would be replaced by the universal application of WTO rules. This can be expected to promote a change of attitude on the part of WTO members towards realising that internationally agreed rules now set effective limits to national sovereignty in the conduct of trade policy.

As the economic weight of some new WTO members would be considerable, negotiating strategies in future rounds of trade liberalisation will also be affected. Past negotiations have been dominated by a few large countries under the principal supplier rule which meant that negotiations on reciprocal concessions were confined to those countries that had the largest concessions to offer (mainly the US, the EU, and Japan). While smaller WTO members benefited from concessions negotiated among principal suppliers via the MFN rule, they were still effectively left out of the negotiating process. Among the applicant countries, at least China and possibly members of a customs union among some CIS countries would count as principal suppliers so that negotiations would become more open and the present „oligopoly“ of principal suppliers would be broken up.

the high-income economies and has therefore held back economic growth both in importing and in exporting economies.

6. CONCLUSIONS

We have argued that the current, slow pace of WTO accessions is unsatisfactory for both applicants and incumbent members. With approximately three accessions per year as in the recent past, the processing only of the existing applications for WTO membership could last up to a decade. Incumbent as well as potential new members would be denied the benefits of trade liberalisation and other policy reforms that would come with the accession of the applicant countries to the WTO.

We have further argued that the slow pace of negotiations is only in part due to a lack of preparedness on the part of the applicants. To a large extent, it results from excessive demands by incumbent members that go beyond the commitments of WTO members at a similar level of economic development. Furthermore, as Michalopoulos (1998) points out, there is also a lack of administrative and training resources devoted to accession, not only in the WTO secretariat, but also on the part of current members and applicants.

Beyond the need to enhance administrative capacity, we have proposed a set of ground rules that can be applied to all accession negotiations and could therefore help to streamline the process. Applicant countries should fully accept the need to comply with binding WTO rules even if this requires significant changes in domestic policies (such as non-tariff measures, TRIPs, etc.). They should strive to make their policies as transparent as possible to WTO members and should, simultaneously with the negotiations, work towards bringing their national legislation into conformity with WTO rules. Their offers on market access in goods and services should be economically meaningful in the sense of binding current policies if these are no more restrictive than the policies of current WTO members at a similar level of economic development; or proposing significant liberalisation if present policies are still relatively restrictive.

Current WTO members, in turn, should strive to present applicants, as early as possible, with a comprehensive list of changes in national legislation that they consider indispensable for WTO accession. A comprehensive approach along these lines would permit applicants to set up a realistic timetable for the adoption of the required reforms

which, in turn, would make it feasible to prioritise adjustments and leave acceding countries free to implement less important changes after formally joining the WTO. In particular, a comprehensive approach would avoid the current practice of new topics being brought up continually during negotiations which obliges applicant countries to "shoot at a moving target" as they are adjusting their national legislation.

In the area of market access in goods and services, current members should not seek to push acceding countries to accept more liberal commitments than current members at a similar level of economic development have been willing to make. Even where applicant countries are reluctant to make far-reaching commitments on liberalisation, rapid accession with a timetable for further liberalisation reaching wide into the future could be preferable to protracted accession negotiations that stall any progress on liberalisation.

With negotiations for a new multilateral round of further trade liberalisation already in the offing, the next few years may offer a window of opportunity for concluding accession negotiations with current applicants. Once the multilateral negotiations gather speed, they will attract the attention of all actors, and accession negotiations will inevitably be burdened with the new issues covered by the round. It is for this reason that the present opportunity to process membership applications expeditiously and thereby make the international trading system truly universal should not be allowed to pass by.

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Table 1 – Applicants for WTO Accession: Foreign Trade, Population, GDP (mid-1990s)

	Exports (1996)		Imports (1996)		GDP per capita, PPP (1987 intl. \$)	Population (million)	GDP at market prices (current bn. US\$)
	(bn. US\$)						
	Merchandise	Services	Merchandise	Services	1995	1996	1995
CIS countries							
Armenia	0.3	0.1	0.9	0.1	1545	3.8	1.5
Azerbaijan	0.6	0.2	1.3	0.4	1151	7.6	3.8
Belarus	5.1	0.6	6.8	0.2	3261	10.3	21.7
Georgia	0.3	0.1	0.9	0.1	1269	5.4	4.3
Kazakhstan	6.2	0.7	4.3	0.9	2440	16.5	19.5
Kyrgyz Republic	0.5	0.0	0.8	0.0	1516	4.6	1.6
Moldova	1.1	0.1	1.5	0.2	1232	4.3	2.1
Russian Federation	81.4	12.2	43.3	18.6	3420	147.7	357.6
Ukraine	16.0	4.8	24.0	1.6	1886	50.7	49.1
Uzbekistan	2.7	0.4	4.8	0.5	1898	23.2	23.2
Other transition countries							
Albania	0.3	0.1	1.3	0.2	n.a.	3.3	2.4
Cambodia	0.3	0.2	1.6	0.2	n.a.	10.3	2.9
China	151.0	20.6	138.8	22.6	2370	1215.4	697.6
Croatia	4.5	3.5	7.8	3.2	n.a.	4.8	18.1
Estonia	2.1	1.1	3.2	0.6	3375	1.5	4.1
Lao PDR	0.3	0.1	0.6	0.1	914	4.7	1.8
Latvia	1.4	1.1	2.3	0.7	2678	2.5	4.9
Lithuania	3.4	0.8	4.6	0.7	3266	3.7	7.2
Macedonia, FYR	1.1	0.2	1.9	0.4	n.a.	2.0	2.0
Vietnam	7.0	2.4	13.9	2.4	1122	75.4	20.2
Other countries							
Algeria	12.6	n.a.	8.4	n.a.	3664	28.7	41.3
Andorra	n.a.	n.a.	n.a.	n.a.	n.a.	0.1	n.a.
Jordan	1.5	1.8	4.3	1.6	2717	4.3	6.6
Nepal	0.4	0.6	0.7	0.3	799	22.0	4.4
Oman	6.4	0.0	4.6	1.0	7570	2.2	12.1
Samoa	0.1	0.1	0.2	0.0	n.a.	0.2	0.2
Saudi Arabia	58.2	3.5	27.8	22.0	7649	19.4	125.3
Seychelles	0.0	0.2	0.3	0.1	n.a.	0.1	0.5
Sudan	0.5	0.1	1.4	0.2	n.a.	27.3	n.a.
Taiwan	115.7	n.a.	101.3	n.a.	n.a.	21.5	259.8
Tonga	0.0	n.a.	0.1	n.a.	n.a.	0.1	0.2
Vanuatu	0.0	0.1	0.2	0.0	2167	0.2	0.2
All applicants	481	56	414	79	–	1724	1436
Other non-members^a	52	6	58	7		314	58
World	5.398	1.355	5.555	1.341	–	5750	28000
Applicants' share in world total (per cent)	8.9	4.1	7.4	5.9		30.0	5.1
Other non-members' share in world total (per cent) ^a	1.0	0.4	1.0	0.5		5.5	0.2

^aSee Section 2 for list of countries. — n.a. = not available.

Source: World Bank, World Development Indicators CD-ROM.

Table 2 – Candidate Countries' Shares in US, EU and Japanese Foreign Trade by Major Commodity Groups, 1995 (in per cent)

Candidates	Agriculture and food	Energy materials	Metallurgy	Textiles and clothing	Other manufacturing	Total	Agriculture and food	Energy materials	Manufacturing	Total
SITC	0 + 1 + 2 + 4	3	67 + 68	65 + 84	5 + 6 + 7 + 8 less 67, 68, 65, 84	0 - 9	0 + 1 + 2 + 4	3	5 - 8	0 - 9
	<i>US imports (1995)</i>						<i>US exports (1995)</i>			
CIS countries	0.5	0.2	10.1	0.4	0.2	0.6	1.6	0.2	0.4	0.6
Russian Federation	0.5	0.2	8.8	0.2	0.2	0.6	1.4	0.2	0.3	0.5
Ukraine	0.0	0.0	0.9	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Other transition countries	2.2	0.8	1.8	14.5	7.2	6.4	4.1	0.3	2.0	2.3
China	1.8	0.8	1.5	14.3	7.2	6.3	3.9	0.2	1.9	2.1
Others	0.8	16.4	0.8	6.1	4.9	5.4	5.6	3.1	4.5	4.6
Algeria	0.0	2.9	0.0	0.0	0.0	0.2	0.5	0.1	0.1	0.1
Saudi Arabia	0.0	13.2	0.0	0.0	0.1	1.2	0.9	0.1	1.1	1.1
Taiwan	0.7	0.0	0.8	5.6	4.8	3.9	3.9	2.8	3.2	3.3
All candidates	3.6	17.5	12.7	21.0	12.3	12.4	11.3	3.6	6.9	7.5
Total trade (bn. US\$)	58.8	63.0	30.2	51.8	541.3	770.8	86.0	10.3	428.8	546.4
	<i>EU imports (1995)</i>						<i>EU exports (1995)</i>			
CIS countries	1.6	8.4	6.4	0.5	0.4	1.5	2.4	0.4	1.2	1.3
Russian Federation	1.1	8.1	5.5	0.2	0.3	1.3	2.0	0.2	0.9	1.0
Other transition countries	1.5	1.4	0.9	7.5	2.3	2.3	1.2	0.8	1.6	1.5
China	0.8	0.4	0.6	5.8	2.0	1.8	0.5	0.1	1.1	0.9
Croatia	0.1	0.2	0.1	0.5	0.1	0.1	0.3	0.1	0.2	0.2
Other countries	0.2	13.4	0.3	0.9	1.4	1.8	2.0	0.6	1.7	1.7
Algeria	0.0	5.1	0.1	0.0	0.0	0.4	0.6	0.1	0.3	0.3
Saudi Arabia	0.0	8.2	0.0	0.0	0.1	0.5	0.6	0.1	0.5	0.5
Taiwan	0.1	0.0	0.2	0.7	1.2	0.8	0.5	0.2	0.7	0.6
All candidates	3.3	23.2	7.6	8.9	4.0	5.6	5.6	1.8	4.5	4.5
Total trade (bn. US\$)	287.2	96.0	110.0	122.8	1220.5	1925.6	247.1	49.7	1656.9	2011.2
	<i>Japanese imports (1996)</i>						<i>Japanese exports (1996)</i>			
CIS countries	2.5	0.6	12.1	0.0	0.1	1.2	0.3	1.4	0.3	0.3
Kazakhstan	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Russian Federation	2.4	0.6	10.7	0.0	0.1	1.1	0.2	1.3	0.2	0.2
Ukraine	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Other transition countries	8.7	5.2	7.0	54.7	10.5	12.2	16.5	19.7	5.5	5.6
China	8.0	4.0	7.0	52.5	10.4	11.6	15.8	18.3	5.2	5.3
Vietnam	0.6	1.2	0.0	2.2	0.2	0.6	0.6	1.5	0.3	0.3
Other countries	4.2	20.3	4.5	2.8	6.3	8.0	12.9	11.1	7.3	7.3
Oman	0.0	3.2	0.1	0.0	0.0	0.6	0.1	0.0	0.2	0.2
Saudi Arabia	0.0	16.9	0.0	0.0	0.2	3.1	0.2	0.0	0.8	0.7
Taiwan	4.1	0.1	4.4	2.8	6.2	4.3	12.6	10.9	6.2	6.3
All candidates	15.4	26.1	23.6	57.5	17.0	21.4	29.7	32.2	13.0	13.3
Total trade (bn. US\$)	82.9	60.9	13.6	26.0	159.4	349.2	5.1	2.2	393.3	410.5

Countries are listed individually if they account for at least 0.5 per cent in at least one category.

Source: OECD Annual International Trade Statistics.

Table 3 – Initial Anti-Dumping Duty Rates Imposed on Non-Market and Market Economies, by end 1995^a

	Mean duty rates			Mean duty rates			Number of cases	
	Against non-market economies	Against market economies	Ratio of non-market to market	Against non-market economies	Against market economies	Ratio of non-market to market	Against non-market economies	Against market economies
New Zealand	584.0	31.8	18.36	584.0	17.0	34.35	1	10
Mexico	196.3	43.2	4.55	181.0	31.5	5.74	17	26
Japan	15.9	6.0	2.64	15.9	6.0	2.64	1	1
South Korea	56.7	29.0	1.96	56.7	31.3	1.81	2	5
United States	70.2	39.9	1.76	55.9	25.5	2.19	51	232
Chile	10.0	7.0	1.43	10.0	7.0	1.43	1	2
Australia	31.5	23.8	1.32	25.0	20.0	1.25	11	127
EU	32.9	25.7	1.28	24.6	16.5	1.49	38	83
Brazil	35.7	28.4	1.26	27.2	24.8	1.10	7	11
Canada	38.7	35.3	1.10	38.7	32.6	1.19	13	83
Total							142	580

aThis table includes all countries that reported at least one duty rate for a non-market economy and one duty rate for a market economy, so that comparison could be made between duty rates for the two cases. Three other countries – Peru, Turkey, and Venezuela – each reported duty rates for two cases against non-market economies but did not report any duty rates for cases against market economies; hence, no comparison could be made.

Source: CBO (1998: 106).

Table 4 – Reference Country Selection in EU AD-Investigations and Measures Against Accession Countries Initiated and Applied in 1997

Product group	Investigations				
	WTO member countries affected	Accession country affected	Third country chosen as reference case for accession country (non-market economy)		
Fax machines	Japan, Rep. Korea, Malaysia, Singapore, Thailand	PR China, Taiwan	Rep. Korea		
Basic chemicals	India	Ukraine	India		
ditto	Brazil, US	Vietnam	Thailand		
Raw cotton fabrics	Egypt, India, Indonesia, Pakistan, Turkey	PR China	India		
Steel products	–	Russia	US		
Magnesium	–	PR China	Norway		
Basic chemicals	–	PR China	Japan		
Car equipment	Japan, Rep. Korea, Malaysia	PR China, Taiwan	Malaysia		
Wood products	Brazil, Bulgaria, Poland	Estonia, Latvia, Lithuania, Russia	US (for Russia only)		
Provisional measures					
Product group	WTO member countries affected	Accession country affected	Duty (in per cent) levied against		Third country chosen as reference case for accession country (non-market economy)
			AD reference country	non-market economy	
Footwear	Indonesia	PR China	0–36.5	94.1	Indonesia
Handbags	–	PR China	–	0–30.7	Indonesia
Zinc	Poland	Russia	5.5–14.5	5.5	Poland
Steel products (tubes)	Poland, Czech Rep., Slovak Rep., Romania	Russia	5.2	32.9	Czech Rep.
Basic chemicals	–	PR China	–	21.1	Brazil
Steel products	India, Rep. Korea, Thailand, Malaysia	PR China, Taiwan	8.3–27.7	16.2–75.7	Taiwan
Ferrous metals	–	PR China	–	19.6	Brazil
Fax machines	Japan, Rep. Korea, Malaysia, Singapore, Thailand	PR China, Taiwan	17.4–73.1	23.5–74.2	Rep. Korea

Source: EU (1998).

