

## Accession to the World Trade Organization: Costs and Benefits

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**Abstract:** In this article, we explore the World Trade Organization: Costs and Benefits and the history of accession to the WTO

**Keywords:** WTO, Twentieth century, ITO, GATT, Monitoring of rules implementation

According to Singh (2005) every candidate country in order to join the WTO have to negotiate it with already WTO members and agreements of the WTO subject to member countries parliaments' ratification. Every member of the organization enjoys special benefits: most favored nation status where all WTO members enjoy equal treatment by each other and lower or eliminated trade barriers to each other (Kuepper, 2017). Government should think of possible benefits and challenges before joining the WTO and prepare its industries, economy and legislation for the challenges that come from the WTO membership and members.

### History of accessions to the WTO

Twentieth century witnessed two World Wars and after that the peaceful times created great opportunities for development of the world and cooperation between nations in various political, economic, cultural and trade fields. Speaking of trade cooperation of countries Irwin (1995) reminds the initial steps taken by United States of America and United Kingdom during the World War II where two countries had rough plans to make postwar trading system aimed at trade enhancement by tariff elimination. Later countries decided to establish general institution to facilitate trade between each other, which was planned to be named as the International Trade Organization (ITO), a special agency of United Nations Organization. According to Milner (as cited in Trofimov, 2011) the ITO failed to be established mostly due to the political opposition from American Republican Party, which was expected to make the ITO Charter ratified in the Congress.

After the failed effort to establish the ITO in 1947 a group of 23 countries made a historic achievement in the postwar era by creating General Agreement on Tariffs and Trade (GATT) and initiated the discussion of many bilateral agreements on trade barriers, especially tariffs (Irwin, Mavroidis, and Sykes, 2008). The GATT was very important platform in the beginning and helped a lot to reduce tariffs in international trade. The Agreement itself was not something new but reflected most part of ITO's Commercial Policy article and used some provisions from United States trade agreements (Bronz, 1956).

The GATT was a good platform in the early years of international trade after World War II but still its members needed a special administrative body that would facilitate GATT. A second try to build

an international trade institution was at Geneva Round in 1995 where the GATT signatories prepared an agreement on the establishment of the Organization for Trade Cooperation (OTC), which would elevate the GATT status to the institutional level but again lacked support from the US (Bronz, 1956).

The GATT agreement, devised by US, UK and other developed countries was not a perfect and beneficial system for the developing and recently decolonized countries. Being unhappy with the GATT and ongoing development strategies developing countries needed better platform and UN established its agency responsible for the facilitation and regulation of international trade, development and investment cooperation named the United Nations Conference on Trade and Development (UNCTAD) in 1964 (Karshenas, 2016).

Canada in the beginning of 1990 made a new effort to establish multilateral trade organization and the initiative was warmly welcomed by European counterparts. After about half century after the GATT, tremendous growth of international trade, long queue of countries with various economic background and development strategies wanting to join the GATT, economic issues in 1980's and increase of services trade and investment related issues urged the GATT members to rethink the existing platform and establish physical and legal body to facilitate international trade, which led to the establishment of the WTO at Uruguay Round of multilateral trade negotiations of the GATT (WTO). These are main functions of the WTO mentioned in their Annual Report 2018:

- Trade negotiator: WTO is a universal trading platform where its members interact with each other to lower trade tariffs and eliminate other barriers, open markets and use dispute settlement instrument whenever they consider their partners rules violation acts;
- Monitoring of rules implementation: WTO members countries should adopt WTO established rules and adjust their domestic trade policies to those of WTO, they become accountable before various WTO committees about the status of agreements implementation.
- Dispute settlement function: WTO is a guarantee that its members follow all commitments and obliged rules and regulations. Dispute settlement body stands ready to accept any request by WTO member about violation of WTO rules and their rights;
- Enhancement of trade potential and development: most activities of WTO are targeted to the support of developing countries by giving them more opportunity to adjust their trade regimes, following commitments, technical assistance on all stages of WTO and member interaction.

### **The WTO accession procedures and requirements**

Every organization has its own regulations and rules to be followed and requirements to be fulfilled by its members. If we look at the WTO accession picture of its new members after 1995 we can see different stories, short or lengthy negotiations, cheap or high costs of accession efforts and implications and challenges facing new entrants after the WTO accession. One of the key points in talks on the WTO accession is candidate country's report on its domestic and trade legislation and policies, which should be checked for the compliance with the WTO rules and legislations (Chemutai and Escaith, 2017).

Countries in the process of the WTO accession or even after the WTO accession need to have relevant and stable government institution to deal and maintain relationship with the WTO and activities related to the WTO accession. Hoekman and Roy (2000) claim that these countries need to actively engage in the WTO activities especially in the institutional level and there should be an appropriate system of information exchange and monitoring between relevant domestic institutions,

private sector and foreign countries to oversee the policies implemented for trade facilitation. On this matter Uzbekistan has established a relevant department at the Ministry of Trade in 2017 and currently accession negotiations are being continued by the Ministry of Investments and Foreign Trade. Currently Uzbekistan's WTO accession adventure is the longest in WTO history, which already surpassed 27 years.

According to the research of Chemutai and Escaith (2017) depending on the nature and complexity of every country's economic or trade situation there could be many kinds of the WTO accession related commitments made by many acceding countries (see Table 1, Appendix).

In order to comply with the general requirements of the WTO and additional requirements coming from incumbent WTO members, applicant country should make several commitments to eliminate or improve trade barriers and make positive changes in its trade regime. For instance, during its process of the WTO accession negotiations China made commitments on investment regime, state ownership and privatization, trading rights and many others while Russian Federation made commitments on pricing policies, foreign exchange, sanitary and phytosanitary measures and other regulations (WTO, 2018).

On top of various costs that may be borne by the applicant country Charnovitz (2007) adds so-called WTO-plus and WTO-minus requirements that occurred as an additional terms not covered by original WTO rules. Defining the reason for the emergence of WTO-plus requirements Qin (2006) argues that Article XII of the WTO Agreement serves as an escaping clause where applicant country and WTO with its incumbent members in Working party are not limited to negotiate any terms during the WTO accession negotiation. On the flip side of the coin WTO-minus commitments may give newly joined members a chance to get prepared for the required changes (see Table 2, Appendix).

### **Timing of the WTO accession**

The WTO accession history witnessed various terms of accessions. The shortest term was of Kyrgyz Republic which took only 2 years and 10 months and the longest was of Russia which lasted 19 years and 2 months. Michalopoulos (2002) counted several points where applicant countries fail to keep on track in accession. These points include non-compliance with step-by-step actions, ongoing conflicts between incumbent and applicant countries, lack of capacity to prepare for accession, long negotiation rounds, acceding countries after membership strategies development, incumbent members' requirements and WTO plus.

According to one conclusion, overall the WTO accession time is 10.3 years: 12.8 years for least developed countries (LDC) and 9.5 years for non-LDCs (Chemutai and Escaith, 2017). In some countries it may be difficult for designated government body responsible for international trade to fully estimate the benefits and consequences of country's accession to the WTO. Jones (2009) considers that some countries do not have enough potential to analyze the impacts of the WTO accession plus they may not get enough support from government for the accession. Author further argues that even financial and technical assistance of supportive international organizations in the process of integration to international trade could not make good impact on the lengthy accession process.

There were several cases when because of incompetent works of government agencies the WTO accession lasted too long for many countries. Gay (2005) describes the case of Vanuatu's WTO accession efforts where because of frequent political, institutional changes relevant government

bodies could not manage the WTO accession process jointly and stable which resulted in suspending ten years continuing initial negotiations with 9 governments change.

### **Costs of the WTO accession**

The WTO as many other international organizations has its specific requirements for the membership. In their studies Cattaneo and Braga (2009) described the WTO accession as jointly experiencing costs and benefits of WTO rules and regulations. Authors think that the main role of the WTO in the world trading system is an accumulation of as much as possible countries to its club with lesser expenses so that poorest countries would also benefit from the platform.

As a results of his works Jones (2009) assumed that main challenge of the WTO accession for the entrant is the cost of reforms in domestic economic, social and political areas that aims to comply with WTO rules and regulations. Speaking about costs of the WTO accession Sauve (2005) refers to the estimation of UNCTAD which shows that for the implementation of the WTO Customs Valuation Agreement in Cambodia around four million USD has been accumulated as a technical assistance from Donor organizations. For Least developing countries this process is often costly and time consuming therefore they need support directly from the WTO and other international institutions. For least developed and poor countries in order to manage costly activities of the WTO accession Jones (2009) suggests to coordinate all accession steps with international development financial institutions like WB, IMF and others. Thanks to the technical assistance of these institutions applicant countries somehow manage to bear the WTO accession costs (Michalopoulos, 2002). On the other hand as author discovered consultations of donors or coordination issues of their efforts have slowed down some accessions which is a cost.

This type of costs will not stop even during membership. After the WTO accession country's industries, resource allocation measures and prices may see such changes, which are described by Drabek and Bacchetta as (2004), "Liberalization of the country's trade regime may change the domestic relative prices of goods and services, which, in turn, will lead to increased competitive pressures on industries that had been until now protected by tariffs (or quotas)". Some accessions require too many bureaucratic activities like discovered by Evenett (2006) in case of Saudi Arabia's 2005 WTO accession with huge numbers and costs: 14 multilateral and 365 bilateral negotiations have been concluded, 3500 questions on Memorandum on Trading regime received, all totaling 7600 pages of documentation prepared, 28 Royal orders were issued and 42 WTO accession related legislations were improved which lasted 10 years.

Apart from early members of the WTO, there will be much costly requirements for new entrants such as elimination of bunch of tariffs that were dropped through many years, negotiations on such fragile industries like textile and agriculture are already included in agreement agenda and commitments on GATS (Cattaneo and Braga, 2009). Authors found that WTO acceding developing country's financial power heavily relies on earnings from import payments and according to their findings in case of Cambodia more than 70% of government revenue consisted of tax in 2009. In general, accession to the WTO will affect county's government system, business, industries, private sector where these reforms and adjustment measures may not be feasible for all participants of the economy (Cattaneo and Braga, 2009). Still WTO accession may be more expensive and burdensome for new and weaker acceding countries, which according to Jones (2009) makes them to accept most requirements of incumbent WTO members without receiving similar attitude in return.

### **Benefits of the WTO accession**

Nowadays the world has 195 countries out of which 164 countries are already the members of the



WTO. Out of remaining 31 non-member countries 22 are currently negotiating their WTO accession. It is obvious that the WTO membership is important and has significant benefits for its members in many fields of economy and society. But still some scholars consider that the WTO accession has not shown exact positive results in the economic development and well-being of entrants after the WTO was established (Cattaneo and Braga, 2009). In their joint study conducted in 2004 on China's accession to the WTO Hertel, Zhai and Wang found that WTO accession is beneficial for both urban labor-specialized and rural agricultural households. One point how WTO benefits its members is whenever the WTO finds trade rules violation among its members, information about this breach is announced to all WTO members, which creates universal platform for rule application. The next benefit is that smaller members also enjoy equal rights and leverage to file a complaint or defend themselves from unfair trade (Maggi, 1999).

The WTO accession as stated by Cattaneo and Baraga (2009) opens up domestic market to huge importation, which may result in fierce struggle for domestic producers, decrease of government intervention in the business through giving priority to inefficient sectors development. This kind of open trade policy helps country's international trade integration and may increase of overall trade volume. In their studies Subramanian and Wei (2007) estimated that thanks to the WTO in the year 2000 worldwide imports have increased about 44 percent or around 3 trillion USD that time WTO had 140 members. Similar benefits can be found in the works of Chemutai and Escaith (2017) where authors assume that becoming a member of the WTO can boost country's investment and trade potential. They argue that ratio between trade and gross domestic product after the accession is also higher than older studies in case of developing countries. Authors documented that after 2012 new members of the WTO have implemented around 300 new legislations in order to comply with the requirements of the WTO. Further they conclude that if a country joins the WTO it will experience necessity in implementing several regulatory and legislative measures which would increase investment inflow to the country. In addition these scholars found that new acceding countries consider the WTO accession to be one of the key steps in reforming their economies. Positive changes from the WTO accession could be seen in reforms within a country, openness of the market, legislative improvements and international relations. Overall Chemutai and Escaith find it positive for all kinds of investment after the WTO accession of the country (Chemutai and Escaith, 2017).

Hoekman and Roy (2000) proposed the argument that country's development based on trade should be on par with the WTO accession plus domestic industries should also experience big changes in order to withstand external competition, way of doing business should be improved and diversified and new export strategies should be devised.

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