

## **WHAT IS KNOWN ABOUT THE EFFECTS OF WTO ACCESSION ON DEVELOPING COUNTRIES? A BRIEF OVERVIEW OF THE LITERATURE.**

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The purpose of this short chapter is to provide an overview of what little is known about the economic effects of WTO accession on developing countries.<sup>1</sup> The main argument is that we know much less about the effects of WTO accession than we probably should and this has important implications for the acceding countries themselves and for the design of technical assistance programmes. This chapter should be read in conjunction with the others in this volume, and I will not duplicate the material presented there. For example, the chapter by Evenett and Primo Braga summarises the findings of recent research on the nature of the bound commitments that accession countries have taken on. Moreover, many of the prominent views about the accession process in the policymaking community can be found in Evenett's summary of the points made at the joint World Bank-GTZ conference in November 2004.

Generally, little is known about the effects of WTO accession on developing countries. The paucity of studies on WTO accession is particularly unsatisfactory as twenty-six economies are currently seeking to join the WTO, two observer governments must start the accession process in the near future and another three economies have requested that working parties be established. The majority of these economies are developing economies. The scholarly community is not alone in its lack of attention to WTO accession matters. Leading reports by international bodies tend to give accession-related issues little consideration. For example the

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<sup>1</sup> The focus here on economic effects should not be taken to imply that the social and other non-economic consequences of WTO accession are unimportant.

United Nations Millenium Commission's Report on Trade, published in January 2005, did not contain a single section or recommendation on the WTO accession process.

Country-specific research on WTO accessions has almost exclusively focused on the important case of China (see Table 1).<sup>2</sup> As this table makes clear, few papers have been written on the impact on economic performance and social well-being of the other nineteen economies that have joined the World Trade Organization (WTO) since 1995. Other country analyses refer to countries in the process of accession and a recent paper by Lissovolik and Lissovolik (2004) on Russia's potential WTO accession is a good example of this type of analysis. These authors found that, controlling for customary gravity equation variables and country-specific effects, Russia's exports to WTO members from 1995 to 2002 were smaller than those to non-members. Rather than immediately attribute the export under-performance to Russia's non-membership of the WTO, Lissovolik and Lissovolik consider four other potential explanations for this finding. Only one such explanation (the nature and extent of Russian export controls) survives scrutiny and the authors' qualify their conclusions accordingly.

The second class of relevant literature includes a series of academic studies that have called into question widely-held and long-standing views about the economic effects of WTO membership. Having documented numerous claims made by scholars, officials, and international organisations about the beneficial consequences of WTO membership (and of membership of its predecessor, the GATT), Rose uses conventional econometric tools to assess these claims in a series of papers (Rose 2002a, 2002b, 2003, 2004). In one study he found no statistically significant effect of GATT/WTO membership on the value of bilateral trade flows over a fifty year period, a finding he regards as mysterious (Rose 2002a.) In another study he found that GATT/WTO accession increased the value of bilateral trade

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<sup>2</sup> Recent contributions to the substantial literature on China's accession can be found in the volume edited by Bhattasali, Martin, and Shantong.

flows, but WTO membership itself does not (Rose 2003). Moreover, GATT/WTO membership was found in a third study not to have a statistically significant effect on the volatility of trade flows, as measured by the coefficient of variation of bilateral trade flows over a twenty-five year period (Rose 2004). In these three studies GATT/WTO membership is captured in econometric specifications by the use of dummy variables, rather than directly identifying the changes in trade policies that followed from membership or accession.

Rose's findings have prompted others to revisit the questions he posed and the methods he employed. Subramanian and Wei (2003) diverge from Rose's earlier articles (2002a,b) in two respects. First, they differentiate between the effects of GATT/WTO membership on industrialised and developing countries. More generally, they note that there is no presumption that the effects of GATT/WTO membership are common across all goods and trading partners; hence calling into question the pooling of certain types of trade data. Second, they employ some of the latest techniques for estimating bilateral gravity equations which try to control for country-specific characteristics (see Anderson and van Wincoop 2003). These two departures appear to have led to substantially different findings. Subramanian and Wei find that WTO membership raised trade between industrial countries by forty percent, whereas such membership only increased a developing country's trade if it joined the WTO after the completion of the Uruguay Round. Asymmetric results were found across sectors and GATT/WTO membership is associated with greater effects on goods trade (which typically face lower trade barriers than other sectors.) The authors note that these findings are consistent with the reluctance of industrialised economies to liberalise trade in food and clothing under the auspices of the GATT and WTO, and the fact that developing countries were not asked to undertake many liberalising commitments before the completion of the Uruguay Round.

Non-economists have also contributed to the literature on the effects of WTO accession. Goldstein, Rivers, and Tomz (2003) draw upon the insights of the international relations literature to assess the effects of international institutions on trade patterns. They note that many customs territories (which need not be nations) participated in the GATT and WTO before formally becoming members of these institutions. The date of accession, therefore, may not accurately reflect the point at which a nation begins to align itself with multilateral trade rules. Another interesting observation is that the effects of GATT and WTO membership is likely to be conditional on prevailing preferential trading arrangements and on the nature and history of certain state-to-state ties, such as former colonial links. These authors also undertake a gravity equation analysis and find that, although the GATT/WTO appears to have increased trade among members, these institutions have contributed to faster growth of trade among non-members.

To summarize, there is a dearth of empirical evidence on the effects of WTO accession on the developmental prospects of developing countries. This weak evidential base has created a vacuum which has been filled by doubts about the case for opening markets and taking WTO obligations and negotiations seriously. Some have questioned whether developing economies, especially least-developed countries (LDCs), should be encouraged to use the WTO as a forum to structure national development efforts. Moreover, it is difficult to see how technical assistance programmes, especially those initiatives that enable firms to capitalize on post-accession export opportunities, can be effectively designed without a better understanding of the economic consequences of WTO accession. One challenge for the scholarly and policymaking communities in the coming years is to fill this knowledge gap.

#### **References to scholarly studies in this chapter.**

Bhattasali, Deepak, William Martin, and Li Shantong (2004). (editors.) *China and the WTO: Accession, Policy Reform, and Poverty Reduction Strategy*. Oxford University Press.

Goldstein, Rivers, and Tomz (2003). Judith Goldstein, Douglas Rivers, and Michael Tomz. "How Does The Trade Regime Affect International Trade?" Mimeo. Department of Political Science. Stanford University.

Lissovolik and Lissovolik (2004). Bodgan Lissovolik and Yaroslav Lissovolik. "Russia and the WTO: The "gravity" of outside status." Mimeo. International Monetary Fund.

Rose (2002a). Andrew Rose. "Do we really know that the WTO increases trade?" NBER Working Paper # 9273.

Rose (2002b). Andrew Rose. "Do WTO members have more liberal trade policy?" NBER Working Paper # 9347

Rose (2003). Andrew Rose. "Which International Institutions Promote International Trade?" forthcoming in the *Review of International Economics*.

Rose (2004). Andrew Rose. "Do we really know that the WTO increases trade?," forthcoming in the *American Economic Review*.

Subramanian and Wei (2003). Arvind Subramanian and Shang-Jin Wei. "The WTO promotes trade, strongly but unevenly." International Monetary Fund working paper WP/03/185.

#### **Web resources with research or reports on WTO accession:**

1. Bibliothèque du Palais de la Paix, The Hague, Netherlands. <http://www.ppl.nl/bibliographies/all/showresults.php?bibliography=wto&code=WTT01&opic=Other%20topics%20%3E%20Accessions>
2. Harvard University's Global Trade Negotiations Home Page. Go to <http://www.cid.harvard.edu/cidtrade/issues/accessionspaper.html>
3. United Nations Conference on Trade and Development. In the search facility of the following website type "WTO accession" and choose the option "documents" from the drop-down bar below the search box. [www.unctad.org](http://www.unctad.org)
4. United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) <http://www.unescap.org/tid/publication/onlinepub.asp> (two publications on accession)
5. World Bank. Look under "Topics," then "Other Trade Research," and finally under "Accessions to the WTO" at the following site: [www.worldbank.org/trade](http://www.worldbank.org/trade)
6. World Trade Organization. Bibliography of economic research. [http://forms.wto.org/eradbibliographie/bibliography\\_search\\_e.htm](http://forms.wto.org/eradbibliographie/bibliography_search_e.htm)

**Table 1: New WTO Members and research on their accessions.**

Economy	Date of accession	Search								
		1	2	3	4	5	6	7	8	9
Albania	8 September 2000	0	0	0	0	0	0	0	0	0
Armenia	5 February 2003	0	0	0	0	0	0	0	0	0
Bulgaria	1 December 1996	0	0	0	0	0	0	0	0	0
Cambodia	Pending Ratification	0	0	0	0	0	0	0	0	0
China	11 December 2001	12*	21*	5	9	4	2	1	2	3
Croatia	30 November 2000	0	0	0	0	0	0	0	0	0
Ecuador	21 January 1996	0	0	0	0	0	0	0	0	0
Estonia	13 November 1999	1	0	0	0	0	0	0	0	0
Georgia	14 June 2000	0	0	0	0	0	0	0	0	0
Jordan	11 April 2000	0	0	0	0	0	0	0	0	0
Kyrgyz Republic	20 December 1998	0	0	0	0	0	0	0	0	0
Latvia	10 February 1999	0	0	0	0	0	0	0	0	0
Lithuania	31 May 2001	0	0	0	0	0	0	0	0	0
FYR Macedonia	4 April 2003	0	0	0	0	0	0	0	0	0
Moldova	26 July 2001	0	0	0	0	0	0	0	0	0
Mongolia	29 January 1997	0	0	0	0	0	0	0	0	0
Nepal	23 April 2004	0	0	0	0	0	0	0	0	0
Oman	9 November 2000	0	0	0	0	0	0	0	0	0
Panama	6 September 1997	0	0	0	0	0	0	0	0	0
Chinese Taipei	1 January 2002	3*	1*	0	0	0	0	0	0	0
General research on accession		2	8	2	8	0	1	8	1	0
Research on current applicants		2	14	1	1	0	1	0	0	3
Total number of "hits"		18	43	8	18	4	4	9	3	6

<b>Search 1</b>	SSRN (Social Science Research Network) at <a href="http://www.ssrn.com">www.ssrn.com</a> . Search for "WTO accession". A * denotes that two papers relate jointly to China and Chinese Taipei.
<b>Search 2</b>	EconPapers at <a href="http://econpapers.hhs.se/">http://econpapers.hhs.se/</a> . Search for "WTO accession". A * denotes that one paper relates jointly to China and Chinese Taipei. 13 of the 14 papers on current applicants relate to the Russian Federation.
<b>Search 3</b>	World Bank Working Papers at <a href="http://www.econ.worldbank.org/">www.econ.worldbank.org/</a> . Search for "WTO accession". Both general papers relate to the accession of transition economies.

<b>Search 4</b>	Harvard University's Global Trade Negotiations at <a href="http://www.cid.harvard.edu/cidtrade/issues/accessionspaper.html">www.cid.harvard.edu/cidtrade/issues/accessionspaper.html</a> . Search for "accessions papers". 4 of the 8 general papers relate to the accession of transition economies.
<b>Search 5</b>	OUP's Journal of International Economic Law at <a href="http://www3.oup.co.uk/jielaw/">http://www3.oup.co.uk/jielaw/</a> . Search for "WTO accession".
<b>Search 6</b>	Journal of World Trade at <a href="http://www.kluweronline.com">www.kluweronline.com</a> . Search for "WTO accession".
<b>Search 7</b>	UNCTAD publications at <a href="http://www.unctad.org">www.unctad.org</a> . Search for "WTO accession".
<b>Search 8</b>	OECD's on-line library at <a href="http://www.oecd.org">www.oecd.org</a> . Search for "WTO accession". The general paper relates to the accession of transition economies.
<b>Search 9</b>	Blackwell's Academic Bookshop at <a href="http://www.blackwell.co.uk">www.blackwell.co.uk</a> Search for "WTO accession".

Notes to Table 1:

1. FYR Macedonia is the abbreviation for the full title of the Former Yugoslav Republic of Macedonia.
2. Chinese Taipei is the abbreviation for the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu.
3. None of these economies have had a trade policy review conducted for them by the WTO secretariat.
4. All searches undertaken on 12<sup>th</sup> September 2004.