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POTENTIAL GAINS FROM MULTILATERAL TRADE LIBERALIZATION AND WTO MEMBERSHIP

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Outline

- Potential gains from trade liberalization
- The WTO: institutional features and potential benefits
- CAREC members and the WTO
- The Doha Round

Gains from trade liberalization

- Trade openness important determinant of growth (Berg/Krueger 2003)
- More efficient factor allocation
- Lower cost of imported inputs; more choice
- Productivity gains in the domestic economy
- Important spillover effects on other policy areas: openness contributes to strengthening institutional environment

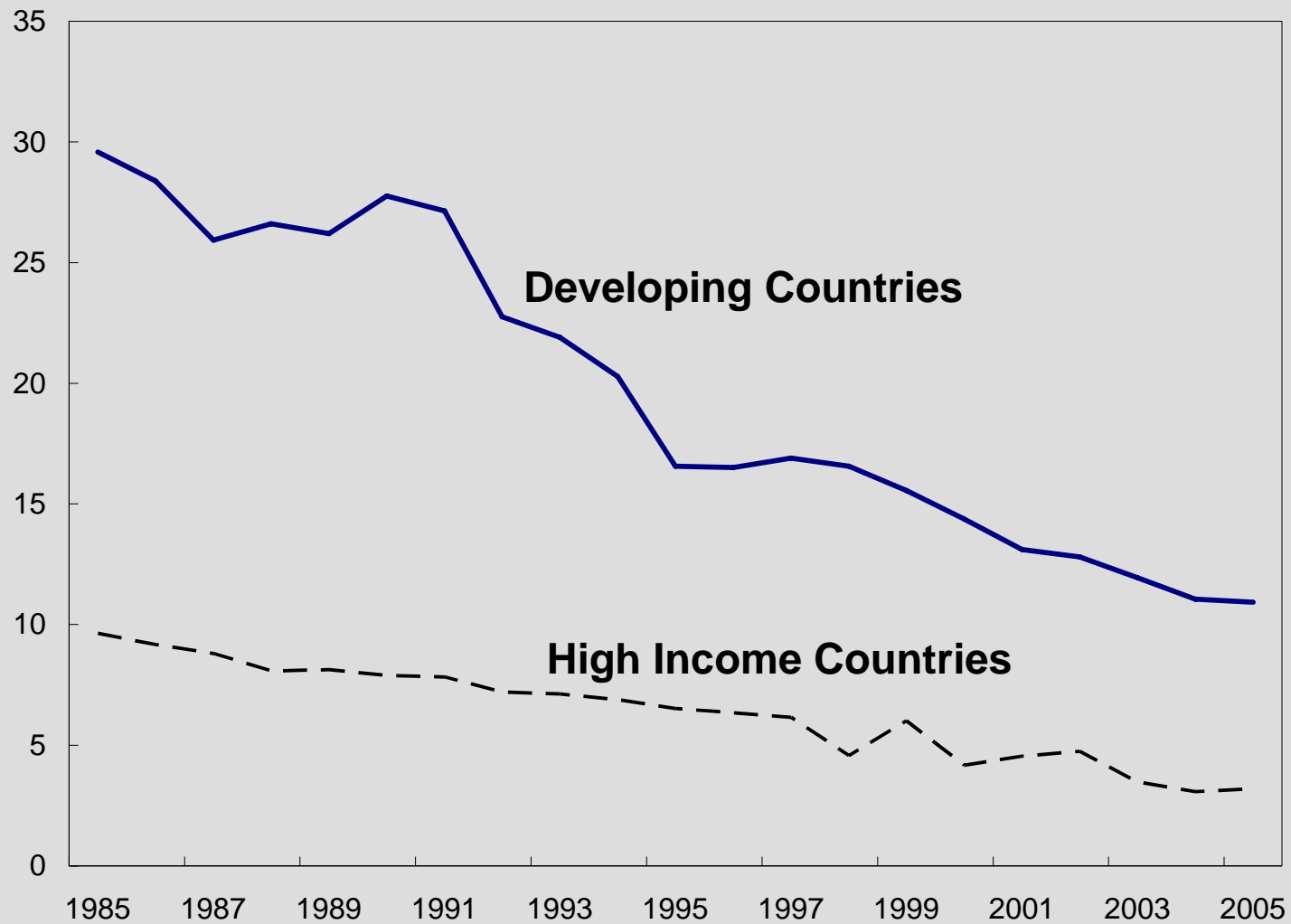
Gains from multilateral trade liberalization

- Integration into global economy
- Larger gains from global markets than from more limited regional markets
- No trade diversion, in contrast to preferential trade agreements
- Multilateral context provides stronger negotiation position to smaller/developing countries than bilateral/regional agreements

Historically....

- Between 1983 and 2003: tariff reductions under multilateral commitments 25 percent, compared to 10 percent under regional agreement
- Even under the most generous assumptions: gains under multilateral liberalization larger than under PTAs

Average Unweighted MFN Tariffs, 1985-2005



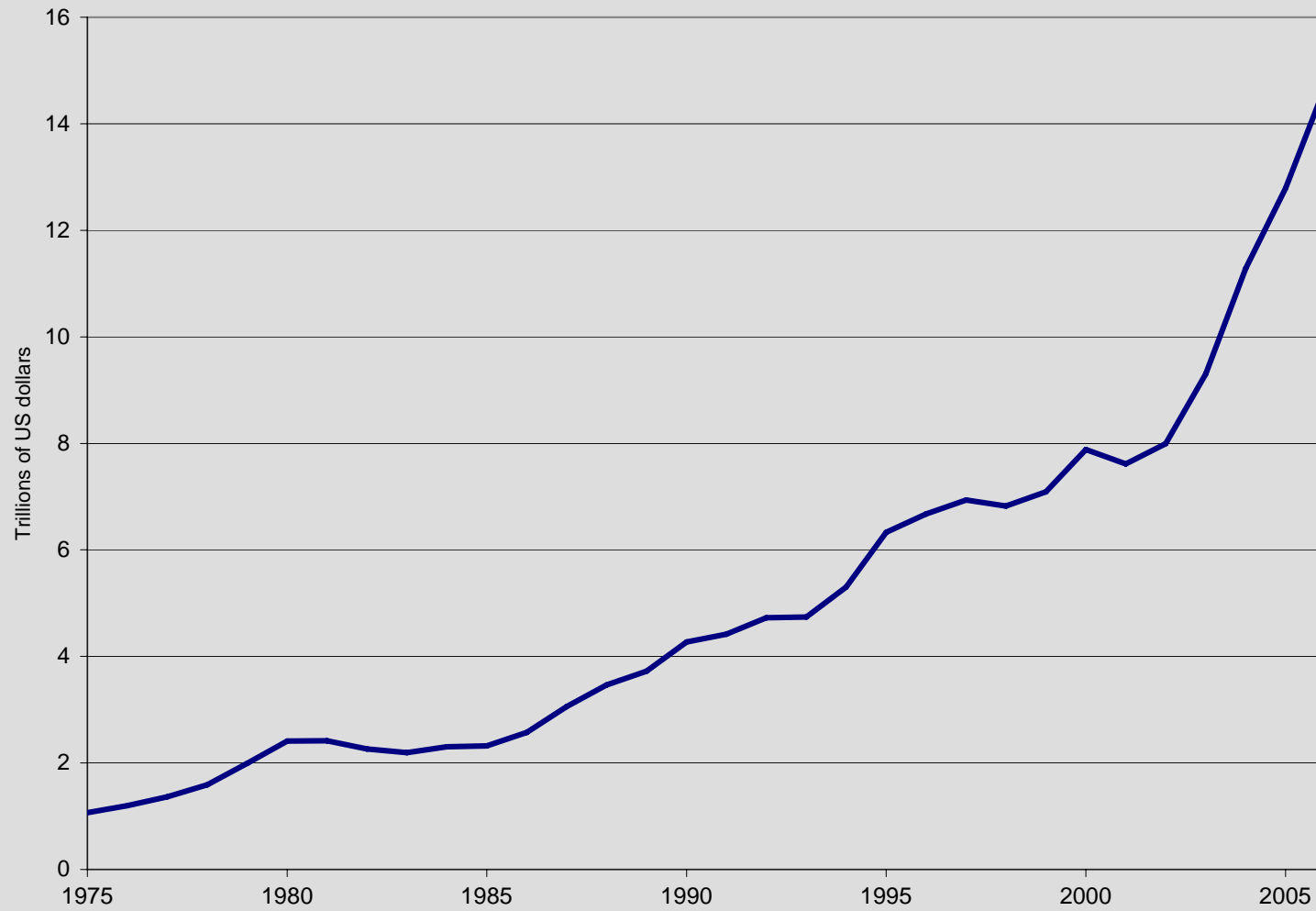
MFN tariffs in the CAREC region

- Average tariffs in the CAREC region ranging from 4.5 to 14.6 percent
- CAREC average: 7.6 percent
- Most countries below 10 percent
- However, substantial non-tariff barriers

Growth effects of trade liberalization

- Post-trade liberalization economic growth 1.2 percent higher than before reforms
- Trade liberalization followed by acceleration in investment and exports
- Openness enhanced export diversification
- Small countries benefited the most
(Salinas/Aksoy 2006)

World Exports, 1975-2006



WTO

- At present 150 members, of which 22 joined after transition from GATT to WTO in 1995
- Accession requires substantive reforms to align domestic institutions with WTO disciplines
- Many developing countries face resource constraints in negotiations (staff, financial, and institutional)

WTO principles

- Non-discrimination
- Transparency
- Certainty about trading conditions
- Trade facilitation (separate presentation)

CAREC members and the WTO

- Afghanistan: observer status
- Azerbaijan: observer status
- China: member since Dec. 2001
- Mongolia: member since Jan. 1997
- Kazakhstan: observer status
- Kyrgyz Republic: member since Dec. 1998
- Tajikistan: observer status
- Uzbekistan: observer status



Benefits of WTO membership (1)

- Forum for multilateral trade negotiations, enhancing trade flows by bringing down barriers
- Integration into global markets
- Lower prices and greater variety of imported goods and services
- More predictable access to foreign markets
- Easier to attract FDI



Benefits of WTO membership (2)

- Rules-based system
- Seal of approval by global trading system
- Forum for dispute resolution, resulting in confidence building

WTO dispute settlement

- Advantages of conflict resolution in the context of multilateral framework
- However, reciprocal antidumping investigation and other retaliatory measures more likely than pursuing disputes with WTO (Bown 2005)

WTO accession process (1)

- Most important steps:
 - Establishment of Working Party
 - Memorandum on trade regime
 - Applicant's response to members' questions
 - Bilateral negotiations with all working party members
 - Adoption of accession protocol by working party, followed by General Council or Ministerial Conference

WTO accession process (2)

- Average tariff binding for acceding countries falling over time; now well below those agreed by developing countries in Uruguay Round
- Transition periods and exceptions possible (Article XXIV; Enabling Clause)

WTO accession process (3)

- Services: transition economies have been among WTO members that have made the most extensive commitments under GATS (Eschenbach/Hoekman 2006)

Impact of WTO membership (1)

- Rose (2003) versus Subramanian/Wei (2003)
- Possible explanations for modest supply side effects
 - Remaining barriers in export markets
 - Lack of experience or information on side of exporters
 - Inefficient production and/or infrastructure in acceding country

Impact of WTO membership (2)

- Trade effects of WTO membership unevenly distributed: large increase in imports to developed countries, less so for developing countries
- Developing country exports boosted because industrial country partners liberalized (Subramanian/Wei 2003)

Impact of WTO membership (3)

- Large countries: regional specificities
- Considerable differences in welfare gains across regions; function of ability to benefit from reduction in barriers against FDI
- Regions with good investment climate benefit more
- For Russia: Tarr/Rutherford 2006; Rutherford/Tarr/Shepotylo 2005

Preference erosion (1)

- Tariff reductions could translate into worsening export performance for least developed countries. However, preferences often underutilized due to administrative burden. (Francois/Hoekman/Manchin 2005)

Preference erosion (2)

- Trade liberalization by major players could reduce value of preferences for developing countries, but potential shock likely to be small: between 0.5 and 1.2 percent of total exports of middle-income-countries
- Vulnerabilities associated mostly with three products: sugar, bananas, and textiles and clothing → targeted support possible.

Alexandraki/Lankes 2004

Preference erosion (3)

- Agriculture: magnitude of preference erosion likely small, but particular product lines such as sugar and bananas could be strongly affected. (Low et al. 2006)
- Manufactured goods: many countries unaffected, but exporters of textiles, fish products, leather products, electrical machinery, and wood products risk preference erosion. (Low et al. 2005)

Impact of China's WTO entry (1)

■ China's exports

- 2002-2003: annual growth 27 percent
- 1992-2001: 17 percent

■ Inward FDI

- 2002-2003: annual growth 14 percent
- 1992-2001: 7 percent

(IMF Direction of Trade Statistics)

Impact of China's WTO entry (2)

- Overall welfare gain for China likely
- Long run: linking to large, fast-growing economy will improve terms of trade and expand trade volumes (Yang 2003)
- Countries with extensive trade links to China likely to benefit

Kazakhstan: potential benefits of WTO accession resulting from....

- Improved market access, particularly non-CIS
- Improved domestic resource allocation and import variety through lower tariffs
- Reduced barriers against multinational service providers
- Reform of local content and VAT policies in oil sector
- Positive effects on investment climate (Jensen/Tarr 2007)

Doha Round (1)

- Launched at ministerial meeting in 2001
- Aim to reach agreement on liberalization in
 - Agricultural trade (market access, export subsidies, domestic support)
 - Industrial trade (NAMA)
 - Services trade (GATS)
- Intellectual property rights (TRIPS)
- Rules (anti-dumping, subsidies, trade facilitation)

Doha Round (2)

- Consideration of needs of developing countries through special and differential treatment both in new commitments and in any relevant rules and disciplines (special product designations; special safeguard mechanism)
- Support to developing countries through Integrated Framework and Aid for Trade

Doha Round (3)

- Doha Declaration (¶35) addresses integration of small and vulnerable economies, including landlocked countries, into world trade system.
- Specific problems:
 - Physical isolation
 - Geographical distance to main markets
 - High degree of vulnerability
 - Small production volumes
 - Competitiveness.

Doha Round (4)

- Doha Round issues with specific relevance to CAREC exporters:
 - Agriculture
 - Cotton (Initiative; Sub-Committee)
 - Textiles and clothing (integration into GATT rules; elimination of quotas)
 - Trade facilitation

Doha Round (5)

- Policy makers in many countries share concerns about fiscal impact of tariff reduction
- IMF research simulating different liberalization formulae shows that only a small number of countries face a significant impact
- Compensating measures possible (IMF Working Paper 06/203)

Doha Round (6)

- IMF strongly supports ambitious outcome of Doha Round
- Successful round critical for global growth and development
- Substantial downside risks for global economy in case of increasing protectionism

