



WTO

Accession Into the WTO by Developing and Transitional Countries

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GATT—*General Agreement on Tariffs and Trade*

INTRODUCTION

The World Trade Organization (WTO), created in 1995, is the sequel to the original **General Agreement on Tariffs and Trade (GATT)**. In order to be a member of the WTO, all articles of the GATT had to be accepted as well as new rules governing services and trade-related international property rights. The mission statement of the WTO is that members recognize that “their relations in the field of trade and economic endeavor should be conducted with a view to raising standards of living, ensuring full employment and a steady growing volume of real income and effective demand, and expanding the production of an trade in goods and service... in a manner consistent with their respective needs and concerns at different levels of economic development.” Essentially, the WTO aims for **liberalization** of all trade between all members, establishing non-discriminatory tariffs with a mind towards developing nations.

Its member governments, with coordination and support from the Secretariat, run the WTO and negotiations in the WTO are conducted in “rounds” to reach **agreements**. WTO agreements concern goods, services and intellectual property. Most of the recent agreements are a result of the 1986-94 Uruguay Round of discussions, and continue to be negotiated under the Doha Development Agenda launched by trade ministers in Doha, Qatar in 2001.

Admission into the WTO remains a highly sought after goal for many nations because of the trade benefits, and it is also in the WTO’s interest to continue to promote international trade liberalization by accepting more members. The process of admission into the WTO is known as **accession** and requires the state seeking membership to agree to the WTO terms. While there are broad agreements that all member states must agree to, certain details are up for negotiations and are debated through working parties on accession, a process that can take years.

In this committee, we will take a look at the accession policies of the WTO, with particular regard to developing, and in some cases, transition, nations as they represent a large and growing portion of WTO membership. If you have any questions, comments or concerns please feel free to reach out to staffer Shereen Asmat via email at sasmat@fas.harvard.edu.

Background

Over 60% of the 153 WTO members are classified as developing countries. **Developing countries** require particular attention because of their unique economic circumstances and differences from the developed world. The WTO has made a commitment to addressing the needs of developing and **least developed countries (LDCs)** because they are increasingly important players in the world economy, with high growth rates and engagement in trade. The WTO addresses the needs of developing



nations in 3 ways:

WTO agreements specifically address developing country issues and circumstances.

There exists the Committee on Trade and Development to address these particular issues and other bodies also participate when appropriate.

The WTO Secretariat has made a commitment to extend technical assistance to developing countries

Because the WTO represents an international community of member nations that champion liberal and fair trade policies worldwide, many nations continue to seek admission. 43 countries have applied to accede the WTO since 1995, a majority of which are developing and approximately half of those countries are in the process of transition from a **planned** to a **market economy**. These transition economies represent the increasing number of nations worldwide that are recognizing the advantages of a liberalized, market economy over one that is closed and they realize that the WTO can serve as a “stamp of approval” for reformed policies and acceptance by the international community.

It is critical that the WTO continues to attract and encourage developing nations to seek membership to achieve the WTO’s missions. Acceding to the WTO is a complex and long process that requires numerous commitments and changes from the country seeking membership and thus the WTO must constantly be aware of transitional issues. The WTO must determine on what conditions a country is awarded membership, or **special and differential treatment** for developing and LDCs. Additionally, they must consider ancillary support structures (such as training) to ensure successful transition into the organization.

While special provisions exist for developing countries—allowing leniency in the trade development process—the process of accession is far from perfect. We will delve deeper into the problems that developing countries face during accession, such as negotiation power, which is essential for securing favorable terms. Furthermore, upon admittance, the WTO must ensure that developing countries are given fair representation to continue to motivate them to accede and abide by WTO laws. We will consider if it is necessary for there to be institutional reform in the WTO to achieve these ends. We will then look at China and Nepal as examples of developing countries that have recently gone through the accession process and what stands to be learned from their experiences.

Explanation of the Problem

Accession Process

As previously mentioned, the accession process, or membership process, requires that countries sign on to WTO agreements and terms. According to the WTO website:

“WTO agreements on goods, services and **TRIPS** [trade-related intellectual property measures] contain rules that discipline the adoption and application of measures relating to international trade. These provide a measure of special and differential treatment for developing countries and [LDCs]. Each WTO Member has also negotiated lists of detailed market access commitments setting maximum levels for its cus-

LDCs—*Less Developed Countries*
TRIPS—*trade related intellectual property measures*

toms **tariffs on imports** of goods, restrictions on trade, and limitations on national treatment in particular categories of services.”

In the Uruguay round of discussion, institutional weakness of developing and transitional economies received special attention and provisions were drafted to allow special and differential treatment in the form of Sanitary and Phytosanitary, Standards and TRIPS, permitting longer implementation periods and/or the provision of technical assistance to strengthen their institutional capacity to meet their obligations under the agreements.

Currently the details of agreements are determined through negotiations on a case-by-case basis. However, the “success” of these agreements is highly dependent on a country's negotiating power, negotiating skills, and readiness to agree. This is an area of concern because developing countries, particularly those that are small, have little experience negotiating and may suffer as result. Furthermore, while a case-by-case basis of membership terms is necessary given the wide variety in circumstances, some experts argue there should be some consistency, such as comparing countries to those with similar size economies or outputs. The argument here is that too many concessions and leniency may only hurt the country and unnecessarily slow the development process and delaying benefits.

Cost of Accession and WTO Agreements

It is often claimed that WTO Agreements are weighed in favor of developed country interests and developing and transition economies must suffer as a result. The governments of developing and transition economies often claim that the benefits from the TRIPs and **TRIMs** among countries are not equally distributed. TRIPs is criticized because intellectual property rights (and customs valuation and SPS) and standards are primarily in line with existing standards in developing economies, failing to protect indigenous technology and stifling innovation (see paper by Finger and Schuler (1998)). TRIMs are criticized because they are meant to discourage restrictive business practices and offset **distortions** due to tariffs, but critics claim that they introduce new distortion which increase a country's import cost, worsen their balance-of-payments position, and fail to generate **export** earnings and to transfer modern technology to developing countries, and all-in-all- **welfare reducing** for developing countries.

A general point to consider is that in developing and transitioning economies, implementing the changes necessary to comply with WTO standards can be costly. Costs are incurred in the modernization and harmonization of policies and institutions. It is worth considering whether or not these costs offset the assumed benefits, both long and short term.

Value of Membership

Still, the value of WTO membership cannot be understated. The WTO offers nations a better international reputation, but more tangibly, nations have better **market access** and ability to use policy instruments and institutions for recourse in international trade conflicts. As has been discussed, there are costs to entry, but these should theoretically be offset, at least in the long term, by efficiency gains, growth of trade, and inflow of foreign capital.

Furthermore, the WTO has a track record of *one the whole* benefiting countries that have acceded. Countries have more stable market access and due to the WTO membership guidelines, there is less corruption and better governance for a relatively low cost. It can be argued that there is not much to lose by joining the WTO, and only

the possibility of gain. As a non-member, states are subject to “adverse discrimination” because the rules of international trade do not necessarily apply to them. These rules and regulations may be one of the major benefits of membership as countries gain access to a dispute resolution body.

Reform Assistance

When a developing country begins the accession process, they must be prepared for large amounts of costly institutional reform. If this were left up to the countries themselves, many would fail, not because a lack of commitment, but because of insufficient resources, both technical and physical manpower, to implement change. For these reasons, the WTO has increased their commitment to support developing nations in making these reforms.

In December 1996, WTO Ministers adopted the *Comprehensive and Integrated WTO Plan of Action for the Least-Developed Countries* which “envisaged a closer cooperation between the WTO and other multilateral agencies assisting least-developed countries” in the area of trade. With this goal in mind, the WTO, UNCTAD and ITC Secretariats, in collaboration with the staff of the IMF, the World Bank and the UNDP, drafted an Integrated Framework for the provision of trade-related technical assistance. This agreement set the stage for development support, “including human and institutional capacity-building, for supporting trade and trade-related activities of the least-developed countries and including efforts to enhance the supply response of these countries” on an individual basis.

While these reforms are necessary and costly for the countries to successfully accede, the WTO is not a development assistance institution and must balance their commitments.

At the High Level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development (HLMLDCTD) in Geneva in October 1997, needs assessments unanimously indicated the request for assistance in strengthening domestic institutions that support international trade, such as staff training, legislation preparation. Currently, private donors and trust funds within the WTO raise a large amount of this capital for these initiatives. We must also consider that “throwing money on the problem” does not necessary solve the issue as countries themselves must have the internal will, strength, and capacity to introduce changes before external money plays a productive role.

Developing Nation Representation and Participation

While participation and representation are not directly related to the accession process, developing nations undoubtedly consider this in determining their behavior and decisions to accede—and plays a role in reform of accession itself. The WTO has undoubtedly made an effort to improve equal representation and participation, but it remains a contentious subject of attention for continued reform.

The WTO has “levels” of committees, and the distribution of developed and developing leaders, or chairmanships, varies by level. At the very top, the distribution is clearly balanced and rotates equitably. However, in lower level leadership positions, developed nations definitely hold more positions. This may be because on the whole, developing nations do not have the capacity to staff these positions proportional to their membership numbers, and secondly, some of the issues may be of secondary importance to developing nations, such as **multilateral trade** codes. However, lower-

HLMLDCTD—*High Level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development*

level committees that are of the utmost importance to developing nations, such as the working parties on the accession of new members, are predominantly chaired by developing nations.

Also, informal consultations play a major role in decision-making and participation in the WTO. Typically, “Green Room Groups” or consultation groups of sometimes 30 members are formed and developing nations do make up a substantial proportion of group members. Historically, developing nations have shared many of the same views on issues, but now, as there is more diversity in income levels, trade capacities, WTO integration etc., they do not share the same opinions and their power is diminished and often trumped by developing nations.

Setting the agenda, addressing new issues and participating in Agreements are areas that developing nations continue to struggle with in terms of equal representation. Due to a lack of formal procedures to ensure equal representation, the agenda is often focused on developed nations primary concerns and these same nations lead the push for agreements, albeit with the essential support of developing nations.

Main Questions

Should all acceding countries have the same terms of memberships? If not, how should specific terms be determined?

Is it fair for terms of the agreement to depend on negotiating power? How can the playing field be balanced?

To determine precise terms of agreement, should countries only be compared to other countries with similar economies in terms of size and output?

To what degree should the WTO provide assistance for institutional reform and technical assistance in developing and transitional economies?

Where should funding for these initiatives come from?

Should there be reforms in participation of developing nations in the WTO, particularly with regards to accession?

Should there be more equitable distribution of chairmanships?

How should proportionality of representation and participation be reformed, if at all, to account for the increasing variety of opinions among developing nations?

Case studies on accession and participation

The following case studies are included to provide context for your discussion and means for evaluation of current WTO accession policies. They are by no means necessary for inclusion in discussion and simply for your benefit if you so desire to use them.

China

On September 17, 2001, negotiations on membership concluded and in December, China became an official member of the WTO, a significant step in moving forward with global economic cooperation. China is the world’s second largest economy and a success story for developing nations worldwide. Since ascension into the WTO, China has made an effort to abide by more of the international trade guidelines set forth by amending over 2500 laws and abolishing over 800. However, tension remains with developing nations in full enforcement of WTO rules while certain sectors

of China's economy struggle with the transition to a more open economy.

Initially, the US was one of the major players promoting China's admittance into the WTO. The reasoning behind this stance was a belief that membership in the WTO would encourage China to follow international policies to become a "a more reliable and stable trading partner." According to the US, China made progress in this regard up until 2006, when they began regressing to more restrictive policies and identified the following as areas of concern:

IPR—*intellectual property rights*

failure by the Chinese government to maintain an effective **intellectual property rights** (IPR) enforcement regime (discussed below);
industrial policies and national standards that attempt to promote Chinese firms (while discriminating against foreign firms);
restrictions on trading and distribution rights (especially in regards to IPR-related products, such as movies, books, and music);
discriminatory and unpredictable health and safety rules on imports (especially agricultural products); and
burdensome regulations and restrictions on services, and failure to provide adequate **transparency** of trade laws and regulations.

Upon ascension into the WTO, China amended and changed many of their existing trade laws, and while free trade is championed as a positive for the entire global community, certain sectors of China's economy struggled. To compete in the international economy, exports have been at the forefront of economic growth, pushed by the high-tech industry. The agricultural sector, in particular, has suffered, in part, due to increased reliance on the service sector. Rural parts of China lag far behind their urban counterparts in development by about ten years. Additionally, farmers were suffering declining income before entry into the WTO, but this trend has continued due to increased linking to foreign markets and removal of tariffs that previously protected local farmers from international competition.

However, on the whole, China's accession into the WTO has been seen as highly successful. The US and European Union continue to have issues and claim that China has backtracked, but China remains a representation of how, at least to a degree, successful change can be implemented to further trade liberalization.

Nepal

Nepal became an official member of the WTO in April 2004 after a long accession process and was the first Least Developed Country (LDC) to accede through a full working party negotiation process. Nepal is a small, landlocked Asian country with close ties to India and a history of reliance on foreign aid. After years of having a closed economy, Nepal, under a new regime, gained GATT observer status in 1993 and applied for WTO accession in 1998. Interestingly, the public was largely opposed to WTO accession as they feared the repercussions of transition and realized that certain sectors could suffer.

The agriculture industry was a focus during negotiation, and ultimately, Nepal agreed to more change on a shorter timeline compared to similar nations in the past. The bound tariff for agricultural goods is 52% and 39% for non-agricultural goods, with even lower targets after a three-year transition period. Furthermore, Nepal has opened up more than 70 of their 155 service sectors to trade.

Critics have argued that Nepal, and other developing nations, were put under pressure by the WTO to accept certain commitments and affect change before they were prepared. According to Mr Damodar Regmi, WTO Division, Ministry of Industry, Government of Nepal, "Nepal encountered several difficulties during its long ac-

cession process. Initially, it had offered three subsectors, but members requested the opening up of more service sectors. There was a one-way traffic with a high demand from WTO members. Several accession negotiations posed financial and technical problems for Nepal.”

While it may be too soon to tell, WTO accession for Nepal has faced mixed reviews. As negotiations continue in Doha, the country is considering the benefits they have thus far received from membership in the WTO. Exports have decreased since 2004 and export-heavy industries have suffered as a result. Furthermore, the government has not been able, or perhaps willing, to develop ample human resource training and technical expertise that is required to progress as an economy. However, the WTO has provided many resources to Nepal and change cannot happen overnight. They are viewed more favorably in the international economy and have been able to slowly reform their institutions with WTO support. With these circumstances in mind, the country is obviously introspectively examining what they stand to gain from the WTO.

Glossary

General Agreement on Tariffs and Trade (GATT)- signed in 1947, is a multilateral agreement regulating trade among about 150 countries. According to its preamble, the purpose of the GATT is the "substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis”

Liberalization- or free trade, is a system of trade policy that allows traders to trade across national boundaries without interference from the respective governments. According to the law of comparative advantage the policy permits trading partners mutual gains from trade of goods and services

WTO agreements - They include individual countries’ commitments to lower customs tariffs and other trade barriers, and to open and keep open services markets. They set procedures for settling disputes. These agreements are not static; they are renegotiated from time to time and new agreements can be added to the package.

Accession- process of gaining admittance into the WTO

Developing Countries- while there is no established convention for designating a country developing or developed, in general, developing countries have not achieved a significant degree of industrialization relative to their populations, and which have, in most cases a medium to low standard of living Least-Developed Countries (LDCs)

Planned Economy- an economic system in which the state directs the economy.[1] It is an economic system in which the central government controls industry such that it makes major decisions regarding the production and distribution of goods and services

Market Economy- an economy in which the prices of goods and services are determined in a free price system

Special and differential treatment- is a set of GATT provisions (GATT 1947, Article XVIII) that exempts developing countries from the same strict trade rules and disciplines of more industrialized countries

TRIPs- The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs) is an international agreement administered by the WTO that sets down minimum standards for many forms of intellectual property regulation as applied to nationals of other WTO Members

Tariffs- tax on imports and exports

Imports- A commodity, article, or service brought in from abroad for sale

TRIMs- The Agreement on Trade Related Investment Measures (TRIMs) are rules that apply to the domestic regulations a country applies to foreign investors, often as part of an industrial policy. The agreement was agreed upon by all members of the World Trade Organization

Distortions- a condition that creates economic inefficiency, thus interfering with eco-

nomic agents maximizing "social welfare" when they maximize their own welfare
Export- A commodity, article, or service sold abroad
Welfare- measure of economic well-being
Market Access- for goods in the WTO means the conditions, tariff and non-tariff measures, agreed by members for the entry of specific goods into their market
Multilateral Trade Agreements- agreements on trade between many nations at one time
Intellectual Property Rights- is a term referring to a number of distinct types of creations of the mind for which a set of exclusive rights are recognized legally
Transparency- is a governmental policy which holds that citizens have the right to access the documents and proceedings of the government to allow for effective public oversight

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