



## **WTO TWENTIETH ANNIVERSARY ACCESSIONS PROGRAMME**

### **SECOND GLOBAL SEMINAR ON WTO ACCESSIONS SAUDI ARABIA 10-YEAR WTO ACCESSION SPECIAL ANNIVERSARY SESSION ACCESSIONS BOOK LAUNCH BY WTO DIRECTOR-GENERAL ROBERTO AZEVÊDO**

*Statement by Uri Dadush, Senior Associate, Carnegie Endowment for International Peace*

#### *Key Note Speech*

**Geneva, Monday, 28 September 2015, 10:30 – 10:45, Room D**

1. Thank you Chiedu for that introduction, and for asking me to work with you on the book. We both know, and others should know that you did the hard work on it, you envisaged the book, commissioned the 49 chapters, followed through with the authors, co-authored or authored a large chunk of the chapters, and dealt with the publishers. My role in all this was comparatively minor. The modest contribution I made to the book, and what I hope to do in the next few minutes is to cast the eye of the outsider on the process of accessions and draw a few lessons.
2. My first reaction as I learnt about accessions many years ago was that the process was incredibly drawn-out, on average 10 years between Working Party Establishment and conclusion, and much longer in important instances, cumbersome, arbitrary and unwieldy. As a negotiation, it appears hopelessly unbalanced, with any of 160 countries able to stand in the way of accession unless some very specific interest is satisfied and cast into law as part of a document which can run into thousands of pages. Beyond the granting of accession, there is essentially no quid pro quo for the applicant, no change in the WTO acquis possible. Indeed, those who view trade from a narrow mercantilist perspective, or from the lawyer's ethos that pervades the WTO, have a case when they claim that the negotiation is unfair. All 32 Article 12 members (to end 2014, not including Seychelles and Kazakhstan) were classified by the WB as developing countries at the time their working party was established. Yet, in contrast to their expectation for preferential treatment, they ended up with far more rigorous obligations than existing members – lower tariffs, less water in their tariffs, wider binding coverage, more service commitments, a larger share of participant in the government procurement agreement, as well as WTO+ obligations various areas.



3. Of course the process of accession can be improved and streamlined; in chapter 1 we make some suggestions on how to do that. But the view that accession to the WTO is a fundamentally misguided process or even harmful to the aspirant Article 12 member is wrong. While the WTO rests on firm principles, such as transparency and non-discrimination, specific obligations and exceptions vary as a result of negotiations and this is true and has been true of everyone, established and new members. After all, countries choose to join the WTO. But the more important point is that while the mercantilist approach to accessions makes a lot of sense in a negotiating context (where you have to offset the interests of your exporters against those of your import-competing interests - and your counterparts have to do the same) it can also provide an exceptionally poor guide to a country's development interests. To take simple examples, as a negotiator for an Article 12 applicant you might view elimination of your energy or agricultural subsidies, or instituting open competition in government procurement as major concessions, yet you are probably doing your country a big favor. It is a fascinating feature of trade negotiations that this profound ambiguity runs through the whole spectrum of your activities.

4. This ambiguity is also why we resolved early on that we wanted the focus of the book to be on the welfare outcomes and not on the negotiating process. Specifically, we determined that the value of accessions should stand or fall on the answer to two questions: did they help the Article 12 country achieve better development outcomes? Did they strengthen the multilateral trading system? The answer we give to these questions, based on the book, is "yes" and "yes".

5. A recurring theme among the authors of this volume is that countries that undertook the most far-reaching trade reforms in the course of accession negotiations - either because they were so inclined, or because more was demanded of them, or both - tended to perform better than those for whom the process was much less demanding: acceding countries did better on various scores than the world average, and those acceding countries that undertook the most far-reaching commitments did even better. Without claiming causality - which is difficult to establish given the impossibility of controlled experiments - it is nevertheless worth noting that Article XII countries, including China, increased their share of world trade by 125% over 1995-2013. Excluding China, the share increase was 42%. The analysis by World Bank economists in Chapter 4 suggests that - as a group, excluding and including China - accession countries have done better in comparison to world averages not only with respect to trade but also foreign direct investment. They also saw improvements in credit ratings and various measures of policy and institutional strength.



6. Improved governance and application of the rule of law most likely played a significant role in affecting these outcomes. It turns out that WTO accession can provide the political push as well as useful instruments for governance reforms. Rules such as transparency, non-discrimination, and the necessity and scientific principles in standard setting, make rent-seeking more difficult. WTO agreements such as government procurement, which most accession countries agree to join, help address an area where rent-seeking or outright corruption is most prevalent.

7. The contributions by negotiators of Article XII countries in this volume give considerable weight to the security afforded by the WTO membership on access to foreign markets. Given that the WTO now covers almost 98% of world trade, that is as might be expected. However, the overall picture that emerges is one that places even greater importance on the domestic transformation required by WTO membership. Thus, while the 32 Article XII Members accepted approximately, 1,321 specific obligations that, pursuant to the WTO Accession Protocol are integral to the WTO Agreement, they also enacted approximately 7,106 WTO-consistent laws and associated implementing regulation across the principal areas of the foreign trade regime.

8. In the view of World Bank analysts "Applying for WTO membership signals the willingness of a government to undertake deep reforms regardless...when countries decide to join...they are already thinking of a reform process that is wider than the WTO itself".

9. Given the interplay of many factors, the correlation between WTO accession and favorable trade and investment outcomes hardly constitute definitive scientific proof that WTO accession has boosted the performance of Article XII countries. What can be said is that the correlation is consistent with the basic idea that making trade possible and predictable, and simultaneously embarking on domestic reforms that improve the business climate, will pay dividends in terms of increased productivity and living standards - an idea that provides the rationale for the existence of the WTO in the first place.

10. The World Bank findings are broadly consistent with the evolving consensus in the academic literature on the subject. I do not have time to delve into these, and I refer you to the extensive review of the literature in chapter 8 - let me just say now that recent studies also identify a substantial growth dividend in the wake of WTO accession, lasting some five years or so, but a dividend that is more pronounced in countries which undertook deeper reforms and more extensive WTO commitments.



11. On the second welfare aspect – the impact of accessions on the world trading system, the single most important point is that accessions have expanded market access and made it more predictable for both original and Article XII Members. Original members have seen the coverage of WTO disciplines apply to an additional 20% or so of their export market, while Article XII countries have gained secure access for the near totality of their trade for the first time. All WTO members benefit from this "network effect", making membership in the institution of greater value to all. This is a crucial beneficial effect of accessions but it is only a part of the story. Accessions have strengthened the multilateral trading system in three other quite distinct ways: by reinforcing the geopolitical underpinnings of the system; by embedding trade more firmly in reformed domestic laws in Article XII countries; and by adding to WTO law, clarifying and deepening existing rules and disciplines, and enabling "WTO plus" experimentation and innovation in many areas.

12. The world trading system does not operate in a vacuum – like all other forms of international cooperation it is conditioned by the core values and the geopolitical interests of its members. By facilitating the integration of economies with disparate economic systems at the end of the Cold War and accelerating the convergence of these systems, accessions have simultaneously helped improve the political understanding and the orderly international relations that must underpin trade.

13. The resilience of the world trading system, its resistance to protectionism, does not depend only on the international laws and regulations which govern its functioning, but also on the core values of the market economy, the acceptance of the rule of law and of good governance principles at home, in short, on the support afforded to it by the domestic legal and political systems of Members.

14. Although largely flying below the radar accessions have come to constitute one of the most active and continuously ongoing negotiating agendas of world trade. Their results are integral to WTO laws, and have been cited in close to 30 disputes, of which close to 20 have proceeded to Panel Stage.

15. In the process of negotiating accessions, many opportunities have arisen to test, apply, deepen and refine existing rules and disciplines, as well as to extend WTO rules and disciplines into new areas, so-called "WTO plus". Several of these areas have been the object of negotiation under the Doha Development Agenda, with little progress. I will mention a few salient examples.



16. *Trade in Services.* A striking feature of the services accession commitments has been the depth and range of domestic regulation-type disciplines which a number of acceding Members have undertaken. In heavily regulated sectors, such as financial services and telecommunication services, accession-specific services obligations have included, for example: a specific timeframe allowing foreign services providers; non-discriminatory treatment when regulatory changes occur; obligation of the acceding government to consult with Members on new regulations in a specific sector.

17. *Agriculture.* Most accession countries have bound their trade-distorting subsidies at close to zero. With a small number of exceptions, Article XII Members have also committed to bind their export subsidies at zero upon accession.

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19. *Rule-Making.* Accession results show that the majority of Article XII Members have undertaken commitments stating that sub-central or local government entities shall have no autonomous authority regarding subsidies, taxation, trade policy or any other measures covered by WTO provisions.

20. *Export Duties.* Nearly half of all Article XII Members have accepted accession-specific obligations on the application of export duties. The commitment by Montenegro stipulates that "from the date of accession, Montenegro would neither apply nor reintroduce any export duty." This commitment represents the strictest discipline on export duties to date in all Article XII accessions.

21. *State Enterprises.* Accessions have helped clarify the definition of "state trading enterprise". The China protocol stipulates that the Government undertakes not to "influence, directly or indirectly, commercial decisions [...], including on the quantity, value or country of origin of any goods purchased or sold". In some instances, Article XII Members undertook obligations either to limit or phase-out STEs.

22. Before I conclude, I would like to make one general policy recommendation which is not new but the findings of this book reinforce.



23. The WTO's much expanded and more diverse membership makes the conclusion traditional trade rounds even more problematic. As the membership expands and the agenda becomes more complex, a powerful case exists to have Members focus on a narrower agenda, placing greater focus on concluding plurilateral agreements under the auspices of the WTO. These issue-specific negotiations are more tractable, and can be led by a critical mass of members. Although overcoming the obstacles in the way of plurilateral agreements is not easy, it should be possible to expand their use through a combination of so-called side-payments to enlist the support of excluded members or reluctant participants, as well as by including provisions for preferential treatment to enlist the support of developing countries.

24. The successful conclusion of 32 accession negotiations, which require consensus of the whole WTO membership and are therefore not strictly speaking plurilateral, demonstrates that multilateral negotiations based on progressive layers of consultations around a well-defined issue and are low-key can yield results even if large all-encompassing trade rounds does not.

25. In conclusion, as the WTO turns 20 we believe that an important contribution of this volume is that – even as the Doha negotiations have stalled – the multilateral trading system has advanced impressively. The achievement of near-universal coverage of WTO rules and disciplines, has helped spur reforms among its Article XII Members, greatly enhanced the value of the institution to its original members, and also increased its gravitational pull on the relatively small number of countries that remain outside it. Meanwhile, trade has more than doubled as a share of world GDP over the last 2 generations, and the intensification of globalization, made possible in part by a rules-based system, further reinforces the importance of the WTO acquis. It also raises the stakes on the adoption of new multilateral rules and disciplines in the future. The next round of accessions, which will concern another two dozen countries will make another big contribution, but it is not enough.

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