WTO Accession: Tough Love or a Heavy Hand?

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Thirty-one countries from war-torn Afghanistan to Yemen are queued for membership in the World Trade Organization (WTO). Despite the disarray in the current Doha Round of trade talks and the growing number of regional and bilateral trade agreements being struck outside the WTO arena, few would-be members are ready to give up their place in line. The reasons officials give for staying in the queue range from improved market access for their exports to the positive signal — a seal of approval really — that WTO membership sends to the global trading and investment community.

“WTO accession provides a predictable business environment and gives a powerful guarantee to investors that there will be no policy reversals,” says Mamo Mihretu, an Ethiopian trade lawyer and consultant examining the impact of WTO accession for the Ethiopian government. Attracting foreign investors is critical to Ethiopia’s long-term strategy to boost exports to promote economic development and alleviate poverty. “WTO accession is one means of doing that,” says Mihretu.

To become a full-fledged WTO member, Ethiopia must negotiate a separate set of legally binding commitments with each member of its Working Party — the body created to consider would-be members’ applications. Any WTO member can join any Working Party and all Working Party members must approve the acceding country’s application.

Critics have long claimed that negotiating a unique entry cost for each new member leaves the accession process open to abuse by Working Party countries looking to gain a commercial advantage over would-be rivals.

“It seems paradoxical,” says Simon Evenett, Professor of International Trade and Economic Development at Switzerland’s University of St Gallen, “that an institution like the WTO, which describes itself as a rules-based organization, doesn’t have a rule on what price you have to pay to join it.”

The legal instruments outlining the accession process offer little guidance to acceding countries, stating simply that new members will be welcomed into the WTO on “terms to be agreed.”

The absence of standardized rules, says Evenett, fuels a steady stream of “hearsay, suspicion, and rumor,” including claims that the accession process is too costly and complex, takes longer to complete, subjects new applicants to tighter rules than existing WTO members obey, and ignores the human and financial constraints of developing countries.

To separate fact from fiction, Evenett drew upon a network of Southern and Northern researchers to examine the costs and benefits to developing countries of WTO accession. With support from Canada’s International Development Research Centre (IDRC) and Switzerland’s World Trade Institute Foundation, network members pored over the experience of the 20 countries that have joined the WTO since its creation in 1995.

Criticism warranted

The study results lend credence to critics’ charges that the accession process is becoming more onerous and costly.

“Since 1995, the time taken to become a full member has risen steadily and now stands at almost 10 years,” says Evenett.

So too has the price if the levels at which would-be members can set their tariffs — known as tariff bindings — are used as a proxy. Newer members are increasingly asked to set their tariff bindings at levels below the ceilings agreed to during earlier Uruguay Round trade negotiations. In other words, recent WTO members have opened their markets more fully to imported goods than did earlier entrants into the multilateral trading system. This has serious implications for local labour markets, especially in industries that must compete with imported goods and services in the local marketplace.

Then there are the “nonmarket access” rules new members must negotiate. Some, such as Jordan’s commitment to give international treaties precedence over any national laws or state acts, go well beyond commitments made during the Uruguay Round. Others may require an acceding country to forgo rights guaranteed to current WTO members. Ecuador, for example, agreed to eliminate all state subsidies before its date of accession and to never introduce them afterwards.

While critics maintain that these “WTO+” commitments and “WTO-” rights fly in the face of the organization’s founding principles of equal treatment and nondiscrimination for all members, Evenett is more guarded in his assessment. “To the extent that there are WTO+ and WTO- commitments, they have the potential for creating second class citizens within the WTO system.”

The real question, however, says Evenett, is not whether the price of accession is rising, but whether it is worth paying because of the positive development impacts of WTO membership. “If that is the case,” he says, “then demands made by WTO members — rich and poor — of acceding countries might simply be a case of ‘tough love.’ Otherwise, it’s simply a power play designed to wring commercial advantage out of weaker partners.”

Making the most of accession

Cambodia may be a minor player on the global garment scene, but the industry plays a critical role in the economy of this least developed country (LDC). According to the International Labour Organization (ILO), garment manufacturers account for almost 80% of Cambodia's exports, employ some 270 000 — mostly female — workers, and generate 12% of the country's Gross Domestic Product. Little wonder that Cambodian officials felt the need to act when the industry was threatened by the demise of the Multi-Fibre Agreement (MFA) in December 2004.

"Our exports are dominated by the garment industry and we knew that if we didn't shape up quickly, we were going to lose out to our big northern brother, China," says Sok Siphana, Secretary of State for the Ministry of Commerce, who shepherded Cambodia's WTO accession.
Under the MFA, Cambodia became a leading supplier of garments to the United States and, to a lesser extent, the European Union, growing an export market that didn't exist in 1994 to one worth US$1.9 billion eight years later.

The end of the MFA was "a strong motivating factor" in the government's decision to seek WTO accession in 1994, says the US-educated Siphana. So too was Cambodia's desire to leave behind its legacy of civil war and economic isolation. "The issue was not whether we should enter [the WTO] or not — we had no choice. But now that we have made the decision, how do we make the best of it?" asks Siphana. Cambodian officials made judicious use of technical assistance programs to define their negotiating priorities during the accession process and identify obstacles to implementing WTO rules.

"From the get-go we labeled our strategy as pro-poor," says Siphana. "We are very conscious, however, that a trade policy that brings growth will not automatically reduce poverty. There is a tenuous link between [trade] liberalization and poverty. So we kept our strategy simple: the more jobs we can create, the more we can reduce poverty."

To create jobs, Cambodia has faced some difficult tradeoffs. In 1999, for example, Cambodian trade negotiators obtained increased garment industry access to the lucrative US market by agreeing to tougher labour standards in manufacturing operations. The agreement to link market access and labour standards was roundly criticized by other LDCs that see the labour standard issue as thinly veiled protectionism – a less obvious means of limiting developing-country exports to Northern markets.
"We had demonstrations in front of the Ministry of Commerce and Labour for months," says Siphana. "Five years later it has proven to be the best risk we could have taken. We cannot compete for cheap labour against our bigger neighbours. Having core labour standards respected and the ILO as a guarantor will help us keep our market share by

attracting manufacturers selling to the high end garment market where corporate social responsibility is important."

For a poor country the size of Cambodia, market access is the key to attracting the foreign investment needed to create jobs, says Siphana. "The WTO accession process has become an overarching national framework to allow us to institute broader political and economic reforms that will open our economy and better integrate trade with development and poverty alleviation."

Cambodia's accession has its critics, however. Opponents state that Cambodian negotiators ignored the plight of the country's rural people who make a living from agriculture. International humanitarian agencies, such as OXFAM and Médecins Sans Frontières, maintain that WTO rules will limit access of Cambodia's HIV sufferers to cheaper generic drugs. Other LDCs claim that Cambodia has set a benchmark that is dangerously high for other poor nations seeking WTO membership.

"The WTO is not a panacea. There are costs and there are risks," says Siphana. "But if you look at the balance sheet, the pluses outweigh the minuses. We chose not to wait around and go with the pack even though we are a LDC. This is survival for us. When factories start closing, sympathy won't help us."

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