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WTO Negotiation and Accession Issues for Vulnerable Economies

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Abstract

The paper discusses the costs and benefits to be expected by least-developed and low-income ('vulnerable') economies if they accede to the WTO, the impact of current debates about WTO reform on vulnerable economies, and measures to make it easier for vulnerable economies to accede to and actively participate in the WTO. The main conclusion is that the benefits from WTO membership in terms of improved market access for traditional exports are likely to be limited. However, by submitting a wide range of trade-related policies to international scrutiny and by entering into binding commitments on the conduct of these policies, reform-oriented governments in vulnerable economies can make it more likely that their reforms will be successful.

Keywords: WTO accession issues for low-income LDCs

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Introduction

This paper examines the challenge posed to vulnerable economies by the growing importance of the WTO as the main regulatory system for world trade in goods and services. In line with the focus of the UNU/WIDER project, an economy is considered vulnerable if it is either least developed according to UNCTAD criteria or low-income [1] according to World Bank criteria (Murshed 1999). The accession of China (low-income but not least-developed) to the WTO raises special problems and is therefore not discussed here (see Anderson 1997 for a summary).

In an integrating world economy, sustainable economic growth in vulnerable economies (if and when it occurs) will be accompanied by growing exports of processed commodities or manufactures.[2] Secure market access for exports will therefore be more important than in the past, not least because contingent protection measures like countervailing duties and anti-dumping procedures are on the increase in major developed and developing countries. At the same time, experience suggests that the preferential market access still enjoyed by many vulnerable economies is likely to be eroded if and when their exports become more competitive, and they are 'graduated' upwards by the donors. All this points to a need for greater reliance on the multilateral rules of the WTO system, including the Dispute Settlement Mechanism.

At the same time, the cost of acceding to the WTO as well as the cost of actively participating in the organisation once countries have become members should not be underestimated. With the transition from GATT 1947 to the WTO Agreement, the range of issues covered by multilateral trade rules has expanded substantially (e.g. trade in services—GATS; trade-related intellectual property rights—TRIPS). Most of these new issues are of little relevance to improved export market access for vulnerable economies, while the implementation of the new rules involves a large administrative burden to them. This problem is particularly acute for those vulnerable economies that have been negotiating their accession to the WTO since 1995. Their trade-related policies are being scrutinised rather more closely than those of GATT 1947 members that became WTO members more or less automatically.

This paper first reviews the status of vulnerable economies *vis-à-vis* WTO membership (Section 2). Section 3 examines the benefits and costs of WTO membership. Section 4 discusses the impact of post-Seattle developments in the WTO on vulnerable economies, particularly the future of preferential market access. Section 5 looks at ways of reducing the cost of WTO membership to vulnerable economies, especially through technical assistance and extended implementation periods. Section 6 concludes.

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1 In the following, the abbreviation LIC is used for low income country and LLDC for least developed country.

2 See Ben-David, Nordström and Winters (2000) for a very recent survey of the link between openness and economic growth.

1 Country coverage: vulnerable economies and the WTO

Vulnerable economies constitute a large proportion of current non-members of the WTO. Among the 32 countries that had applied for WTO membership as of November 1999, five are both least developed and low-income (Cambodia, Lao People's Democratic Republic, Nepal, Sudan, and Bhutan); three island states are least developed but not low-income (Western Samoa, Vanuatu, and Cape Verde); and another five countries (Armenia, Azerbaijan, Moldova, China, and Vietnam) are low-income economies though not least-developed (Table 1). Of 29 countries and territories that have not applied for WTO membership, 9 are both least developed and low-income: Ethiopia, Yemen, Congo (Dem. Rep.; formerly Zaire), Eritrea, Liberia, Somalia, Comoros, Sao Tome and Principe, and Afghanistan. Kiribati and Tuvalu are least-developed but not low-income, and Tajikistan, Turkmenistan, and North Korea are low-income but not least developed.

At the same time, a total of 44 current WTO members are either least developed or low-income economies (Table 2). This observation suggests that, whatever the obstacles, WTO membership is not necessarily out of the reach of vulnerable countries. However, of these WTO members, only Mongolia and Kyrgyzstan (both low-income but not least developed economies) have joined the WTO since 1995 and have thus gone through the lengthy process of accession negotiations under the WTO (rather than GATT 1947) rules.

An overview of the state of accession negotiations of vulnerable economies by November 1999 (Table 3) yields large differences within the group. Three countries (Armenia, Moldova and Vanuatu) had reached the most advanced stage, i.e. the Draft Working Party Report, while half the candidates had not even gone through the substantive part of the process (questions and replies on the Memorandum and the documentation of all trade-related policies). In two cases, Cambodia and Sudan, the process was left pending for more than five years, obviously because of political reasons; whereas in the cases of Bhutan, Cape Verde, Lao PDR, and West Samoa, applications for membership were launched only in 1998 and 1999 so that it is still too early to expect much progress in negotiations.

2 Benefits and costs of WTO membership for vulnerable economies

2.1 Benefits

Among the candidates for WTO accession, all LDCs and LICs except Vietnam have small populations. Other common characteristics include remoteness (large economic distance) from major markets (island and landlocked states), reliance on a small number of export goods, mostly raw materials, weak administrative capacities, large economic and ecological vulnerability, lack of market-oriented institutional infrastructure, and political instability often compounded by civil disorder.

Given such characteristics, the gains from WTO membership seem to be small if they are assessed only in terms of improved market access for the traditional exports of LDCs and LICs. Raw materials mostly enjoy low or zero tariffs in OECD countries and supply bottlenecks on the LDC side (including inadequate transport facilities) seem to hamper export expansion more than policy-induced barriers on the demand side. Furthermore, although some raw material suppliers have been affected by anti-dumping (AD) procedures of major industrial countries, the LDCs are typically not price setters in the world markets of individual raw materials and therefore have not been targets of AD measures, quantitative restrictions, or other NTBs.

Nevertheless, there are a number of good reasons for LDCs and LICs to join the WTO. First, WTO membership implies binding commitments to reforms in all trade-related policies. As the domestic reform momentum is often weak, external commitments can help reform-minded governments to contain anti-reform coalitions. This is especially important in LDCs and LICs where vested interest groups often restrict access of private traders to so-called strategic resources, such as mineral commodities, fuels, maritime and touristic resources. Such groups collect monopoly rents from privileged access and often use resources inefficiently. By reducing the extent of state trading, these rents will be eroded.

Second, WTO membership, including the process of accession, leads to sizeable technical assistance in the form of training with respect to the legal framework of the multilateral trading system and its economic underpinnings. Such human capital is indispensable for building up institutional infrastructure, in particular for anchoring private property rights. The WTO is institutionally prepared and financially endowed to help LDCs and LICs to form human capital in trade policy formulation and trade diplomacy that can also be used for other legal issues (for details again see Langhammer and Lücke 2000).

Third, the WTO is a shelter against unilateral pressure from powerful import markets. It can make conflicts transparent and offers “good office” services embodied into the legalised dispute settlement procedure. Powerful members may be deterred from exerting unilateral pressure once the small country can publicise conflicts within the WTO. Powerful members include not only OECD countries. Countries like Bhutan and Nepal or Cambodia and Lao PDR strongly depend on economically powerful neighbours like India and Thailand, both as transit countries and trading partners.

Fourth, WTO membership encourages LDCs and LICs to open their domestic markets even if they can take a free ride under “special and differential treatment” for a certain period. Apart from the medium-term allocative efficiency gains of import market opening in terms of lowering the implicit tax on exports and stimulating resource reallocation and export diversification, import market opening implies a concrete short-term gain: domestic prices of imports will often fall by more than the decline in import tariffs. It is well-known from the experience of Sub-Saharan Africa (Yeats 1990) that countries with high tariff levels also pay higher cif-prices for imports because restrictive tariff regimes are inextricably intertwined with rent-seeking activities of traders and domestic producers (if the latter exist).

Fifth, WTO membership will make domestic regulations more transparent to potential foreign direct investors and will enforce non-discrimination and national treatment. This may help to attract foreign direct investment even if institutional barriers are not the only (and perhaps not even the most important) impediment to private risk capital inflows.

To sum up, at first glance and given the existing export profile of LDCs and LICs, WTO membership does not seem overly urgent for them. Yet, this misses the point. Exactly because LDCs and LICs suffer from deep structural and natural barriers to international market integration, WTO membership (unlike GATT membership) can carry important positive indirect effects for human capital formation, institution building and structural reforms. By applying for membership and by actively participating in the various accession procedures, LDC and LICs governments can signal their willingness, in principle, to implement economic reforms.

2.2 Costs

Membership in the WTO is not costless. First, sovereignty is curtailed and short-term manoeuvring in trade-related policies is discouraged and also restricted, even for developing economies that invoke special and differential treatment. Politicians and interest groups who are used to acting selfishly will take the political cost involved in 'tying their hand' seriously.

Second, there are economic costs in terms of the opportunity costs of employing high-skilled personnel for the implementation of WTO commitments and active participation in WTO negotiations. Using this particularly scarce resource—provided it is available—in Geneva precludes its use at home and in other activities, perhaps including the private sector. During GATT times, the performance of skilled personnel playing in the 'theatre of trade diplomacy' was often belittled. Today, under the WTO with its multifaceted tasks to secure market access rather than only trade liberalisation, there is every reason not to belittle active participation in WTO negotiations. Although training facilities are provided through external technical assistance especially for personnel from vulnerable economies (see below), the true opportunity costs arise in the aftermath of training when such personnel could likewise be employed productively in other activities. The proposal to economise on scarce human resources by bundling them regionally among several developing country partners encounters a lack of political will on the part of governments to surrender national sovereignty.

Third, a more liberal trade regime encouraged by WTO membership may expose companies in vulnerable economies to stronger competition from abroad, often from more advanced developing member states rather than from OECD countries. The result may be a short-term deterioration of the current account since higher imports due to market opening materialise faster than higher exports due to improved market access abroad. The external vulnerability of countries may thus be aggravated if the time lag between the two effects cannot be shortened. Yet, the positive experience of vulnerable economies in the WTO (for instance, recently with Mozambique until the February-March 2000 natural disaster) suggests that even these countries can benefit in the short run from market opening and rationalisation of the trade regime. In any case, vulnerable economies can resort to long adjustment periods as they accede to the WTO.

Fourth, the fiscal costs of reducing import tariffs may be significant because taxes on international transactions are a major source of government revenue in many LDCs and LICs. This may be less of an issue in the early stages of trade liberalisation when non-tariff barriers are tariffied and prohibitive tariffs are lowered and imports increase. In the medium to long run, however, substantial reductions in average tariff rates require a broadening of governments' tax bases. In the meantime, vulnerable economies may need to concentrate on reducing the dispersion of tariff protection across commodity groups in order to eliminate the resulting distortions, while reductions in the average level of protection remain limited by fiscal considerations.

Ultimately, it is the opportunity cost element of employing high-skilled personnel to deal with WTO matters which governments of vulnerable economies have to assess. Experience shows that during the GATT period, governments rated these costs as prohibitively high, and thus refrained from participation not least because the so-called principal supplier rule[3] practically excluded them from level playing field negotiations with the large trading partners. It was only during the Uruguay Round that vulnerable economies began to regard the advantages of participating in negotiations more positively. With the foundation of the WTO, this trend will continue, though very poor countries are likely to remain at the taillight of negotiations simply because of shortages of personnel.

3 Current trends in the multilateral trading system and vulnerable economies

3.1 Asymmetric benefits from future trade liberalisation?

The fear has been expressed that the benefits from further trade liberalisation will be skewed towards Northern countries. For example, industrialised countries are dragging their feet over their commitment to liberalise their imports of textiles and clothing; some vulnerable economies are important suppliers of these goods. Some extensions of the GATT 1947 framework in the Uruguay Round, especially to trade in services (GATS) and trade-related intellectual property rights (TRIPS Agreement), are likely to benefit Northern firms far more than Southern firms. Demands for minimum standards for labour and environmental protection could burden Southern countries in general and vulnerable economies in particular with short-term adjustment costs and perhaps even losses in net export revenues. The latter could arise not only because of declining exports but also because more expensive imported capital goods may be needed to meet environment standards.

However, a strong point in favour of vulnerable economies is that such changes in the WTO system cannot be implemented against their wishes because of the consensus principle for decisions in the WTO. For the time being, developing economies are united in opposing such changes, and the accession of vulnerable economies to the WTO can be expected to strengthen their position.

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[3] Under the principal supplier rule, only those partner countries negotiate with each other which can expect the largest counter concessions in exchange for their own concessions. Typically, these were the US, EU, Japan. Such a mercantilist view virtually excludes small countries from trade negotiations, whose outcomes are only extended to them indirectly through the MFN clause.

3.2 The future of preferential market access for vulnerable economies

For many years, LDCs and LICs have enjoyed non-reciprocal preferences, and free-rider entitlements, under the multilateral trading system as well as under regional schemes and bilateral initiatives.

As concerns the *multilateral system*, GATT 1947, influenced by the theoretical underpinnings of the infant industry argument, allowed developing countries to deviate from GATT principles in their trade policies in order to promote their economic development (Art 18, Part IV of GATT 1947). Furthermore, under the Enabling Clause of 1979 agreed during the Tokyo Round, developing countries were granted special and differential treatment in almost all aspects of trade policies, including regional preferential arrangements that fell short of the requirements of Art 24 of GATT 1947 and also allowed longer implementation periods than for industrialised economies.

More recently, multilateral trade negotiations have sought to focus special and differential treatment on the poorest countries. In the Uruguay Round, developing countries were segmented into ‘ordinary’ developing countries and LDCs, with the intention to ‘graduate’ and eventually merge the former group with the industrialised countries and to confine special treatment to the LDCs only. Consequently, different implementation periods for Uruguay Round commitments were agreed upon for industrialised, developing and least developed countries.

Unilateral generalised preference schemes of individual OECD countries (the so-called GSP), which were designed to facilitate developing countries’ market access in processed goods, were integrated into the multilateral system through a long-term waiver. Again, LDCs were given special attention in that they were exempted from reforms that tightened GSP schemes in various OECD countries, for instance in the EU. Similar to the approach in the Uruguay Round agreements, these reforms reduced the number of countries eligible for the GSP and restricted preferences to the poorest countries.

As regards *regional preferences*, the two most important schemes for many years have been the 1984 Caribbean Basin Initiative of the US operating under a waiver from GATT 1947 and the EU-ACP Agreement (Lomé Convention). The latter provides extended preferences for the LDCs among the ACP members. The Fourth Lomé Convention expired in February 2000 and has been re-negotiated. In the Uruguay Round, WTO members had agreed to monitor the mushrooming of preferential trading arrangements all over the world and submit existing and new arrangements to stricter WTO discipline and streamlining. Therefore, the EU proposed a long preparation (8 years) and implementation period (12 years) toward so-called regional economic partnership zones which *de facto* would be free trade agreements between the EU and sub-regions of the ACP group. LDCs among the ACP group which are not prepared to join a partnership zone would be free to opt out.

Notwithstanding the agreement between the EU and the ACP members, reluctance to follow the EU proposals seems wide-spread among all ACP countries mainly for two reasons. First, ACP governments would lose import tariff revenues because preferences would be reciprocal (Wang and Winters 1998). Second, under reciprocal preferences ACP industries will be exposed to tougher competition from EU industries. Interestingly, the revision of the ACP Agreement has also created a conflict of interest between ACP LDCs and non-ACP LDCs since all LDC exports are eligible for duty-free entry into the EU from 2004 onward. To sustain their privileged position, ACP LDCs have requested compensation for the erosion of their preferences relative to non-ACP LDCs.

This request demonstrates two fundamental weaknesses of many current preference schemes. First, they are often looked upon as instruments for diverting rather than generating trade. This view seriously underrates the welfare-reducing effects of trade diversion. Second, as preferences include a grant element and thus can be seen as a substitute for aid, they give rise to a sense of entitlement and to a clientelist donor-recipient relationship which flies in the face of those who favour partnership on an equal footing.

Bilateral preference schemes other than the GSP, such as those between the EU and individual Mediterranean countries, face the same fundamental challenges as multilateral and regional preferences: they are threatened by erosion due to the decline of MFN barriers and they are becoming subject to stricter screening with respect to their consistency with WTO rules.

Overall, the trend towards integrating regional and bilateral trade preferences into the multilateral system and thus making the former redundant is clear. Although LDCs will probably be the last group of WTO members to be graduated, the substitution of multilateral for regional and bilateral preferences could become a reality for them quite soon if WTO members agree on the proposed elimination of tariffs on all imports from LDCs. On the one hand, this could spur the WTO accession negotiations of those LDCs that are not yet WTO members in an effort to benefit from the tariff cuts. On the other hand, if such concessions were extended to all LDCs whether or not they are WTO members, efforts to complete the accession process could be discouraged.

Irrespective of the pace at which regional and bilateral preferences are replaced by multilateral preferences, the effectiveness of preference schemes generally in fostering economic growth appears doubtful. LDCs and LICs were granted the most generous and open-ended preferences in the sense that they stood at the peak of the ‘pyramid of preferences’ in EU and US non-reciprocal concessions (Stevens 1997). However, Harry Johnson’s (1967) early critique, based on the ‘protectionist (trade diverting) view on preferences’, suggests that the generosity of donors went hand-in-hand either with trade diversion or with the inability of beneficiaries to transform preferences into export expansion. It is most likely that donors were fully aware of the low net trade effects and low adjustment pressure on domestic industries when they decided on the extent of their generosity. In fact, any preferences granted would probably have been curtailed if beneficiary countries had become significantly more competitive.

This sober assessment has empirical evidence on its side. Since the early 1970s, the share of LDCs and LICs in world trade of non-traditional products has remained negligible; the ACP countries’ in extra-EU imports even declined from about 7 per cent in the mid-1970s to less than 3 per cent in the mid-1990s. It is of course possible to argue that they did not benefit from preferences because of the low preference margins for commodities which still constitute their main exports (and traditionally face low MFN tariffs). However, this is only half of the story: Even for identical primary commodities, suppliers in African LDCs and LICs performed worse than competing suppliers (Sharer 1998).

Furthermore, one needs to ask why preferential treatment did not contribute to export diversification. Many of the poorest countries, by relying on the infant industry argument, injected sizeable inefficiencies into their economies exactly by insisting on high border barriers. Sub-Saharan African countries, for instance, have been identified as being particularly reluctant to contribute actively to the multilateral negotiations in the Uruguay Round (Sorsa 1996, IMF 1998). Inefficiencies behind high border barriers were carried forward through domestic prices decoupled from world market prices, excess capacities in highly protected import substitution industries, mismatch between resource endowment and resource absorption in protected industries, low net foreign exchange savings (or foreign exchange generation, respectively), and overvalued exchange rates.

This is not to deny that external vulnerability coupled with ecological disadvantages and inadequate infrastructure has also contributed to the disappointing export performance of LDCs and LICs. However, the implicit taxation of exports through import substitution strategies would have impeded export expansion even if infrastructure bottlenecks had been removed through external assistance. Hence, supply-side inefficiencies prevented the countries from using their relatively easy access to industrialised markets.

In sum, while anchoring preferences in the WTO framework[4] has the advantage, compared with bilateral or regional schemes, of making them binding on all partners, such anchoring does not guarantee their effectiveness. This qualification is necessary because the infant industry argument as well as special and differential treatment still remain integral to the multilateral trading system.[5] It is obvious that many LDC and LIC governments do not yet appreciate how costly special treatment can be; hence, they believe that regional preferences (such as the clientelist EU-ACP Agreement) should be preserved and that stricter WTO discipline imposed upon regional preference schemes is detrimental to them. Such beliefs can only be overcome if domestic policy reforms enable LDCs to reap the gains from international integration. Without domestic reforms, LDCs and LICs will remain trapped in misleading perceptions of international integration as a zero-sum game.

4 Facilitating WTO accession for vulnerable economies

4.1 Technical assistance with negotiations

In recent years, various assistance programmes have been initiated by the multilateral organisations to help government officials in vulnerable economies understand and apply the rules of the game in multilateral trade negotiations. Programmes designed

4 Under the principal supplier rule, only those partner countries negotiate with each other which can expect the largest counter concessions in exchange for their own concessions. Typically, these were the US, EU, Japan. Such a mercantilist view virtually excludes small countries from trade negotiations, whose outcomes are only extended to them indirectly through the MFN clause.

5 On Special and Differential Treatment, see Fukasaku (2000).

jointly by the UN organisations, Bretton Woods institutions, and the WTO have been funded by bilateral and multilateral donors. Such assistance is urgently needed in order to bridge the gap between the critical lack of manpower in trade diplomacy in vulnerable economies and the stock of expertise and knowledge which is required to defend country interests in increasingly sophisticated negotiations.[6]

Two major support schemes are especially worth mentioning. First, selected vulnerable African economies who are already WTO members can benefit from a Joint Integrated Technical Assistance Programme to Selected Least Developed and Other African Countries operated by the ITC, UNCTAD and the WTO. This programme has been funded by the three institutions and thirteen donor countries which set up a Common Trust Fund. The main objectives are to establish national capacity to understand the WTO Agreements and their implications for the country, to bring policy and regulatory framework into conformity with the Agreements and to improve the country's capacity to take advantage of the Agreements through improved export readiness. By early 2000, four African LDCs (Benin, Burkina Faso, Tanzania and Uganda) and three LICs (Ghana, Ivory Coast, Kenya) together with Tunisia had participated in the programme.

Second, there is the "Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries" which is open to accession candidates. It is funded by the UN Organisations (UNCTAD, UNDP), the ITC, the two Bretton Woods Institutions and the WTO. The WTO module is targeted toward enabling officials from the accession candidates to attend WTO trade policy courses and to identify major stumbling blocs in physical and institutional infrastructure against export expansion and toward an allocatively efficient trade policy.

In the case of Bhutan, for instance, the WTO invited officials to attend trade policy courses and asked them to articulate the specific needs for support in training in a question-and-response-catalogue.[7] The result was a mixture of general adjustment issues (such as privatisation), marketing, institution-building, and links between the state and the private sector in the financing of physical infrastructure (to overcome the remoteness factor). These issues were mainly directed at the financing institutions rather than the WTO. Except for tariffs and import licensing, the Bhutan authorities provided little information on other trade-related policies such as those affected by the TRIMS, GATS and TRIPS Agreements. This may either demonstrate a lack of awareness or the non-existence of well-defined national policies in these areas.

Against the background of this country example, it is not surprising that an evaluation of the Integrated Framework by the donor organisations in mid-2000 finds that the programme has been largely ineffectual (BRIDGES Weekly Trade Digest, Vol. 4/2000, #25). While many beneficiary governments primarily looked upon the programme as a channel for obtaining additional aid for infrastructure development, donors emphasised technical assistance for policy formulation. Furthermore, donor organisations with different institutional mandates often disagreed about the approach to be pursued by the

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6 Quite often, the assistance required is of a rather basic nature. For example, the WTO has provided five LLDCs in the process of accession with a reference centre with computer hard- and software, a link to the internet and training in the use of this technology [WTO, WT/ACC/7/Rev. 1, 1999:31].

7 See internet address http://www.ldcs.org/bhutan

Framework. Because of the continuing need for technical assistance, the report recommends nevertheless that the programme be continued under the management of a single institution (the WTO) in order to achieve a better focus.

4.2 Clarifying developing or least developed country status

The availability of special and differential treatment under WTO rules raises the question of exactly which countries should benefit from it (the recent drive towards graduating advanced developing countries notwithstanding). The need to concentrate special treatment (such as the elimination of import tariffs on all LDC exports) on the poorest and most disadvantaged countries inevitably opens a Pandora's box of differentiation and discrimination. Quite clearly, the transition from poorest to poor to less poor countries is a gradual process: in 1997, the 49th country from the bottom was not very much better off than the 48 LDCs on average.

Until 1990, eligibility for treatment as an LDC depended only on per capita income, the industry share in GDP and the literacy rate. In 1991, these were replaced by a more comprehensive set of criteria in order to account for long-term structural vulnerability and low levels of human resource development. Apart from GDP per capita and a maximum number of inhabitants, the new criteria include a so-called 'augmented physical quality of life index' APQLI, which is a composite index of life expectancy, calorie intake per capita, school enrolment ratios for primary and secondary schools, and the adult literacy rate. An 'economic diversification index' EDI is based on the industry-GDP ratio, industrial employment, export orientation, and per capita electricity consumption. ODA-GDP ratios, vulnerability to natural disasters, access to open seas and population size of less than 1 million are additional criteria. Upper limits for each of the four criteria must not be exceeded, but there is flexibility concerning individual countries facing particularly difficult conditions. The essential criteria are EDI and APQLI; once both threshold levels are exceeded, a country may lose its LDC status even if its per capita GDP remains below the threshold level.

The new criteria are dynamic rather than static and point straight to the vulnerability aspect. Criteria directly addressing trade capacity such as export orientation (as part of the EDI) as well as indirect criteria such as a backward economic structure and low quality of human capital (deficiencies in literacy and nutrition) suggest, on the one hand, that these countries need special support in order to benefit from a rules-based world trading system.

On the other hand, countries with low scores on most of these criteria have failed to exploit their trade potential. Their exports are still dominated by primary commodities; they suffer from natural disadvantages and poor international market networking. For them, WTO membership is a necessary but not a sufficient condition for better participation in world trade. It is their trade potential rather than their current trade structure which makes WTO membership valuable to them. Without WTO membership and other international commitments, the momentum for economic policy reforms would be likely to remain weak.

Nevertheless, as conditions in many LICs are quite similar to LDCs, it is absolutely vital that institutional support is not confined to the LDCs in order not to drive an unreasonable wedge between the two groups. It is the advantage of the new, more flexible criteria that they focus on volatility and vulnerability rather than static measures of poverty. This should enable WTO members to define the borderline between the two groups less stringently.

5 Conclusion: to join or not to join the WTO?

Viewed from the current state of the integration of LDCs and LICs into the world economy, one might be inclined to call their accession to the WTO symbolic. This view would be based on the presumption that

- given their current export structure, market access for their exports cannot be significantly improved by WTO accession;
- they have only few interests in non-GATT related issues such as services, TRIPs or TRIMs and thus are GATT- rather than WTO-oriented;
- they will continue to rely on the MFN clause rather than actively participate in WTO negotiations, due to lack of personnel and the high opportunity costs of posting personnel permanently in Geneva;
- they cannot influence WTO negotiations in a specific way due to their heterogeneity;
- the aspiration of the WTO to be taken seriously as the first universal rule-setting multilateral institution does not depend on whether some or all vulnerable economies become members.

This view relies both on past evidence about the limited role played by vulnerable economies in the multilateral trading system and on an extrapolation of a GATT-type setting into the WTO era. Both points of departure, however, must be questioned. First, many representatives of vulnerable economies see themselves either as victims of globalisation or as outcasts that are bypassed by it. At the same time, they recognise that globalisation calls for a wider set of global rules if cross-border externalities increase in importance and if they themselves are mainly affected by negative externalities. The only way to influence the setting of global trade rules is through membership and participation in the WTO.

Of course, the trend of being bypassed by foreign direct investment, for instance, cannot be corrected by WTO membership only. However, membership plus participation would send an important signal to capital markets that a country is serious about reforming its trade-related policies to the point of the government tying their hands by entering into internationally monitored obligations. This approach can reduce that part of economic vulnerability that is due to domestic policy volatility. At the same time, this approach will only be successful if a country “owns” its reforms in the sense of assuming full responsibility for implementing them.

Second, the WTO, rightly or wrongly, is increasingly moving into territory not previously covered by GATT 1947. A recent example is the so-called precautionary principle: When future damages associated with the production or consumption of a good cannot be assessed today, such uncertainty (as distinct from risk) constitutes a legitimate reason to intervene in trade. Conservation of biosphere and biodiversity, protection of human and animal resources as well as good governance are already elements of multilateral treaties and impact upon trade and access conditions. Vulnerable economies are often threatened by depletion of their human, natural and physical capital stock. Hence, they are strongly affected by the new issues entering the WTO either directly or indirectly via the question of coherence between the WTO and other multilateral agreements.

WTO membership and participation should therefore be part of all efforts to create a greater momentum for economic development in vulnerable economies. When financial or personnel shortages are the main reason holding countries back from WTO accession or participation, public external assistance for this process will doubtless yield a high return.

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Table 1
Countries Not Currently Members of the WTO (as of June 2000)[a]

Countries	Population (million) 1997	GNP per capita 1997[b]	Least developed (UNCTAD)	Low-income (1998 WDI)	ACP (LL: as LDC)	Diplomatic representative to international organisations in Geneva (April 1999)
Current applicants						
CIS countries						
Armenia	3.8	560	no	yes		yes
Azerbaijan	7.6	510	no	yes		yes
Belarus	10.3	2150				yes
Kazakhstan	15.8	1350				yes
Moldova	4.3	460	no	yes		yes
Russian Federation	147.3	2680				yes
Ukraine	50.7	1040				yes
Uzbekistan	23.7	1020				no
Other transition countries						
Albania	3.3	760				yes
Bosnia and Herzegowina	2.3	c				yes
Cambodia	10.5	300	yes	yes		no
China	1227.2	860	no	yes		yes
Croatia	4.8	4060				yes
Estonia	1.5	3360				yes
Lao PDR	4.8	400	yes	yes		no
Lithuania	3.7	2260				yes
Macedonia, FYR	2.0	1100				yes
Vietnam	76.7	310	no	yes		yes
Other countries						
Algeria	29.3	1500				yes
Andorra	0.1	e				no
Bhutan	0.7	430	yes	yes		yes
Cape Verde	0.4	1090	yes	no	yes -LL	yes
Lebanon	4.1	3350				yes
Nepal	22.3	220	yes	yes		yes
Oman	2.3	d				yes
(Western) Samoa	0.2	1140	yes	no	yes-LL	no
Saudi Arabia	20.1	7150				yes
Seychelles	0.1	6910			yes	no
Sudan	27.7	290	yes	yes	yes-LL	yes
Taiwan	26.1	13559				n.a.
Tonga	0.1	1810			yes-LL	no
Vanuatu	0.2	1340	yes	no	yes-LL	no
Observers, non-applicants						
Ethiopia	59.8	110	yes	yes	yes-LL	yes
Holy See (Vatican)	Na	Na				yes

Table 1 (continued)

Countries	Population (million) 1997	GDP per capita 1997[b]	Least developed (UNCTAD)	Low-income (1998 WDI)	ACP (LL: as LDC)	Diplomatic representative to international organisations in Geneva (April 1999)
Non-observers, non-applicants						
Middle East						
Iran	60.9	1780				yes
Iraq	21.8	g				yes
Libya	5.2	d				yes
Syria	14.9	1120				yes
Yemen	16.1	270	yes	yes		yes
Africa						
DR of Congo (formerly Zaire)	46.7	110	yes	yes	yes-LL	yes
Equatorial Guinea	0.4	1060	yes	no	yes-LL	no
Eritrea	3.8	230	yes	yes	yes-LL	no
Liberia	2.9	c	yes	yes	yes-LL	yes
Somalia	8.8	c	yes	yes	yes-LL	yes
European and Asian transition economies						
Fed. Rep. of Yugoslavia	10.6	g				yes
Tajikistan	6.0	330	no	yes		no
Turkmenistan	4.7	640	no	yes		no
Island Economies						
Bahamas	0.3	e			yes	no
Bermuda	0.1	e				no
Cayman Islands		e				no
Comoros	0.5	400	yes	yes	yes-LL	no
Federated States of Micronesia	0.1	1920				no
Kiribati	0.1	910	yes	no	yes-LL	no
Marshall Islands	0.1	1610				no
Sao Tome and Principe	0.1	290	yes	yes	yes-LL	no
Tuvalu			yes	no	yes-LL	no
Other countries and territories						
Afghanistan	25.0	c	yes	yes		yes
North Korea	22.9	g	no	yes		yes
West Bank & Gaza	2.6	g				yes

Sources: World Trade Organisation for WTO membership (http://www.wto.org/wto/about/organsn6.htm); World Bank, World Development Indicators 1998 for low-income classification (http://www.worldbank.org/data/databytopic/class.htm); UNCTAD website for LDC classification (http://www.unctad.org/en/subsites/ldcs/country/sub1.htm); Geneva Networld for diplomatic representation (http://www.geneva.ch/missions.htm); Kennan and Stevens (1997) for list of ACP countries; Taiwan National Statistics (http://www.stat.gov.tw

Notes: (a) In addition to the countries listed in this table, the status of many dependent territories is not entirely clear (e.g. Greenland, Falkland Islands, Channel Islands, French overseas departments). However, this is of little relevance to the present paper because these territories are not normally low-income areas.

(b) World Bank Atlas method except for Taiwan.

(c) estimated to be low income ($785).

(d) estimated to be upper middle income ($3126 to $9655).

(e) estimated to be high income ($9656).

(g) estimated to be lower middle income ($786 to $3125).

Table 2

Least Developed or Low-income WTO Members (as of June 2000)

Countries	Population (million) 1997	GDP per capita 1997 (World Bank Atlas method)	Least developed (UNCTAD)	Low-income (1998 WDI)	ACP (LL: as LDC)	Diplomatic representative to international organisations in Geneva (April 1999)
East and Southern Africa						
Angola	11.7	260	yes	yes	yes-LL	yes
Burundi	6.4	140	yes	yes	yes-LL	yes
Djibouti	0.6	G	yes	no	yes-LL	no
Kenya	28.6	340	no	yes	yes	yes
Lesotho	2.0	680	yes	yes	yes-LL	no
Madagascar	14.1	250	yes	yes	yes-LL	yes
Malawi	10.3	210	yes	yes	yes-LL	no
Mozambique	16.6	140	yes	yes	yes-LL	yes
Rwanda	7.9	210	yes	yes	yes-LL	yes
Tanzania	31.3	210	yes	yes	yes-LL	yes
Uganda	20.3	330	yes	yes	yes-LL	yes
Zambia	9.4	370	yes	yes	yes-LL	yes
Zimbabwe	11.5	720	no	yes	yes	yes
West Africa						
Benin	5.8	380	yes	yes	yes-LL	no
Burkina Fasu	10.5	250	yes	yes	yes-LL	no
Cameroon	13.9	620	no	yes	yes	yes
Central African Rep.	3.4	320	yes	yes	yes-LL	no
Chad	7.2	230	yes	yes	yes-LL	no
Congo	2.7	670	no	yes	yes	yes
Côte d'Ivoire	14.2	710	no	yes	yes	no
Gambia	1.2	340	yes	yes	yes-LL	yes
Ghana	18	390	no	yes	yes	yes
Guinea	6.9	550	yes	yes	yes-LL	yes
Guinea-Bissau	1.1	230	yes	yes	yes-LL	no
Mali	10.3	260	yes	yes	yes-LL	no
Mauritania	2.5	440	yes	yes	yes-LL	no
Niger	9.8	200	yes	yes	yes-LL	no
Nigeria	117.9	280	no	yes	yes	yes
Senegal	8.8	540	no	yes	yes	yes
Sierra Leone	4.7	160	yes	yes	yes-LL	no
Togo	4.3	340	yes	yes	yes-LL	no
East Asia and Pacific						
Indonesia	200.4	1110	no	yes		yes
Mongolia	2.5	390	no	yes		yes
Myanmar	43.9	c	yes	yes		yes
Solomon Islands	0.4	870	yes	no	yes-LL	no

Table 2 (continued)

South Asia						
Bangladesh	123.6	360	yes	yes		yes
India	962.4	370	no	yes		yes
Maldives	0.3	1180	yes	no		no
Pakistan	128.5	500	no	yes		yes
Sri Lanka	18.6	800	no	yes		yes
Europe and Central Asia						
Kyrgyzstan	4.6	480	no	yes		yes
Americas						
Haiti	7.5	380	yes	yes	yes-LL	yes
Honduras	6.0	740	no	yes		yes
Nicaragua	4.7	410	no	yes		yes

Sources: as for Table 1.

Table 3

State of Accession of Vulnerable Economies (as of November 1999)

Accession candidates	Application received	Working Party established	Memorandum	Questions and replies	Documentation (other)	Negotiations on goods & services	Draft Working Party Report
Armenia	November 1993	December 1993	April 1995	September 1995	1996-1999	1999	August 1999
Azerbaijan	June 1997	July 1997	April 1999				
Bhutan	October 1999						
Cambodia	December 1994	December 1994	June 1999				
Cap Verde	November 1999						
Lao PDR	February 1998						
Moldova	November 1993	December 1993	September 1996	May 1997	1997-1999	1998-1999	October 1999
Nepal	May 1989	June 1989	February 1990; September 1998	June 1999	1998-1999		
West Samoa	April 1998	July 1998					
Sudan	October 1994	October 1994	January 1999				
Vanuatu	July 1995	July 1995	November 1995	May 1996	1997-1998	1997-1999	November 1999
Vietnam	January 1995	January 1995	September 1996	March 1998	1998-1999		

Source: WTO Document WT/ACC/7/Rev. 1.

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