

# WTO Accession: Economic Impacts on Agriculture



Will Martin  
World Bank

13 March, 2012

# Roadmap



- Why join the WTO?
- The accession process
- What accession agreements involve
- Assessing the economic impacts?



Why join the WTO?

# Why join the WTO?



- Access to export markets
  - Some possibility of market opening
  - Access to dispute settlement to keep markets open
  - Opportunities to press for market opening in future
- Restrict the ability of domestic special interests to obtain protection
- Reform trade policies
- Diplomatic participation



# The Accession Process

# Some views



- Unfair, one-sided process
- Eye-popping concessions
- Too slow and cumbersome
- Helpful for promoting reform

# Questions



- Why the fuss?
  - Aren't the procedures basically those of GATT?
  - no one complained about them.
- What would be a desirable outcome?
- What changes are occurring?

# Procedures



- Article XII: “Any state or customs territory..... may accede....., on terms to be agreed between it & WTO.”
- Surprising absence of rules for a rule-based organization
  - Largely a one-way negotiation
    - § Acceding ctry can't ask for concessions from members
  - Existing members may seek additional rights

# Accession Process



- Request for accession
- Establishment of Working Party
- Memorandum on the foreign trade regime
- Multilateral meetings
  - Questions/answers ➤ terms and conditions
- Bilateral negotiations
- Protocol of accession/report of the working party
- Approval and ratification

# 2 minor Changes from GATT



- Under GATT an existing member could not threaten non-application of the agreement if it had had bilateral negotiations
  - Can now shape the best offer, and still threaten non-application
- Many existing members entered as former colonies with no review of trade policies
  - One reason for the economic finding
    - § GATT membership historically did not promote developing country trade

# More interest in participation



- For some countries– especially China and Viet Nam, abolition of the textile/clothing quotas was enormously important
  - MFA imposed these on WTO members & non-members, but abolition only for GATT members
- Stronger market orientation in developing countries
  - Protection down more than in developed cttries
  - Developing countries want to influence rules



What agreements involve

# Types of commitments



- Statements of fact
- Obligations to abide by existing rules
- Obligations to abide by rules created in the agreement (WTO plus)
- Obligations to not have recourse to WTO provisions (WTO minus)
- Transitional periods
- Permission for others to violate WTO rules

# Accession and Rules



- Non-discrimination between suppliers
  - & between domestic & imported goods
- Tariffs subject to tariff bindings
- Uniform administration and transparency
- Abolition of nontariff barriers
- Abolition of Trade-Related Investment Measures (TRIMs)
- Trade-Related Intellectual Property Rights

# Other Key Features



- Possible state trading for key agricultural products
- Possible tariff-rate-quota regime for some agricultural imports
- Disciplines on agric domestic support
- Disciplines on agricultural export subsidies
- Anti-dumping & related measures must be applied consistent with WTO rules

# Trade policies consistent with WTO



- WTO rules assume a market economy
  - Tariffs affect only revenues in planned economies
- For transition economies, often need major institutional reforms to move to a market economy
  - Frequently stimulates major legal reforms
    - § Eg China's removal of restrictions on entry to exporting
  - Insistence on implementation before entry can cause delays
    - § 2002 agreement on LDCs permits use of plans

# Positive vs Negative Integration



- Most GATT disciplines are negative integration
  - No nontariff barriers, tariffs only
  - Tariffs can't exceed a limit
- WTO brought many positive integration rules
  - Customs valuation, Trade-related intellectual property rights must be done in particular ways
  - Positive integration often more difficult for poorer countries

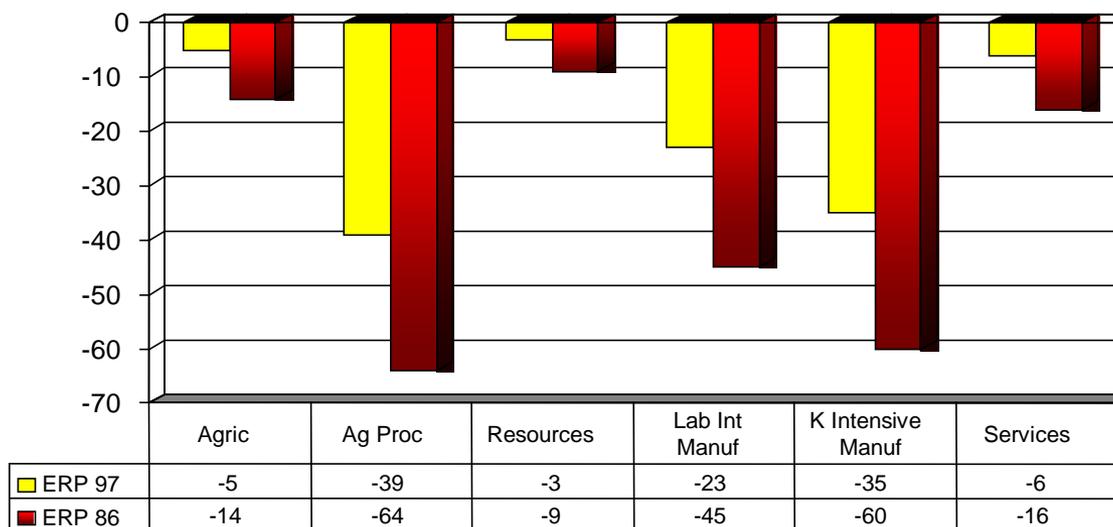
# Balancing disciplines & flexibility



- It is tricky to identify the range of products in which a country will be competitive
- From an economic point of view, initial steps should focus on the needed institutions, infrastructure, support to R&D
  - And to reduce the burden of protection on exporters

# Costs of protection to exports

**Tariffs tax exports in India, but  
less in 1997 than in 1986** —



# Retention of high tariffs?



- Countries may feel that they need some high tariffs as an n'th best option to stimulate, say, infant industries
- Desirable to have some disciplines so this won't turn into a free-for-all
- What has actually happened?
  - Countries have to negotiate their peaks
    - § In a situation of considerable flexibility
  - "Pay" through bigger cuts elsewhere

# Highest tariff bindings



	Agric %	NAMA %
Ecuador	85.5	40
Latvia	55	55
Estonia	59	30
Jordan	200	30
Albania	20	20
Oman	200	20
Lithuania	100	30
China	65	50
Chinese Taipei	500	90
Armenia	15	15
Cambodia	60	42
Saudi Arabia	200	20

# Existing Members Giving Themselves Extra Rights



- China's accession involved rights for existing members to add restrictions against China
  - (eg safeguards & nonmarket economy treatment)
- More likely to be used against large countries

# Effects on future performance of the trading system



- Improving market institutions is helpful for the trading system
  - Raises confidence amongst trading partners that agreements will be respected
- Bringing new members' protection structure closer to existing active members may be helpful
  - But equity concerns have sparked calls for "recently acceded members" groups

# Cuts in agric tariffs: how big?

<i>Member</i>	Bound Tariff	Initial MFN	Post MFN	% Cut	% Cut P
Ecuador	25.0	14.4	14.4	0.0	0.0
Latvia	8.8	8.2	8.2	0.0	0.0
Estonia	17.3	0.2	0.2	9.1	0.0
Jordan	23.7	25.7	20.6	19.6	4.0
Georgia	11.7	11.9	10.6	11.5	1.2
Albania	9.4	15.3	9.3	39.4	5.2
Oman	28.0	3.4	3.4	0.9	0.0
Croatia	9.4	13.9	9.5	31.9	3.9
Lithuania	15.2	9.4	8.6	8.2	0.7
China	15.8	35.6	15.4	56.8	14.9
Armenia	14.7	7.0	7.0	0.0	0.0
Cambodia	28.1	19.5	19.5	0.0	0.0
Saudi	12.4	11.3	11.0	2.9	0.3
Average	19.2	13.9	10.9	13.9	2.3

# How much libn? Non-Agric



<i>Member</i>	Bound	Initial MFN	Post MFN	% Cut	% Cut P
Ecuador	21.3	11.5	11.5	0.1	0.0
Latvia	9.4	2.8	2.3	17.0	0.5
Estonia	7.3	0.05	0.0	20.0	0.0
Jordan	15.1	21.6	14.4	33.3	5.9
Georgia	6.5	10.4	6.4	38.3	3.6
Albania	6.6	16.0	6.6	58.8	8.1
Oman	11.6	4.9	4.7	4.9	0.2
Croatia	5.5	4	3.9	3.0	0.1
Lithuania	8.3	2.62	2.3	14.1	0.4
China	9.1	21.9	9.1	58.6	10.5
Armenia	7.5	2.3	2.2	4.7	0.1
Average	11.8	9.7	6.6	21.1	2.5

# Degree of liberalization



- In most cases, only limited reductions in agricultural tariffs are required by accession
  - China was an exception, with large tariff cuts
    - § But, even there, the implied cuts in average import prices were modest.
- § Does this make the tariff cuts unimportant?
  - § No, tariff bindings are important, even if they don't cut applied rates
    - § They rule out the highest, and most costly, rates

# Agricultural Domestic Support



- Controversial issue in many WTO accessions—but should it be?
- WTO constrains subsidies linked to production.
  - Called “Amber Box” subsidies
  - “Blue box” subsidies also undisciplined
- “Green Box” subsidies aren’t considered trade distorting & are unconstrained

## *De minimis* important for Developing Country Agricultural Domestic Support



- Trade distorting subsidies below the "*de minimis*" level are unconstrained.
  - In developing countries, 10% of agricultural output value allowed as product-specific support. And 10% as non-product-specific support.
  - Vs 5% and 5% in the industrial countries
- Most Transition countries acceding to WTO have *de minimis* limits of 10%
  - China agreed to 8.5%
- Trade distorting subsidies above this amount may be permitted within negotiated limits if the base level of support exceeds 10% of gross value

# Green Box subsidies include



- Research, Development, Extension, Training
- Pest control, Inspection services
- Infrastructure services,
- Crop insurance subsidies for disasters
- Decoupled support not related to current production or prices
  - eligibility based on a fixed period

# Green Box measures usually more helpful to farmers



- The world-wide trend is to move agricultural support away from trade-distorting subsidies toward Green Box measures.
- Trade-distorting subsidies are a highly inefficient way of helping agricultural producers compared with Green Box measures.

# Export Competition



- Export subsidies are generally banned
  - May make sense for an individual country
    - § But, if widely used, depress world prices further
- Triply costly to the imposing country
  - Country needs to raise the revenue for subsidy
  - Paying the subsidy distorts production decisions
  - The subsidy causes export prices to fall
- Developing countries had an exception for marketing & internal transport costs during the “implementation period”

# Value Added Tax



- Many countries levy VAT on imports of agric products but not on domestic production
  - Frequently seen as helping producers
  - Certainly helps consumers, but may or may not help producers
    - § Producers of exportables certainly lose when not in VAT
- Working Parties sometimes require that this discrimination be removed
  - One option is to use the same threshold for agric and the rest of the economy



# Assessing Economic Impacts

# To Assess Economic Impacts



- Assess changes in economic distortions
- Assess impacts on economic efficiency
  - Efficiency costs of protection rise as the square of the rate of distortion
- Assess impacts on the terms of trade
  - Tend to rise with the level of protection

# Measuring Agric Distortions



- Particularly difficult
- Rarely adequately measured using tariffs
  - Many instruments besides tariffs
    - § State trading, quotas, licenses, tariff-rate-quotas
- § Frequently need to measure by comparing domestic prices with international prices
- § World Bank has developed a large database
  - § [www.worldbank.org/agdistortions](http://www.worldbank.org/agdistortions)

# China: Agric import protection



	<b>1998 Tariffs</b>	<b>Protection 2001</b>	<b>Post- accession</b>
	<b>%</b>	<b>%</b>	<b>%</b>
<b>Rice</b>	<b>127</b>	<b>-3.3</b>	<b>-3.3</b>
<b>Wheat</b>	<b>133</b>	<b>12</b>	<b>12</b>
<b>Maize</b>	<b>130</b>	<b>32</b>	<b>32</b>
<b>Veg &amp; fruit</b>	<b>15</b>	<b>-4</b>	<b>-4</b>
<b>Oilseeds</b>	<b>132</b>	<b>20</b>	<b>3</b>
<b>Cotton</b>	<b>3</b>	<b>17</b>	<b>20</b>
<b>Lvstk &amp; meat</b>	<b>35</b>	<b>-15</b>	<b>-15</b>
<b>Dairy</b>	<b>46</b>	<b>30</b>	<b>11</b>

# Weighted-average non-agric tariffs in China



	<i>Baseline</i>	<i>With Accession</i>
	%	%
Beverages & tobacco	123	20
Extractive industries	4	1
Textiles	57	9
Apparel	76	15
Petrochemicals	20	7
Metals	17	6
Automobiles	129	14
Electronics	22	3
Total – Manufactures	24	7

# Welfare Impacts: China



	<i>\$1995mUS</i>
North America	9455
Western Europe	7114
Australia and New Zealand	216
Japan	2920
<b><u>China</u></b>	<b><u>28622</u></b>
Taiwan, China	5191
Other NICs	7819
Indonesia	-171
India	-3190
Brazil	-31
Turkey	-200
Other Middle East & North Africa	-160
Total	56078

Source: Ianchochina and Martin 2004

# Agric protection & income



- Many developing countries have low, or negative, rates of agricultural protection
  - And typically very low rates of domestic support
- But tend to rise as economies grow
  - Commitments may have be more valuable than suggested by comparison with initial protection
  - Had Japan bound its rice tariff at the 1955 rate (around 50%) when joining GATT, would not have risen to 1000% in subsequent years

# Ag protection and income



- In poor countries, urban consumers care greatly about the price of food
  - A large share of expenditures
- Urban consumers are relatively few, and easier to organize than farmers
- By contrast, farmers are many and are difficult to organize
  - Many self-consume most output, so don't benefit much from higher prices

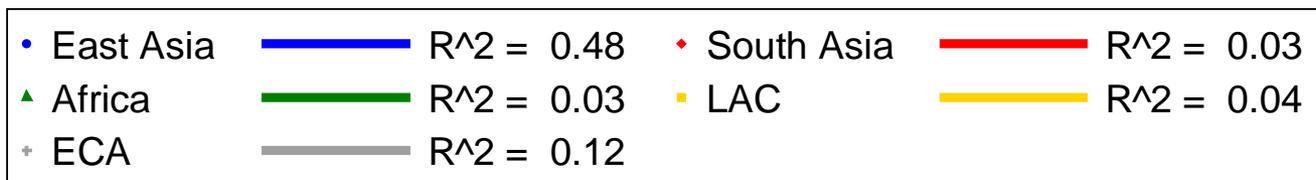
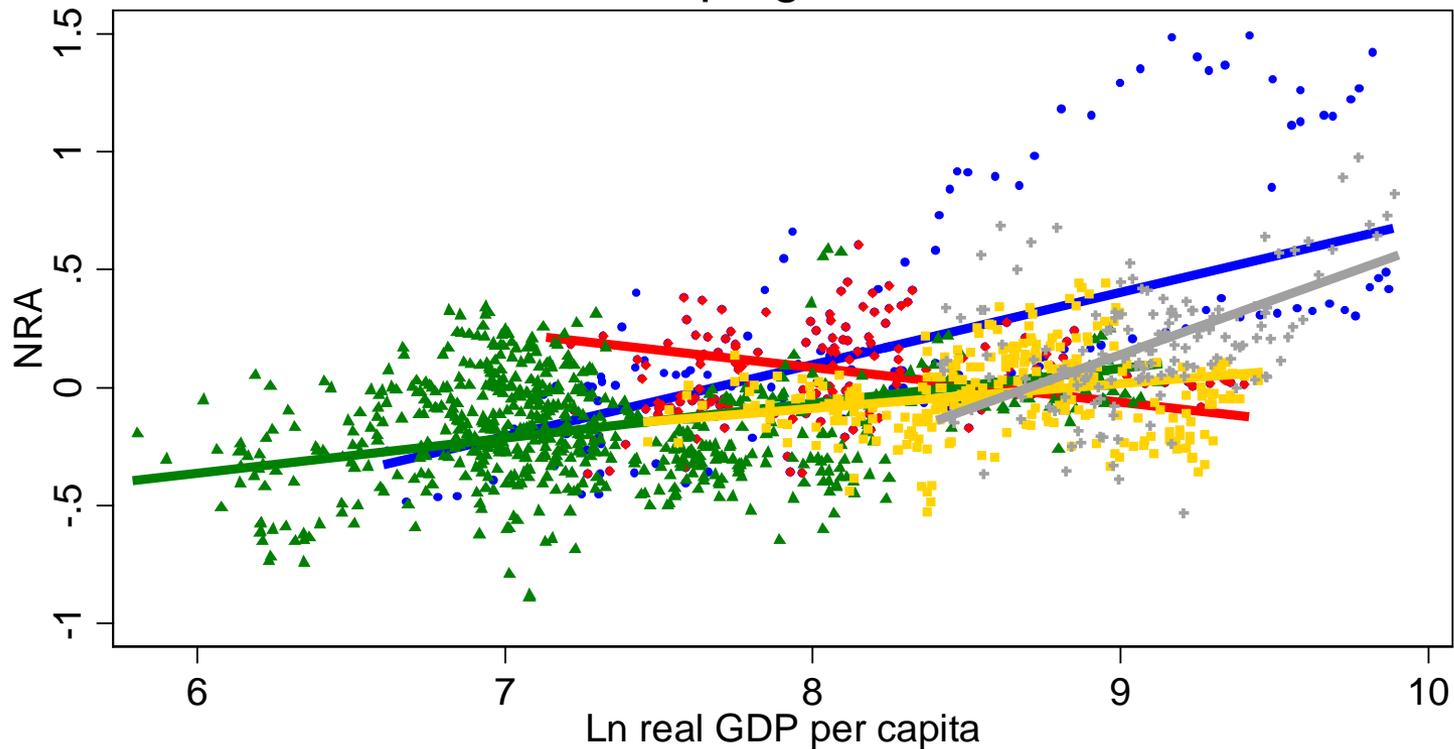
# As incomes grow



- Share of food in urban consumers' budgets declines
  - Urban people more numerous & harder to organize
- Farmers become more commercial
  - Farmers become fewer & easier to organize
- Result is declining taxation/rising protection

# International experience NRA vs Real Income

Developing countries

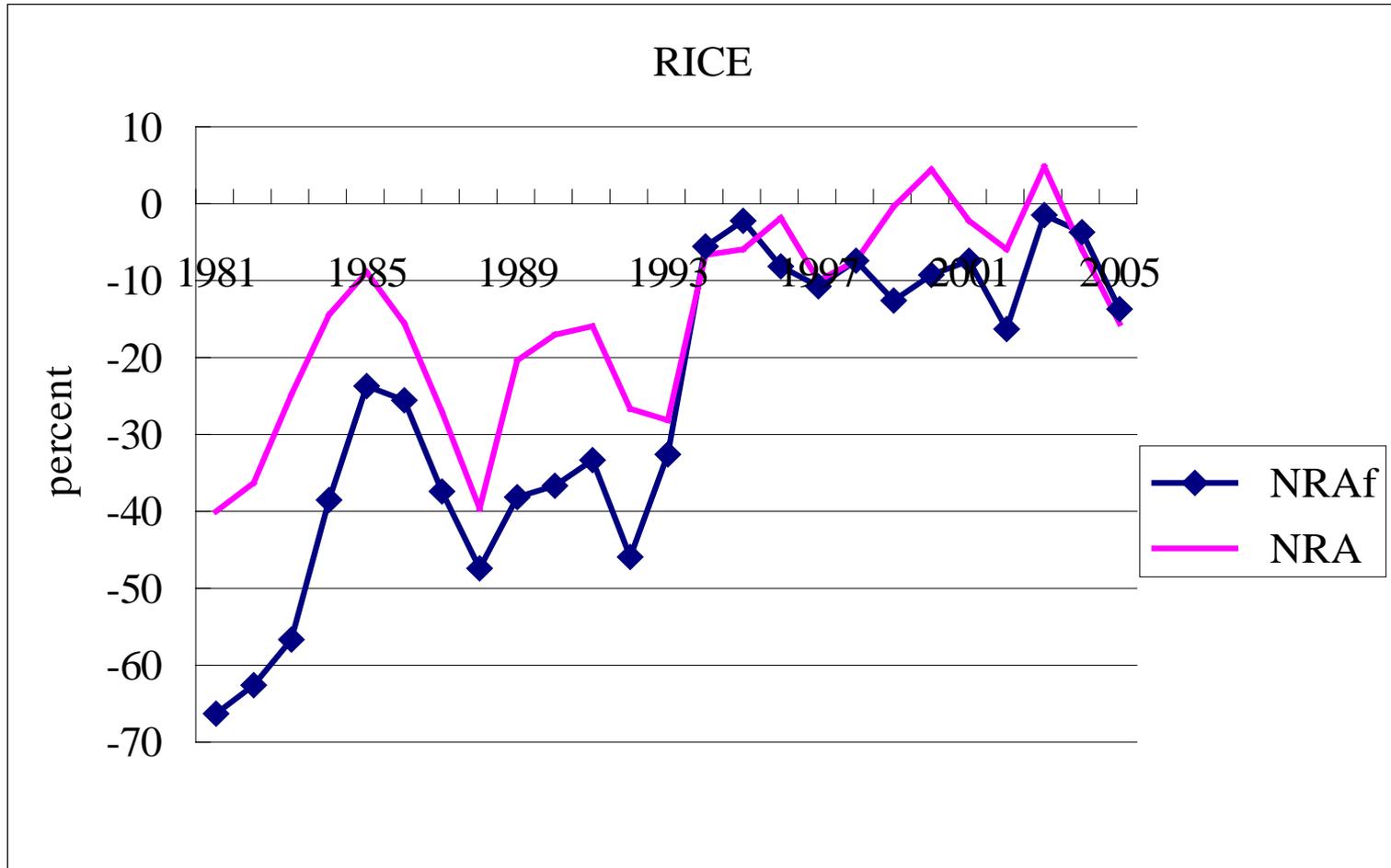


# Let's look at China

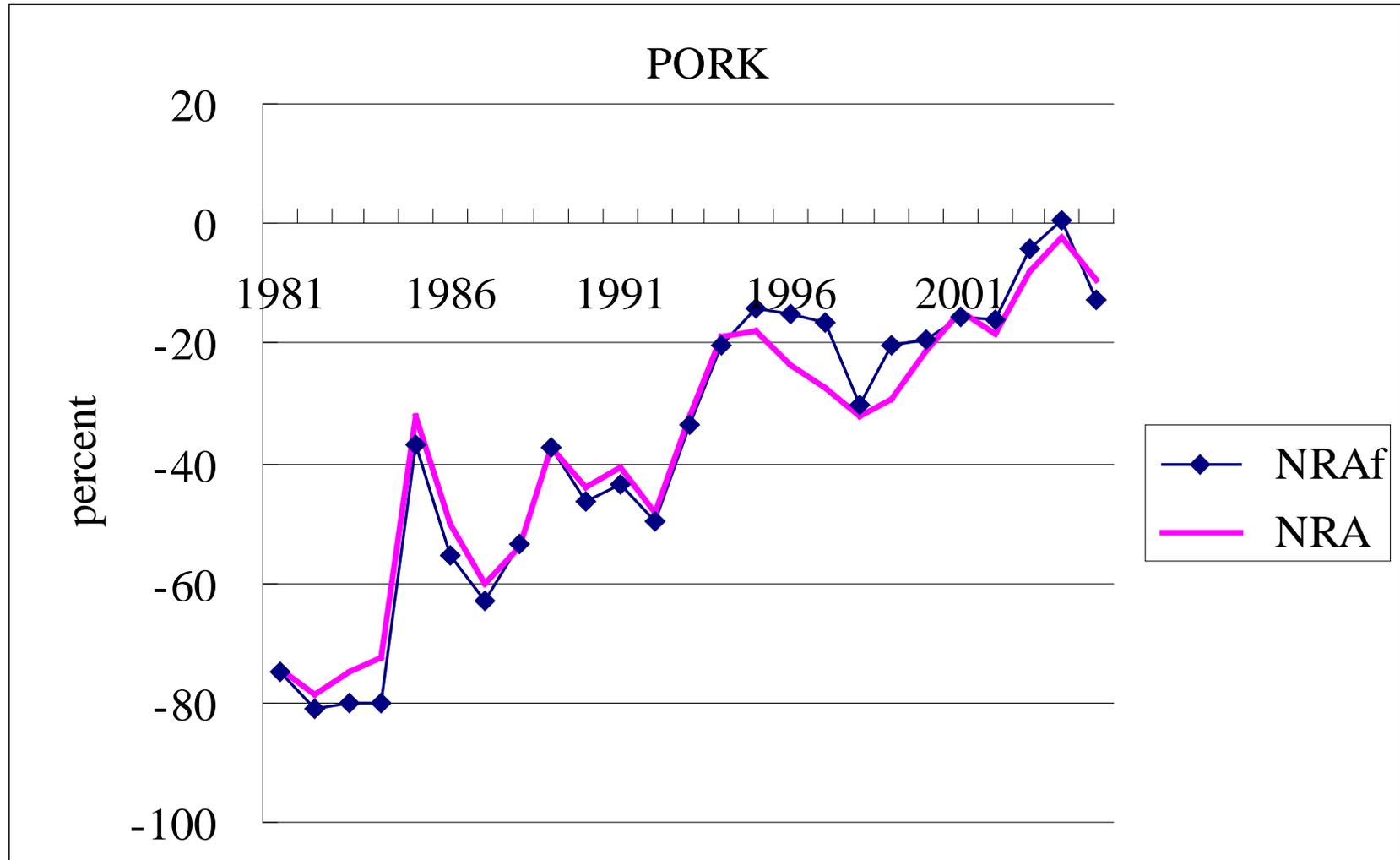


- Protection rates on agricultural products were strongly negative
- Averaged close to zero when China acceded to WTO in 2001
- What does the time pattern look like?

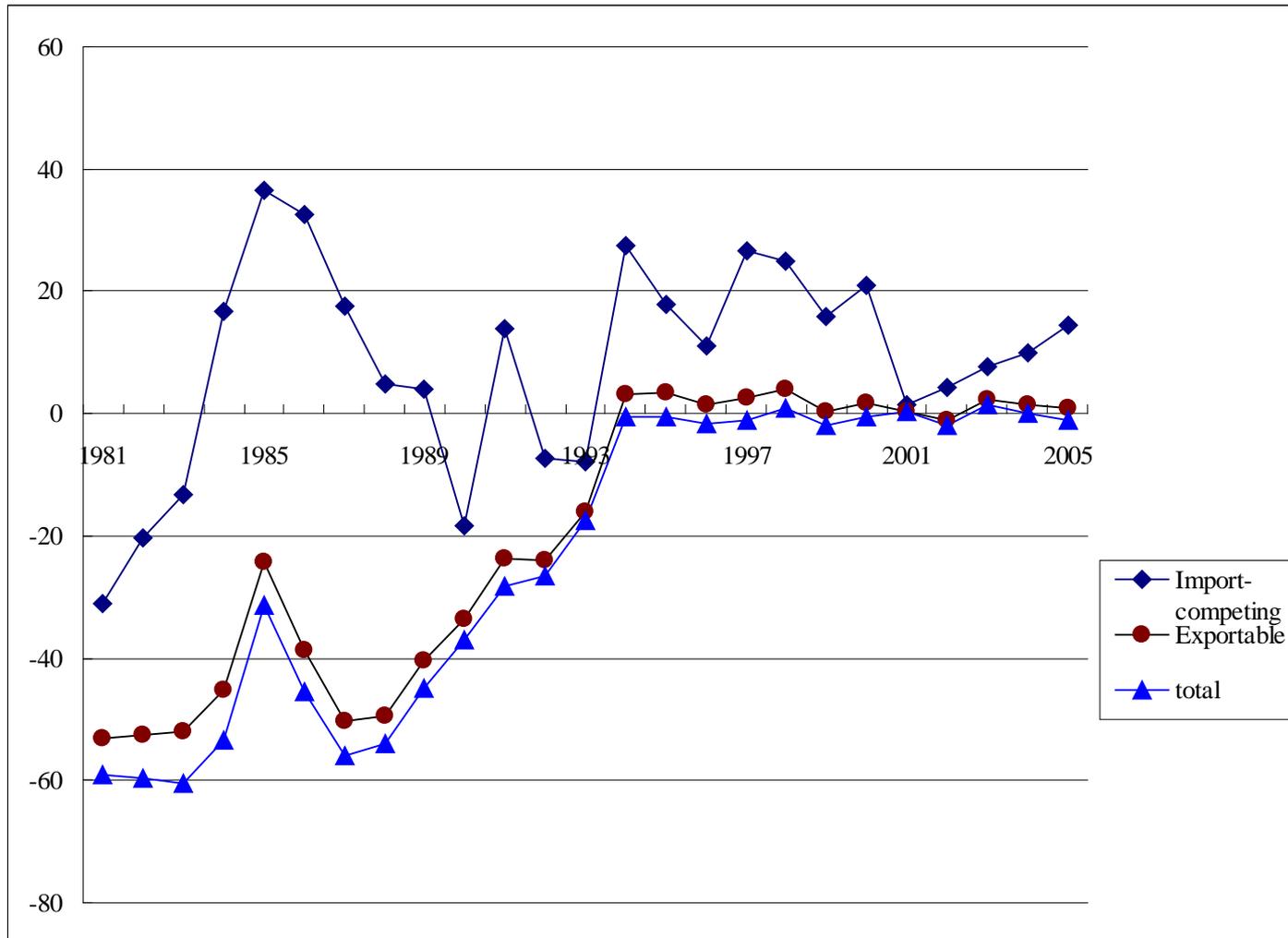
# China: protection to rice



# China: protection to pork



# China: Exportable, importable, total



# Very partial measures of impact



- The measures we have used are very incomplete
- Consider only the impact on growth of existing products
  - But most of the gain is from expansion in the range of varieties traded
- No consideration of impacts on price-cost margins or of reduced investment risk

# Gains to Russia of WTO Accession very substantial



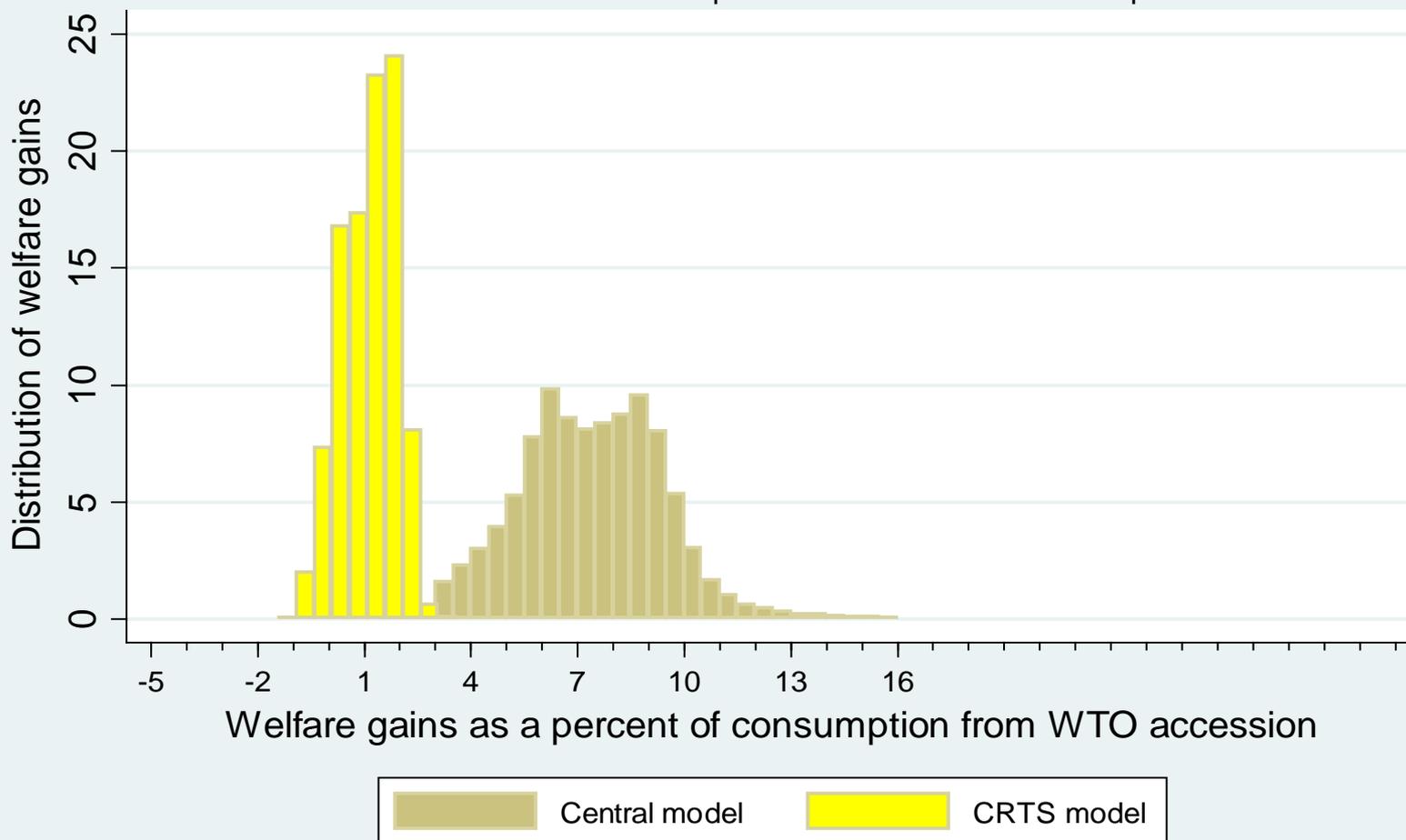
- Russia will gain about 3.3 percent of the value of its GDP from accession in the medium term (about \$49 billion)
- **Long term benefits (due to improved investment climate from WTO accession)** --11 percent of Russian GDP (about \$162 billion based on 2010 GDP)
- Better market access provides only about 10 percent of the gains

# Sources and Distribution of Russia's gains



- Gains derive from own reform
- Especially Russia's commitments to reform its own business services sectors.
- Gains are widely distributed, both geographically and among households—slightly pro-poor
- Russian regions that are able to attract foreign direct investment gain the most from WTO accession

Figure 3. Distributions of estimated welfare gains from Russian WTO accession.  
Central and CRTS models comparison. 55098 households sampled.



Observations in a range from - 5 % to 25 % are shown.

# Conclusions



- WTO accession a rigorous negotiation
  - But outcome quite specific to the country's case
- Accession involves reforms to rules as well as changes in protection rates
  - Both sets of reforms can be strongly favorable
- Estimating benefits is challenging but it's clear that the benefits are frequently large

# References



- Anderson, K. and J. Swinnen (eds.), 2008 *Distortions to Agricultural Incentives in Europe's Transition Economies*, Washington DC: World Bank
- Anderson, K. and A. Valdés (eds.), 2008. *Distortions to Agricultural Incentives in Latin America*, Washington DC: World Bank.
- Anderson, K. and W.A. Masters (eds.), 2009. *Distortions to Agricultural Incentives in Africa*, Washington DC: World Bank
- Anderson, K. and W. Martin (eds.), *Distortions to Agricultural Incentives in Asia*, Washington DC: World Bank, March 2009
- Anderson, K. (ed.), *Distortions to Agricultural Incentives: A Global Perspective, 1955 to 2007*, London: Palgrave Macmillan and Washington DC: World Bank, October 2009,
- Bhattasali, D., Li, Shantong and Martin, W. eds. (2004) *China and the WTO: Accession, Policy Reform and Poverty Reduction*, Oxford University Press and the World Bank.
- Francois, J. and Martin, W. (2004), 'Commercial policy, bindings and market access' *European Economic Review* 48:665-79, June.
- Huang, J., Liu, Y., Martin, W. and Rozelle, S. (2010), 'Agricultural trade reform and rural prosperity' pp397-428 in Feenstra, R. and Wei, Shang-Jin eds. *China's Growing Role in World Trade*, National Bureau of Economic Research, Cambridge, MA
- Ianchovichina, E. and Martin, W. (2004) 'Economic impacts of China's Accession to the World Trade Organization' *World Bank Economic Review* 18(1):3-28.

# References, contd



- Ianchovichina, E. and Martin, W. (2001), 'Trade liberalization in China's accession to WTO', *Journal of Economic Integration* 16(4):421-46.
- Jensen, Jesper, Thomas F. Rutherford and David G. Tarr (2007) "The Impact of Liberalizing Barriers to Foreign Direct Investment in Services: The Case of Russian Accession to the World Trade Organization," *Review of Development Economics* 11 (3): 482-506.
- Martin, W. (2001), 'Implications of reform and WTO accession for China's agricultural policies' *Economics of Transition* 9(3):717-42.
- Martin, W. and Ianchovichina, E. (2001), 'Implications of China's Accession to the World Trade Organization for China and the WTO', *World Economy* 24(9):1205-19.
- Martin, W. and Ianchovichina, E. (2003), 'Trade policy reform and China's WTO accession' in Cass, D., Williams, B. and Barker, G. eds. *China and the World Trading System: Entering the New Millennium*, Cambridge University Press, Cambridge.
- Martin, W. and Mattoo, A. (2011), *Unfinished Business? The WTO's Doha Agenda*, Centre for Economic Policy Research and the World Bank.
- Martin, W. and Winters, L. A. (1996), *The Uruguay Round and the Developing Countries*, Cambridge University Press, Cambridge.
- Rutherford, Thomas F. and David G. Tarr (2008), "Poverty Effects of Russia's WTO Accession: modeling 'real households' with endogenous productivity effects," *Journal of International Economics*, 75 (1): 131-50.
- Rutherford, Thomas F. and David G. Tarr (2010), "Regional Impacts of Liberalization of Barriers against Foreign Direct Investment in Services," the case of Russia's accession to the WTO," *Review of International Economics*, 18(1):30-46.
- Williams, P. 2008. *A Handbook on Accession to the WTO*, World Trade Organization, Geneva.