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THE WTO AGENDA FOR THE 21ST CENTURY: TRADE LIBERALIZATION

PERSPECTIVES FOR DEVELOPING COUNTRIES AND COUNTRIES WITH TRANSITION ECONOMIES

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Abstract

The actual background of the following work is caused by significant changes in world trade due to WTO decisions regarding the creation of a global trading system that will unite all 160 members. In December 2013, the multilateral trade system was revived when WTO members agreed on a package that includes three important issues within the Doha Agenda: trade facilitation, some issues of agriculture, including public shareholding for measures to ensure food security and development issues and least developed countries. Via this article, supranational WTO principles were determined; regulation and formation of global value chains and place of developing countries and transition economies in them; influence of free trade principles were evaluated among countries classified by level of income; was measured impact of free trade principle on intensiveness of growth of developing countries and transition economies in global economy.

Keywords: Post-Doha round, WTO, developing countries, countries with transition economies, global trade system

INTRODUCTION

After the years of tough negotiations, Doha Round has moved from deadlock and made a giant step towards implementing liberalization trade policy among WTO members. This move was made after Bali ministerial conference, which has been the biggest success in the context of Doha Round after its start in 2001. So in December 2013 multilateral negotiations were renewed, while members have come to a common decision in three questions, which were the milestones of Doha Agenda. They are:

- trade facilitation;
- issues of agriculture, including public shareholding measures for food security;
- development issues of least developed countries.

The results of Bali conference not only helped to restore faith in the system proposed by WTO, but also paved the way for the development and implementation of multilateral trade rules that are expected to bring significant benefits for the global economy. In this article was made an endeavor to evaluate main possible obstacles in context of the implementation of this idea, and, above all, the future prospects for developing countries and countries with transition economies in world trade system.

Now there are two possible ways of conducting international trade. First, it is liberalization, which is taken as a milestone of WTO policy. Second, it is protectionism, which is widely used within regional integral associations and quite popular among developing countries. By these, we can see two opposite practices, which have their own Pros & Cons and being comparatively effective. However, in terms of globalization trade liberalization is seen more preferable as the world is tightening.

The main aim of this paper is to evaluate possible impact of liberalization on trade activities and changes in global institutions through prism of developing countries and transition economies. In order to fulfill it, such tasks were stated:

- To analyze organizational principles of WTO;
- To analyze results of Bali ministerial decisions and their possible influence on developing countries and transition economies;
- To recommend possible actions for developing countries and countries with transition economies in context of Post-Doha Round period in sphere of international trade.

THEORETICAL BACKGROUND

This literature review covers studies, which are related to WTO policy of trade liberalization.

First, let us have a look at main WTO principles, which were made up in order to simplify international trade operations between members of organization. Those principles were formulated in Marrakesh Agreement Establishing the WTO, in General Agreement on Tariffs and Trade and others WTO agreements. They are:

- Non-discrimination based on a Contracting Party in the exchange of goods of foreign origin MFN (Art. I GATT Art. II GATS Art. 4 TRIPS) and national treatment (Art. III GATT Art. XVII of the GATS, Art. 3 TRIPS) ;
- Guaranteed and predictable market access based on the protection of a national market through tariffs and prohibition of quantitative restrictions, licensing and other non-tariff barriers (Art. II and Art. XI GATT)
- Transparency (Art. X of the GATT, Art. III GATS);
- Special and differential treatment for developing countries (Art. XVIII of GATT);
- Progressive tariff reductions in the multilateral trade negotiations (Art. XXVIII, XXVIII-bis of GATT);
- Consultation to resolve problems related to international trade (Art. XXII GATT).

Let us focus on the most interesting and weightiest principles in the context of liberalization. Firstly, it is the principle of non-discrimination, which compel WTO members to grant almost unconditional free trade practice, which is known as “Most favored nation” (MFN). MFN means that any WTO member, when importing or exporting the same (similar) goods shall not grant special trade advantages to another country or apply discriminatory approach. MFN should pervade all customs duties and taxes on imports and exports as well as simplify all customs procedures for importation and exportation.

Actually, this practice is not always used fairly. The most of protection methods are non-tariff and are used to ensure the health, safety of life, protection of consumers and their information, food safety, fair trade, trade facilitation, environmental protection. The most active part in the meetings of the Committee on Technical Barriers to Trade (TBT) take such developed countries as the EU, the USA, Japan, Korea, which through the tools and mechanisms mentioned in the TBT Agreement, on the one hand, protect their markets and citizens from unsafe products, and on the other, do not allow other countries to impose unjustified technical barriers to access of their products to their markets. However, those safety methods are not always cogent and used in order to bring a pressure on manufacturers from developing countries.

WTO has even marked out four “baskets” of governmental help, which are classified in the following way:

- *Red basket* includes measures that are forbidden to use due to WTO rules or only agreed to be reduced in accordance to WTO members’ obligations. This about export subsidies, which in most cases concerns to the industry. In contrast to the industry, agriculture has no forbidden (red) subsidies.
- *Yellow basket* contains the types of support that are believed to stimulate the production and therefore distort trade. These include the regulation of market prices, direct payments and subsidies, privileges for transportation and debt relief, the buying fuel at discounted prices, and so on. In the rules of the WTO, there are not any exact definition of what state support measures should be classified as yellow basket measures, and it includes any measures that are not placed in other baskets. Obligations in terms of yellow basket are fixed for each member of the WTO in the list of obligations in the form of aggregate support measures. Their initial and final size and the rate of reduction are discussed during the negotiations.
- *Green basket* includes measures that do not affect the market. This is the expenses on infrastructure development, research, training, veterinary and phytosanitary measures, crop insurance program, a program of regional aid. Green basket measures can be used without restrictions.
- *Blue basket* exists only in developed countries with highly developed agriculture and includes payments that are to limit the size of agricultural land use and livestock, as well as compensation for voluntary reduction in production by farmers.

As we can see, yellow basket measures are not regulated in WTO documents, that is why those measures can be widely and wisely used by countries in order to better the existing conditions of national manufacturers. However, due to undeveloped state institutes, corruption and other obstacles developing countries cannot use full spectra of governmental support measures and still have this untapped potential for economy growth. The same can be said about the countries with transitive economy, such as Ukraine, which is located at the beginning of formation of effective institutional environment.

This brings us to another WTO principle. The principle of guaranteed and predictable market access involves:

- Protection of the national market through tariffs;
- Prohibition of the quotas, licenses and other non-tariff barriers.

Any of contracting parties shall not establish or concern any import or export prohibitions or restrictions "... whether made effective through quotas, import or export licenses or other measures other than duties, taxes or other charges" (Art. XI GATT).

The predictability of trade policy is achieved primarily through binding of tariffs - adopted country commitment not to increase the rates of import tariffs over the limit. One of the achievements of the Uruguay Round is to increase the number of states related to rates of 78 to 99% in developing countries, from 21 to 73% - in developed and from 73 to 98% - in countries with transition economy. In the area of agricultural trade, 100% tariffs linked. It is considered that countries founders and not-founders of WTO have different policy space in the context of binding tariffs and founders are thought to be in position that is more preferable (Berenda, Panova 2014). However, it is more issue of country development in overall. According to Page (2007) “there is also a fear in some countries that developed members of the WTO are trying to impose what they consider to be good internal policies on all members, i.e. a conflict over the right level at which to design rules and policies”. By this, we can understand that the trade sovereignty of LDC and low-GDP developing countries in the context of policy space could be in danger.

The principle of predictability of trade policy also provides discourage from the usage of trade non-tariff measures such as quotas, import and export licenses, but they are not precisely highlighted in GATT. That is why their usage is widely spread as an effective barrier for developing countries.

The principle of special and differential treatment for developing countries suggests that developing countries take on the same obligations as the economically developed, but many WTO agreements provide softer commitments with respect to these countries and longer transition period to implement them. Therefore, it is allowed to use flexible tariff structure, quantitative restrictions, export subsidies and others.

Summarizing the above, we can conclude that the principles of the WTO based on modern views and generally aimed at overcoming the possible problems that may arise during the conduct of trade between countries. However, the interpretation of principles mentioned above creates just another obstacle in a pursuit of global trade liberalization.

Another issue that has to be mentioned is classification of developing countries. It is better to classify them by level of income. Therefore, developing countries can be subdivided in two groups (McConnel, Brue, Flynn, 2011):

• The middle-income nations include such countries as Brazil, Iran, Poland, Russia, South Africa and similar to them. Per capita output of these middle-income nations ranged all the way from $925 to $ 1,906 in 2008 and averaged $3251.

• The low-income nations shown in purple, had a per capita income of $925 or less in 2008 and averaged only $523 of income per person. The sub-Saharan nations of Africa dominate this group. Those countries are mostly agricultural; nations have relatively low level of literacy, but rapid population growth. That is why labor productivity is on the low level, industry is undeveloped and export consists mostly of agricultural products.

By analyzing literature, it is possible to understand that there are two different aspects of attitude towards the trade liberalization, which are also, depend on a country. According to Todorovic, such type of countries as with transition economies by opening its markets improve its GDP performance. As an example was mentioned Serbia, where "

The export growth goes generally in parallel with the GDP growth". By this, we can make a conclusion that implementing proper reforms in international trade and developing feasible strategy can be beneficial for countries with transition economies as well as for developing countries.

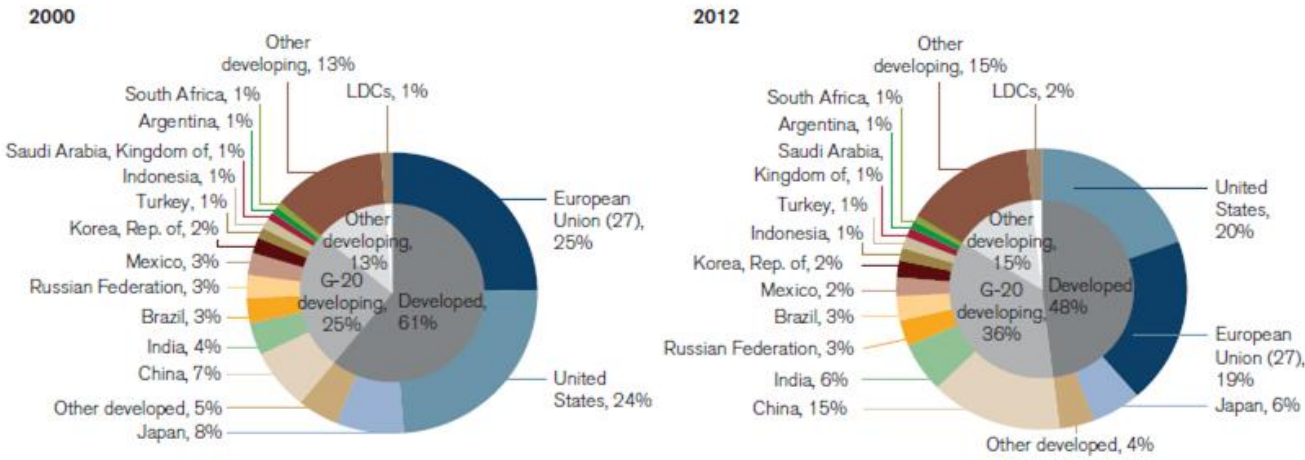
There is a possible drawback of implementing trade facilitation. It was estimated by Moïsé, Orliac and Minor (2012) that adoption of trade facilitation agreement could lower developing countries trade costs by 14 percent. In this case, LDCs are not taken into account but their perspectives are also not so bright. According to Hoekman (2014), developed countries should act as donors and are to provide help to those LDCs in order to make implementation of agreement smoother.

Another point of view were proclaimed by Elborgh-Woytek, Gregory (2010), who mentioned that for LDC there are less obvious interim measures, such as the extension and improvement by developed economies and countries with emerging markets duty-free and quota-free regimes of trade preferences, which can boost the welfare of the poorest countries by almost $ 10 billion. US per year. These systems should be effective actions to compensate impact of high trade barriers in such spheres as light manufacturing and agriculture.

ANALYSIS

One of the most impressive features of the world economy in recent years is that there the increase of role of developing economies. Some of them have become the leading manufacturers and exporters of industrial products, agricultural products and commercial services, and in some cases have gone in front of developed countries. This is especially truth for large emerging economies, such as the G-20. As we can see from Figure 1, the share of G-20 countries is steadily growing, what shows their increasing role in global economy.

Figure 1. Share of some countries in world GDP at purchasing power parity, 2000-12



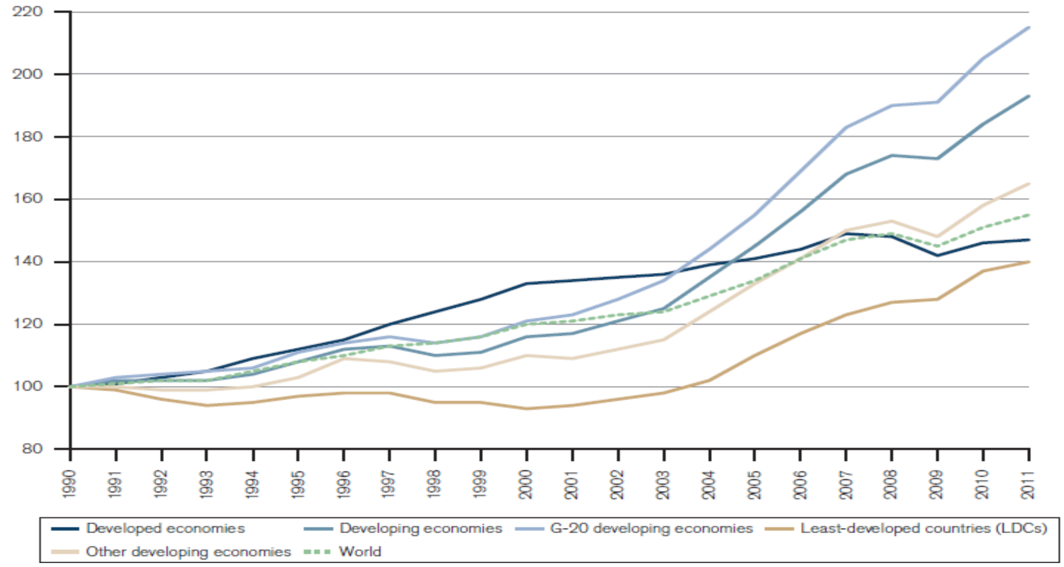
Source: IMF World Economic Outlook Database, October 2013

It should be noted that the vast majority of WTO members are developing countries. By the time of joining WTO all countries, go through a special complex procedure, which aim is to bring national legislation and practices of regulation of foreign trade in accordance to Uruguay Round package deals. Probably this could be a problem for a joining system, while new members have different positions when joining organization, e.g. level of technology, which creates a set of obstacles for harmonic development for all members of WTO. Among the developing countries have been big changes since China has increased its share in trade more than in two times, India by a third, LDC – doubled. Since the ultimate goal of liberalization is an increase in well-being, a logical result of this there is a rise in GDP.

As we can see from a Figure 2, the GDP per capita of developing countries and G-20 group has grown sharply within twenty-year period by 114 and 93 percent correspondingly. One of the impacts on this tendency was establishing WTO and attracting developing countries to have a membership in this organization. Actually, the gap between growth tempos is not so substantial, but we can follow make a prediction that this difference could only have further increase.

However, not everything is as smooth as it may seem. Often this means significant institutional changes in the country that require appropriate time and material costs, and changing behavior stereotypes of politicians and businessmen. The most of the countries after joining the organization get not only the rights which are used by all other WTO members, including the termination of discrimination in foreign markets, but also problems caused by their economy is not capable of withstanding fierce competition in the global market.

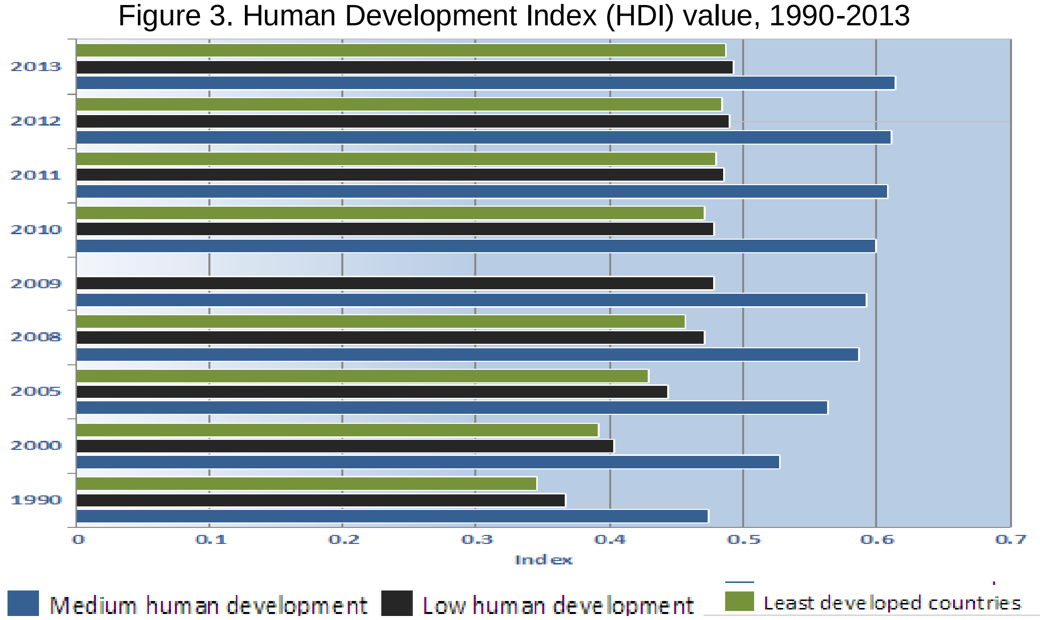
Figure 2. The dynamics of growth of real GDP per capita, 1990-2011



Source: Penn World Table 8.0

Global value chains are a good example of how developing countries should develop. As their industrial and economy abilities improve, they can move to those links where added value is higher. A country can make such a move due to improving qualification of specialists, implementing new technology or other intensive development aspects, which show that country is becoming more competitive (e.g. China, India, Brazil, Turkey). In Figure 3 we can see, that developing of human resource is acute problem in LDCs, and the average index in LDC is lower than average of countries with low human development and much lower than medium index.

Figure 3. Human Development Index (HDI) value, 1990-2013



Source: United Nations Development Programme

There was the main reason in introducing in 2001 in Doha ninth round of talks aimed primarily at meeting the needs of developing countries due to growing pessimism about the positive impact of WTO membership on economic and social development.

As was noted earlier, the adoption of Balinese package become a crucial step in the completion of the Doha Round. However, the full transition to global trade liberalization between all countries controversially affects their ability to develop dynamically. This is due to the fact that in spite of the principles of non-discrimination, competition in international markets is not pure and perfect. It creates discrimination between producers on sales and purchases of raw materials. They can be used as a way of eliminating competitors. This gives a reason to WTO Members to implement protectionist measures to achieve following goals:

- Protection from international competition such industries that are in the process of formation on national markets (especially important for structural change in developing countries and to new areas that are emerging in some developed countries.
- Maintaining a favorable conjuncture for the national economy.
- Defense industries that are important for national security (agriculture, food, energy, steel, chemicals, complex computer technology to produce weapons, etc.), protection of certain economic activities in certain areas of the country(metallurgy, textiles, etc.) and the social protection of people that live there (fighting competition with newly industrialized countries with low incomes).

WTO members are constantly in search of balance between free trade and protectionism. As a result, experts estimate that only 20% of sharing in international markets based on rules of free trade, 25% of trade subject to the restrictive quotas and international treaties, 25% - in the hands of multinational companies, 25% - is regulated by bilateral compensational agreements. According to the EU Commission, before the recent global crisis, the world economy had about 450 export restrictions.

Trade barriers, which are implemented by developed countries, are often higher for processed products. By this practice, developing countries lose their enthusiasm for exporting manufactured goods, which resulted in their interest for developing production facilities.

Due to indirect subsidies, which are widely used among developed countries, developing countries are in a position of artificial lowering their prices on the world market. If developed countries made a step towards developing ones by decreasing tariffs and level of subsidies, developing countries would level off their prices and get bigger revenues from their exports.

However, it is not possible in some cases. It should be stated that price competition on the EU market for agricultural exports, such as Ukraine is difficult due to Common Agriculture Policy.

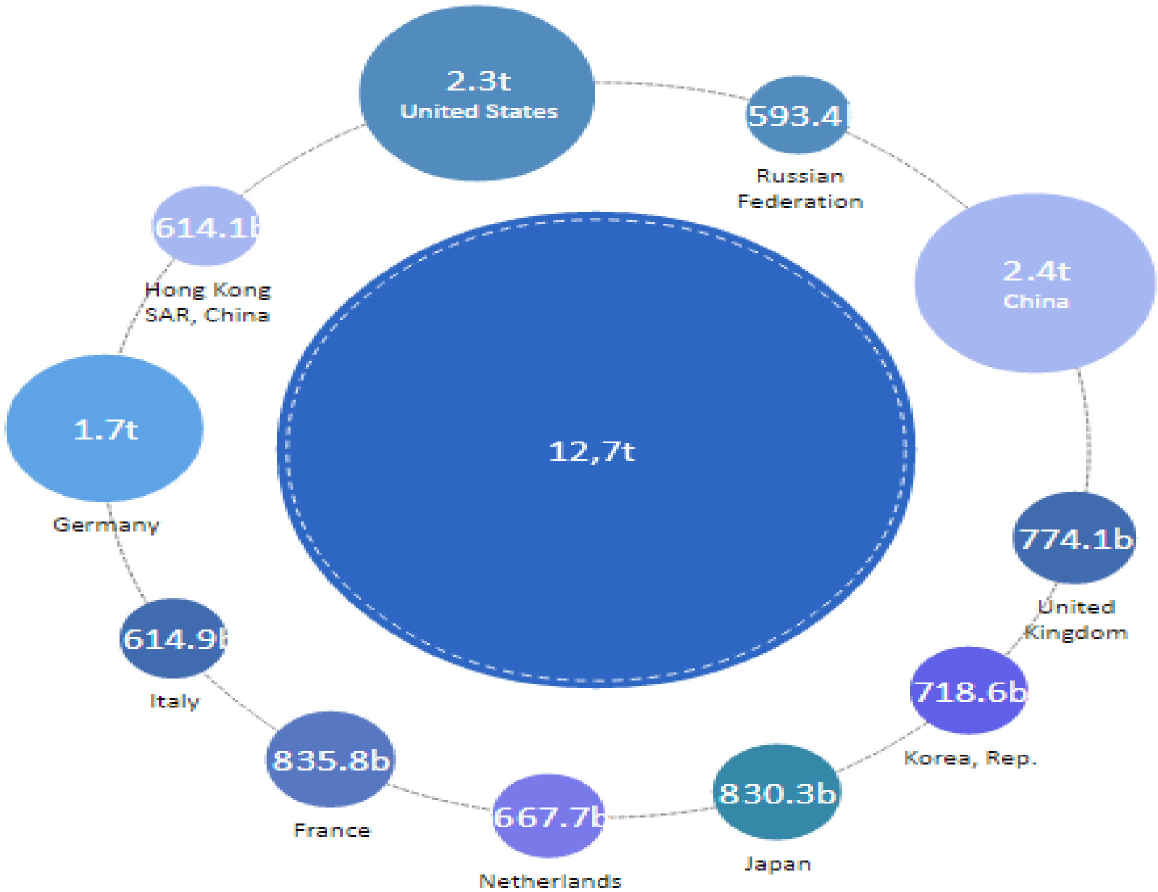
Figure 4. Doing Business in countries with transition economies

Source: Doing Business

It could be arguable that doing business rating reflects a countries weight in global economy, but it is noteworthy that developed and developing with high income take places on the top of the list. However, despite the fact that such influential economies as China, India and Brazil are quite far from the first 50, which are more exceptions than a real tendency, countries are ready to increase their place and therefore to take structural reforms. As it was announced in 2012, Russian Federation set a goal to reach a 50th place by 2015 and 20th by 2018 (Act about long-term… 2012).

As we can see from the figure 4 Russia, with a place of 62, has middle conditions for doing business among countries with transition economies. It was one of the reasons of their export increase in period in three times, and now they are eleventh world biggest exporter, which list presented on a figure 5. Russian Federation is in the top ten of countries by GDP and export, which also reflects results of improving trade regulation and opening of market. The same situation is with another former socialistic republic Serbia, which also has improved its economic performance by liberalizing economy.

Figure 5. Exports of goods and services (US$) 2013



Source: World Bank

By the example of those two countries, we can understand that reasonable strategy of liberalizing international trade could make a benefit for a country. It is all about using countries advantages in the context of reasonable use of resources of all kinds: natural, recreational, human, etc. We can see that developing countries, which are now being contenders for getting status of developed ones, used their resources in way that is more effective. Their practices resulted in significant increase of main economic parameters in comparison to countries with transition economies. Therefore, applying of considered strategies will play a giant role for economy growth of every single country and the world as a whole.

Let us focus on another example of transition post-socialistic countries to market economy. Ukraine could become a great example of contradictoriness of the intentions to liberalize trade policy and real possibilities for opening market in order to save stability of the country's positions.

Another protection measure was implemented in 2013 when domestic car manufacturers expressed a fear of falling car branch into decay (Act about the application of special measures for import in Ukraine, 1998). It was a reason of application special duties for import cars with a volume of engine 1-1,5 l – 6,46% and for 1,5-2,2 – 12,95%. However, those rates were not applied on permanent occasion and work within principle of transparency, so that those special duties decrease their number by third.

Figure 6. Rate reduction scheme in 2013-2015 for car import, %

V engine	2013	2014	2015
1-1,5 l	6,46% →	4,31% →	2,15%
1,5-2,2 l	12,95% →	8,63% →	4,32%

Source: Compiled by authors.

However, it is only a small part of all duties to be paid to import a car to Ukraine. Others are ordinary duty (10%), excise (0,063 euro per 1 cm2) and duty of the balance of trade (5% for this category).

Despite an apparent light in the end of the tunnel, concerning reduction of special duties, Ukraine government use another tariffs in order to protect economic stability of the country. To reduce a deficit of the balance of trade a range of new duties were made to be paid. They are 10% import duty for foodstuffs (1-24 groups of Ukrainian Classification of Goods in Foreign Economic Activity (UCGFEA)), and for others is 5% duty (25-97 groups of UCGFEA). Those measures could be taken as harsh violations of main WTO principles and the overall global intention, which is to liberalize global trade, but those actions were dictated by economic and politic crisis, as well as by military actions in the East of the country. Those realities make it almost impossible to make accurate prediction for country well-being and to evaluate correctly the methods are used to protect the market.

According to complete signing Association Agreement between Ukraine and EU, which would be signed by EU in 2016. After this it is expected lowering all duties to zero- level. Thus Ukrainian path to liberalization characterized as both inner and outer shock for country in sphere of trade regulation.

However, taking into account mathematically grounded methods it is feasible to make a benchmark analysis.

Table 1. Import-export coverage ratio

Country Name	2013	2012	2011	2010	2009	2008	2005
Argentina	1,08	1,15	1,12	1,19	1,35	1,21	1,35
Chile	0,99	1,00	1,09	1,20	1,26	1,11	1,27
Malaysia	1,12	1,16	1,22	1,22	1,29	1,29	1,24
Mexico	0,97	0,96	0,96	0,96	0,94	0,92	0,94
South Africa	0,92	0,94	1,01	1,02	0,97	0,92	0,98
Thailand	1,04	1,01	1,03	1,09	1,17	1,02	0,97
Turkey	0,79	0,83	0,73	0,80	0,96	0,84	0,86
Ukraine	0,84	0,86	0,89	0,94	0,96	0,85	1,02
Vietnam	1,05	1,06	0,97	0,91	0,86	0,84	0,93

Source: Compiled by authors

The above ratio (table 1) represents a proportion of income from export and expenses on import. When the ratio is below 1 it means that import is bigger than export and there is a deficit of balance of trade and vice versa. The list of countries were selected by such criteria as population, all countries are almost on the same economic level. As we can see, among such developing countries only Malaysia has shown stable proportion and their export is higher than import for the last ten years. This fact allows Malaysian government to make investments and to develop infrastructure of the whole country.

Table 2. Export growth/GDP growth ratio

Country Name	2014	2012	2011	2010	2009	2008	2005
Argentina	-0,20	-6,97	0,40	1,52	-209,53	-0,28	1,22
Chile	0,93	0,21	0,96	0,40	4,44	-0,19	0,45
Malaysia	1,12	-1,14	1,20	1,04	6,92	-1,51	1,16
Mexico	0,44	0,87	1,87	4,24	2,88	0,37	2,23
South Africa	1,86	0,16	1,88	2,87	12,80	0,48	1,62
Thailand	0,31	0,47	123,30	1,88	5,36	2,05	2,69
Turkey	1,74	5,99	0,69	0,96	1,62	10,94	1,53
Ukraine	1,29	6,87	1,24	2,27	1,64	0,99	-3,14
Vietnam	2,59	3,93	2,52	1,81	1,21	1,05	0,79

Source: Compiled by authors

Another parameter (table 2) reflects how large is the impact of export growth on the growth of the whole economy of the country. By this we can conclude that export volume have direct relation with GDP of the country.

All these measures indicate that not all developing countries are willing to accept implicitly documents, concerning trade liberalization. Because of these hesitations, the decision about making limitless implementation of Bali package seems to be sagacious.

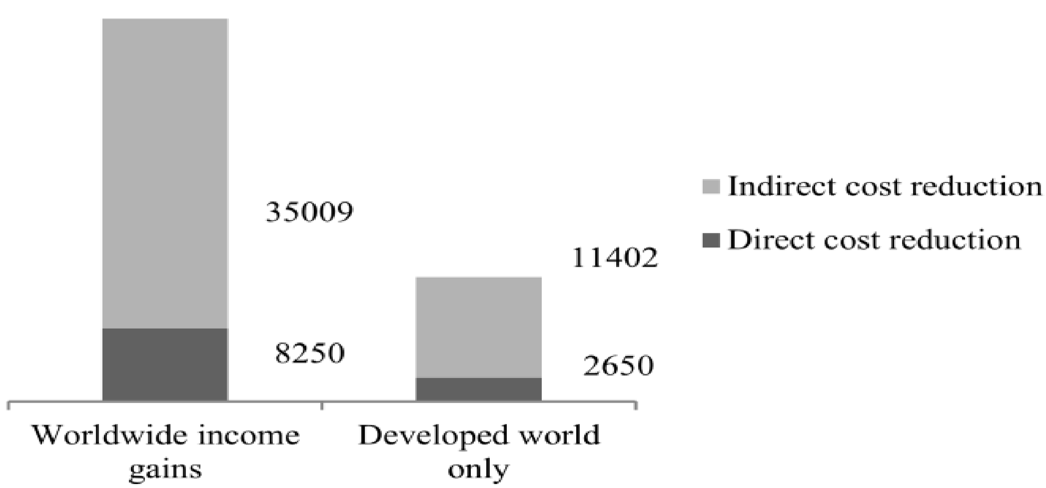
Thus, the respond to concerns about the implementation of the resolution has become a decision by which each country has a right to set its own transition periods and determine which provisions require exterior support. In these cases an issue should be addressed to the voluntary donors and identify alternative sources of assistance.

If in the context of macro level trade facilitation agreement seems to be controversial, then the consumer benefits, estimated by experts, are weighty. Effective, transparent and rapid risk assessment tools that speed up the import and export of essential goods and unimpeded transit of goods plays an important role in the development of household wealth. Studies have shown that, as a rule, consumers are in most cases affected by the costs incurred by delays and other operating expenses.

Trade facilitation also has a direct impact on consumer welfare, as it affects the accessibility, affordability and availability of products. This is particularly important for commodities such as food and medicine. Therefore, the introduction of these provisions will be crucial in the development of consumer welfare.

From Figure 7 we can note that in general reducing transaction cost just by 1 percent could reduce the cost of goods in general 43 bn.$, that is really positive for consumers. Moreover, by implementing trade facilitation agreement cost would be reduced by double digits.

Figure 7. Impact on income if transaction cost reduced by 1%($ mln)



Source: Business Standard (2013), “Statsguru: Making sense of the global trade in Bali”

CONCLUSION

The position of developing countries eventually becomes only more influential in the context of the global economy. Their share in world trade has increased up to 40%. The largest among these countries, such as China and India are ready to compete with developed countries in the world markets. The participation of these countries in the WTO only shows the willingness of countries to liberalize the economy. This shows a perspective tendency for implementing new trade policies, which is the main goal of Doha Round.

However, its duration only indicates that the majority of developing countries are not ready to abandon protectionism, caused by a fear of loss of sovereignty of the economies of developing countries. The acceptance of Bali package was the first step towards a global system of international trade.

Despite concerns among WTO members, the formation of a global system of free trade is inevitable because of active process of globalization. That is the reason that on Bali Ministerial Conference adopted a lightweight package of deals in order to slowly leading developing countries to conclude agreements prescribed in Doha package. The search for donor countries, no time limit for acceptance Bali package - the first obstacles hindering the transition to a new era in global trade.

In further studies of the following issue it is advisable to provide a research of countries performance while implementing free trade principles in short and midterm period in all business activities. Formal status of Ukraine as well as other transition economies changed to market economy countries recently. However, the current situation in those countries are far from those term. That is the issue for reconsidering of present country classification. Branch analysis of opportunities for developing countries and transition economies should be made to stimulate those countries to take more active part in global value chains and role of global investors in this process.

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