

A Beneficial Club, but Only if you Pay your Dues: The Impact of GATT/WTO Accession on Trade

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Does WTO membership lead to increased trade?

- Rose's 2004 *AER* piece says no.
- Criticisms of Rose's measurement (Goldstein, Rivers, and Tomz – standing), sample (excessive pooling), and methodology (fixed effects, zero-trade observations).
- Recent evidence that GATT/WTO members do trade more – but primarily wealthier/advanced-industrial countries (e.g., Subramanian and Wei, Engelbrecht and Pearce, Gowa and Kim, etc.)
- An emerging consensus that WTO hasn't produced trade gains for developing countries (?)

Countries have joined the WTO in very different ways...

- In the 1960s, the Gambia joined in five days, whereas Egypt joined over eight years.
 - More recently, Vietnam dealt with 17 rounds of questions from existing WTO members, whereas Taiwan and Mongolia faced only three.
 - Some WTO joiners reduced tariffs by 30-60% upon joining, whereas others did not lower tariffs at all (Martin 2010).
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Bringing Accession into the Debate

- Case studies of prominent WTO accessions, but relatively little on WTO accession generally and its effects.
 - Joining the EU and other IOs can affect domestic politics (*e.g.*, Jacoby, Pevehouse) as well as international politics (*e.g.*, Gray).
 - Accession is when prospective WTO members liberalize and set the course of their future trade policy (lower and bind tariffs, make commitments on NTBs, etc.).
 - The more rigorous the accession process – and the greater the commitments and trade liberalization made – the greater trade gains that are expected post-membership.
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Types of Accession Among WTO Members

1) Rigorous (55 countries)

- Comprehensive process occurring over several years, including scrutiny from current members and the making of trade concessions.
- Four stages: *prepare memorandum, questions and answers, negotiations, working party report.*

2) Automatic (65 countries)

- Article XXVI:5(c) provides membership based on colonial power's membership.
- No scrutiny and no trade liberalization required.

3) Early members (33 countries)

- Original signatories of 1947 GATT + those who joined between 1947-1953.
- Focus at early rounds on binding and reducing tariffs.

Hypotheses: Variation across accession type

- H1:** GATT/WTO members who join via *rigorous* accession procedures should experience trade increases.
- H2:** GATT/WTO members who join via *automatic* accession procedures should not experience trade increases.
- H3:** *Early* joiners of the GATT/WTO should experience trade increases.

Data and Measurement:

- ▶ For all GATT/WTO members, identify dates of application/membership and classify into one of these three mutually exclusive categories.

Hypothesis: Variation within rigorous acceders

H4: Among the rigorous joiners, those GATT/WTO members who undergo the most rigorous accession procedures should experience the greatest trade increases.

Collect original data on the degree of “rigorousness” (based on official GATT and WTO documents, outside sources, etc):

- Duration of accession process
- Number of GATT/WTO members on the Working Party
- Rounds of Questions, and Total # of Questions, from WP members
- Change in acceding state’s average tariff rate from time of application to time of accession
- Number of trade commitments made by acceding state

Estimation Details

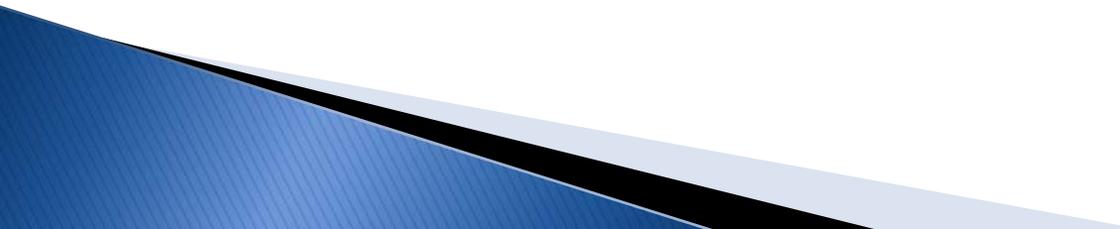
- Sample: All countries from 1950-2006 (also split into GATT & WTO eras)
 - Unit of analysis: Country-year
 - Dependent variable: Log of total trade (also consider imports only)
 - Control variables: Population (log), GDP per capita, # of contiguous borders, regime type, internal political conflict
 - Estimator: OLS w/ robust standard errors clustered by country w/ time fixed effects (also consider country fixed effects)
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Table 1: The Effect of Different Types of GATT/WTO Accession on Trade Flows

	(1)	(2)	(3)	(4)	(5)	(6)
<u>Primary Variables</u>						
GATT/WTO Member	.233 * (.136)	.176 (.140)		.610 *** (.164)		
w/ Rigorous Accession		.471 *** (.136)	.520 *** (.126)			.707 *** (.162)
w/ Automatic Accession				-.789 *** (.186)	-.422 ** (.150)	-.171 (.165)
w/ Early Accession						.572 *** (.186)

Control Variables and **Constant** not reported

OLS with standard errors clustered by country, time fixed effects

*p<.10, **p<.05, ***p<.01

Number of observations	6315	6315	6315	6315	6315	6315
Number of clusters/groups	151	151	151	151	151	151
R-squared	.792	.796	.795	.806	.796	.806

Table 2: Sensitivity Checks for the Effect of Different Types of GATT/WTO Accession on Trade Flows

	FE	Imports	GATT vs. WTO	'47-'94	'95-	over time
Rigorous Acceder to GATT/WTO	.305 *** (.111)	.725 *** (.163)		.741 *** (.196)	.333 ** (.171)	.661 *** (.178)
Rigorous Acceder during GATT			.333 * (.208)			
Rigorous Acceder during WTO			.366 * (.244)			
Years since Rigorous Accession						-.008 (.007)
Automatic Acceder to GATT/WTO	.049 (.107)	-.217 (.153)	-.145 (.199)	-.010 (.169)	-.427 + (.192)	-.345 (.187)
Years since Automatic Accession						.005 (.007)
Early Acceder to GATT/WTO	.888 *** (.460)	.639 *** (.181)	.595 ** (.228)	.576 *** (.197)	.055 (.193)	1.28 *** (.250)
Years since Early Accession						-.028 *** (.006)

**Table 3: The Effect of the Rigorousness of the GATT/WTO
Accession Process on Trade Flows**
(among Members with Rigorous Accessions)

Primary Variables

Length of Accession (years)	.072 ** (.032)					
# of Working Party members		.022 *** (.008)				
Rounds of Qs from WP members			.067 ** (.036)			
Total # of Qs from WP members				.0007 ** (.0003)		
Δ in Avg. Tariff Rate from App to Acc					.022 * (.014)	
# of Commitment Paragraphs						.013 * (.008)

Control Variables and **Constant** not reported

OLS with standard errors clustered by country, time fixed effects *p<.10, **p<.05, ***p<.01

Number of observations	1805	1805	1805	1805	1805	1805
Number of clusters/groups	43	43	43	43	43	43
R-squared	.850	.852	.845	.845	.846	.845

Conclusions and Implications

- Whether the WTO generates trade benefits depends on the rigor of each member's accession experience.
 - Thirty states engaged in ongoing, rigorous accessions should expect to benefit from membership.
 - Any “failure” by the WTO to benefit some members is based on a well-intentioned attempt to ease the burden on post-colonial countries.
 - Accession as a time when demands from IOs can have a (beneficial) effect on states.
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Descriptive Statistics for Rigorous Acceders

Variable	N	Mean	10 th percentile	90 th percentile
Length of Accession (years)	50	6.68	2	13
# of Working Party members	50	24.4	14	39
Rounds of Qs from WP members	50	4.22	1	10
Total # of Qs from WP members	50	452	17	970
Δ in Tariff Rate, App to Join	50	4.21	-1.9	14.3
# of Commitment Paragraphs	50	20.4	1	49