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# Did WTO Membership Reduce the Collapse of Trade? Evidence from the CIS region

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## 1. Introduction

Many countries experienced dramatic reductions in their exports in the first half of 2009. No doubt much of those reductions was due to falling demand in overseas markets reinforced by a scarcity of credit, including trade finance and working capital. Still, given the diversity of international trade arrangements in existence today with their varied obligations and privileges it is worth asking whether any particular arrangements tended to mitigate the collapse in exports. It may be that certain trade arrangements not only foster trade during stable economic times but also limit export reductions during systemic economic crises.

Pursuing this investigation in the Eastern Europe, the Caucasus and Central Asia (CIS) region<sup>1</sup> makes sense precisely because of their common economic and political backgrounds. Moreover, some of the countries in this region have acceded to the WTO and others have not. Using very recently available trade data, that permits comparisons of export performance between the first halves of 2008 and 2009, it is possible to examine whether there are any preliminary differences that align with membership of the WTO. As more detailed data is made available in the years ahead, no doubt more sophisticated econometric evaluations will be possible. The goal here is more modest and perhaps even suggestive of hypotheses that might be pursued later. For policymakers, at a time when some<sup>2</sup> may be tempted to depart from their multi-lateral trade obligations because of rising unemployment and impending bankruptcies, even these preliminary findings may cast WTO membership in a different light.

The remainder of this chapter contains the following sections. So as to provide some structure to the subsequent empirical analysis, in the next section two hypotheses are presented concerning the effects of WTO membership on trade flows during a severe global economic downturn. In the third section of this chapter the data collected and empirical analysis are described, along with the principal findings. Conclusions are presented in section four.

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1 There have been recent significant changes in the CIS region, such as the official withdrawal of Georgia from this agreement in August 2009, Turkmenistan's associate membership, as well as the fact that Ukraine de jure is not a CIS member. The region might better be referred to as 'the countries of the Eastern Europe, Caucasus and Central Asia' (EECCA), however in this paper the term Commonwealth of Independent States (CIS) is retained.

2 Pascal Lamy (2009), Global Crisis Requires Global Solutions, the Speech on 13 July 2009. Available from [http://www.wto.org/english/news\\_e/news09\\_e/tpr\\_13jul09\\_e.htm](http://www.wto.org/english/news_e/news09_e/tpr_13jul09_e.htm) . Accessed on 10 September 2009

## **2. Two hypotheses about WTO membership during systemic economic crises**

Traditionally the case for membership of the WTO system has been made in terms of the trade liberalization that has resulted from successive rounds of multilateral trade negotiations. Such liberalization, it is often argued, leads to greater exports, benefits to consumers, and faster economic growth. Now that these claims have been contested<sup>3</sup>, it is perhaps worth considering other potential benefits of WTO membership.

For many countries without the substantial negotiating clout to significantly affect a multilateral trade negotiation it is often said that they benefit particularly from the rules (most favored nation treatment, national treatment, tariff bindings, etc.) of the multilateral trading system. In the absence of these rules larger countries might be tempted to disadvantage nations with less clout precisely because the harm the latter can do to the former's commercial interests is limited. Moreover, the predictability of treatment is said to be valuable to business, which must often take a longer-term perspective when making needed capital investments and the like.

The policy-relevant question explored in this chapter is might these advantages of WTO membership be of greater value during a sharp global economic downturn, when governments might be even more tempted to turn inward, support domestic firms over foreign rivals, and pick and choose among their trading partners? Another way of putting this claim is that only in sharp global economic downturn is the "insurance value" of WTO membership more apparent. To sharpen ideas two hypotheses are advanced below, one relating to exports and one to imports.

*Hypothesis One: Export responses during a sharp global economic downturn.*

- a. Other things being equal, the percentage fall in the total exports of a WTO member will be less than that of a country that is not a member of the WTO.
- b. Other things being equal, a WTO member will experience a smaller percentage fall in its total exports to other WTO members than for its exports to countries that are not WTO members.

The rationale for hypothesis 1.a. is that the degree to which some trading partners can discriminate against a WTO member's exporters is constrained by WTO obligations, whereas those obligations would not constrain the treatment of a non-member. With intensified pressure to raise trade barriers during a global economic downturn, differential treatment may emerge.

The rationale for hypothesis 1.b. is that the benefits of WTO membership are confined to trade with other WTO members. Non-members are unconstrained by WTO rules in how they treat a member's exports and during a sharp global economic downturn this latitude is exploited to the disadvantage of the member's exporters.

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<sup>3</sup> Andrew Rose (2002) 'A Free Trade Club without Benefits'. *Financial Times*. London (UK): November 8, 2002, p. 13. Professor Rose has written a sequence of peer-reviewed academic papers that find little statistical association between WTO membership and various indicators of trade performance. In this *Financial Times* article he summarizes his position as follows: "while theory, casual empiricism and strong statements abound, there is, to my knowledge, no compelling empirical evidence showing that the WTO has in fact encouraged trade."

*Hypothesis Two: Import responses during a sharp global economic downturn.*

- a. Other things being equal, the percentage fall in total imports of a WTO member will be less than that of a country which is not a member of the WTO.
- b. Other things being equal, the percentage fall in the total imports of a WTO member from other WTO members is less than the percentage fall in total imports from a country that is not a member of the WTO.

Underlying these import-related hypotheses is assumption that a WTO member will be constrained in the extent to which it can raise trade barriers and so cut its imports whereas a non-member remains unconstrained by WTO rules. Hypothesis 2.a. posits an effect on total imports, a proxy for the extent to which overall market access is preserved during a global economic downturn. In contrast, hypothesis 2.b. refers to the differential impact on bilateral imports, with WTO members receiving better treatment than non-members. Having laid out these hypotheses, attention now turns to their evaluation. Specifically, are the trading patterns witnessed during the first half of this year, when levels of international trade fell sharply, consistent with these hypotheses?

### **3. Evidence from the CIS region**

With the collapse of the Soviet Union its 15 constituent parts each had to determine which international trade arrangements they would subscribe to. Latvia, Lithuania, and Estonia joined the European Union (and the WTO), and the others formed the Commonwealth of Independent States. Nowadays the Eastern Europe, Caucasus and Central Asia region (EECCA) consists of five countries that are members of the WTO (Armenia, Georgia, Kyrgyz Republic, Moldova and Ukraine) and seven that are not. Six of the non-members are observers of the WTO and are in the process of the WTO accession. (See Table 1 for more information on the status of the WTO membership of the countries of the EECCA region). In short, there are clear differences in the trade policy obligations that governments of the CIS region have undertaken, differences that are exploited in the empirical strategy articulated below.

The members of the CIS region have a similar historical, political, cultural, and industrial background. Their economies are very interdependent due to the manner in which industry was distributed across the Soviet Union. For sure, the extent to which reforms have been undertaken in the region has varied. While differences in country size, distance from trading partners, and the friendliness of the national business environment will influence the absolute magnitude of international commercial linkages, the year-on-year percentage change in trade flows is unlikely to be affected much by such slow-changing or time-invariant factors.

Another factor that substantially affected the empirical strategy undertaken here is the availability of very recent trade data. The Interstate Statistical Committee of the Commonwealth of Independent States (ISC) has published data on the total exports and imports of CIS countries. This data, which is available through to the end of the first half of 2009 only allows for these totals to be broken down into each CIS country's trade with other CIS countries and with non-CIS countries. It can be verified that all but a very small fraction of the latter countries are members of the WTO whereas, as noted earlier, no such claim could be made about the membership of the CIS. The

evaluation of the two hypotheses centers on the percentage reductions in trade observed in the first part of this year compared to 2008 experienced by CIS countries, bearing in mind that the breakdown between CIS and non-CIS trading partners is observable. Data limitations mean that the experiences of Turkmenistan and Uzbekistan were put to one side<sup>4</sup>, leaving five WTO members and five non-WTO members whose trade flows form the basis of the following evaluation.

According to the estimates published by the ISC, during the first half of 2009 the total exports of the CIS countries to all destinations amounted to just 52% of their comparable level in 2008. Total imports held up better over the same timeframe, the comparable percentage being 59%. The GDP of the CIS region shrank by 9% during the first half of 2009 compared to the same period in 2008.<sup>5</sup> Interestingly many of the factors that the ISC identifies as affecting the exports and imports of the CIS region are not country-specific, such as falls in the worldwide prices of natural resources.

Figure 1 indicates how much exports fell for each CIS country. Reported for each country is the magnitude of exports in the first half of 2009 expressed as a percentage of its comparable level in the first half of 2008. The larger, then, the trade collapse in the first half of this year the smaller is the reported percentage. This measure of export collapse is reported by CIS country for exports to all destinations, to fellow CIS nations, and to non-CIS nations (the WTO member-dominated group.) The figure has been assembled so that the performance of the CIS countries that are WTO members (on the right) can be compared with those CIS countries that are not WTO members (on the left).

Comparison of the columns representing total exports to all destinations on the left and right hand side of Figure 5.1 provides evidence in support of hypothesis 1.a. Measured in percentage terms, the scale of the collapse of total exports of those CIS countries that are not WTO members is greater than for those countries that are. This is not just a claim about the average percentage reductions experienced by both groups of CIS members. In fact in the CIS region every WTO member experienced less severe export collapse than every non-WTO member.

The data is not so kind to hypothesis 1.b., however. That is, of the WTO members in the CIS region, it is not the case that total exports to non-CIS trading partners (almost exclusively WTO members) held up better than total exports to other CIS countries (a mixed group of WTO and non-WTO members). The strongest support for hypothesis 1.b. comes from the Kyrgyz republic and maybe Moldova; the evidence for the other 3 countries suggests the extent of export collapse was comparable across destinations (CIS versus non-CIS trading partners). It should be noted, however, that there was no outright repudiation of hypothesis 1.b. Overall, then, perhaps it is best to conclude that there is weak support for the hypothesis 1.b.

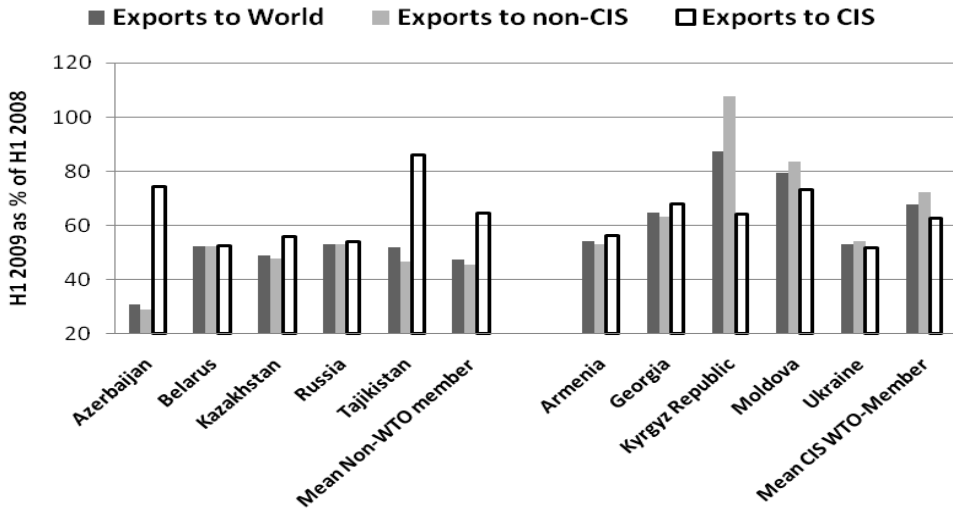
Turning now to the performance of aggregate imports, are there any differences in the experience of the CIS members who are members of the WTO from those that are not? Does the evidence refute hypotheses 2.a. and 2.b? Figure 5.2 presents the comparable information for the resilience of imports that was presented for exports in Figure 1.

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4 CIS Statcommittee (2009). Available at <http://www.cisstat.com/>.

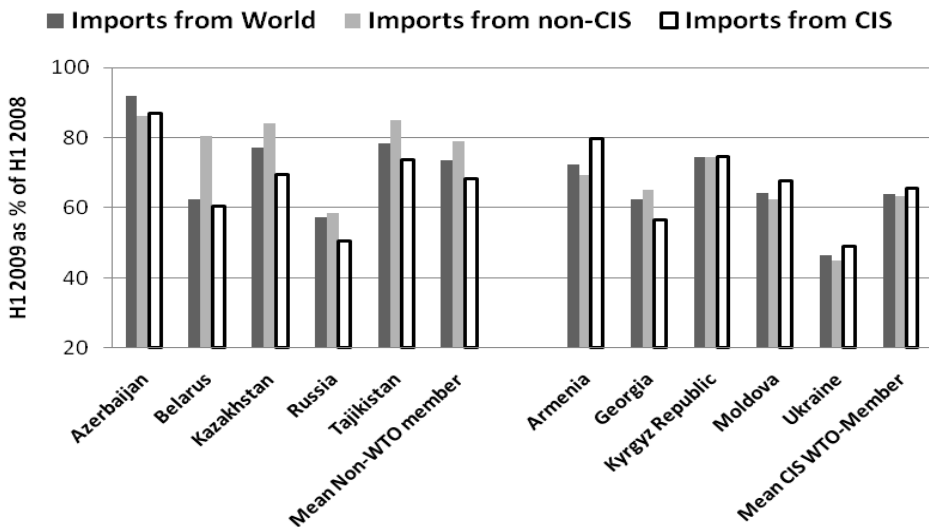
5 Interstate Statistical Committee of the Commonwealth of Independent State. Available at <http://www.cisstat.com/>

Figure 5.1 The export collapse of the CIS countries



Source: Calculated by author on the basis of the information provided by the Interstate Statistical Committee of the Commonwealth of Independent States

Figure 5.2 The recent import contraction of the CIS nations



Source: Calculated by author on the basis of the information provided by the Interstate Statistical Committee

In terms of the percentage falls in total value of imports experienced by CIS nations in the first half of 2009, the range overlaps substantially between WTO and non-WTO members. This is hardly confirmation of hypothesis 2.a. Moreover, on average the five non-WTO members saw smaller percentage falls in their imports than the WTO members. This empirical finding might suggest that the WTO members in the CIS region have found enough exceptions and loopholes in multilateral trade rules that they can effectively restrict imports as much as countries that are not bound by these rules.

This observation is all the more remarkable given the often made claim that countries that acceded to the WTO since 1995 have taken on stricter obligations than countries that joined before. These stricter obligations do not seem to have prevented the Ukraine, for example, from experiencing the largest fall in imports of the 10 CIS countries reported in Figure 5.2. Evidence of measures taken by the Ukraine found in the Global Trade Alert database bears this out. For example, on 4 March 2009 Ukraine notified to the WTO that it had introduced a temporary tariff increase up to 13% on a wide range of imported goods, justifying its move on the basis of paragraph 9 of the Understanding on the Balance-of-Payments Provisions of GATT 1994. Ukraine has also initiated a number of antidumping investigations as well as introducing "buy Ukrainian" provisions to support the local agricultural engineering industry.<sup>6</sup> These discriminatory measures are likely to have reduced imports and go beyond the trade-restrictive measures of many other CIS nations.

With reference to hypothesis 2.b., which refers to the importing behavior of WTO members, the data reported in Figure 5.2 offers a weak repudiation of the contention that WTO members in the CIS region have restricted imports from non-members more than members. The percentage falls in imports from these two sets of trading partners are roughly comparable and in the case of Armenia and the Ukraine imports from WTO members have fallen by more in percentage terms than imports from non-members. The finding that the percentage reductions in imports are roughly comparable might be consistent with an amended hypothesis which states that, even when invoking allowed trade-restrictive members during an economic crisis, the application of those measures by WTO members has tended to have similar effects on imports from WTO and non-WTO members.

Although hypothesis 2.b. refers to WTO members, given the evidence presented in Figure 5.2 it cannot go unremarked that, with the exception of Azerbaijan, non-WTO members in the CIS region cut their imports from outside the CIS region less in percentage terms than from within the region. Bearing in mind that the former contains proportionally more WTO members than the latter, this finding suggests that during the crisis non-WTO members in the CIS region targeted WTO members with less restrictive measures than other non-members. Perhaps the participation of these non-WTO members in the WTO accession process induces those non-members to limit the number or scale of measures that restrict imports from WTO members, whose consent is needed to join the WTO.<sup>7</sup> If this contention could be substantiated subse-

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6 GTA (2009) . Available at <http://www.globaltradealert.org/measure/ukraine-buy-local-provisions-support-agricultural-engineering-industry>

7 There may be other factors that affect the force of this argument across countries seeking accession to the WTO.

quently then it would point to another crisis-related benefit of WTO membership.

Other evidence may account for the finding that the average percentage reduction in imports is lower for the non-WTO members in the CIS region. As substantiated in the paragraphs that follow, during the current global economic downturn a number of non-WTO members in this region have implemented a combination of trade-restrictive and trade facilitating measures. (As a result, the assumptions underlying the sources of differences in national policy regimes contained in the second hypothesis would need refinement.)

With respect to implementing trade-restrictive measures, Russia has gone so far as to prepare a new 'Trade Strategy 2010 - 2012' in which it divided its domestically-produced goods into five categories according to their current level of competitiveness and the level of potential (future) protection to boost domestic production.<sup>8</sup> In other initiatives Russia has implemented temporary import tariffs increases on certain products, subsidized loans for car purchases, as well as instituting a 15% price preference for domestic producers in public procurement contracts.<sup>9</sup> Moreover, Russia introduced or increased import tariffs on various items including automobiles, milk products, soy schrot, harvesting machines, magnesium crowbars and scrap, rolled metals and pipes, rice and cereal.<sup>10</sup> Elsewhere, Belarus introduced temporary tariff increases on certain products to protect domestic firms and cut imports to counter a growing trade deficit (see Presidential Decree # 214 from 21 April 2009.)

But not every trade-related measure implemented by Russia during the crisis has been a restrictive one. Russia introduced a new domestic trade bill that will, amongst others, ease international commerce through mode three (commercial presence in the territory of another country) in retailing.<sup>11</sup> Russia has also (temporarily in some cases) eliminated or reduced import tariffs on wide range of products such as aircraft, railway coaches, cement and cement articles, polyester thread, components of rims for glasses. Russia has also extended duty-free access for certain types of digital ships, child safety seats, linear low density polyethylene and others products for the duration of the current global recession. Overall, then, the Russian experience is mixed. Indeed, a single issue of the Russian official newspaper "Rossiiskaya Gazeta" (number 4826) on 14 January 2009 simultaneously announced three trade-restricting and three trade-facilitating measures.

Belarus and Kazakhstan too have combined liberalizing and trade-restrictive measures during the crisis. Decree #732 of the Government of Kazakhstan, announced on 15 May 2009, eliminates import tariffs on certain products such as aluminum wire, live plants, palm oil, unbleached or bleached fabrics (previously such tariffs were 5 percent). However, the same Government Decree raises the import tariff on the central heating boilers from zero to 15%.<sup>12</sup> Likewise, Belarus has also instituted decrees,

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8 GTA (2009). Available at <http://globaltradealert.org/measure/russia-announcement-new-trade-strategy-2010-2012>

9 GTA (2009). Available at <[www.globaltradealert.org](http://www.globaltradealert.org)> 'implementing jurisdiction' - Russian Federation.

10 The Russian Ministry of Economic Development. 'Undertaken measures to protect and support main branches of economy by tariff-customs measures'. Available at [http://www.rgwto.com/reference.asp?doc\\_id=53710](http://www.rgwto.com/reference.asp?doc_id=53710)

11 The Ministry of Industry and Trade of the Russian Federation (2009). The text of the new trade bill is available (in Russian) at <http://www.minprom.gov.ru/docs/projects/3>

12 GTA (2009). Available at <http://www.globaltradealert.org/measure/kazakhstan-tariff-treatment-miscellaneous-products>.

such as Decree# 320 issued on 18 June 2009, which include trade liberalizing and restrictive measures.

This section has considered the extent to which data from the CIS region bears out the two hypotheses concerning the effect of WTO membership on trade flows that were articulated in section 2. There is some support for the export-related hypothesis. When world trade was falling fast in the first half of 2009, total exports by the WTO members in the CIS region fell by less in percentage terms. The data was not so kind to the hypothesis concerning imports and reasons were advanced for this.

#### **4. Concluding remarks**

No doubt policymakers will draw many conclusions from the current sharp global economic downturn. What lessons might trade policymakers draw? Some such lessons might relate to the impact of the diverse set of institutional arrangements and rules that now govern international commerce. This chapter focused on the potential contribution of the most prominent such institution in trade, namely, the World Trade Organization. Hypotheses were advanced as to the ways in which multilateral trade obligations might influence observed cross-country differences in trade flows during the crisis. Those hypotheses were confronted with data from the CIS region, which contains several WTO members and several non-members.

The severity of the export collapse in early 2009 was found in the CIS region to be less acute for WTO members, which is consistent with the argument that these nations' access to foreign markets was more secure than for countries that are not members of the WTO. The evidence does not support the corresponding contention on the import side and reasons were advanced as to why. In short, it seems that those CIS countries that are not WTO members implemented both liberalizing as well as restrictive measures during the past year, muddying the comparisons between the policy regimes of WTO members and non-members. The findings presented above also imply that the WTO members in the CIS region saw their trade surpluses improve (or trade deficits decline) by more than the non-members.

Once more data is available the analysis in this chapter could be developed in several respects. Given the WTO rules on trade in goods are more developed than for services and are certainly more liberal than in agriculture, it would be interesting to re-examine the performance of the two hypotheses mentioned here for trade in manufactured goods. Moreover, once a full set of bilateral trade data is available more traditional gravity equation analyses can be performed. Furthermore, it might be interesting to explore if there are systematic differences in export and import responses during the crisis between longstanding WTO members and those countries that have joined the WTO since 1995.

**Table 5.1** The WTO membership status of the CIS countries

	Country	WTO Status	Date
1	Azerbaijan	Observer, accession process from	30 June 1997
2	Belarus	Observer, accession process from	23 September 1993
3	Kazakhstan	Observer, accession process from	29 January 1996
4	Russia	Observer, accession process from	June 1993
5	Tajikistan	Observer, accession process from	29 May 2001
6	Uzbekistan	Observer, accession process from	8 December 1994
7	Armenia	Member since	5 February 2003
8	Georgia	Member since	14 June 2000
9	Kyrgyz Republic	Member since	20 December 1998
10	Moldova	Member since	26 July 2001
11	Ukraine	Member since	16 May 2008
12	Turkmenistan	n/a	n/a

Source: WTO website.